

**Chung Hwa Pulp Corporation and
Subsidiaries**

**Consolidated Financial Statements for the
Years Ended December 31, 2019 and 2018 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, 2019 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, 2019.

Very truly yours,

CHUNG HWA PULP CORPORATION

By:

March 23, 2020

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, 2019 and 2018, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and 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, 2019. 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 key audit matter identified in the consolidated financial statements for the year ended December 31, 2019 is as follows:

Estimation of Expected Credit Loss of 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.

The audit procedures that we performed in respect of the above key audit matter included the following:

1. We obtained and assessed the reasonableness of the method and the information used by management for the estimation of expected credit loss of accounts receivable.
2. We sample-tested items in the aging report on the balance sheet date and we verified and assessed the correctness of the calculation of the expected credit loss.
3. We analyzed and sample-tested the recoverability of the overdue receivables after the balance sheet date. We assessed the reasonableness of the expected credit loss recognized on the accounts receivable based on the customers' historical payment record, credit limit control and overdue receivables tracking.

Emphasis of Matter

As disclosed in Notes 14 and 25 to the accompanying consolidated financial statements, Guangdong Dingfung Pulp & Paper Co., Ltd. acquired 100% equity of Shenzhen Jinglun Paper Co., Ltd. from fellow subsidiaries of YFY Group in the fourth quarter of 2018, and CHP International (BVI) Corporation acquired 100% equity of Syntax Communication (H.K.) Limited from fellow subsidiaries of YFY Group in the first quarter of 2019. 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 was disclosed as if it had occurred before January 1, 2018, and the Group's consolidated financial statements as of and for the year ended December 31, 2018 were 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, 2019 and 2018, on which we have issued an unmodified opinion with emphasis of matter paragraph.

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 and 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, 2019, 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 23, 2020

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, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

ASSETS	2019		2018 (Audited after Restatement)	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	\$ 478,725	2	\$ 565,494	2
Financial assets at fair value through profit or loss - current (Notes 4 and 7)	12,151	-	7,515	-
Financial assets at fair value through other comprehensive income - current (Notes 4 and 8)	1,328,656	4	1,052,704	3
Financial assets for hedging - current (Notes 4 and 9)	24	-	50	-
Financial assets at amortized cost - current (Notes 4 and 10)	11,700	-	5,900	-
Notes and accounts receivable (Notes 4 and 11)	2,649,484	9	2,683,910	9
Notes and accounts receivable from related parties (Notes 4 and 28)	455,513	1	775,443	3
Other receivables from related parties (Notes 4 and 28)	423,820	1	769,379	2
Inventories (Notes 4 and 12)	3,886,070	13	4,196,216	13
Biological assets (Notes 4 and 13)	3,252,537	10	3,317,475	11
Other current assets (Note 27)	599,992	2	403,902	1
Total current assets	13,098,672	42	13,777,988	44
NON-CURRENT ASSETS				
Financial assets at fair value through profit or loss - non-current (Notes 4 and 7)	171,035	1	171,035	1
Financial assets at fair value through other comprehensive income - non-current (Notes 4 and 8)	575,788	2	560,484	2
Financial assets at amortized cost - non-current (Notes 4 and 10)	300,823	1	5,000	-
Investments accounted for using the equity method (Notes 4 and 15)	787,981	2	863,675	3
Property, plant and equipment (Notes 4 and 16)	14,654,819	47	14,565,801	46
Right-of-use assets (Notes 4 and 17)	487,433	2	-	-
Investment properties (Notes 4 and 18)	257,144	1	257,411	1
Deferred tax assets (Notes 4 and 23)	110,052	-	76,976	-
Prepayments for equipment	570,344	2	534,411	2
Long-term prepayments for lease	-	-	459,664	1
Other non-current assets (Note 27)	84,326	-	105,127	-
Total non-current assets	17,999,745	58	17,599,584	56
TOTAL	\$ 31,098,417	100	\$ 31,377,572	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Note 19)	\$ 5,245,500	17	\$ 3,694,901	12
Short-term bills payable (Note 19)	2,449,479	8	1,849,709	6
Financial liabilities at fair value through profit or loss - current (Notes 4 and 7)	5,995	-	-	-
Financial liabilities for hedging - current (Notes 4 and 9)	-	-	250	-
Notes and accounts payable	1,365,942	4	1,515,665	5
Notes and accounts payable to related parties (Note 28)	480,665	2	602,770	2
Other payables	1,025,660	3	1,032,774	3
Other payables to related parties	5,194	-	7,433	-
Current tax liabilities	1,179	-	16,768	-
Lease liabilities - current (Notes 4 and 17)	20,202	-	-	-
Other current liabilities	516,433	2	452,767	1
Total current liabilities	11,116,249	36	9,173,037	29
NON-CURRENT LIABILITIES				
Long-term borrowings (Note 19)	147,675	-	1,695,875	5
Deferred tax liabilities (Notes 4 and 23)	2,002,167	6	2,005,460	6
Lease liabilities - non-current (Notes 4 and 17)	26,243	-	-	-
Net defined benefit liabilities (Notes 4 and 20)	202,645	1	234,935	1
Other non-current liabilities (Note 27)	208,414	1	204,157	1
Total non-current liabilities	2,587,144	8	4,140,427	13
Total liabilities	13,703,393	44	13,313,464	42
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Note 21)				
Share capital	11,028,353	36	11,028,353	35
Capital surplus	29,563	-	31,468	-
Retained earnings				
Legal reserve	226,257	1	181,691	1
Special reserve	1,186,894	4	1,186,894	4
Unappropriated earnings	2,236,125	7	2,905,386	9
Total retained earnings	3,649,276	12	4,273,971	14
Other equity	410,039	1	287,918	1
Total equity attributable to owners of the Company	15,117,231	49	15,621,710	50
EQUITY ATTRIBUTABLE TO FORMER OWNER OF BUSINESS COMBINATION UNDER COMMON CONTROL				
	-	-	13,440	-
NON-CONTROLLING INTERESTS				
	2,277,793	7	2,428,958	8
Total equity	17,395,024	56	18,064,108	58
TOTAL	\$ 31,098,417	100	\$ 31,377,572	100

