Chung Hwa Pulp Corporation and Subsidiaries

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

DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES

The companies required to be included in the consolidated financial statements of affiliates in accordance with the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” for the year ended December 31, 2018 are all the same as the companies required to be included in the consolidated financial statements of parent company and its subsidiaries as provided in International Financial Reporting Standard 10 “Consolidated Financial Statements”. Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent company and its subsidiaries. Hence, we have not prepared a separate set of consolidated financial statements of affiliates for the year ended December 31, 2018.

Very truly yours,

CHUNG HWA PULP CORPORATION

By:

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March 21, 2019

Deloitte.

勤業眾信

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and the Shareholders
Chung Hwa Pulp Corporation

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC) and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission (FSC) of the Republic of China.

Basis for Opinion

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

Key Audit Matter

Key audit matter is the matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements for the year ended December 31, 2018. The matter was 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 the matter.

The description of key audit matter of the consolidated financial statements for the year ended December 31, 2018 is as follows:

Estimation of Expected Credit Loss Recognized on Accounts Receivable

The accounts receivable of the Group is material in amount. In consideration of the business volume, the recoverability of accounts receivable is not only subject to each customer's financial condition but also management's estimation and judgement. Therefore, the estimation of expected credit loss recognized on accounts receivables was identified as a key audit matter.

Our audit procedures performed in respect of the above key audit matter included the following:

1. We analyzed the sufficiency of expected credit loss rates used based on the Group's historical experience and existing market conditions, and assessed whether the provision policy for accounts receivable adopted by the Group was reasonable.

2. We tested sample items in the aging report to verify the completeness and accuracy of accounts receivable and evaluated the appropriateness of the amount of credit loss calculated by management.

3. We inquired if there was any customer with overdue receivables suffering from financial difficulties to ensure whether the management had adopted appropriate actions to secure such customers' receivables, and performed sampling on the collection of outstanding overdue receivables after the balance sheet date.

Emphasis of Matter

As disclosed in Notes 17 and 27 to the accompanying consolidated financial statements, Guangdong Ding Fung Pulp & Paper Co., Ltd. acquired 100% equity of Shenzhen Systax Paper Co., Ltd. from a fellow subsidiary of YFY Inc. group in the fourth quarter of 2018. In compliance with the "Comments on IFRS" and Interpretation 2012-301 issued by the Accounting Research and Development Foundation, the acquisition resulted in a joint control restructuring. Therefore, in the preparation of comparative consolidated financial statements, the acquisition is disclosed as if it has occurred before January 1, 2017 and the Group's consolidated financial statements as of and for the year ended December 31, 2017 are restated.

Other Matter

We have also audited the parent company only financial statements of Chung Hwa Pulp Corporation as of and for the years ended December 31, 2018 and 2017, on which we have issued an unmodified opinion with emphasis of matter paragraph and an unmodified opinion, respectively.

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

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

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

Those charged with governance, including the audit committee, are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with statements 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 the matter that was of most significance in the audit of the consolidated financial statements for the year ended December 31, 2018, and is therefore the key audit matter. We describe the matter 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 Shu-Wan Lin and Shiow-Ming Shue.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 21, 2019

Notice to Readers

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

For the convenience of readers, the independent auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and consolidated financial statements shall prevail.

CHUNG HWA PULP CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	2018		2017 (Audited after Restated)	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	$ 553,379	2	$ 1,241,576	4
Financial assets at fair value through profit or loss (Notes 4 and 7)	7,515	-	33,255	-
Available-for-sale financial assets - current (Notes 4 and 9)	-	-	946,232	3
Financial assets at fair value through other comprehensive income - current (Notes 4 and 8)	1,052,704	3	-	-
Derivative financial assets for hedging - current (Notes 4 and 10)	-	-	1	-
Financial assets for hedging - current (Notes 4 and 10)	50	-	-	-
Financial assets at amortized cost - current (Notes 4 and 11)	5,900	-	-	-
Debt investments with no active market - current (Notes 4 and 12)	-	-	209,752	1
Notes and accounts receivable (Notes 4 and 14)	2,681,907	9	2,732,262	9
Notes and accounts receivable from related parties (Notes 4 and 31)	775,390	3	801,271	3
Other receivables from related parties (Notes 4 and 31)	769,379	2	94,618	-
Inventories (Notes 4 and 15)	4,196,216	13	3,076,608	10
Biological assets (Notes 4 and 16)	3,317,475	11	3,280,878	11
Other current assets (Note 30)	403,572	1	520,698	2
Total current assets	13,763,487	44	12,937,151	43
NON-CURRENT ASSETS				
Financial assets at fair value through profit or loss - non-current (Notes 4 and 7)	171,035	1	-	-
Financial assets at fair value through other comprehensive income - non-current (Notes 4 and 8)	560,484	2	-	-
Available-for-sale financial assets - non-current (Notes 4 and 9)	-	-	332,343	1
Financial assets at amortized cost - non-current (Note 11)	5,000	-	-	-
Debt investments with no active market - non-current (Notes 4 and 11)	-	-	175,000	1
Financial assets measured at cost - non-current (Notes 4 and 13)	-	-	239,402	1
Investments accounted for using the equity method (Notes 4 and 18)	863,675	3	855,810	3
Property, plant and equipment (Notes 4 and 19)	14,565,267	46	14,345,577	47
Investment properties (Notes 4 and 20)	257,411	1	257,678	1
Deferred tax assets (Notes 4 and 25)	75,142	-	112,551	-
Prepayments for equipment	534,411	2	403,421	1
Long-term prepayments for lease	459,664	1	480,073	2
Other non-current assets (Note 30)	104,803	-	133,741	-
Total non-current assets	17,596,892	56	17,335,596	57
TOTAL	$ 31,360,379	100	$ 30,272,747	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Note 21)	$ 3,694,901	12	$ 3,324,328	11
Short-term bills payable (Note 21)	1,849,709	6	1,949,268	6
Financial liabilities for hedging - current (Note 10)	250	-	-	-
Notes and accounts payable	1,513,565	5	1,849,963	6
Notes and accounts payable to related parties (Note 31)	602,750	2	579,035	2
Other payables	1,031,220	3	621,899	2
Other payables to related parties	7,433	-	-	-
Current tax liabilities	16,768	-	17,889	-
Other current liabilities	452,688	1	529,451	2
Total current liabilities	9,169,284	29	8,871,833	29
NON-CURRENT LIABILITIES				
Long-term borrowings (Note 21)	1,695,875	5	914,075	3
Deferred tax liabilities (Notes 4 and 25)	2,005,460	6	1,991,427	7
Net defined benefit liabilities (Notes 4 and 22)	234,935	1	224,695	1
Other non-current liabilities (Note 30)	204,157	1	89,168	-
Total non-current liabilities	4,140,427	13	3,219,365	11
Total liabilities	13,309,711	42	12,091,198	40
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Note 23)				
Share capital	11,028,353	35	11,028,353	36
Capital surplus	31,468	-	36,602	-
Retained earnings				
Legal reserve	181,691	1	119,833	1
Special reserve	1,186,894	4	1,186,894	4
Unappropriated earnings	2,905,386	9	3,092,020	10
Total retained earnings	4,273,971	14	4,398,747	15
Other equity	287,918	1	225,267	1
Total equity attributable to owners of the Company	15,621,710	50	15,688,969	52
EQUITY ATTRIBUTABLE TO FORMER OWNER OF BUSINESS COMBINATION UNDER COMMON CONTROL (Notes 4 and 7)	-	-	86,069	-
NON-CONTROLLING INTERESTS	2,428,958	8	2,406,511	8
Total equity	18,050,668	58	18,181,549	60
TOTAL	$ 31,360,379	100	$ 30,272,747	100

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

(With Deloitte & Touche auditors’ report dated March 21, 2019)

CHUNG HWA PULP CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2018		2017 (Audited after Restated)	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUE (Note 31)				
Sales	$ 24,092,008	100	$ 22,942,001	101
Sales returns and allowances	128,585	-	156,528	1
Net sales	23,963,423	100	22,785,473	100
Other operating revenue	61,798	-	53,882	-
Total operating revenue	24,025,221	100	22,839,355	100
OPERATING COSTS (Notes 15, 24 and 31)				
Cost of goods sold	21,626,895	90	20,426,879	89
Other operating cost	47,393	-	21,020	-
Total operating costs	21,674,288	90	20,447,899	89
LOSS FROM CHANGES IN FAIR VALUE LESS COSTS TO SELL OF BIOLOGICAL ASSETS (Note 16)	(10,695)	-	(8,111)	-
GROSS PROFIT	2,340,238	10	2,383,345	11
OPERATING EXPENSES (Notes 24 and 31)				
Selling and marketing	1,217,822	5	1,212,991	5
General and administrative	387,470	1	322,224	2
Research and development	147,369	1	30,215	-
Total operating expenses	1,752,661	7	1,565,430	7
PROFIT FROM OPERATIONS	587,577	3	817,915	4
NON-OPERATING INCOME AND EXPENSES				
Finance costs (Note 24)	(91,459)	-	(81,667)	-
Share of profit of associates (Note 18)	57,270	-	20,906	-
Interest income (Note 31)	40,311	-	28,635	-
Dividend income	55,783	-	32,609	-
Other income	59,522	-	70,713	-
Gain (loss) on disposal of property, plant and equipment	8	-	(6,796)	-
Gain (loss) on disposal of investments	12	-	(1,120)	-
Loss (gain) on financial instruments at FVTPL	(24,159)	-	47,815	-
Other losses	(5,063)	-	(5,654)	-
Foreign exchange loss	(14,598)	-	(14,645)	-
Total non-operating income and expenses	77,627	-	90,796	-

(Continued)

CHUNG HWA PULP CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2018		2017 (Audited after Restated)	
	Amount	**%**	**Amount**	**%**
PROFIT BEFORE INCOME TAX	$ 665,204	3	$ 908,711	4
INCOME TAX EXPENSE (Notes 4 and 25)	135,969	1	163,758	1
NET PROFIT FOR THE YEAR	529,235	2	744,953	3
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	(40,093)	-	(19,062)	-
Unrealized gain on investments in equity instruments at fair value through other comprehensive income	59,458	-	-	-
Share of the other comprehensive loss of associates	(23,316)	-	(109)	-
Tax effect of items that will not be reclassified	16,606	-	3,240	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating the financial statements of foreign operations	(56,810)	-	(254,174)	(1)
Unrealized loss on available-for-sale financial assets	-	-	(2,131)	-
Cash flow hedges	-	-	4,973	-
Loss on hedging instruments	(584)	-	-	-
Share of the other comprehensive loss of associates	(1,530)	-	(35,633)	-
Other comprehensive loss for the year, net of income tax	(46,269)	-	(302,896)	(1)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 482,966	2	$ 442,057	2
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Company	$ 445,663	2	$ 618,582	3
Equity attributable to former owner of business combination under common control	18,989	-	18,738	-
Non-controlling interests	64,583	-	107,633	-
	$ 529,235	2	$ 744,953	3

(Continued)

CHUNG HWA PULP CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2018		2017 (Audited after Restated)	
	Amount	**%**	**Amount**	**%**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Company	$ 445,156	2	$ 363,366	2
Equity attributable to former owner of business combination under common control	16,263	-	17,550	-
Non-controlling interests	21,547	-	61,141	-
	$ 482,966	2	$ 442,057	2
EARNINGS PER SHARE (Note 26)				
Basic	$ 0.40		$ 0.56	
Diluted	$ 0.40		$ 0.56	

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

(With Deloitte & Touche auditors' report dated March 21, 2019) (Concluded)

CHUNG HWA PULP CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Company (Notes 4 and 22)															
	Share Capital			Retained Earnings				Other Equity								
	Shares (In Thousands)	Amount	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Total	Exchange Differences on Translating the Financial Statements of Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Cash Flow Hedges	Loss on Hedging Instrument	Total	Equity Attributable to Former Owner of Business Combination Under Common Control	Non-controlling Interests	Total Equity
BALANCE AT JANUARY 1, 2017	1,102,835	$ 11,028,353	$ 34,403	$ 80,721	$ 1,186,894	$ 2,919,034	$ 4,186,649	$ 131,549	$ 344,353	$ -	$ (11,350)	$ -	$ 15,713,957	$ -	$ 2,345,370	$ 18,059,327
Retrospective adjustments of equity attributable to former owner due to business combination under common control	-	-	-	-	-	-	-	-	-	-	-	-	-	68,519	-	68,519
Appropriation of 2016 earnings																
Legal reserve	-	-	-	39,112	-	(39,112)	-	-	-	-	-	-	-	-	-	-
Cash dividends distributed by the Company	-	-	-	-	-	(385,992)	(385,992)	-	-	-	-	-	(385,992)	-	-	(385,992)
Adjustments for the changes in equity of associates	-	-	2,204	-	-	(4,561)	(4,561)	-	-	-	-	-	(2,357)	-	-	(2,357)
Net profit for the year ended December 31, 2017	-	-	-	-	-	618,582	618,582	-	-	-	-	-	618,582	18,738	107,633	744,953
Other comprehensive (loss) income for the year ended December 31, 2017, net of income tax	-	-	-	-	-	(15,931)	(15,931)	(218,984)	(25,274)	-	4,973	-	(255,216)	(1,188)	(46,492)	(302,896)
Total comprehensive (loss) income for the year ended December 31, 2017	-	-	-	-	-	602,651	602,651	(218,984)	(25,274)	-	4,973	-	363,366	17,550	61,141	442,057
Disposals of investments accounted for using the equity method	-	-	(5)	-	-	-	-	-	-	-	-	-	(5)	-	-	(5)
BALANCE AT DECEMBER 31, 2017	1,102,835	11,028,353	36,602	119,833	1,186,894	3,092,020	4,398,747	(87,435)	319,079	-	(6,377)	-	15,688,969	86,069	2,406,511	18,181,549
Effect of retrospective application	-	-	-	-	-	(3,719)	(3,719)	-	(319,079)	358,643	6,377	(6,377)	35,845	-	-	35,845
BALANCE AT JANUARY 1, 218 AS RESTATED	1,102,835	11,028,353	36,602	119,833	1,186,894	3,088,301	4,395,028	(87,435)	-	358,643	-	(6,377)	15,724,814	86,069	2,406,511	18,217,394
Appropriation of 2017 earnings																
Legal reserve	-	-	-	61,858	-	(61,858)	-	-	-	-	-	-	-	-	-	-
Cash dividends distributed by the Company	-	-	-	-	-	(551,418)	(551,418)	-	-	-	-	-	(551,418)	-	-	(551,418)
Business combination under common control	-	-	1,349	-	-	-	-	-	-	-	-	-	1,349	(102,332)	900	(100,083)
Adjustments for the changes in equity of associates	-	-	(6,467)	-	-	8,292	8,292	-	-	-	-	-	1,825	-	-	1,825
Net profit for the year ended December 31, 2018	-	-	-	-	-	445,663	445,663	-	-	-	-	-	445,663	18,989	64,583	529,235
Other comprehensive (loss) income for the year ended December 31, 2018, net of income tax	-	-	-	-	-	(23,594)	(23,594)	(12,578)	-	36,249	-	(584)	(507)	(2,726)	(43,036)	(46,269)
Total comprehensive income (loss) for the year ended December 31, 2018	-	-	-	-	-	422,069	422,069	(12,578)	-	36,249	-	(584)	445,156	16,263	21,547	482,966
Disposals of investments accounted for using the equity method	-	-	(16)	-	-	-	-	-	-	-	-	-	(16)	-	-	(16)
BALANCE AT DECEMBER 31, 2018	1,102,835	$ 11,028,353	$ 31,468	$ 181,691	$ 1,186,894	$ 2,905,386	$ 4,273,971	$ (100,013)	$ -	$ 394,892	$ -	$ (6,961)	$ 15,621,710	$ -	$ 2,428,958	$ 18,050,668