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

(With Deloitte & Touche auditors' report dated March 23, 2020)

CHUNG HWA PULP CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018 (Audited after Restatement)	
	Amount	%	Amount	%
OPERATING REVENUE (Note 28)				
Sales	\$ 20,788,779	101	\$ 24,092,008	100
Sales returns and allowances	<u>147,984</u>	<u>1</u>	<u>128,585</u>	<u>-</u>
Net sales	20,640,795	100	23,963,423	100
Other operating revenue	<u>48,602</u>	<u>-</u>	<u>61,798</u>	<u>-</u>
Total operating revenue	<u>20,689,397</u>	<u>100</u>	<u>24,025,221</u>	<u>100</u>
OPERATING COSTS (Notes 12, 22 and 28)				
Cost of goods sold	19,435,059	94	21,630,295	90
Other operating cost	<u>35,227</u>	<u>-</u>	<u>47,393</u>	<u>-</u>
Total operating costs	<u>19,470,286</u>	<u>94</u>	<u>21,677,688</u>	<u>90</u>
LOSS FROM CHANGES IN FAIR VALUE LESS COSTS TO SELL OF BIOLOGICAL ASSETS (Note 13)	<u>(6,089)</u>	<u>-</u>	<u>(10,695)</u>	<u>-</u>
GROSS PROFIT	<u>1,213,022</u>	<u>6</u>	<u>2,336,838</u>	<u>10</u>
OPERATING EXPENSES (Notes 22 and 28)				
Selling and marketing	1,117,383	5	1,209,957	5
General and administrative	351,205	2	387,470	1
Research and development	<u>128,211</u>	<u>1</u>	<u>147,369</u>	<u>1</u>
Total operating expenses	<u>1,596,799</u>	<u>8</u>	<u>1,744,796</u>	<u>7</u>
PROFIT (LOSS) FROM OPERATIONS	<u>(383,777)</u>	<u>(2)</u>	<u>592,042</u>	<u>3</u>
NON-OPERATING INCOME AND EXPENSES				
Finance costs (Note 22)	(91,305)	-	(92,303)	-
Share of (loss) profit of associates (Note 15)	(3,987)	-	57,270	-
Interest income (Note 28)	27,380	-	40,325	-
Dividend income	76,543	-	55,783	-
Other income	83,311	-	59,634	-
(Loss) gain on disposal of property, plant and equipment	(219)	-	8	-
Gain on disposal of investments	9	-	12	-
Loss on financial instruments at FVTPL	(1,672)	-	(24,159)	-

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CHUNG HWA PULP CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018 (Audited after Restatement)	
	Amount	%	Amount	%
Other losses	\$ (1,847)	-	\$ (5,063)	-
Foreign exchange loss	<u>(66,848)</u>	<u>-</u>	<u>(14,453)</u>	<u>-</u>
Total non-operating income and expenses	<u>21,365</u>	<u>-</u>	<u>77,054</u>	<u>-</u>
(LOSS) PROFIT BEFORE INCOME TAX	(362,412)	(2)	669,096	3
INCOME TAX (BENEFIT) EXPENSE (Notes 4 and 23)	<u>(60,328)</u>	<u>(1)</u>	<u>136,851</u>	<u>1</u>
NET (LOSS) PROFIT FOR THE YEAR	<u>(302,084)</u>	<u>(1)</u>	<u>532,245</u>	<u>2</u>
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	(4,701)	-	(40,093)	-
Unrealized gain on investments in equity instruments at FVTOCI	308,482	2	59,458	-
Share of the other comprehensive income (loss) of associates	23,302	-	(23,316)	-
Tax effect of items that will not be reclassified (Note 23)	940	-	16,606	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating the financial statements of foreign operations	(277,653)	(2)	(57,850)	-
Gain (loss) on hedging instruments	1,185	-	(584)	-
Share of the other comprehensive loss of associates	<u>(17,218)</u>	<u>-</u>	<u>(1,530)</u>	<u>-</u>
Other comprehensive income (loss) for the year, net of income tax	<u>34,337</u>	<u>-</u>	<u>(47,309)</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	<u>\$ (267,747)</u>	<u>(1)</u>	<u>\$ 484,936</u>	<u>2</u>

(Continued)