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

(With Deloitte & Touche auditors' report dated March 21, 2019)

CHUNG HWA PULP CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	2018	2017 (Audited After Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 665,204	$ 908,711
Adjustments for:		
Depreciation and amortization expenses	1,141,585	1,135,648
Impairment loss recognized on accounts receivable	-	3,065
Expected credit loss recognized on accounts receivables	4,376	-
Net loss (profit) on fair value change of financial instruments at fair value through profit or loss	24,159	(47,815)
Finance costs	91,459	81,667
Interest income	(40,311)	(28,635)
Dividend income	(55,783)	(32,609)
Share of profit of associates	(57,270)	(20,906)
(Gain) loss on disposal of property, plant and equipment	(8)	6,796
Net (gain) loss on disposal of investments	(12)	1,120
(Reversal of) write-downs of inventories	(681)	3,712
Net unrealized gain on foreign currency exchange	(12,269)	(12,558)
Loss on changes in fair value less cost to sell of biological assets	10,695	8,111
Changes in operating assets and liabilities		
Decrease in financial assets held for trading	-	23,457
Decrease in financial assets mandatorily classified as at fair value through profit or loss	208,726	-
Decrease in notes and accounts receivable	30,089	16,041
(Increase) decrease in notes and accounts receivable from related parties	20,327	(13,835)
Increase in inventories	(1,128,103)	(18,855)
Increase in biological assets	(106,099)	(79,279)
Decrease in other current assets	114,972	32,590
Increase (decrease) in notes payable and accounts payable	(332,057)	304,797
Increase in notes and accounts payable to related parties	58,901	32,268
Increase (decrease) in other payables	58,283	(66,923)
Decrease in other current liabilities	(52,061)	(167,599)
Decrease in net defined benefit liabilities	(29,853)	(80,916)
Cash generated from operations	614,269	1,988,053
Interest received	39,484	28,462
Interest paid	(90,577)	(85,527)
Income tax paid	(68,819)	(13,268)
Net cash generated from operating activities	494,357	1,917,720
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at fair value through other comprehensive income	(24,983)	-
Proceeds from capital reduction on financial assets at fair value through other comprehensive income	18,655	-

(Continued)

CHUNG HWA PULP CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	2018	2017 (Audited After Restated)
Purchase of financial assets at amortized cost	$ (1,100)	$ -
Purchase of available-for-sale financial assets	-	(212,335)
Purchase of debt investments with no active market	-	(213,651)
Proceeds from the sale of debt investments with no active market	-	10,100
Proceeds from capital reduction on financial assets measured at cost	-	22,500
Purchase of financial instruments for hedging	(9,645)	(443)
Proceeds from the sale of financial instruments for hedging	2,719	5,539
Disposal of investments accounted for by using the equity method	-	1,128
Net cash outflow from acquisition of subsidiary under common control	(100,083)	-
Payments for property, plant and equipment	(1,004,351)	(1,036,155)
Proceeds from the disposal of property, plant and equipment	9	127
(Increase) decrease in other receivables from related parties	(640,258)	202,821
Decrease (increase) in other non-current assets	3,835	(229,409)
(Increase) decrease in prepayments for equipment	(133,626)	155,100
Dividend received	88,583	72,275
Net cash used in investing activities	(1,800,245)	(1,222,403)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term borrowings	363,820	1,493,448
Decrease in short-term bills payable	(99,559)	(50,091)
Proceeds from long-term borrowings	2,500,000	3,974,310
Repayments of long-term borrowings	(1,720,000)	(5,010,000)
Increase in other payables to related parties	7,433	-
Increase in other non-current liabilities	118,196	31,284
Cash dividends paid	(549,355)	(387,909)
Net cash generated from financing activities	620,535	51,042
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	(2,844)	(5,853)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(688,197)	740,506
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	1,241,576	501,070
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 553,379	$ 1,241,576

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

(With Deloitte & Touche auditors’ report dated March 21, 2019) (Concluded)

1. GENERAL INFORMATION

Chung Hwa Pulp Corporation (the "Company"), is principally engaged in the production and sale of pulp and paper. The Company's shares have been listed on the Taiwan Stock Exchange.

In line with the Company's operating strategy to carry out vertical integration, in the meetings of the board of directors on March 21, 2012 and of the shareholders on June 27, 2012, the Company decided to issue new shares in exchange for YFY Inc.'s paper and cardboard business unit's assets, liabilities and operations. After this transaction, the Company became a subsidiary of YFY Inc.

YFY Inc. and its subsidiaries held 57.7% of ordinary shares of the Company as of December 31, 2018 and 2017.

The consolidated financial statements are presented in the Company's functional currency, the New Taiwan dollar.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company's board of directors on March 21, 2019.

3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS

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

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

   1) IFRS 9 "Financial Instruments" and related amendments

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

      Classification, measurement and impairment of financial assets

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

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

Financial Assets	Measurement Category IAS 39	Measurement Category IFRS 9	Carrying Amount IAS 39	Carrying Amount IFRS 9	Remark
Cash and cash equivalents	Loans and receivables	Amortized cost	$ 697,313	$ 697,313	b)
Derivatives	Held-for-trading	Mandatorily at fair value through profit or loss (i.e. FVTPL)	3,934	3,934	e)
	Hedging instruments	Hedging instruments	1	1	
Mutual funds	Held-for-trading	Mandatorily at FVTPL	29,321	29,321	e)
Structured deposits	Loans and receivables	Mandatorily at FVTPL	749,215	751,182	a)
Equity securities	Available-for-sale	Mandatorily at FVTPL	11,902	-	c)
	Available-for-sale	Fair value through other comprehensive income (i.e. FVTOCI) - equity instruments	1,506,075	1,547,401	c)
Debt securities	Loans and receivables	Mandatorily at FVTPL	170,000	171,035	d)
Time deposits with original maturities of more than 3 months	Loans and receivables	Amortized cost	9,800	9,800	b)
Notes receivable, accounts receivable and other receivables	Loans and receivables	Amortized cost	3,751,452	3,748,450	b)
Refundable deposits	Loans and receivables	Amortized cost	18,159	18,159	b)

Financial Assets	IAS 39 Carrying Amount as of January 1, 2018	Reclassifi-cations	Remeasu-rements	IFRS 9 Carrying Amount as of January 1, 2018	Retained Earnings Effect on January 1, 2018	Other Equity Effect on January 1, 2018	Remark
FVTPL	$ 33,255	$ -	$ -	$ 33,255	$ -	$ -	
Add: Reclassification from available-for-sale (IAS 39)	-	11,902	(11,902)	-	(11,902)	-	c)
Add: Reclassification from loans and receivables (IAS 39)	-	922,217	-	922,217	-	-	a), d)
	33,255	934,119	(11,902)	955,472	(11,902)		
FVTOCI	-	-	-	-	-	-	
Add: Reclassification from available-for-sale (IAS 39)	-	1,506,075	41,326	1,547,401	-	41,326	c)
	-	1,506,075	41,326	1,547,401	-	41,326	
Amortized cost	-	-	-	-	-	-	
Add: Reclassification from loans and receivables (IAS 39)	-	4,473,722	-	4,473,722	-	-	b)
	-	4,473,722	-	4,473,722	-	-	
Hedging Instruments	1	-	-	1	-	-	
	$ 33,256	$ 6,913,916	$ 29,424	$ 6,976,596	$ (11,902)	$ 41,326	

	Carrying Amount as of December 31, 2017 (IAS 39)	Adjustments Arising from Initial Application	Carrying Amount as of January 1, 2018 (IFRS 9)	Retained Earnings Effect on January 1, 2018	Other Equity Effect on January 1, 2018	Note
Investments accounted for using the equity method	$ 855,810	$ 1,322	$ 857,132	$ 3,084	$ (1,762)	f)

a) Structured deposits were classified as loans and receivables under IAS 39 because they were hybrid instruments. They have been classified as mandatorily measured at FVTPL in their entirety under IFRS 9 since they contain host contracts that did not meet the contractual cash flows test.

b) Cash and cash equivalents, time deposits with original maturities of more than 3 months, notes and accounts receivable, other receivables, and refundable deposits that were previously classified as loans and receivables under IAS 39 were classified as at amortized cost with an assessment of expected credit losses under IFRS 9.

c) The Group elected to designate all its investments in equity securities previously classified as available-for-sale under IAS 39 as at FVTOCI under IFRS 9, because these investments are not held for trading. As a result, the related other equity - unrealized gain on available-for-sale financial assets of $319,079 thousand was reclassified to other equity - unrealized gain on financial assets at FVTOCI.

   Investments in unlisted shares previously measured at cost under IAS 39 have been classified at FVTPL/designated as at FVTOCI under IFRS 9 and were remeasured at fair value. Consequently, a decrease of $11,902 thousand/an increase of $41,326 thousand was recognized in both financial assets at FVTPL and retained earnings/both financial assets at FVTOCI and other equity - unrealized gain on financial assets at FVTOCI on January 1, 2018.

d) Debt investments previously classified as loans and receivables and measured at amortized cost under IAS 39 did not meet the contractual cash flows test, so they were classified mandatorily as at FVTPL under IFRS 9.

e) Mutual funds and derivatives previously classified as held-for-trading under IAS 39 were classified mandatorily as at FVTPL under IFRS 9.

f) As a result of the retrospective application of IFRS 9 by associates, there was an increase in investments accounted for using the equity method of $1,322 thousand, a decrease in other equity - unrealized gain on financial assets at FVTOCI of $1,762 thousand, and an increase in retained earnings of $3,084 thousand on January 1, 2018.

Hedge accounting

On adoption of IFRS 9, the Group elected not to apply the treatment of hedging cost for forward contracts retrospectively. Furthermore, due to the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers, all derivative and non-derivative financial assets and financial liabilities which are designated as hedging instruments are presented as financial assets and financial liabilities for hedging starting from January 1, 2018.

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

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

As a result of the retrospective application of IFRS 15 by associates, there was an increase in investments accounted for using the equity method and retained earnings of $5,099 thousand on January 1, 2018. The application did not have any material impact on assets and liabilities as of January 1, 2018 and the comprehensive income and cash flows for the year then ended.

b. Amendments to the IFRSs endorsed by the FSC for application starting from 2019

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

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

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

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

IFRS 16 "Leases"

IFRS 16 sets out standards for lease recognition and lessor-lessee accounting that will supersede IAS 17 "Leases" and related interpretations such as IFRIC 4 "Determining whether an Arrangement contains a Lease".

Definition of a lease

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

The Group as lessee

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

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

Lease liabilities will be recognized on January 1, 2019 for leases currently classified as operating leases with the application of IAS 17. Lease liabilities will be measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets will be measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid lease payments. The Group will apply IAS 36 to all right-of-use assets.

The Group expects to apply the following practical expedients:

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

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

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

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

Anticipated impact on assets, liabilities and equity

	Carrying Amount as of December 31, 2018	**Adjustments Arising from Initial Application**	**Adjusted Carrying Amount as of January 1, 2019**
Prepayments for leases - current	$ 12,073	$ (12,073)	$ -
Prepayments for leases - non-current	459,664	(459,664)	-
Right-of-use assets	-	524,865	524,865
Total effect on assets	$ 471,737	$ 53,218	$ 524,865
Lease liabilities - current	$ -	$ 17,506	$ 17,506
Lease liabilities - non-current	-	35,622	35,622
Total effect on liabilities	$ -	$ 53,218	$ 53,218

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group determined that the application of the aforementioned amendments and the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers will not have a material impact on the Group's financial position and financial performance.

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

New IFRSs	**Effective Date Announced by IASB (Note 1)**
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020 (Note 2)
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture"	To be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020 (Note 3)

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

Note 2: The Group shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

For the convenience of readers, the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China ("ROC"). If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language consolidated financial statements shall prevail.

a. Statement of compliance

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

b. Basis of preparation

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

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

1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;

2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

3) Level 3 inputs are unobservable inputs for an asset or liability.

c. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company.

Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of profit or loss and other comprehensive income from the effective dates of acquisitions up to the effective dates of disposals, as appropriate.

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

All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

See Note 17, Tables 7 and 8 for detailed information on subsidiaries (including percentages of ownership and main businesses).

d. Business combinations

Acquisitions of businesses are accounted for using the acquisition method. Acquisition-related costs are generally recognized in profit or loss as they are incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Business combinations involving entities under common control are not accounted for by the acquisition method but are accounted for at the carrying amounts of the entities. Prior period comparative information in the consolidated financial statements is restated as if a business combination involving entities under common control had already occurred in that period. The acquirer is disclosed as if it has occurred before January 1, 2017, and the Group's financial statements for the year are restated. The equity held by original shareholders is recorded as "equity attributable to former owner of business combination under common control" when preparing the comparative consolidated balance sheet. In the preparation of the consolidated statement of changes in equity, the profit or loss recognized by original shareholders is attributed to "former owners' interests under common control".

e. Foreign currencies

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

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise.

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

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

For the purpose of presenting consolidated financial statements, the functional currencies of the Company and the group entities (including subsidiaries and associates in other countries that use currencies which are different from the currency of the Company) are translated into the presentation currency, the New Taiwan dollar, as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; and income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income (attributed to the owners of the Company and non-controlling interests as appropriate).

f. Inventories

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

g. Investment in associates

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

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

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

When the Company subscribes for additional new shares of an associate at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Group's proportionate interest in the associate. The Group records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in capital surplus from investments in associates accounted for using the equity method. If the Group's ownership interest is reduced due to its additional subscription of the new shares of the associate, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate is reclassified to profit or loss on the same basis as would be required had the investee directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for using the equity method is insufficient, the shortage is debited to retained earnings.