CHUNG HWA PULP CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018 (Audited after Restatement)	
	Amount	%	Amount	%
NET (LOSS) PROFIT ATTRIBUTABLE TO:				
Owners of the Company	\$ (245,098)	(1)	\$ 445,663	2
Equity attributable to former owner of business combination under common control	-	-	21,999	-
Non-controlling interests	<u>(56,986)</u>	<u>-</u>	<u>64,583</u>	<u>-</u>
	<u>\$ (302,084)</u>	<u>(1)</u>	<u>\$ 532,245</u>	<u>2</u>
TOTAL COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO:				
Owners of the Company	\$ (116,582)	-	\$ 445,156	2
Equity attributable to former owner of business combination under common control	-	-	18,233	-
Non-controlling interests	<u>(151,165)</u>	<u>(1)</u>	<u>21,547</u>	<u>-</u>
	<u>\$ (267,747)</u>	<u>(1)</u>	<u>\$ 484,936</u>	<u>2</u>
(LOSS) EARNINGS PER SHARE (Note 24)				
Basic	<u>\$ (0.22)</u>		<u>\$ 0.40</u>	
Diluted			<u>\$ 0.40</u>	

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

(With Deloitte & Touche auditors' report dated March 23, 2020)

(Concluded)

CHUNG HWA PULP CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Company (Notes 4 and 21)															
	Share Capital		Capital Surplus	Retained Earnings				Exchange Differences on Translating the Financial Statements of Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Other Equity			Equity Attributable to Former Owner of Business Combination Under Common Control	Non-controlling Interests	Total Equity	
	Shares (In Thousands)	Amount		Legal Reserve	Special Reserve	Unappropriated Earnings	Total			Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Cash Flow Hedges	(Loss) gain on Hedging Instrument				Total
BALANCE AT JANUARY 1, 2018	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	\$ -	\$ 2,406,511	\$ 18,095,480
Effect of retrospective application	-	-	-	-	-	(3,719)	(3,719)	-	(319,079)	358,643	6,377	(6,377)	35,845	-	-	35,845
Retrospective adjustments of equity attributable to former owner due to business combination under common control	-	-	-	-	-	-	-	-	-	-	-	-	-	44,409	-	44,409
BALANCE AT JANUARY 1, 2019 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	44,409	2,406,511	18,175,734
Issuance of ordinary shares for cash	-	-	-	-	-	-	-	-	-	-	-	-	-	53,130	-	53,130
Appropriation of 2017 earnings																
Legal reserve	-	-	-	61,858	-	(61,858)	-	-	-	-	-	-	-	-	-	-
Cash dividends distributed by the Company	-	-	-	-	-	(551,418)	(551,418)	-	-	-	-	-	(551,418)	-	-	(551,418)
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	21,999	64,583	532,245
Other comprehensive (loss) income for the year ended December 31, 2018	-	-	-	-	-	(23,594)	(23,594)	(12,578)	-	36,249	-	(584)	(507)	(3,766)	(43,036)	(47,309)
Total comprehensive income (loss) for the year ended December 31, 2018	-	-	-	-	-	422,069	422,069	(12,578)	-	36,249	-	(584)	445,156	18,233	21,547	484,936
Business combination under common control	-	-	1,349	-	-	-	-	-	-	-	-	-	1,349	(102,332)	900	(100,083)
Disposal 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	13,440	2,428,958	18,064,108
Appropriation of 2018 earnings																
Legal reserve	-	-	-	44,566	-	(44,566)	-	-	-	-	-	-	-	-	-	-
Cash dividends distributed by the Company	-	-	-	-	-	(385,992)	(385,992)	-	-	-	-	-	(385,992)	-	-	(385,992)
Adjustments for the changes in equity of associates	-	-	(1,024)	-	-	-	-	-	-	-	-	-	(1,024)	-	-	(1,024)
Net loss for the year ended December 31, 2019	-	-	-	-	-	(245,098)	(245,098)	-	-	-	-	-	(245,098)	-	(56,986)	(302,084)
Other comprehensive income (loss) for the year ended December 31, 2019	-	-	-	-	-	(3,949)	(3,949)	(200,692)	-	331,972	-	1,185	128,516	-	(94,179)	34,337
Total comprehensive income (loss) for the year ended December 31, 2019	-	-	-	-	-	(249,047)	(249,047)	(200,692)	-	331,972	-	1,185	(116,582)	-	(151,165)	(267,747)
Business combination under common control	-	-	(865)	-	-	-	-	-	-	-	-	-	(865)	(13,440)	-	(14,305)
Disposal of investments accounted for using the equity method	-	-	(16)	-	-	-	-	-	-	-	-	-	(16)	-	-	(16)
Disposal of investments in equity instruments designated as at FVTOCI by associates	-	-	-	-	-	10,344	10,344	-	-	(10,344)	-	-	-	-	-	-
BALANCE AT DECEMBER 31, 2019	<u>1,102,835</u>	<u>\$ 11,028,353</u>	<u>\$ 29,563</u>	<u>\$ 226,257</u>	<u>\$ 1,186,894</u>	<u>\$ 2,236,125</u>	<u>\$ 3,649,276</u>	<u>\$ (300,705)</u>	<u>\$ -</u>	<u>\$ 716,520</u>	<u>\$ -</u>	<u>\$ (5,776)</u>	<u>\$ 15,117,231</u>	<u>\$ -</u>	<u>\$ 2,277,793</u>	<u>\$ 17,395,024</u>

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

(With Deloitte & Touche auditors' report dated March 23, 2020)

CHUNG HWA PULP CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

	2019	2018 (Audited After Restatement)
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss) income before income tax	\$ (362,412)	\$ 669,096
Adjustments for:		
Depreciation and amortization expenses	1,148,547	1,141,788
Expected credit loss (reversed) recognized on account receivables	(24,525)	4,376
Loss on financial instruments at FVTPL	1,672	24,159
Finance costs	91,305	92,303
Interest income	(27,380)	(40,325)
Dividend income	(76,543)	(55,783)
Share of loss (profit) of associates	3,987	(57,270)
Gain (loss) on disposal of property, plant and equipment	219	(8)
Gain on disposal of investments	(9)	(12)
Write-downs of (Reversal of write-down) inventories	36,351	(681)
Unrealized loss (gain) on foreign currency exchange	41,638	(12,269)
Loss on changes in fair value less costs to sell of biological assets	6,089	10,695
Changes in operating assets and liabilities		
Financial assets mandatorily classified as at FVTPL	(127)	208,726
Notes and accounts receivable	(21,474)	30,920
Notes and accounts receivable from related parties	311,578	20,338
Inventories	242,529	(1,128,101)
Biological assets	(75,863)	(106,099)
Other current assets	(214,718)	115,074
Notes and accounts payable	(141,771)	(332,020)
Notes and accounts payable to related parties	(90,228)	58,893
Other payables	(13,696)	57,493
Other current liabilities	75,837	32,198
Net defined benefit liabilities	(36,991)	(29,853)
Cash generated from operations	874,015	703,638
Interest received	27,302	39,499
Interest paid	(89,931)	(90,577)
Income tax received (paid)	9,213	(68,819)
Net cash generated from operating activities	<u>820,599</u>	<u>583,741</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at FVTOCI	(3)	(24,983)
Proceeds from capital reduction on investments accounted for financial assets at FVTOCI	17,229	18,655
Purchase of financial assets at amortized cost	(314,548)	(1,100)
Purchase of financial instruments for hedging	-	(9,645)
Proceeds from sale of financial instruments for hedging	4,252	2,719
Net cash outflow from acquisition of subsidiary under common control	(14,305)	(100,083)

(Continued)

CHUNG HWA PULP CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

	2019	2018 (Audited After Restatement)
Proceeds from capital reduction on investments accounted for using the equity method	\$ 27,168	\$ -
Payments for property, plant and equipment	(1,264,293)	(1,004,351)
Proceeds from disposal of property, plant and equipment	7,807	9
Decrease (increase) in other receivables from related parties	341,159	(640,266)
(Increase) decrease in other non-current assets	(6,563)	3,654
Increase in prepayments for equipment	(41,275)	(133,626)
Dividends received from investments accounted for using equity method	<u>126,133</u>	<u>88,583</u>
Net cash used in investing activities	<u>(1,117,239)</u>	<u>(1,800,434)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term borrowings	1,553,977	363,820
Increase (decrease) in short-term bills payable	599,770	(99,559)
Proceeds from long-term borrowings	2,402,000	2,500,000
Repayments of long-term borrowings	(3,952,000)	(1,720,000)
Decrease (increase) in other payables to related parties	(2,027)	7,433
Repayment of the principal portion of lease liabilities	(21,633)	-
Increase in other non-current liabilities	12,753	33,935
Distribution of cash dividends	<u>(385,992)</u>	<u>(549,359)</u>
Net cash generated from financing activities	<u>206,848</u>	<u>536,270</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES		
	<u>3,023</u>	<u>(2,631)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(86,769)	(683,054)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		
	<u>565,494</u>	<u>1,248,548</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 478,725</u>	<u>\$ 565,494</u>

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

(With Deloitte & Touche auditors' report dated March 23, 2020)

(Concluded)

CHUNG HWA PULP CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

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, 2019 and 2018.

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 23, 2020.

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 Financial Supervisory Commission (FSC)

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

IFRS 16 “Leases”

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessee and lessor. It supersedes IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, and a number of related interpretations. Refer to Note 4 for information relating to the relevant accounting policies.

Definition of a lease

The Group elects 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 are not reassessed and are accounted for in accordance with the transitional provisions under IFRS 16.

The Group as lessee

The Group recognizes 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 are recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, the Group presents 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 are classified within financing activities; cash payments for the interest portion are classified within operating activities. Prior to the application of IFRS 16, payments under operating lease contracts were recognized as expenses on a straight-line basis. Prepaid lease payments for land use rights in China were recognized as prepayments for leases. Cash flows for operating leases were classified within operating activities on the consolidated statements of cash flows.

Lease liabilities were recognized on January 1, 2019 for leases previously classified as operating leases under IAS 17. Lease liabilities were 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 are measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. The Group applies IAS 36 to all right-of-use assets.

The Group also applies the following practical expedients:

- 1) The Group applies a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.
- 2) The Group accounts for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.
- 3) The Group excludes initial direct costs from the measurement of right-of-use assets on January 1, 2019.
- 4) The Group uses hindsight, such as in determining lease terms, to measure lease liabilities.