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

The entire carrying amount of an investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date on which its investment ceases to be an associate. Any retained investment is measured at fair value at that date, and the fair value is regarded as the investment's fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. The Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required had that associate directly disposed of the related assets or liabilities. If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the Group continues to apply the equity method and does not remeasure the retained interest.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Group' consolidated financial statements only to the extent that interests in the associate are not related to the Group.

h. Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment loss.
Property, plant and equipment in the course of construction are measured at cost less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Such assets are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for their intended use.

Freehold land is not depreciated.

Depreciation of property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effects of any changes in the estimates accounted for on a prospective basis.

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

i. Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

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

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

j. Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered any impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the individual cash-generating units on a reasonable and consistent basis of allocation.

The recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount.

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

k. Financial instruments

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

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

1) Financial assets

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

a) Measurement category

2018

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

i. Financial assets at FVTPL

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

Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividends or interest earned on such a financial asset.

ii. Financial assets at amortized cost

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

i) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets at amortized cost are measured at amortized cost, which equals the gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

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

iii. Investments in equity instruments at FVTOCI

On initial recognition, the Group may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation as at FVTOCI is not permitted if the equity investment is held for trading.

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

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

2017

Financial assets are classified into the following categories: Financial assets at FVTPL, available-for-sale financial assets, and loans and receivables.

i. Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is held for trading.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss.

ii. Available-for-sale financial assets

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

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

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment loss at the end of each reporting period and are presented in a separate line item as financial assets carried at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between carrying amount and fair value is recognized in other comprehensive income on financial assets. Any impairment loss is recognized in profit and loss.

iii. Loans and receivables

Loans and receivables (including notes and accounts receivable, cash and cash equivalent, debt investments with no active market, etc.) are measured at amortized cost using the effective interest method, less any impairment, except for short-term receivables when the effect of discounting is immaterial.

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

b) Impairment of financial assets

<u>2018</u>

The Group recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including accounts receivable).

The Group always recognizes lifetime expected credit losses (i.e. ECLs) for accounts receivable. For all other financial instruments, the Group recognizes lifetime ECLs when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on a financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECLs.

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

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

<u>2017</u>

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

Financial assets carried at amortized cost, such as notes and accounts receivable, are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group’s past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

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

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

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

For financial assets measured at cost, the amount of the impairment loss is measured as the difference between the asset's 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 will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets, with the exception of notes and accounts receivable, where the carrying amount is reduced through the use of an allowance account. When notes and accounts receivable are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectible notes and accounts receivable that are written off against the allowance account.

c) Derecognition of financial assets

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

Before 2018, on derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss which had been recognized in other comprehensive income is recognized in profit or loss. Starting from 2018, on derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. On derecognition of an investment in an equity instrument at FVTOCI, the cumulative gain or loss which had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

2) Equity instruments

Equity instruments issued by a group entity are classified as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments issued by a group entity are recognized at the proceeds received, net of direct issue costs.

The repurchase of the Group's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issuance or cancellation of the Group's own equity instruments.

3) Financial liabilities

a) Subsequent measurement

Except for financial liabilities at FVTPL, all financial liabilities are measured at amortized cost using the effective interest method.

Financial liabilities are classified as at FVTPL when such financial liabilities are held for trading.

Financial liabilities held for trading are stated at fair value, with any gain or loss arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss does not incorporate any interest or dividend paid on the financial liability. Fair value is determined in the manner described in Note 30.

b) Derecognition of financial liabilities

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

4) Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risks, including foreign exchange forward contracts.

Derivatives are initially recognized at fair value at the date on which the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. When the fair value of derivative financial instruments is positive, the derivative is recognized as a financial asset; when the fair value of derivative financial instruments is negative, the derivative is recognized as a financial liability.

l. Hedge accounting

The Group designates certain hedging instruments as cash flow hedges to partially hedge its foreign exchange rate risks associated with certain highly probable forecast purchases. The effective portion of changes in the fair value of hedging instruments is recognized in other comprehensive income. When the forecast transactions actually take place, the associated gains or losses that were recognized in other comprehensive income are removed from equity and included in the initial cost of the hedged items. The gains or losses from hedging instruments relating to the ineffective portion are recognized immediately in profit or loss.

2018

The Group discontinues hedge accounting only when the hedging relationship ceases to meet the qualifying criteria; for instance, when the hedging instrument expires or is sold, terminated or exercised.

2017

Hedge accounting was discontinued prospectively when the Group revoked the designated hedging relationship; when the hedging instrument expired or was sold, terminated, or exercised; or when the hedging instrument no longer met the criteria for hedge accounting.

m. Provisions

Provisions, including those arising from the contractual obligation, are stated at the best estimate of the discounted cash flow of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

n. Revenue recognition

2018

The Group identifies contracts with customers and recognizes revenue when performance obligations are satisfied.

Revenue from the sale of goods is recognized when the goods are delivered to the customer's specific location and the performance obligation is satisfied because it is the time when customers have obtained control of the promised goods.

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable and reduced for estimated customer returns, rebates and other similar allowances. Estimated sales returns and allowances is generally made and adjusted based on historical experience and the consideration of varying contractual terms to recognize refund liabilities.

Due to the short term nature of the receivables from sale of goods with the immaterial discounted effect, the group measures them at the original invoice amounts without discounting.

2017

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

1) Sale of goods

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

a) The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

b) The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

c) The amount of revenue can be measured reliably;

d) It is probable that the economic benefits associated with the transaction will flow to the Group; and

e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Group does not recognize sales revenue on materials delivered to subcontractors because this delivery does not involve a transfer of risks and rewards of materials' ownership.

Specifically, revenue from the sale of goods is recognized when the goods are delivered and the ownership of the goods is transferred to the customer.

2) Dividend and interest income

Dividend income from investments is recognized when a shareholder's right to receive payment has been established and provided that it is probable that the economic benefits will flow to the Group and that 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 Group and the amount of income can be measured reliably. Interest income is accrued on a time basis with reference to the principal outstanding and at the applicable effective interest rate.

o. Leasing

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and amortized on a straight-line basis over the lease term.

p. Borrowing costs

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

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

q. Employee benefits

1) Short-term employee benefits

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

2) Retirement benefits

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

Defined benefit costs (including service cost, net interest and remeasurement) under defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost and past service cost) and net interest on the net defined benefit liability (asset) are recognized as employee benefits expense in the period in which they occur or when the plan amendment or curtailment occurs. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling, and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which it occurs.

Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liability (asset) represents the actual deficit (surplus) in the Group's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

r. Taxation

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

1) Current tax

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain earnings.

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

2) Deferred tax

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

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

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

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liabilities are settled or the assets are realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3) Current and deferred taxes for the year

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

s. Biological assets

Biological assets are measured at fair value less costs to sell. The gains and losses arising from the change in fair value less costs to sell are recognized in profit or loss when they are incurred.

Agricultural produce harvested from biological assets is measured initially at fair value less costs to sell at the point of harvest, and subsequently transferred to inventory and accounted for accordingly.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

a. Estimated impairment of financial assets - 2018

The provision for impairment of accounts receivable is based on assumptions about risk of default and expected loss rates. The Group uses judgment in making these assumptions and in selecting the inputs to the impairment calculation, based on the Group's historical experience, existing market conditions as well as forward looking estimates as of the end of each reporting period. For details of the key assumptions and inputs used, see Note 14. Where the actual future cash inflows are less than expected, a material impairment loss may arise.

b. Estimated impairment of notes and accounts receivable - 2017

When there is objective evidence of impairment loss of receivables, the Group takes into consideration the estimation of future cash flows of such assets. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2018	**2017**
Cash on hand	$ 875	$ 859
Checking accounts and demand deposits	552,504	370,879
Cash equivalents		
Time deposits with original maturities of less than three months	-	869,838
	$ 553,379	$ 1,241,576

The market rate intervals of cash in bank (excluding checking accounts) at the end of the reporting period were as follows:

	December 31	
	2018	2017
Bank balance	0.001%-0.48%	0.001%-1.85%
Cash equivalents	-	0.6%-4.27%

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2018	2017
Financial assets at FVTPL - current		
Financial assets held for trading		
Mutual funds	$ -	$ 29,321
Foreign exchange forward contracts (a)	-	3,934
	-	33,255
Financial assets mandatorily classified as at FVTPL		
Derivative financial assets (not under hedge accounting)		
Foreign exchange forward contracts (a)	3,166	-
Non-derivative financial assets		
Mutual funds	4,349	-
	7,515	-
	$ 7,515	$ 33,255
Financial assets at FVTPL - non-current		
Non-derivative financial assets		
Domestic quoted shares (b)	$ 171,035	$ -

a. At the end of the reporting period, outstanding foreign exchange forward contracts not under hedge accounting were as follows:

	Currency	Maturity Date	Notional Amount (In Thousands)
December 31, 2018			
Sell	USD:NTD	2019.01.09-2019.01.22	USD16,500/NTD506,798
December 31, 2017			
Sell	USD:NTD	2018.01.10-2018.01.25	USD13,500/NTD401,760

The Group entered into foreign exchange forward contracts to manage exposures to exchange rate fluctuations of foreign currency denominated assets and liabilities. The above foreign exchange forward contracts held by the Group did not meet hedge effectiveness, so they are not applicable for hedge accounting.

b. In 2015, the Group bought subordinated financial bonds issued by Bank SinoPac with a coupon rate of 3.9% at par value of $170,000 thousand. The bonds have no maturity date but may be redeemed by Bank SinoPac after 5 years from issue date. The bonds were previously classified as investments in debt instrument without active market under IAS 39. Since the contract did not meet the cash flow test, the bonds were reclassified mandatorily as at FVTPL under IFRS 9. Refer to Note 3 and Note 12 for information relating to their reclassification and comparative information for 2017.

c. The Group entered into short-term structured time deposit contracts with banks. The structured time deposit contracts include embedded derivative instruments which are closely related to the contracts. The contracts were classified as debt investments with no active market under IAS 39. But under IFRS 9, the contracts did not meet the contractual cash flow test, therefore, the entire contracts are assessed and mandatorily classified as FVTPL. Refer to Note 3, Note 6 and Note 12 for information relating to their reclassification and comparative information for 2017.

8. INVESTMENT IN EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - 2018

	December 31, 2018
Current	
Domestic investments	
Listed shares	$ 1,052,704
Non-current	
Domestic investments	
Listed shares	$ 260,361
Unlisted shares	300,123
	$ 560,484

These investments in equity instruments are held for medium to long-term strategic purposes. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes. These investments in equity instruments were classified as available-for-sale under IAS 39. Refer to Note 3, Note 9 and Note 13 for information relating to their reclassification and comparative information for 2017.

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS - 2017

	December 31, 2017
Current	
Domestic investments	
Listed shares	$ 946,232
Non-current	
Domestic investments	
Listed shares	$ 332,343

10. FINANCIAL INSTRUMENTS FOR HEDGING

2018

	December 31, 2018
Financial assets under hedge accounting - current	
Cash flow hedges - foreign exchange forward contracts	$ 50
Financial liabilities under hedge accounting - current	
Cash flow hedges - foreign exchange forward contracts	$ 250

The Group’s hedge strategy is to enter into foreign exchange forward contracts to avoid its foreign currency exposure to certain foreign currency receipts and payments and to manage its foreign currency exposures in relation to foreign currency forecast purchases. When forecast purchases actually take place, the carrying amounts of the non-financial hedged items will be adjusted accordingly.

The Group determined that the value of the forward exchange contracts and the value of the corresponding hedged items will systematically move in the opposite direction in response to changes in the underlying exchange rates based on their relationship.

The source of hedge ineffectiveness in these hedging relationships is the effect of the counterparty and the Group’s own credit risk on the fair value of the forward exchange contracts. No other sources of ineffectiveness are expected to emerge from these hedging relationships.

The decrease in value used for calculating hedge ineffectiveness in 2018 was $584 thousand. The following tables summarize the information relating to the hedges of foreign currency risk.

	Currency	Maturity Date	Notional Amount (In Thousands)
December 31, 2018			
Buy	EUR:NTD	2019.03.05	EUR243/NTD8,554
Buy	EUR:NTD	2019.01.22-2019.01.29	EUR3,470/NTD122,144

	Decrease in Value Used for Calculating Hedge Ineffectiveness	Hedging Gains (Losses) Recognized in OCI
Hedged item		
Cash flow hedges		
Forecast transactions (capital expenditures)	$ (584)	$ (6,961)

Refer to Note 23(e) for information relating to gain (loss) arising on changes in the fair value of hedging instruments and the original carrying amount transferred to hedged items in 2018.

2017

The Group's 2017 hedge strategy is the same as 2018. The financial instruments used for hedging were as follows:

	December 31, 2017
Derivative financial assets under hedge accounting - current	
Cash flow hedges - foreign exchange forward contracts	$ 1

The terms of the foreign exchange forward contracts were negotiated to match the terms of the respective designated hedged items. The outstanding foreign exchange forward contracts at the end of the reporting period were as follows:

	Currency	Maturity Date	Notional Amount (In Thousands)
December 31, 2018			
Buy	EUR:NTD	2018.01.31	EUR383/NTD13,623

11. FINANCIAL ASSETS AT AMORTIZED COST - 2018

	December 31, 2018
Current	
Domestic investments	
Time deposits with original maturity between three months and a year	$ 5,900
Non-current	
Domestic investments	
Time deposits with original maturity of more than a year	$ 5,000

The interest rates for time deposits with original maturity between three months and a year and time deposits with original maturity of more than a year were 0.82% and 1.12% respectively, as at the end of the reporting period. The time deposits were classified as debt investments with no active market under IAS 39 originally. Refer to Note 3 and Note 12 for information relating to their reclassification and comparative information for 2017.

12. FINANCIAL ASSETS AT AMORTIZED COST - 2017

	December 31, 2017
Current	
Time deposits with original maturity between three months and a year (b)	$ 209,752
Non-current	
Subordinated financial bonds of Bank SinoPac (a)	$ 170,000
Time deposits with original maturity of more than a year (b)	5,000
	$ 175,000

a. In 2015, the Group bought subordinated financial bonds issued by Bank SinoPac with a coupon rate of 3.9% at par value of $170,000 thousand. The bonds have no maturity date but may be redeemed by Bank SinoPac after 5 years from issue date.

b. The market interest rate of the time deposits with original maturity between three months and a year and the time deposit with original maturity of more than a year were 0.58% - 3.6% and 1.12% per annum, as of December 31, 2017, respectively.