The lessee's weighted average incremental borrowing rate applied to lease liabilities recognized on January 1, 2019 is 2.397%. The difference between the (i) lease liabilities recognized and (ii) operating lease commitments disclosed under IAS 17 on December 31, 2018 is explained as follows:

The future minimum lease payments of non-cancellable operating lease commitments on December 31, 2018	\$ 63,594
Less: Recognition exemption for short-term leases and leases of low-value assets	<u>(9,095)</u>
Undiscounted amounts on January 1, 2019	<u>\$ 54,499</u>
Discounted amounts using the incremental borrowing rate on January 1, 2019	<u>\$ 53,292</u>
Lease liabilities recognized on January 1, 2019	<u>\$ 53,292</u>

The impact on assets, liabilities and equity as of January 1, 2019 from the initial application of IFRS 16 is set out as follows:

	As Originally Stated on January 1, 2019	Adjustments Arising from Initial Application	Restated on January 1, 2019
Prepayments for leases - current	\$ 12,073	\$ (12,073)	\$ -
Prepayments for leases - non-current	459,664	(459,664)	-
Right-of-use assets	<u>-</u>	<u>525,029</u>	<u>525,029</u>
Total effect on assets	<u>\$ 471,737</u>	<u>\$ 53,292</u>	<u>\$ 525,029</u>
Lease liabilities - current	\$ -	\$ 17,516	\$ 17,516
Lease liabilities - non-current	<u>-</u>	<u>35,776</u>	<u>35,776</u>
Total effect on liabilities	<u>\$ -</u>	<u>\$ 53,292</u>	<u>\$ 53,292</u>

- b. The IFRSs endorsed by the Financial Supervisory Commission (FSC) for application starting from 2020

New IFRSs	Effective Date Announced by IASB
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020 (Note 1)
Amendments to IFRS 9, IAS 39 and IFRS 7 “Interest Rate Benchmark Reform”	January 1, 2020 (Note 2)
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020 (Note 3)

Note 1: 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 2: The Group shall apply these amendments retrospectively for annual reporting periods beginning on or after January 1, 2020.

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 consolidated 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.

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

New IFRSs	Effective Date Announced by IASB (Note)
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 “Classification of Liabilities as Current or Non-current”	January 1, 2022

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

As of the date the consolidated 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 14, 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 its foreign operations (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.

Beginning January 1, 2019, investment properties acquired through leases were initially measured at cost, which comprises the initial measurement of lease liabilities adjusted for lease payments made on or before the commencement date, plus initial direct costs incurred and an estimate of costs needed to restore the underlying assets, less any lease incentives received. These investment properties are subsequently measured at cost less accumulated depreciation and accumulated impairment loss and adjusted for any remeasurement of the lease liabilities.

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

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.

b) Impairment of financial assets

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 (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.

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 2017, 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, and any interest paid on such financial liability is recognized in finance costs; any remeasurement gains or losses on such financial liabilities are recognized in other gains or losses. Fair value is determined in the manner described in Note 27.

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.

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.

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

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.

o. Leases

2019

At the inception of a contract, the Group assesses whether the contract is, or contains, a lease.

1) The Group as lessor

Lease payments (less any lease incentives payable) from operating leases are recognized as income on a straight-line basis over the terms of the relevant leases.

2) The Group as lessee

The Group recognizes right-of-use assets and lease liabilities for all leases at the commencement date of a lease, except for short-term leases and low-value asset leases accounted for applying a recognition exemption where lease payments are recognized as expenses on a straight-line basis over the lease terms.

Right-of-use assets are initially measured at cost, which comprises the initial measurement of lease liabilities adjusted for lease payments made at or before the commencement date. Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liabilities. Right-of-use assets are presented on a separate line in the consolidated balance sheets.

Right-of-use assets are depreciated using the straight-line method from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms.

Lease liabilities are initially measured at the present value of the lease payments, which comprise fixed payments. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the lessee's incremental borrowing rate.

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in a lease term or a change in future lease payments resulting from a change in an index or a rate used to determine those payments, the Group remeasures the lease liabilities with a corresponding adjustment to the right-of-use-assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. Lease liabilities are presented on a separate line in the consolidated balance sheets.

2018

1) The Group as lessor

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

2) The Group as lessee

Operating lease payments are recognized as expenses 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 on unappropriated earnings is provided for 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.

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.

Estimated Impairment of Financial Assets

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 11. Where the actual future cash inflows are less than expected, a material impairment loss may arise.

6. CASH AND CASH EQUIVALENTS

	<u>December 31</u>	
	2019	2018
Cash on hand	\$ 1,247	\$ 947
Checking accounts and demand deposits	255,485	564,547
Cash equivalents		
Time deposits with original maturities of less than three months	<u>221,993</u>	<u>-</u>
	<u>\$ 478,725</u>	<u>\$ 565,494</u>

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

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Bank balance	0.001%-0.38%	0.001%-0.48%
Cash equivalents	0.82%-3.96%	-