13. FINANCIAL ASSETS MEASURED AT COST - 2017

	December 31, 2017
Domestic unlisted shares	$ 235,500
Foreign unlisted shares	3,902
Time deposits with original maturity between three months and a year (b)	$ 239,402
Classified according to financial asset measurement categories	
Available-for-sale financial assets	$ 239,402

Management believed that the fair value of the above unlisted equity investments held by the Group cannot be reliably measured due to the range of reasonable fair value estimates was so significant. Therefore, they were measured at cost less impairment at the end of reporting period.

14. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

	December 31	
	2018	2017
Notes receivable - operating	$ 593,550	$ 587,955
Accounts receivable - operating	2,128,828	2,178,207
Gross carrying amount	2,722,378	2,766,162
Less: Allowance for impairment loss	(40,471)	(33,900)
	$ 2,681,907	$ 2,732,262

2018

The Group's customers are a large number of unrelated customers that did not create concentration of credit risk.

For the accounts receivable that were past due at the end of the reporting period, the Group 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 Group held adequate collaterals or other credit enhancements for these receivables. In addition, the Group also did not have offset right for the receivables against the payables of the same parties.

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

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. For trade receivables that have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

The following table details the loss allowance of trade receivables based on the Group's provision matrix.

December 31, 2018

	Not Past Due	Less than 90 Days	91 Days to A Year	Over A Year	Total
Gross carrying amount	$ 2,595,344	$ 124,543	$ 1	$ 2,490	$ 2,722,378
Loss allowance (Lifetime ECL)	(36,262)	(1,718)	(1)	(2,490)	(40,471)
Amortized cost	$ 2,559,082	$ 122,825	$ -	$ -	$ 2,681,907

The movements of the loss allowance of trade receivables were as follows:

	2018
Balance at January 1, 2018 per IAS 39 and IFRS9	$ 33,900
Net remeasurement of loss allowance	4,376
Amounts written off	(73)
Foreign exchange translation gains and losses	2,268
Balance at December 31, 2018	$ 40,471

2017

The Group applied the same credit policy in 2018 and 2017.

The Group recognized an allowance for impairment loss on receivables based on the past default experience of the counterparties and an analysis of their current financial positions because according to historical experience, receivables that are past due beyond payment terms may be unrecoverable.

The aging of receivables was as follows:

	December 31, 2017
Not past due	$ 2,627,764
Less than 90 days	136,279
91-180 days	-
181 days - 1 year	-
Over 1 year	2,119
	$ 2,766,162

The above aging schedule was based on the number of past due days.

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

	December 31, 2017
Less than 90 days	$ 127,962
91-180 days	-
181 days - 1 year	-
Over 1 year	1,640
	$ 129,602

The above aging of receivables before deducting the allowance for impairment was presented based on the number of past due days.

The movements of the allowance for doubtful accounts receivable were as follows:

	Collectively Assessed for Impairment
Balance at January 1, 2017	$ 30,868
Add: Impairment losses recognized on receivables	3,065
Foreign exchange translation gains and losses	(33)
Balance at December 31, 2017	$ 33,900

15. INVENTORIES

	December 31	
	2018	2017
Finished and purchased goods	$ 2,373,492	$ 1,660,851
Work in process	416,128	406,778
Materials	1,406,596	1,008,979
	$ 4,196,216	$ 3,076,608

The cost of goods sold for the years ended December 31, 2018 and 2017 included reversals of inventory write-downs of $681 thousand and inventory write-downs of $3,712 thousand, respectively.

16. BIOLOGICAL ASSETS

	For the Year Ended December 31	
	2018	2017
Balance at January 1	$ 3,280,878	$ 3,275,503
Increases due to planting	262,717	194,119
Loss from changes in fair value less costs to sell	(10,695)	(8,111)
Decreases due to harvest	(156,618)	(114,840)
Net exchange differences	(58,807)	(65,793)
Balance at December 31	$ 3,317,475	$ 3,280,878

The biological assets and their fair values measured on a recurring basis (before deducting costs to sell) were as follows:

	For the Year Ended December 31	
	2018	2017
Eucalyptus (Level 3)	$ 3,396,946	$ 3,380,533
Opening balance	$ 3,380,533	$ 3,370,430
Increases due to planting	292,628	212,082
Loss from changes in fair value less costs to sell - unrealized	(11,912)	(8,861)
Decreases due to harvest	(174,448)	(125,467)
Foreign exchange translation gains and losses	(89,855)	(67651)
Ending balance	$ 3,396,946	$ 3,380,533

The financial risks related to biological assets arose from the estimation of eucalyptus volume since the method used in estimation is highly uncertain.

17. SUBSIDIARIES

Subsidiaries included in the consolidated financial statements:

			% of Ownership December 31	
Investor	Investee	Main Business	2018	2017
The Company	CHP International (BVI) Corporation	Investment and holding	100.00	100.00
	Hwa Fong Investment Co., Ltd.	Investment and holding	100.00	100.00
CHP International (BVI) Corporation	Guangdong Ding Fung Pulp & Paper Co., Ltd.	Pulp and paper production, trading and forestry business	60.00	60.00
	Zhaoqing Ding Fung Forestry Ltd.	Seedling cultivation and sales, reforestation, sales-cum-forest logging and other forestry, processing and transportation	20.20	20.20
Hwa Fong Investment Co., Ltd.	Kuang Hwa Fertilizer Limited Company	To produce fertilizer	100.00	100.00
Guangdong Ding Fung Pulp & Paper Co., Ltd.	Zhaoqing Ding Fung Forestry Ltd.	Seedling cultivation and sales, reforestation, sales-cum-forest logging and other forestry, processing and transportation	66.30	66.30
	Shenzhen Systax Paper Co., Ltd. (Note)	Paper trading, cargo and technic Import and export business	100.00	-

The financial statements of Kuang Hwa Fertilizer Limited Company have not been audited; as of December 31, 2018 and 2017, the assets were about 0.04% ($12,779 thousand) and 0.05% ($15,101 thousand) of total consolidated assets, respectively; the liabilities were about 0.04% ($5,803 thousand) and 0.02% ($2,500 thousand) of total consolidated liabilities, respectively; for the years ended December 31, 2018 and 2017, net sales were about 0.06% ($15,334 thousand) and 0.07% ($15,773 thousand) of total consolidated net sales, respectively; the net loss was about 0.06% ($340 thousand) and the net income was about 0.79% ($5,873 thousand) of total consolidated net income, respectively. Management believes the amounts will not have material differences even if the financial statements are audited.

Note: On August 13, 2018, the Group's board of directors decided to acquire all equity of Shenzhen Systax Paper Co., Ltd. from a fellow subsidiary of YFY Inc. group through Guangdong Ding Fung Pulp & Paper Co., Ltd. by RMB22,560 thousand. The transaction was completed in the fourth quarter of 2018. In compliance with the "Comments on IFRS" and Interpretation 2012-301 issued by Accounting Research and Development Foundation, the acquisition resulted in a joint control restructuring. Therefore, in preparing comparative consolidated financial statements, the acquisition is disclosed as if it has occurred before January 1, 2017 and the Group's consolidated financial statements as of and for the year ended December 31, 2017 are restated. The related equity adjustments are recognized as equity attributable to former owner of business combination under common control.

18. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	December 31	
	2018	**2017**
Associates that are not individually material	$ 863,675	$ 855,810

Aggregate information of associates that are not individually material were as follows:

	December 31	
	2018	**2017**
The Group's share of:		
Profit from continuing operations	$ 52,270	$ 20,906
Other comprehensive loss	(24,846)	(35,742)
Total comprehensive loss for the year	$ (32,424)	$ (14,836)

The combined ownership held by the Group and its parent company, YFY Inc., in some associates that are not individually material was more than 20%. Thus, the Group used the equity method to account for its investments in these associates.

The Group is able to exercise significant influence over some associates that are not individually material even if it holds less than 20% of their voting rights. Thus, the Group uses the equity method to account for its investments in these associates.

19. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Buildings	Machinery	Electric Equipment	Tools	Miscellaneous Equipment	Property in Construction	Total
Cost								
Balance at January 1, 2017	$ 6,637,258	$ 3,682,040	$ 27,806,093	$ 2,807,307	$ 1,481,199	$ 734,466	$ 679,697	$ 43,828,060
Additions	-	21,498	241,821	26,895	41,619	14,359	689,963	1,036,155
Disposals	-	(2,171)	(76,342)	(1,118)	(5,969)	(8,740)	-	(94,340)
Effect of foreign currency exchange differences	-	(14,611)	(82,241)	-	-	(3,556)	(4,127)	(104,535)
Reclassified as held for sale	-	85,283	597,993	79,807	96,620	16,921	(876,624)	-
Other reclassifications	-	-	-	-	-	-	(68,054)	(68,054)
Balance at December 31, 2017	$ 6,637,258	$ 3,772,039	$ 28,487,324	$ 2,912,891	$ 1,613,469	$ 753,450	$ 420,855	$ 44,597,286
Accumulated depreciation and impairment								
Balance at January 1, 2017	$ -	$ 2,608,107	$ 22,584,162	$ 2,284,269	$ 1,253,960	$ 537,363	$ -	$ 29,267,861
Disposals	-	(21,171)	(68,481)	(1,118)	(5,944)	(8,740)	-	(86,454)
Depreciation expenses	-	103,351	812,371	74,008	88,721	40,671	-	1,119,122
Effect of foreign currency exchange differences	-	(3,200)	(45,026)	-	-	(594)	-	(48,820)
Balance at December 31, 2017	$ -	$ 2,706,087	$ 23,283,026	$ 2,357,159	$ 1,336,737	$ 568,700	$ -	$ 30,251,709
Carrying amounts at December 31, 2017	$ 6,637,258	$ 1,065,952	$ 5,204,298	$ 555,732	$ 276,732	$ 184,750	$ 420,855	$ 14,345,577
Cost								
Balance at January 1, 2018	$ 6,637,258	$ 3,772,039	$ 28,487,324	$ 2,912,891	$ 1,613,469	$ 753,450	$ 420,855	$ 44,597,286
Additions	-	24,997	137,540	16,216	36,618	11,747	1,136,485	1,363,603
Disposals	-	-	(19,315)	(1,586)	(999)	(7,824)	-	(29,724)
Effect of foreign currency exchange differences	-	(13,067)	(74,115)	-	-	(3,032)	(1,107)	(91,321)
Reclassified as held for sale	-	31,967	418,832	39,465	73,478	11,183	(574,925)	-
Balance at December 31, 2018	$ 6,637,258	$ 3,815,936	$ 28,950,226	$ 2,966,986	$ 1,722,566	$ 765,524	$ 981,308	$ 45,839,844
Accumulated depreciation and impairment								
Balance at January 1, 2018	$ -	$ 2,706,087	$ 23,283,026	$ 2,357,159	$ 1,336,737	$ 568,700	$ -	$ 30,251,709
Disposals	-	-	(19,315)	(1,586)	(999)	(7,823)	-	(29,723)
Depreciation expenses	-	103,595	781,648	73,811	100,986	43,144	-	1,103,184
Effect of foreign currency exchange differences	-	(3,949)	(45,266)	-	-	(1,378)	-	(50,593)
Balance at December 31, 2018	$ -	$ 2,805,733	$ 24,000,093	$ 2,429,384	$ 1,436,724	$ 602,643	$ -	$ 31,274,577
Carrying amounts at December 31, 2018	$ 6,637,258	$ 1,010,203	$ 4,950,173	$ 537,602	$ 285,842	$ 162,881	$ 981,308	$ 14,565,267

The above items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives of the asset as follows:

Buildings	
Main buildings	15-35 years
Others	3-44 years
Machinery	3-15 years
Electric equipment	5-15 years
Tools	3-5 years
Miscellaneous equipment	3-20 years

20. INVESTMENT PROPERTIES

	For the Year Ended December 31	
	2018	2017
Cost		
Opening balance	$ 272,334	$ 272,334
Ending balance	$ 272,334	$ 272,334
Accumulated depreciation and impairment		
Opening balance	$ (14,656)	$ (14,326)
Depreciation expenses	(267)	(330)
Ending balance	$ (19,423)	$ (14,656)
Ending carrying amounts	$ 257,411	$ 257,678

The investment properties held by the Group are depreciated over their estimated useful life of 55 years, using the straight-line method.

The valuation was done by the Group using market evidence of transaction prices for similar properties. The fair values of the investment properties owned by the Group were as follows:

	December 31	
	2018	**2017**
Fair value	$ 341,731	$ 341,731

21. BORROWINGS

a. Short-term borrowings

	December 31	
	2018	**2017**
Bank credit loans	$ 3,601,000	$ 2,762,000
Letter of credit loans	93,901	562,328
	$ 3,694,901	$ 3,324,328

As of December 31, 2018 and 2017, the interest rates of short-term borrowings were 0.91%-3.89% per annum and 0.91%-2.81% per annum, respectively.

b. Short-term bills payable

	December 31	
	2018	**2017**
Commercial paper	$ 1,850,000	$ 1,950,000
Less: Unamortized discounts on bills payable	(291)	(732)
	$ 1,849,709	$ 1,949,268

Short-term bills payable are commercial papers due within one year. Interest rates on these bills payable were 0.91%-1.12% and 0.91%-1.00% as of December 31, 2018 and 2017, respectively.

c. Long-term borrowings

	December 31	
	2018	**2017**
Unsecured bank loans	$ 1,700,000	$ 920,000
Less: Loan management fees	(4,125)	(5,925)
Long-term bank loans	$ 1,695,875	$ 914,075

	Due Date	Article	Interest Rate	December 31 2018	December 31 2017
Taiwan Bank Credit loan A	2021.06.30	The credit can be revolved within 60 months from the first drawdown date of the loan.	1.80%	$ 1,700,000	$ 800,000
KGI Bank Credit loan	2019.12.12	The credit can be revolved during the contract period. Principal was fully repaid in advance in 2018.	1.19%	-	120,000
				$ 1,700,000	$ 920,000

22. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Company, Hwa Fong Investment Co., Ltd. and Kuang Hwa Fertilizer Limited Company of the Group adopted a pension plan under the Labor Pension Act (the "LPA"), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

The employees of the Group's subsidiary in mainland China are members of a state-managed retirement benefit plan operated by the government of mainland China. The subsidiary is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

b. Defined benefit plans

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

The amounts included in the consolidated balance sheets in respect of the Group's defined benefit plans were as follows:

	December 31 2018	December 31 2017
Present value of defined benefit obligation	$ 602,251	$ 624,763
Fair value of plan assets	(367,316)	(400,068)
Net defined benefit liability	$ 234,935	$ 224,695

Movements in net defined benefit liability were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability
Balance at January 1, 2017	$ 647,298	$ (360,749)	$ 286,549
Service cost			
Current service cost	22,924	-	22,924
Net interest expense (income)	10,778	(9,005)	1,773
Recognized in profit or loss	33,702	(9,005)	24,697
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	5,321	5,321
Actuarial loss - changes in financial assumptions	13,741	-	13,741
Recognized in other comprehensive income	13,741	5,321	19,062
Contributions from the employer	-	(105,613)	(105,613)
Benefits paid	(69,978)	69,978	-
Balance at December 31, 2017	$ 624,763	$ (400,068)	$ 224,695
Balance at January 1, 2018	$ 624,763	$ (400,068)	$ 224,695
Service cost			
Current service cost	19,143	-	19,143
Net interest expense (income)	10,434	(8,905)	1,529
Recognized in profit or loss	29,577	(8,905)	20,672
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(7,181)	(7,181)
Actuarial loss - experience adjustments	37,863	-	37,863
Actuarial loss - changes in financial assumptions	9,101	-	9,101
Actuarial loss - changes in other assumptions	310	-	310
Recognized in other comprehensive income	47,424	(7,181)	40,093
Contributions from the employer	-	(50,525)	(50,525)
Benefits paid	(99,363)	99,363	-
Balance at December 31, 2018	$ 602,251	$ (367,316)	$ 234,935

Through the defined benefit plans under the Labor Standards Law, the Group is exposed to the following risks:

1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.

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

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

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

	December 31	
	2018	**2017**
Discount rates	1.50%	1.75%
Expected rates of salary increase - less than 16 years	1.50%	1.50%
Expected rates of salary increase - more than 16 years	1.00%	1.00%

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

	December 31	
	2018	**2017**
Discount rates		
0.125% increase	$ (4,602)	$ (5,119)
0.125% decrease	$ 4,668	$ 5,198
Expected rates of salary increase		
0.125% increase	$ 4,686	$ 5,231
0.125% decrease	$ (4,631)	$ (5,164)

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

	December 31	
	2018	**2017**
The expected contributions to the plans for the next year	$ 47,156	$ 50,525
The average duration of the defined benefit obligation	7.2 years	12 years

23. EQUITY

a. Ordinary shares

	December 31	
	2018	**2017**
Number of shares authorized (in thousands)	1,300,000	1,300,000
Shares authorized	$ 13,000,000	$ 13,000,000
Number of shares issued and fully paid (in thousands)	1,102,835	1,102,835
Shares issued	$ 11,028,353	$ 11,028,353

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

b. Capital surplus

	December 31	
	2017	2017
May be used to offset a deficit, distributed as cash dividends, or transferred to share capital*		
Arising from treasury share transactions	$ 20,817	$ 20,817
The difference between consideration paid and the carrying amount of the subsidiary's net assets during actual acquisition	1,349	-
May be used to offset a deficit only		
Arising from share of changes in capital surplus of associates	9,302	15,785
	$ 31,468	$ 36,602

* Such capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital.

c. Retained earnings and dividends policy

Under the dividends policy as set forth in the amended Articles, where the Company 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, and 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 Company'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. For the policies on the distribution of employees' compensation and remuneration of directors and supervisors after the amendment, refer to employees' compensation and remuneration of directors and supervisors in Note 24.

In making its dividends policy, the Company takes into account future capital expenditures and working capital requirements. Based on this policy, dividends should be distributed as follows:

1) At least 20% as cash dividends; and

2) Remainder, as stock dividends. If there is a requirement for capital expenditure, the Company may distribute only stock dividends.

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

Under Order No. 1010012865 and Order No. 1010047490 and Order No. 1030006415 issued by the FSC and in the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs", the Company should appropriate to or reverse from a special reserve. Any special reserve appropriated may be reversed to the extent that the net debit balance reverses and thereafter distributed.

The appropriations of earnings for 2017 and 2016 approved in the shareholders' meetings on June 26, 2018, and June 19, 2017, respectively, were as follows:

	Appropriation of Earnings For the Year Ended December 31		Dividends Per Share (NT$) For the Year Ended December 31	
	2017	2016	2017	2016
Legal reserve	$ 61,858	$ 39,112		
Cash dividends	551,418	385,992	$0.50	$0.35

The appropriations of earnings for 2018 had been proposed by the Company's board of directors on March 21, 2019. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT$)
Legal reserve	$ 44,556	
Cash dividends	385,992	$0.35

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

d. Special reserves

	For the Year Ended December 31	
	2018	2017
Special reserves	$ 1,186,894	$ 1,186,894

The Company appropriated a special reserve in an amount equal to the unrealized revaluation increment, which was already transferred to retained earnings.

e. Others equity items

	Exchange Differences Arising on Translating the Foreign Operations	Unrealized Gain (Loss) on Financial Assets at FVTOCI	Gain (Loss) on Hedging Instruments	Total
2018				
Balance at January 1 (IAS 39)	$ (87,435)	$ -	$ -	$ (87,435)
Applying IFRS 9 retrospectively with the cumulative effect of the initial application of this standard.	-	358,643	(6,377)	352,266
Balance at January 1 (IFRS 9)	(87,435)	358,643	(6,377)	264,831
Unrealized gain (loss) on fair value through other comprehensive income or loss financial asset.	-	59,458	-	59,458

(Continued)

	Exchange Differences Arising on Translating the Foreign Operations	Unrealized Gain (Loss) on Financial Assets at FVTOCI	Gain (Loss) on Hedging Instruments	Total
Exchange differences arising on translating the foreign operation	$ (11,048)	$ -	$ -	$ (11,048)
Loss arising on changes in the fair value of hedging instrument	-	-	(584)	(584)
Share of other comprehensive loss of associates	(1,530)	(23,209)	-	(24,739)
Balance at December 31	$ (100,013)	$ 394,892	$ (6,961)	$ 287,918
2017				
Balance at January 1	$ 131,549	$ 344,353	$ (11,350)	$ 464,552
Unrealized gain on available-for-sale financial assets	-	(2,131)	-	(2,131)
Exchange differences arising on translating the foreign operation	(206,494)	-	-	(206,494)
Cash flow hedge	-	-	4,937	4,973
Share of other comprehensive loss of associates	(12,490)	(23,143)	-	(35,633)
Balance at December 31	$ (87,435)	$ 319,079	$ (6,377)	$ 225,267

(Concluded)

f. Non-controlling interests

	For the Year Ended December 31	
	2018	2017
Balance at January 1	$ 2,406,511	$ 2,345,370
Attributable to non-controlling interests:		
Share of profit for the year	64,583	107,633
Exchange difference arising on translation of foreign entities	(43,036)	(46,492)
Business combination under common control	900	-
Balance at December 31	$ 2,428,958	$ 2,406,511

24. NET PROFIT FROM CONTINUING OPERATIONS

a. Finance costs

	For the Year Ended December 31	
	2018	2017
Interest on bank loans	$ 92,016	$ 82,576
Less: Amounts included in the cost of qualifying assets	(557)	(909)
	$ 91,459	$ 81,667

Information about capitalized interest was as follows:

	For the Year Ended December 31	
	2017	2016
Capitalization rate	0.99%-1.22%	1.02%-1.25%

b. Depreciation and amortization

	For the Year Ended December 31	
	2018	2017
An analysis of depreciation by function		
Operating costs	$ 1,095,360	$ 1,113,018
Operating expenses	8,091	6,434
	$ 1,103,451	$ 1,119,452
An analysis of amortization by function		
Operating costs	$ 12,487	$ 7,162
Operating expenses	25,647	9,034
	$ 38,134	$ 16,196

c. Employee benefit expense

	For the Year Ended December 31	
	2018	2017
Post-employment benefits		
Defined contribution plans	$ 67,589	$ 66,938
Defined benefit plans	20,672	24,697
	88,261	91,635
Other employee benefits	1,855,591	1,800,847
Total employee benefit expense	$ 1,943,852	$ 1,892,482
An analysis of employee benefit expense by function		
Operating costs	$ 1,726,330	$ 1,716,533
Operating expenses	217,522	175,949
	$ 1,943,852	$ 1,892,482

As of December 31, 2018 and 2017, the Group had 2,678 and 2,647 employees, respectively. The calculation basis is consistent with the employee benefits.

According to the Articles of Incorporation of the Company, the Company accrued compensation of employees and remuneration of directors and supervisors at the rates of no less than 1% and no higher than 2%, respectively, of net profit before income tax, compensation of employees, and remuneration of directors and supervisors. The compensation of employees and remuneration of directors and supervisors for the years ended December 31, 2018 and 2017, which were approved by the Company's board of directors on March 21, 2019, and March 22, 2018, respectively, are as follows:

Amount

	For the Year Ended December 31	
	2018	**2017**
	Cash	**Cash**
Compensation of employees	$ 5,500	$ 8,000
Remuneration of directors and supervisors	7,000	7,000

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

There was no difference between the actual amounts of the compensation and remuneration proposed in 2017 and 2016, and the amounts recognized in the consolidated financial statements for the years ended December 31, 2017 and 2016.

Information on the compensation of employees and remuneration of directors and supervisors resolved by the Company's board of directors in 2018 and 2017 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

25. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Income tax recognized in profit or loss

The major components of tax expense were as follows:

	For the Year Ended December 31	
	2018	**2017**
Current tax		
In respect of the current year	$ 61,543	$ 24,263
Adjustments for prior years	6,418	7
	67,961	24,270
Deferred tax		
In respect of the current year	65,634	136,782
Effect of change in tax rate	747	-
Adjustments for prior years	1,627	2,706
	68,008	139,488
Income tax expense recognized in profit or loss	$ 135,969	$ 163,758

A reconciliation of accounting profit and income tax expenses is as follows:

	For the Year Ended December 31	
	2018	2017
Profit before tax from continuing operations	$ 665,204	$ 908,711
Income tax expense calculated at the statutory rate	$ 133,041	$ 154,481
Permanent differences	(18,906)	(20,586)
Unrecognized loss carryforwards	16	-
Adjustments for prior years	8,045	2,713
Effect of change in tax rate	747	-
Effect of different tax rates of group entities operating in other jurisdictions	13,026	27,150
Income tax expense recognized in profit or loss	$ 135,969	$ 163,758

In 2017, the applicable corporate income tax rate used by the group entities in the ROC is 17%. However, the Income Tax Act in the ROC was amended in 2018, and the corporate income tax rate was adjusted from 17% to 20%, effective in 2018. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings will be reduced from 10% to 5%. Tax rates used by other group entities operating in other jurisdictions are based on the tax laws in those jurisdictions.

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

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2018	2017
Deferred tax		
Effect of change in tax rate	$ 8,587	$ -
Remeasurement on defined benefit plan	8,019	3,240
Total income tax recognized in other comprehensive income	$ 16,606	$ 3,240

c. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities were as follows:

For the year ended December 31, 2018

Deferred tax assets	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre-hensive Income	Exchange Differences	Closing Balance
Temporary differences					
Defined benefit obligation	$ 38,198	$ (7,817)	$ 16,606	$ -	$ 46,987
Loss carryforwards	61,721	(51,825)	-	-	9,896
Others	12,632	5,667	-	(40)	18,259
	$ 112,551	$ (53,975)	$ 16,606	$ (40)	$ 75,142

(Continued)

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre-hensive Income	Exchange Differences	Closing Balance
Deferred tax liabilities					
Temporary differences					
Land value increment tax	$ 1,924,940	$ -	$ -	$ -	$ 1,924,940
Others	66,487	14,033	-	-	80,520
	$ 1,991,427	$ 14,033	$ -	$ -	$ 2,005,460

(Concluded)

For the year ended December 31, 2017

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre-hensive Income	Exchange Differences	Closing Balance
Deferred tax assets					
Temporary differences					
Defined benefit obligation	$ 48,714	$ (13,756)	$ 3,240	$ -	$ 38,198
Loss carryforwards	169,929	(106,766)	-	(1,442)	61,721
Others	31,610	(19,157)	-	179	12,632
	$ 250,253	$ (139,679)	$ 3,240	$ (1,263)	$ 112,511
Deferred tax liabilities					
Temporary differences					
Land value increment tax	$ 1,924,940	$ -	$ -	$ -	$ 1,924,940
Others	66,678	(191)	-	-	66,487
	$ 1,991,618	$ (191)	$ -	$ -	$ 1,991,427

d. Unused loss carryforwards for which no deferred tax assets have been recognized in the consolidated balance sheets

Hwa Fong Investments Co., Ltd.

	December 31	
	2018	2017
Loss carryforwards		
Expiry in 2018	$ -	$ 43,628
Expiry in 2028	82	-
	$ 82	$ 43,628

e. Loss carryforwards as of December 31, 2018 comprised:

The Company

Unused Amount	Expiry Year
$ 49,480	2024

Hwa Fong Investments Co., Ltd.