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
<u>Financial assets at FVTPL - current</u>		
Financial assets mandatorily classified as at FVTPL		
Derivative financial assets (not under hedge accounting)		
Foreign exchange forward contracts (a)	\$ 10,794	\$ 3,166
Non-derivative financial assets		
Mutual funds	<u>1,357</u>	<u>4,349</u>
	<u>\$ 12,151</u>	<u>\$ 7,515</u>
<u>Financial assets at FVTPL - non-current</u>		
Non-derivative financial assets		
Bank debentures in the ROC (b)	<u>\$ 171,035</u>	<u>\$ 171,035</u>
<u>Financial liabilities at FVTPL - current</u>		
Financial liabilities mandatorily classified as at FVTPL		
Derivative financial liabilities (not under hedge accounting)		
Foreign exchange forward contracts (a)	<u>\$ 5,995</u>	<u>\$ -</u>

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

	Currency	Maturity Date	Notional Amount (In Thousands)
<u>December 31, 2019</u>			
Sell	USD:NTD	2020.01.10-2020.02.27	USD33,400/NTD1,001,332
Buy	USD:RMB	2020.01.13-2020.01.21	USD20,000/RMB139,524
<u>December 31, 2018</u>			
Sell	USD:NTD	2019.01.09-2019.01.22	USD16,500/NTD506,798

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.

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

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
<u>Current</u>		
Domestic investments		
Listed shares	\$ <u>1,328,656</u>	\$ <u>1,052,704</u>
<u>Non-current</u>		
Domestic investments		
Listed shares	\$ 281,803	\$ 260,361
Unlisted shares	<u>293,985</u>	<u>300,123</u>
	<u>\$ 575,788</u>	<u>\$ 560,484</u>

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.

9. FINANCIAL INSTRUMENTS FOR HEDGING

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
<u>Financial assets under hedge accounting - current</u>		
Cash flow hedges - foreign exchange forward contracts	\$ <u>24</u>	\$ <u>50</u>
<u>Financial liabilities under hedge accounting - current</u>		
Cash flow hedges - foreign exchange forward contracts	\$ <u>-</u>	\$ <u>250</u>

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 2019 and 2018 were \$2,106 thousand and \$584 thousand, respectively, the following tables summarize the information relating to the hedges of foreign currency risk.

	Currency	Maturity Date	Notional Amount (In Thousands)	
<u>December 31, 2019</u>				
Buy	EUR:NTD	2020.01.31	EUR300/NTD10,077	
<u>December 31, 2018</u>				
Buy	EUR:NTD	2019.03.05	EUR243/NTD8,554	
Buy	EUR:NTD	2019.01.22-2019.01.28	EUR3,470/NTD122,144	
<u>December 31, 2019</u>				
	Hedged Items		Change in Value Used for Calculating Hedge Ineffectiveness	Other Equity Carrying Amount in Continuing Hedges
Cash flow hedge				
Forecast transactions (capital expenditures)			\$ (2,106)	\$ (5,776)
<u>December 31, 2018</u>				
	Hedged Items		Change in Value Used for Calculating Hedge Ineffectiveness	Other Equity Carrying Amount in Continuing Hedges
Cash flow hedge				
Forecast transactions (capital expenditures)			\$ (584)	\$ (6,961)

For the years ended December 31, 2019 and 2018, refer to Note 21(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 2019 and 2018.

10. FINANCIAL ASSETS AT AMORTIZED COST

	<u>December 31</u>	
	2019	2018
<u>Current</u>		
Domestic investments		
Time deposits with original maturity between three months and a year	\$ 6,700	\$ 5,900
Time deposits with original maturity of more than a year	<u>5,000</u>	<u>-</u>
	<u>\$ 11,700</u>	<u>\$ 5,900</u>
<u>Non-current</u>		
Domestic investments		
Time deposits with original maturity of more than a year	\$ 300,823	\$ 5,000

The interest rates for time deposits with original maturity between three months and a year were 0.66%-0.82% and 0.82%, respectively, and the interest rates for time deposits with original maturity of more than a year were 3.96% and 1.12%, respectively, as at the end of the reporting year.

11. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

	<u>December 31</u>	
	2019	2018
Notes receivable - operating	\$ 465,228	\$ 593,550
Accounts receivable - operating	<u>2,199,873</u>	<u>2,130,831</u>
Gross carrying amount	2,665,101	2,724,381
Less: Allowance for impairment loss	<u>(15,617)</u>	<u>(40,471)</u>
	<u>\$ 2,649,484</u>	<u>\$ 2,683,910</u>

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, 2019

	Not Past Due	Less than 90 Days	91 Days to A Year	Over A Year	Total
Gross carrying amount	\$ 2,458,266	\$ 183,499	\$ 23,099	\$ 237	\$ 2,665,101
Loss allowance (Lifetime ECL)	<u>(9,912)</u>	<u>(5,063)</u>	<u>(405)</u>	<u>(237)</u>	<u>(15,617)</u>
Amortized cost	<u>\$ 2,448,354</u>	<u>\$ 178,436</u>	<u>\$ 22,694</u>	<u>\$ -</u>	<u>\$ 2,649,484</u>

December 31, 2018

	Not Past Due	Less than 90 Days	91 Days to A Year	Over A Year	Total
Gross carrying amount	\$ 2,597,347	\$ 124,543	\$ 1	\$ 2,490	\$ 2,724,381
Loss allowance (Lifetime ECL)	<u>(36,262)</u>	<u>(1,718)</u>	<u>(1)</u>	<u>(2,490)</u>	<u>(40,471)</u>
Amortized cost	<u>\$ 2,561,085</u>	<u>\$ 122,825</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,683,910</u>