Unused Amount	Expiry Year
$ 82	2028

f. The aggregate amount of temporary differences associated with investments for which deferred tax liabilities have not been recognized

As of December 31, 2018 and 2017, the taxable temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognized were $663,452 thousand and $525,489 thousand, respectively.

g. Income tax assessments

	Latest Approved Year
The Company	2016
Hwa Fong Investments Co., Ltd.	2017
Kuang Hwa Fertilizer Limited Company	2016

26. EARNINGS PER SHARE

	For the Year Ended December 31	
	2018	2017
Basic earnings per share	$ 0.40	$ 0.56
Diluted earnings per share	$ 0.40	$ 0.56

The earnings and weighted average number of ordinary shares outstanding in the computation of earnings per share from continuing operations were as follows:

Net Profit for the Year

	For the Year Ended December 31	
	2018	2017
Profit for the year attributable to owners of the Company	$ 445,663	$ 618,582

Weighted average number of ordinary shares outstanding (in thousands of shares):

	For the Year Ended December 31	
	2018	2017
Weighted average number of ordinary shares used in the computation of basic earnings per share	1,102,835	1,102,835
Effect of potentially dilutive ordinary shares:		
Bonuses issued to employees	719	792
Weighted average number of ordinary shares used in the computation of diluted earnings per share	1,103,554	1,103,627

If the Group offered to settle compensation or bonuses paid to employees in cash or shares, the Group assumed the entire amount of the compensation or bonuses will be settled in shares, and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

27. BUSINESS COMBINATIONS

a. Subsidiaries acquired

Subsidiary	Principal Activity	Date of Reorganization	Proportion of Voting Equity Interests Acquired (%)	Consideration Transferred
Shenzhen Systax Paper Co., Ltd.	Note 17	The fourth season, 2018	100	$ 100,083

Shenzhen Systax Paper Co., Ltd. were acquired in order to continue the expansion of the Group's activities in China.

b. Consideration transferred

	Shenzhen Systax Paper Co., Ltd.
Cash	$ 100,083

The Group paid RMB22,560 thousand to the related party in exchange for the equity of Shenzhen Systax Paper Co., Ltd., and the amount of investment held by the related party was measured at the book value of RMB23,062 thousand by using the equity method at the time of acquisition.

c. Assets acquired and liabilities assumed at the date of acquisition

	Shenzhen Systax Paper Co., Ltd.
Current assets	
Cash and cash equivalents	$ 675
Trade and other receivables	416,256
Inventories	66,625
Other current assets	28,235
Non-current assets	1,917
Current liabilities	
Trade and other payables	(401,830)
Other current liabilities	(9,546)
	$ 102,332

d. The difference between consideration paid and the carrying amount of the subsidiaries' net assets during actual acquisition

	Shenzhen Systax Paper Co., Ltd.
Consideration transferred	$ 100,083
Less: Book value of identifiable net assets acquired	(102,332)
	(2,249)
Equity attributable to former owner due to business combination under common control	
Capitals surplus	1,349
Non-controlling interests	900
	$ -

28. OPERATING LEASE ARRANGEMENTS

The Group as Lessor

Operating lease relates to the leasing of investment property with lease period from May 1, 2015 to June 30, 2020. The lessee does not have a bargain purchase option to acquire the property at the expiry of the lease period.

The future minimum lease payments of non-cancellable operating leases were as follows:

	For the Year Ended December 31	
	2018	2017
Not later than 1 year	$ 7,080	$ 7,080
Later than 1 year and not later than 5 years	3,540	10,620
	$ 10,620	$ 17,700

29. CAPITAL MANAGEMENT

The capital structure of the Group consists of debt and equity of the Group (comprising issued capital, reserves, retained earnings and other equity).

Key management personnel of the Group review the capital structure on a regular basis. As part of this review, the key management personnel consider the cost of capital and the risks associated with each class of capital. In order to balance the overall capital structure, the Group may adjust the amount of new debt issued or existing debt redeemed.

30. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments

1) Fair value of financial instruments not carried at fair value

The management of the Group considers that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements to approximate their fair values.

2) Fair value of financial instruments measured at fair value on a recurring basis

December 31, 2018

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Mutual funds	$ 4,349	$ -	$ -	$ 4,349
Derivative financial assets - foreign exchange forward contracts (not under hedge accounting)	-	3,166	-	3,166
Bank debentures in the ROC	-	171,035	-	171,035
	$ 4,349	$ 174,201	$ -	$ 178,550
Financial assets at FVTOCI				
Securities listed in the ROC	$ 1,313,065	$ -	$ -	$ 1,313,065
Domestic unlisted shares	-	-	300,123	300,123
	$ 1,313,065	$ -	$ 300,123	$ 1,613,188
Hedging financial assets				
Derivative financial assets - foreign exchange forward contracts	$ -	$ 50	$ -	$ 50
Hedging financial liabilities				
Derivative financial liabilities - foreign exchange forward contracts	$ -	$ 250	$ -	$ 250

December 31, 2017

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Mutual funds	$ 29,321	$ -	$ -	$ 29,321
Derivative financial assets - foreign exchange forward contracts	-	3,934	-	3,934
	$ 29,321	$ 3,934	$ -	$ 33,255
Financial assets held for hedging				
Derivative financial assets - foreign exchange forward contracts	$ -	$ 1	$ -	$ 1
Available-for-sale financial assets				
Securities listed in the ROC				
Equity securities	$ 1,278,575	$ -	$ -	$ 1,278,575

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

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

Financial Assets	Financial Assets of Equity Securities at FVTOCI
Balance at January 1, 2018	$ 268,826
Proceeds from capital reduction	(18,655)
Recognized in other comprehensive income	49,952
Balance at December 31, 2018	$ 300,123

4) Valuation techniques and inputs applied for Level 2 fair value measurement

Financial Instruments	Valuation Techniques and Inputs
Derivatives - foreign exchange forward contracts	Discounted cash flow. Future cash flows are estimated based on observable forward exchange rates at the end of the reporting period and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.
Bank debentures in the ROC	Discounted cash flow. Future cash flows are discounted at a rate that reflects current borrowing interest rates of the debenture issuers at the end of the reporting period.

5) Valuation techniques and inputs applied for Level 3 fair value measurement

The fair values of unlisted equity securities - ROC were determined using the assets approach. The total value of individual assets and individual liabilities reflects the overall value of the investment. The significant unobservable inputs used are listed in the table below. A decrease in discount for lack of marketability used in isolation would result in increases in fair value.

	December 31, 2018
Discount for lack of marketability	15%

If the inputs to the valuation model were changed to reflect reasonably possible alternative assumptions while all the other variables were held constant, the fair value of the shares would increase (decrease) as follows:

	December 31, 2018
Discount for lack of marketability	
2.5% increase	$ (8,827)
2.5% decrease	$ 8,827

b. Categories of financial instruments

	December 31	
	2018	2017
Financial assets		
Fair value through profit or loss (FVTPL)		
Held for trading	$ -	$ 33,255
Mandatorily classified as at FVTPL	178,550	-
Financial assets for hedging	50	1
Loans and receivables (1)	-	5,395,939
Available-for-sale financial assets (2)	-	1,517,977
Financial assets at amortized cost (3)	4,892,134	-
Financial assets at FVTOCI	1,613,188	-
Financial liabilities		
Financial liabilities at amortized cost (4)	10,599,610	9,327,736
Financial liabilities for hedging	250	-

1) The balances include loans and receivables measured at amortized cost, which comprise cash and cash equivalents, debt investments with no active market, notes and accounts receivable, notes and accounts receivable from related parties, other receivables from related parties, other receivables and refundable deposits.

2) The balances include the carrying amount of available-for-sale financial assets and financial assets measured at cost.

3) The balances include financial assets measured at amortized cost, which comprise cash and cash equivalents, notes and accounts receivable, notes and accounts receivable from related parties, other receivables, other receivables from related parties and refundable deposits.

4) The balances include financial liabilities measured at amortized cost, which comprise short-term borrowings, short-term bills payable, notes and accounts payable, notes and accounts payable to related parties, other payables to related parties, other payables, long-term borrowings and deposits received.

c. Financial risk management objectives and policies

The Group's main target in financial risk management is to manage the market risk related to operating activities (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk. To reduce the potential and detrimental influence of the fluctuations in market on the Group's financial performance, the Group is devoted to identify, estimate and hedge the uncertainties of the market.

The Group sought to minimize the effects of these risks by using both derivative and non-derivative financial instruments to avoid risk exposures. The use of financial instruments is governed by the Group's policies approved by the board of directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, derivative and non-derivative financial instruments, and investment of excess liquidity. Compliance with policies and exposure limits is being reviewed by the internal auditors on a regular basis. The Group did not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

1) Market risk

a) Foreign currency risk

The Group had foreign currency sales and purchases, which exposed the Group to foreign currency risk. The Group used foreign exchange forward contracts to eliminate currency exposure. These foreign exchange forward contracts could reduce the influence of the exchange rate fluctuations on the Group's income.

Sensitivity analysis

For the position of financial assets and liabilities that had significant influence on the Group, the risk was measured by considering the net position of foreign currency forward contracts that was in effect.

The Group is mainly exposed to the USD and RMB.

The following table details the Group's sensitivity to a 5% increase in the functional currency against the relevant foreign currencies. For a 5% weakening of the New Taiwan dollar against the relevant currency, there would be an equal and opposite impact on pre-tax profit and the balances below would be negative.

	For the Year Ended December 31	
	2018	**2017**
Influence to profit or loss at 5% variance		
USD	$ (46,730)	$ (67,126)
RMB	30,491	28,916

b) Interest rate risk

The carrying amounts of the Group's financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows:

	December 31	
	2018	2017
Fair value interest rate risk		
Financial assets	$ 951,314	$ 1,349,208
Financial liabilities	3,553,017	2,863,343
Cash flow interest rate risk		
Financial assets	552,504	370,879
Financial liabilities	3,694,901	3,324,328

Due to the close and long-term relationship with banks, the Group obtained better and flexible interest rates from banks. The impact of changing in interest rates is not significant to the Group.

Sensitivity analysis

For the Group's floating interest rate financial liabilities, if interest rates had been 0.1% higher/lower and all other variables were held constant, the Group's pre-tax profit for the years ended December 31, 2018 and 2017 would decrease/increase as follows:

	For the Year Ended December 31	
	2018	2017
Decrease/increase	$ 3,142	$ 2,953

c) Other price risk

The Group was exposed to equity price risk through its investments in listed equity securities. To prevent significant price risk, the Group has built an immediate control system.

Sensitivity analysis

The sensitivity analyses below were determined based on the exposure to equity price risks at the end of the reporting period.

If equity prices had been 5% higher/lower, the Group's comprehensive income for the years ended December 31, 2018 and 2017 would increase/decrease as follows:

	For the Year Ended December 31	
	2018	2017
Profit before tax		
Increase/decrease	$ 217	$ 1,466
Other comprehensive income		
Increase/decrease	65,653	63,929

2) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. As at the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to the failure of the counterparty to discharge its obligation is at the level of the carrying amounts of the respective recognized financial assets which comprise receivables from operating activities and financial assets from investing activities as stated in the consolidated balance sheets.

The Group's transactions are done with a large number of unrelated customers and various industries. The Group continuously evaluates the financial conditions of those customers.

To maintain the quality of the accounts receivable, the Group has developed a credit risk management procedure to reduce the credit risk from specific customer. The credit evaluation of individual customer includes considering factors that will affect its payment ability such as financial condition, past transaction records and current economic conditions. Credit risk of bank deposits, fixed-income investments and other financial instruments with banks is evaluated and monitored by the Group's financial department. Since the counterparties are creditworthy banks and financial institutions with good credit rating, there was no significant credit risk.

3) Liquidity risk

The objective of liquidity risk management is to maintain adequate cash and cash equivalents with high liquidity and sufficient bank facilities required by business operation and to ensure the Group has sufficient financial flexibility.

31. TRANSACTIONS WITH RELATED PARTIES

The Company's parent is YFY Inc. Company, which held 56.9% of the ordinary shares of the Company as of December 31, 2018 and 2017.

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

a. Related party name and category

Related Party Name	Related Party Category
YFY Consumer Products Co., Ltd.	Fellow subsidiaries
YFY Packaging Inc.	Fellow subsidiaries
YFY International BVI Corp.	Fellow subsidiaries
Yuen Foong Yu Paper MFG (Yangzhou) Co., Ltd.	Fellow subsidiaries
YFY Family Care (Kunshan) Co., Ltd.	Fellow subsidiaries
YFY Family Paper (Beijing) Co., Ltd.	Fellow subsidiaries
YFY Capital Co., Ltd.	Fellow subsidiaries
Union Paper Corp.	Fellow subsidiaries
Shin Foong Specialty & Applied Materials Co., Ltd.	Fellow subsidiaries
Eihoyo Shoji Co., Ltd.	Fellow subsidiaries
YFY Investment Co., Ltd.	Fellow subsidiaries
Pek Crown Paper Co., Ltd.	Fellow subsidiaries
China Color Printing Co., Ltd.	Fellow subsidiaries
Cupid InfoTech Co., Ltd.	Fellow subsidiaries

(Continued)

Related Party Name	Related Party Category
YFY Holding Management Co., Ltd.	Fellow subsidiaries
YFY Paradigm Investment Co., Ltd.	Fellow subsidiaries
Jiangyin Yuen Foong Yu Paper MFG. Co., Ltd.	Fellow subsidiaries
YFY Jupiter Ltd.	Fellow subsidiaries
Yuen Foong Yu Blue Economy Natural Resource (Yangzhou) Co., Ltd.	Fellow subsidiaries
Ever Growing Agriculture Biotech Co., Ltd.	Fellow subsidiaries
YFY Biotechnology Co., Ltd.	Associates
E Ink Holdings Inc.	Associates
Beautone Co., Ltd.	Substantial related-party
Shin-Yi Foundation	Substantial related-party
Shin-Yi Enterprise Co., Ltd.	Substantial related-party
Yuen Foong Paper Co., Ltd.	Substantial related-party
SinoPac Leasing Co., Ltd.	Substantial related-party
SinoPac Securities Co., Ltd.	Substantial related-party

(Concluded)

b. Sales of goods

Related Party Type	For the Year Ended December 31	
	2018	2017
Fellow subsidiaries		
YFY Investment Co., Ltd.	$ 1,213,140	$ 1,136,356
Union Paper Corp.	1,208,652	1,104,645
YFY Capital Co., Ltd.	1,016,608	964,918
YFY Consumer Products Co., Ltd.	869,939	791,937
Others	662,903	703,601
	4,971,242	4,701,457
Parent company	164	261
Substantial related-party	354,677	34,411
	$ 5,326,083	$ 4,736,129

For sales of goods to related parties, the prices and terms of receivables approximate to those with non-related parties.

c. Purchases of goods

Related Party Type	For the Year Ended December 31	
	2018	2017
Fellow subsidiaries		
YFY Packaging Inc.	$ 1,889,510	$ 1,700,550
Eihoyo Shoji Co., Ltd.	485,250	406,320
Shin Foong Specialty & Applied Materials Co., Ltd.	290,198	356,673
Others	438,710	373,439
	3,103,668	2,836,982
Substantial related-party	3,600	640
Associates	479	728
	$ 3,107,747	$ 2,838,350

For purchases of goods from related parties, the prices and terms of payables approximate to those with non-related parties.

d. Receivables from related parties

Related Party Type	December 31 2018	December 31 2017
Fellow subsidiaries		
YFY Consumer Products Co., Ltd.	$ 261,088	$ 259,515
YFY Packaging Inc.	114,679	98,021
Union Paper Corp.	112,940	61,114
YFY Investment Co., Ltd.	106,240	177,814
Others	115,736	199,338
	710,683	795,802
Substantial related-party	64,699	5,041
Parent company	8	428
	$ 775,390	$ 801,271

The outstanding accounts receivable from related parties are unsecured. No bad debt was recognized for the years ended December 31, 2018 and 2017 for allowance of impaired accounts receivable from related parties.

e. Payables to related parties

Related Party Type	December 31 2018	December 31 2017
Fellow subsidiaries		
YFY Packaging Inc.	$ 346,869	$ 320,716
Shin Foong Specialty & Applied Materials Co., Ltd.	132,512	112,184
YFY Capital Co., Ltd.	65,315	65,738
Others	55,643	75,691
	600,339	574,329
Substantial related-party	2,152	969
Parent company	259	3,675
Associates	-	62
	$ 602,750	$ 579,035

The outstanding accounts payable to related parties are unsecured.

f. Loan to related parties (interest receivable included)

Related Party Type	December 31 2018	December 31 2017
Fellow subsidiaries		
Yuen Foong Yu Paper MFG (Yangzhou) Co., Ltd.	$ 460,215	$ 94,618
YFY International BVI Corp.	309,164	-
	$ 769,379	$ 94,618

The Group provided fellow subsidiaries with short-term loans at rates comparable to the market rate of interest.

For the years ended December 31, 2018 and 2017, the interest income from the loans to related parties amounted to $3,256 thousand and $9,860 thousand, respectively.

g. Loans from related parties

Related Party Type	December 31 2018	December 31 2017
Fellow subsidiaries		
Yuen Foong Yu Paper MFG (Yangzhou) Co., Ltd.	$ 7,433	$ -

The Group obtained loans at rates comparable to market interest rates for the loans from related parties.

For the years ended December 31, 2018, the interest expense from the loans to related parties amounted to $3 thousand.

h. Other transactions with related parties

The parent company provides management services to the Group. The management fee was $39,035 thousand for the year ended December 31, 2017, and being appropriately apportioned to the relevant management departments.

Related Party Type	Rental Income (Accounted as Other Income) For the Year Ended December 31 2018	Rental Income (Accounted as Other Income) For the Year Ended December 31 2017
Fellow subsidiaries		
YFY Consumer Products Co., Ltd.	$ 1,543	$ 1,543

Related Party Type	Rental Expenses (Accounted as Operating Expenses) For the Year Ended December 31 2018	Rental Expenses (Accounted as Operating Expenses) For the Year Ended December 31 2017
Substantial related-party		
Shin-Yi Enterprise Co., Ltd.	$ 7,045	$ 6,594
SinoPac Leasing Co., Ltd.	46	-
	7,091	6,594
Parent company	10,885	6,623
	$ 17,976	$ 13,217

Related Party Type	Management Fee (Accounted as Operating Expenses) For the Year Ended December 31 2018	Management Fee (Accounted as Operating Expenses) For the Year Ended December 31 2017
Fellow subsidiaries		
YFY Holding Management Co., Ltd.	$ 81,377	$ 50,312

The amount of management fee was depended on the agreements, rental income and expenses which were received or paid monthly.

i. Compensation of key management personnel

	For the Year Ended December 31	
	2018	2017
Salaries and benefits	$ 30,030	$ 25,601
Executive fees	3,132	3,558
	$ 33,162	$ 29,159

The remuneration of directors and key executives was determined by the remuneration committee having regard to the performance of individuals and market trends.

32. SIGNIFICANT COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2018 and 2017, unused letters of credit for purchases of raw materials and machinery and equipment amounted to approximately $447,769 thousand and $269,716 thousand, respectively.

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

The following is information on the foreign currencies other than the functional currencies of the Group's group entities and the related exchange rates between the foreign currencies and respective functional currencies. The significant assets and liabilities denominated in foreign currencies were as follows:

	December 31, 2018		
	Foreign Currency (In Thousands)	Exchange Rate	New Taiwan Dollars
Financial assets			
Monetary items			
USD	$ 37,977	30,715	$ 1,166,463
RMB	136,271	4.475	609,813
Non-monetary items			
Derivative instruments			
USD	16,500	30.715	506,798
EUR	243	35.20	8,554
Financial liabilities			
Monetary items			
USD	51,905	30.715	1,594,262
Non-monetary items			
Derivative instruments			
EUR	3,470	35.20	122,144

	December 31, 2017		
	Foreign Currency (In Thousands)	Exchange Rate	New Taiwan Dollars
Financial assets			
Monetary items			
USD	$ 40,627	29.76	$ 1,209,060
RMB	126,993	4.554	578,326
Non-monetary items			
Derivative instruments			
USD	13,500	29.76	401,760
EUR	383	35.57	13,623
Financial liabilities			
Monetary items			
USD	72,239	29.76	2,149,822

For the years ended December 31, 2018 and 2017, realized and unrealized foreign exchange losses were $14,598 thousand and $14,645 thousand, respectively. It is impractical to disclose net foreign exchange gains by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the group entities.

34. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

1) Financing provided to others (Table 1)

2) Endorsements/guarantees provided (Table 2)

3) Marketable securities held (Table 3)

4) Marketable securities acquired and disposed at costs or prices at least NT$300 million or 20% of the paid-in capital (Table 4)

5) Acquisition of individual real estate at costs of at least NT$300 million or 20% of the paid-in capital (None)

6) Disposal of individual real estate at prices of at least NT$300 million or 20% of the paid-in capital (None)

7) Total purchases from or sales to related parties amounting to at least NT$100 million or 20% of the paid-in capital (Table 5)

8) Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital (Table 6)

9) Trading in derivative instruments (Notes 7 and 9)

10) Intercompany relationships and significant intercompany transactions (Table 9)

11) Information on investees (Table 7)

b. Information on investments in mainland China:

1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area (Table 8)

2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses (None):

a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period

b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period

c) The amount of property transactions and the amount of the resultant gains or losses

d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes

e) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds

f) Other transactions that have a material effect on the profit or loss for the year or on the financial position, such as the rendering or receipt of services

35. SEGMENT INFORMATION

The following is an analysis of the Group's revenue and results from continuing operations by reportable segment.

	Business Unit of Pulp and Fine Paper	**Business Unit of Forestry**	**Other Segment**	**Adjustment and Elimination**	**Total**
For the year ended December 31, 2018					
Revenue from external customers	$ 23,877,912	$ 85,511	$ 61,798	$ -	$ 24,025,221
Revenue from other internal operating segments	$ 977,486	$ 255,061	$ 7,290	($ 1,239,837)	$ -
Segment profit or loss	$ 524,432	$ 515	$ 4,288	$ -	$ 529,235
For the year ended December 31, 2017					
Revenue from external customers	$ 22,757,042	$ 28,431	$ 53,882	$ -	$ 22,839,355
Revenue from other internal operating segments	$ 891,740	$ 272,421	$ 9,444	($ 1,173,605)	$ -
Segment profit or loss	$ 689,182	$ 40,455	$ 15,316	$ -	$ 744,953

The Group classifies its products into two segments in accordance with their characteristics, as follows:

a. Pulp and fine paper segment

   Manufacture and sale of cardboard, paper and pulp.

b. Forestry segment

   Seedling cultivation and reforestation.

The accounting policies of each segment are the same as those accounting policies stated in Note 4. The performance of segments is measured by income after tax. Revenue and profit between segments have been adjusted; these adjustments include the elimination of inter-segment transactions to reconcile the segment information with that reported for the Group as a whole.

Geographical Information

The Group operates in two principal geographical areas - Taiwan and mainland China.

The Group's revenue from continuing operations from external customers by location of operations and information about its non-current assets by location of assets are detailed below.

	Revenue from External Customers For the Year Ended December 31		Non-current Assets December 31	
	2018	2017	2018	2017
Taiwan	$ 20,036,279	$ 19,019,750	$ 12,984,416	$ 12,619,685
Mainland China	3,988,942	3,819,605	2,937,140	3,000,805
	$ 24,025,221	$ 22,839,355	$ 15,921,556	$ 15,620,490

Information about Major Customers

No other single customers contributed 10% or more to the Group's revenue for both 2018 and 2017.

CHUNG HWA PULP CORPORATION AND SUBSIDIARIES

FINANCING PROVIDED TO OTHERS
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No. (Note 1)	Lender	Borrower	Financial Statement Account	Related Party	Highest Balance for the Period (Foreign Currencies in Thousands) (Notes 2 and 4)	Ending Balance (Foreign Currencies in Thousands) (Notes 2 and 4)	Actual Borrowing Amount (Foreign Currencies in Thousands) (Note 4)	Interest Rate (%)	Nature of Financing	Business Transaction Amount	Reasons for Short-term Financing	Allowance for Impairment Loss	Collateral: Item	Collateral: Value	Financing Limit for Each Borrower (Foreign Currencies in Thousands) (Notes 3 and 4)	Aggregate Financing Limit (Foreign Currencies in Thousands) (Notes 3 and 4)
1	Guangdong Ding Fung Pulp & Paper Co., Ltd.	Yuen Foong Yu Paper MFG (Yangzhou) Co., Ltd	Other receivables from related parties	Yes	$ 513,160 (RMB 114,673)	$ 491,760 (RMB 109,891)	$ 458,792 (RMB 102,523)	3.25	Short-term financing	$ -	Operating capital	$ -	-	-	$ 491,760 (RMB 109,891)	$ 1,967,039 (RMB 439,562)
2	CHP International (BVI) Corporation	YFY International BVI Corp.	Other receivables from related parties	Yes	309,550 (US$ 10,078)	307,150 (US$ 10,000)	307,150 (US$ 10,000)	2.50	Short-term financing	-	Operating capital	-	-	-	542,970 (US$ 17,678)	2,171,880 (US$ 70,711)
		Guangdong Ding Fung Pulp & Paper Co., Ltd.	Other receivables from related parties	Yes	1,021,525 (US$ 33,258)	1,013,595 (US$ 33,000)	1,013,595 (US$ 33,000)	2.50	Short-term financing	-	Operating capital	-	-	-	2,171,880 (US$ 70,711)	2,171,880 (US$ 70,711)
		Zhaoqing Ding Fung Forestry Ltd.	Other receivables from related parties	Yes	371,460 (US$ 12,094)	368,580 (US$ 12,000)	368,580 (US$ 12,000)	2.50	Short-term financing	-	Operating capital	-	-	-	2,171,880 (US$ 70,711)	2,171,880 (US$ 70,711)
3	Zhaoqing Ding Fung Forestry Ltd.	Guangdong Ding Fung Pulp & Paper Co., Ltd.	Other receivables from related parties	Yes	93,401 (RMB 20,872)	89,506 (RMB 20,001)	89,506 (RMB 20,001)	3.25	Short-term financing	-	Operating capital	-	-	-	1,178,895 (RMB 263,440)	1,178,895 (RMB 263,440)
4	Shenzhen Systax Paper Co., Ltd.	Yuen Foong Yu Paper MFG (Yangzhou) Co., Ltd	Other receivables from related parties	Yes	176,506 (RMB 39,443)	8,457 (RMB 1,890)	- (RMB -)	3.25	Short-term financing	-	Operating capital	-	-	-	8,457 (RMB 1,890)	33,829 (RMB 7,560)

Note 1: The number column of financing provided to others by Chung Hwa Pulp Corporation and subsidiaries is illustrated as follows:

a. The company is numbered 0.
b. The subsidiaries of the Company are sequentially numbered from 1 based on their investment structures.

Note 2: The balances are the approved amount that could be financed to others, including those not actually borrowed.

Note 3: a. Limitation of financing provided to the Company:

Total loans should not exceed 40% of the lender’s net equity of the prior year, and individual loans should not exceed 40%. Short-term financing to individuals should not exceed 40% of the lender’s net equity of the prior year.

b. Limitation of financing provided to Guangdong Ding Fung Pulp & Paper Co., Ltd:

Total loans should not exceed 40% of the lender’s net equity of the prior year, and individual loans should not exceed 40%. Contributions to the cash pool to be used for lending purposes should not exceed 10% of the lender’s net equity of the prior year.

c. Limitation of financing provided to CHP International (BVI) Corporation:

Total loans should not exceed 40% of the lender’s net equity of the prior year, and individual loans should not exceed 40%. Short-term financing to individuals should not exceed 40% of the lender’s net equity of the prior year. Financing to YFY International BVI Corporation is for revolving credit facility purposes, and the financing amount should not exceed 10% of the lender’s net equity of the prior year.

d. Limitation of financing provided to Zhaoqing Ding Fung Forestry Ltd.:

Total loans should not exceed 40% of the lender’s net equity of the prior year, and individual loans should not exceed 40%. Short-term financing to individuals should not exceed 40% of the lender’s net equity of the prior year.

e. Limitation of financing provided to Shenzhen Systax Paper Co., Ltd.:

Total loans should not exceed 40% of the lender’s net equity of the prior year, and individual loans should not exceed 40%. Contributions to the cash pool to be used for lending purposes should not exceed 10% of the lender’s net equity of the prior year.

Note 4: The exchange rates are US$1=NT$30.715 or RMB1=NT$4.475 as of December 31, 2018.

CHUNG HWA PULP CORPORATION AND SUBSIDIARIES

ENDORSEMENTS/GUARANTEES PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No. (Note 1)	Endorser/Guarantor	Endorsee/Guarantee		Limit on Endorsement/ Guarantee Given on Behalf of Each Party (Note 3)	Maximum Amount Endorsed/ Guaranteed During the Period (Foreign Currencies in Thousands) (Note 4)	Outstanding Endorsement/ Guarantee at the End of the Period (Foreign Currencies in Thousands) (Note 5)	Actual Borrowing Amount (Note 6)	Amount Endorsed/ Guaranteed by Collateral	Ratio of Accumulated Endorsement/ Guarantee to Net Equity in Latest Financial Statements (%)	Aggregate Endorsement/ Guarantee Limit (Note 3)	Endorsement/ Guarantee Given by Parent on Behalf of Subsidiaries (Note 7)	Endorsement/ Guarantee Given by Subsidiaries on Behalf of Parent (Note 7)	Endorsement/ Guarantee Given on Behalf of Companies in Mainland China (Note 7)
		Name	Relationship (Note 2)										
0	Chung Hwa Pulp Corporation	CHP International (BVI) Corporation	b.	$ 23,533,454	$ 598,943 (US$ 19,500)	$ 598,943 (US$ 19,500)	$ -	$ -	3.83	$ 31,377,938	Note 8	N	N
		Guangdong Ding Fung Pulp & Paper Co., Ltd.	c.	23,533,454	186,767 (RMB 41,736)	179,013 (RMB 40,003)	-	-	1.15	31,377,938	Note 8	N	Note 8

Note 1: The number column is illustrated as follows:

a. The company is numbered 0.
b. The subsidiaries of the company are sequentially numbered from 1 based on their investment structure.