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

	2019	2018
Balance at January 1	\$ 40,471	\$ 33,900
Net remeasurement of loss allowance	(24,525)	4,376
Amounts written off	-	(73)
Foreign exchange translation gains and losses	<u>(329)</u>	<u>2,268</u>
Balance at December 31	<u>\$ 15,617</u>	<u>\$ 40,471</u>

12. INVENTORIES

	December 31	
	2019	2018
Finished and purchased goods	\$ 2,131,072	\$ 2,373,492
Work in process	374,046	416,128
Materials	<u>1,380,952</u>	<u>1,406,596</u>
	<u>\$ 3,886,070</u>	<u>\$ 4,196,216</u>

The cost of goods sold for the years ended December 31, 2019 and 2018 included inventory write-downs of \$36,351 thousand and reversal of inventory write-downs of \$681 thousand, respectively.

13. BIOLOGICAL ASSETS

	For the Year Ended December 31	
	2019	2018
Balance at January 1	\$ 3,317,475	\$ 3,280,878
Increases due to planting	201,244	262,717
Loss from changes in fair value less costs to sell	(6,089)	(10,695)
Decreases due to harvest	(125,381)	(156,618)
Net exchange differences	<u>(134,712)</u>	<u>(58,807)</u>
Balance at December 31	<u>\$ 3,252,537</u>	<u>\$ 3,317,475</u>

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	
	2019	2018
Eucalyptus (Level 3)	<u>\$ 3,360,128</u>	<u>\$ 3,396,946</u>
Opening balance	\$ 3,396,946	\$ 3,380,533
Increases due to planting	211,239	292,628
Loss from changes in fair value less costs to sell - unrealized	(6,392)	(11,912)
Decreases due to harvest	(131,608)	(174,448)
Foreign exchange translation gains and losses	<u>(110,057)</u>	<u>(89,855)</u>
Ending balance	<u>\$ 3,360,128</u>	<u>\$ 3,396,946</u>

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

14. SUBSIDIARIES

Subsidiaries included in the consolidated financial statements:

Investor	Investee	Main Business	% of Ownership	
			2019	2018
The Company	CHP International (BVI) Corporation	Investment and holding.	100.0	100.0
CHP International (BVI) Corporation	Hwa Fong Investment Co., Ltd.	Investment and holding.	100.0	100.0
	Guangdong Dingfung Pulp & Paper Co., Ltd.	Pulp and paper production, trading and forestry business.	60.0	60.0
	Zhaoqing Dingfung Forestry Ltd.	Seedling cultivation and sales, reforestation, sales-cum-forest logging and other forestry, processing and transportation.	20.2	20.2
	Syntax Communication (H.K.) Limited (b)	Sale and print of paper merchandise	100.0	-

(Continued)

Investor	Investee	Main Business	% of Ownership	
			2019	2018
Hwa Fong Investment Co., Ltd.	Genovella Renewables Inc. (c)	Fertilizer production, sale of fertilizer, retail sale of food products and groceries, special crop and edible fungus cultivation, refractory materials manufacturing, cement and concrete products manufacturing, ready-mixed concrete manufacturing, refractory materials wholesale and sale of building material.	100.0	100.0
Guangdong Dingfung Pulp & Paper Co., Ltd.	Zhaoqing Dingfung Forestry Ltd.	Seedling cultivation and sales, reforestation, sales-cum-forest logging and other forestry, processing and transportation.	66.3	66.3
	Shenzhen Jinglun Paper Co., Ltd. (b)	Paper trading, cargo and technic import and export business.	100.0	100.0
	Zhaoging Xinchuan Green Technology Co., Ltd. (d)	Environment equipment technology research and development, construction for wastewater, flue gas, noise and solid waste treatment, pure water construction, environment technology consulting, sale of environment equipment and chemical raw material, cargo and technic import and export.	100.0	-

(Concluded)

- a. The financial statements of Genovella Renewables Inc. have not been audited; as of December 31, 2019 and 2018, combined total assets of this subsidiary were \$13,735 thousand and \$12,779 thousand, respectively, representing 0.04% and 0.04%, respectively, of the total consolidated assets, and combined total liabilities of this subsidiary were \$4,306 thousand and \$5,803 thousand, respectively, representing 0.03% and 0.04%, respectively, of the total consolidated liabilities. For the years ended December 31, 2019 and 2018, net sales were about \$15,145 thousand and \$15,334 thousand respectively, representing 0.07% and 0.06%, respectively, of the total consolidated net sales, respectively; the net loss was about \$2,453 thousand and the net income was about \$340 thousand, respectively, representing (0.81%) and (0.06%), respectively, of the total consolidated net (loss) income. Management believes that the amounts do not have material impact even if the financial statements were audited.
- b. Guangdong Dingfung Pulp & Paper Co., Ltd., a subsidiary of the Group, acquired 100% equity of Shenzhen Jinglun Paper Co., Ltd. from fellow subsidiaries of YFY Group for RMB22,560 thousand in the fourth quarter of 2018, and CHP International (BVI) Corporation., a subsidiary of the Group, acquired 100% equity of Syntax Communication (H.K.) Limited from fellow subsidiaries of YFY Group for HK\$3,653 thousand in the first quarter of 2019. In compliance with the “Comments on IFRS” and Interpretation 2012-301 issued by Accounting Research and Development Foundation, the acquisitions resulted in joint control restructuring. In the preparation of comparative consolidated financial statements, the acquisitions are disclosed as if they have occurred before January 1, 2018, and the Group’s consolidated financial statements as of and for the year ended December 31, 2018 are restated. The related equity adjustments are recognized as equity attributable to former owner of business combination under common control.
- c. Kuang Hwa Fertilizer Limited Company was renamed as Genovella Renewables Inc. on April 22, 2019.