Note 2: The 7 different relationships between endorsee and guarantee are as follows:

a. The companies with which it has business relations.
b. Subsidiaries in which it holds more than 50% of its total outstanding common shares.
c. Companies in which it holds more than 50% of its total outstanding common shares.
d. Companies in which it holds more than 90% of its total outstanding common shares.
e. Companies in same type of business and providing mutual endorsements/guarantees in favor of each other in accordance with the contractual obligations in order to fulfill the needs of the construction project.
f. Shareholders making endorsements/guarantees for their mutually invested companies in proportion to their shareholding percentages.
g. Companies in the same industry provide among themselves joint and several security for a performance guarantee of a sales contract for pre-construction homes pursuant to the Consumer Protection Act for each other.

Note 3: Limit on endorsement/guarantee given on behalf of Chung Hwa Pulp Corporation to a single entity is 150% of the net equity of the prior year. Limit on endorsement/guarantee is 200% of the net equity of the prior year.

Note 4: The balance is the maximum amount endorsed/guaranteed to others during the period.

Note 5: The balance is the amount approved by the board of directors. If the chairman is authorized by the board of directors to make the endorsement/guarantee decisions based on the guidelines for lending of capital, endorsements and guarantees by Public Companies Art. 12.8, the balance is the amount approved by the chairman.

Note 6: The balance is the actual borrowing amount determined by the endorsee/guarantee within the limit.

Note 7: Endorsement/guarantee given by parent on behalf of subsidiaries, endorsement/guarantee given by subsidiaries on behalf of parent, and endorsement/guarantee given on behalf of companies in mainland China should be Y.

Note 8: The endorsee and guarantee jointly issued promissory notes in consideration of the line of credit of financial institutions.

CHUNG HWA PULP CORPORATION AND SUBSIDIARIES

MARKETABLE SECURITIES HELD
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Holding Company Name	Type and Name of Marketable Securities	Relationship with the Holding Company	Financial Statement Account	December 31, 2018			
				Number of Shares	Carrying Amount	Percentage of Ownership (%)	Fair Value (Note 1)
Chung Hwa Pulp Corporation	Ordinary shares						
	SinoPac Holdings Co., Ltd.	-	Financial assets at fair value through other comprehensive income - current	99,809,327	$ 1,028,036	0.9	$ 1,028,036
	NTU Innovation & Incubation Co., Ltd.	The investor is the member of the investee’s board of directors.	Financial assets at fair value through profit or loss - non-current	800,000	-	6.3	-
	Groundhog Technologies Inc.	-	Financial assets at fair value through profit or loss - non-current	275,000	-	1.0	-
	KHL IB Venture Capital Co., Ltd.	-	Financial assets at fair value through other comprehensive income - non-current	20,884,500	300,123	14.9	300,123
	TaiGen Biopharmaceuticals Holdings Ltd.	-	Financial assets at fair value through other comprehensive income - non-current	15,315,356	260,361	2.1	260,361
	Subordinated bank debentures						
	Bank SinoPac 3rd unsecured perpetual non-cumulative subordinated financial debentures issue in 2015	-	Financial assets at fair value through profit or loss - non-current	-	171,035	-	171,035
Hwa Fong Investment Co., Ltd.	Ordinary shares						
	Caihui Technology Co., Ltd.	-	Financial assets at fair value through profit or loss - non-current	150,000	-	0.2	-
	SinoPac Holdings Co., Ltd.	-	Financial assets at fair value through other comprehensive income - current	2,394,960	24,668	-	24,668
Kuang Hwa Fertilizer Limited Company	Beneficiary certificates						
	SinoPac TWD Money Market Fund	-	Financial assets at fair value through profit or loss - current	312,798	4,349	-	4,349

Note 1: The securities mentioned in the table above are those classified as financial instruments under IFRS 9, including shares, bonds, beneficiary certificates, and all other securities derived from those items.

Note 2: Refer to Table 7 and Table 8 for information on investments in subsidiaries and associates.

CHUNG HWA PULP CORPORATION AND SUBSIDIARIES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED AT COSTS OR PRICES OF AT LEAST $300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2018
(Amounts in Thousands of New Taiwan Dollars)

Company Name	Type and Name of Marketable Security	Financial Statement Account	Counterparty	Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
					Number of Thousand Shares	Amount	Number of Thousand Shares	Amount	Number of Thousand Shares	Amount	Carrying Amount	Gain (Loss) on Disposal	Number of Thousand Shares	Amount
Chung Hwa Pulp Corporation	Mutual fund SinoPac TWD Money Market Fund	Financial assets at fair value through profit or loss - current	-	-	1,589	$ 22,000	25,964	$ 360,000	27,553	$ 382,016	$ 382,000	$ 16 (Note)	-	$ -

Note: The amount was recognized in gain (loss) on financial assets at fair value through profit or loss.

CHUNG HWA PULP CORPORATION AND SUBSIDIARIES

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST $100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2018
(Amounts in Thousands of New Taiwan Dollars)

Buyer/Seller	Related Party	Relationship (Note 1)	Transaction Details				Abnormal Transaction		Notes/Accounts Receivable (Payable)		Unrealized Gain (Loss)
			Purchase/ Sale	Amount	% of Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
Chung Hwa Pulp Corporation	YFY Capital Co., Ltd.	a.	Sale	$ (1,016,608)	(5)	0.5 month after transaction month	$ -	-	$ 54,726	2	$ -
	Shenzhen Systax Paper Co., Ltd.	b.	Sale	(977,100) (Note 2)	(5)	5 months after transaction month	-	-	610,542	21	1,050
	YFY Consumer Products Co., Ltd.	a.	Sale	(869,939)	(4)	2 months after transaction month	-	-	261,088	9	-
	China Color Printing Co., Ltd.	a.	Sale	(114,853)	(1)	2 months after transaction month	-	-	26,045	1	-
	YFY Packaging Inc.	a.	Sale	(383,884)	(2)	2 months after transaction month	-	-	114,679	4	-
	YFY Packaging Inc.	a.	Purchase	1,889,510	10	2 months after transaction month	-	-	(346,869)	(18)	-
	Union Paper Corp.	a.	Sale	(1,208,652)	(6)	1 month after transaction month	-	-	112,940	4	-
	Union Paper Corp.	a.	Purchase	208,775	1	1 month after transaction month	-	-	(11,022)	(1)	-
	Shin Foong Specialty and Applied Materials Co., Ltd.	a.	Purchase	290,198	2	4 months after transaction month	-	-	(132,512)	(7)	-
	Eihoyo Shoji Co., Ltd.	a.	Purchase	485,250	3	In agreed terms	-	-	-	-	-
	Beautone Co., Ltd.	c.	Sale	(312,629)	(1)	1 month after transaction month	-	-	60,002	2	-
Zhaoqing Ding Fung Forestry Ltd.	Guangdong Ding Fung Pulp & Paper Co., Ltd.	b.	Sale	(255,061) (Note 2)	(75)	In agreed terms	-	-	215,981	94	168
Guangdong Ding Fung Pulp & Paper Co., Ltd.	Zhaoqing Ding Fung Forestry Ltd.	b.	Purchase	255,061 (Note 2)	11	In agreed terms	-	-	(215,981)	(48)	-
	YFY Investment Co., Ltd.	a.	Purchase	224,839	10	2 months after transaction month	-	-	(29,040)	(6)	-
	YFY Investment Co., Ltd.	a.	Sale	(1,213,140)	(43)	2 months after transaction month	-	-	106,240	17	-
	YFY Family Paper (Beijing) Co., Ltd.	a.	Sale	(146,021)	(5)	In agreed terms	-	-	26,636	4	-
Shenzhen Systax Paper Co., Ltd.	Chung Hwa Pulp Corporation	b.	Purchase	977,100 (Note 2)	100	5 months after transaction month	-	-	(610,542)	(99)	-

Note 1: a. Fellow subsidiaries.
b. Parent company and subsidiary.
c. Related party in substance

Note 2: In preparing the consolidated financial statements, the transaction has been eliminated.

TABLE 6

CHUNG HWA PULP CORPORATION AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Impairment Loss
					Amount	Actions Taken		
Chung Hwa Pulp Corporation	YFY Consumer Products Co., Ltd.	Fellow subsidiaries	$ 261,088	3.34	$ -	-	$ 95,168	$ -
	Shenzhen Systax Paper Co., Ltd.	Parent company and subsidiary	610,542 (Note)	1.70	-	-	112,843	-
	YFY Packaging Inc.	Fellow subsidiaries	114,679	3.61	-	-	31,140	-
	Union Paper Corp.	Fellow subsidiaries	112,940	13.89	-	-	112,940	-
Zhaoqing Ding Fung Forestry Ltd.	Guangdong Ding Fung Pulp & Paper Co., Ltd.	Parent company and subsidiary	215,981 (Note)	1.17	-	-	15,227	-
Guangdong Ding Fung Pulp & Paper Co., Ltd.	YFY Investment Co., Ltd.	Fellow subsidiaries	106,240	8.54	-	-	47,029	-

Note: In preparing the consolidated financial statements, the transaction has been eliminated.

CHUNG HWA PULP CORPORATION AND SUBSIDIARIES

INFORMATION ON INVESTEES
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		As of December 31, 2018			Net Income (Loss) of the Investee	Share of Profits (Loss)	Note
				December 31, 2018	December 31, 2017	Number of Shares	%	Carrying Amount			
Chung Hwa Pulp Corporation	CHP International (BVI) Corporation	British Virgin Island	Investment and holding	$ 1,747,085	$ 1,747,085	61,039,956	100.0	$ 5,374,748	$ 143,608	$ 142,558	a.
	E Ink Holdings Inc.	Hsinchu, Taiwan	To research, develop, produce and sale of thin-film transistor liquid crystal display	329,000	329,000	20,000,000	1.8	400,116	2,613,673	46,374	b.
	Effion Enertech Co., Ltd.	Taipei, Taiwan	To operate cogeneration and provide power technology	343,000	343,000	34,300,000	49.0	337,007	13,959	6,840	b.
	Taiwan Global BioFund Co., Ltd.	Taipei, Taiwan	Biotechnology and biopharmaceutical business investment	60,000	60,000	6,000,000	4.4	119,674	88,103	3,916	b.
	Hwa Fong Investment Co., Ltd.	Taipei, Taiwan	Investment and holding	36,000	36,000	3,600,000	100.0	44,431	891	891	a.
Hwa Fong Investment Co., Ltd.	Effion Enertech Co., Ltd.	Taipei, Taiwan	To operate cogeneration and provide power technology	7,000	7,000	700,000	1.0	6,878	13,959	140	b.
	Kuang Hwa Fertilizer Limited Company	Hualien, Taiwan	To produce fertilizer	5,000	5,000	-	100.0	6,976	(340)	(340)	a.

Note:
a. Subsidiaries.
b. Investments accounted for using the equity method.
c. Refer to Table 8 for information on investments in mainland China.

CHUNG HWA PULP CORPORATION AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investee Company	Main Businesses and Products	Paid-in Capital (Foreign Currencies in Thousand) (Note 1)	Method of Investment	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2018 (Foreign Currencies in Thousand) (Note 1)	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2017 (Foreign Currencies in Thousand) (Note 1)	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Amount as of December 31, 2018	Accumulated Repatriation of Investment Income as of December 31, 2018
					Outward	Inward						
Guangdong Ding Fung Pulp & Paper Co., Ltd.	Pulp and paper production, trading and forestry business.	$ 2,630,125 (US$ 85,630) (Note 3)	Investment in mainland China through companies set up in another country.	$ 405,438 (US$ 13,200)	$ -	$ -	$ 405,438 (US$ 13,200)	$ 180,273 (Note 2,b.)	60.0	$ 115,759 (Note 2,b.)	$ 3,046,882	$ -
Shenzhen Systax Paper Co., Ltd.	Sale of paper merchandise and import/export business.	14,320 (RMB 3,200)	(Note 5)	(Note 5)	-	-	(Note 5)	20,460 (Note 2,b.)	100.0 (Note 5)	11,226 (Note 2,b.)	104,563	-
Zhaoqing Ding Fung Forestry Ltd.	Export factoring, domestic factoring, business factoring and related consulting services, develop credit risk management platform.	672,044 (US$ 21,880)	Investment in mainland China through companies set up in another country.	136,006 (US$ 4,428)	-	-	136,006 (US$ 4,428)	515 (Note 2,b.)	86.5 (Note 4)	445 (Note 2,b.)	2,550,039	-

Accumulated Investment in Mainland China as of December 31, 2018	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
$541,444 (Note 1)	$1,308,643 (Note 1)	$9,373,026

Note 1: The exchange rates are US$1=NT$30.715 or RMB1=NT$4.475 as of December 31, 2018.

Note 2: The recognition basis for investment gain (loss) are as follows:

a. Financial statements audited by an international CPA firm with the cooperation of the ROC CPA firm.
b. Financial statements audited by the ROC CPA firm.
c. Others.

Note 3: Guangdong Ding Fung Pulp & Paper Co., Ltd. increased its capital by retained earnings in an amount of US$41,630 thousand from 2004 to 2007, and increased its capital by retained earnings from 2007 and 2008 in an amount of US$22,000 thousand in July, 2015. The paid-in-capital after the capital increase was US$85,630 thousand.

Note 4: Ownership percentage of investment for CHP International (BVI) Corporation and Guangdong Ding Fung Pulp & Paper Co., Ltd. are 20.2% and 66.3%, respectively.

Note 5: Guangdong Ding Fung Pulp & Paper Co., Ltd. acquired shares of Shenzhen Systax Paper Co., Ltd. from a fellow subsidiary, Hwa Fong Paper (Hong Kong) Limited, in 2018.

CHUNG HWA PULP CORPORATION AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Amounts in In Thousands of New Taiwan Dollars)

No.	Investee Company	Counterparty	Relationship	Transaction Details			
				Financial Statement Account	Amount	Payment Terms	% of Total Sales or Assets
1	Chung Hwa Pulp Corporation	Shenzhen Systax Paper Co., Ltd.	Subsidiary	Accounts receivable Sales	$ 610,542 977,100	5 months after transaction month By market price	2.0 4.0
2	Zhaoqing Ding Fung Forestry Ltd.	Guangdong Ding Fung Pulp & Paper Co., Ltd.	Parent company	Accounts receivable Sales	215,981 255,061	In agreed terms By market price	0.7 1.1
3	Kuang Hwa Fertilizer Limited Company	Chung Hwa Pulp Corporation	Parent company	Accounts receivable Sales	725 7,262	In agreed terms By market price	- -

Note: In preparing the consolidated financial statements, the transaction has been eliminated.