- d. Guangdong Dingfung Pulp & Paper Co., Ltd. established Zhaoging Xinchuan Green Technology Co., Ltd., on September 12, 2019, after the Company's board of directors passed the resolution with a total investment of RMB10,000 thousand and Guangdong Dingfung Pulp & Paper Co., Ltd. held 100% ownership interest. To meet the capital funding, a capital of RMB2,000 thousand was injected as of December 31, 2019.

15. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	<u>December 31</u>	
	2019	2018
Associates that are not individually material	<u>\$ 787,981</u>	<u>\$ 863,675</u>

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

	<u>December 31</u>	
	2019	2018
The Group's share of:		
(Loss) profit from continuing operations	\$ (3,987)	\$ 52,270
Other comprehensive income (loss)	<u>6,084</u>	<u>(24,846)</u>
Total comprehensive income for the year	<u>\$ 2,097</u>	<u>\$ 32,424</u>

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.

16. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Buildings	Machinery	Electric Equipment	Tools	Miscellaneous Equipment	Property in Construction	Total
<u>Cost</u>								
Balance at January 1, 2018	\$ 6,637,258	\$ 3,772,039	\$ 28,487,324	\$ 2,912,891	\$ 1,613,469	\$ 759,471	\$ 420,855	\$ 44,603,307
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)	-	-	(2,852)	(1,107)	(91,141)
Reclassifications	-	31,967	418,832	39,465	73,478	11,183	(574,925)	-
Balance at December 31, 2018	<u>\$ 6,637,258</u>	<u>\$ 3,815,936</u>	<u>\$ 28,950,266</u>	<u>\$ 2,966,986</u>	<u>\$ 1,722,566</u>	<u>\$ 771,725</u>	<u>\$ 981,308</u>	<u>\$ 45,846,045</u>
<u>Accumulated depreciation and impairment</u>								
Balance at January 1, 2018	\$ -	\$ 2,706,087	\$ 23,283,026	\$ 2,357,159	\$ 1,336,737	\$ 574,003	\$ -	\$ 30,257,012
Disposals	-	-	(19,315)	(1,586)	(999)	(7,823)	-	(29,723)
Depreciation expenses	-	103,595	781,648	73,811	100,986	43,347	-	1,103,387
Effect of foreign currency exchange differences	-	(3,949)	(45,266)	-	-	(1,217)	-	(50,432)
Balance at December 31, 2018	<u>\$ -</u>	<u>\$ 2,805,733</u>	<u>\$ 24,000,093</u>	<u>\$ 2,429,384</u>	<u>\$ 1,436,724</u>	<u>\$ 608,310</u>	<u>\$ -</u>	<u>\$ 31,280,244</u>
Carrying amounts at December 31, 2018	<u>\$ 6,637,258</u>	<u>\$ 1,010,203</u>	<u>\$ 4,950,173</u>	<u>\$ 537,602</u>	<u>\$ 285,842</u>	<u>\$ 163,415</u>	<u>\$ 981,308</u>	<u>\$ 14,565,801</u>
<u>Cost</u>								
Balance at January 1, 2019	\$ 6,637,258	\$ 3,815,936	\$ 28,950,266	\$ 2,966,986	\$ 1,722,566	\$ 771,725	\$ 981,308	\$ 45,846,045
Additions	-	11,996	54,765	13,774	28,813	10,002	1,158,024	1,277,374
Disposals	-	(6,236)	(301,701)	(56,500)	(27,840)	(23,863)	-	(416,140)
Effect of foreign currency exchange differences	-	(29,373)	(165,508)	-	-	(6,911)	(8,400)	(210,192)
Reclassifications	-	20,722	715,154	31,046	45,760	15,200	(827,882)	-
Balance at December 31, 2019	<u>\$ 6,637,258</u>	<u>\$ 3,813,045</u>	<u>\$ 29,252,976</u>	<u>\$ 2,955,306</u>	<u>\$ 1,769,299</u>	<u>\$ 766,153</u>	<u>\$ 1,303,050</u>	<u>\$ 46,497,087</u>

(Continued)

	Freehold Land	Buildings	Machinery	Electric Equipment	Tools	Miscellaneous Equipment	Property in Construction	Total
<u>Accumulated depreciation and impairment</u>								
Balance at January 1, 2019	\$ -	\$ 2,805,733	\$ 24,000,093	\$ 2,429,384	\$ 1,436,724	\$ 608,310	\$ -	\$ 31,280,244
Disposals	-	(6,236)	(294,052)	(56,500)	(27,783)	(23,543)	-	(408,114)
Depreciation expenses	-	101,873	767,134	75,786	100,948	42,160	-	1,087,901
Effect of foreign currency exchange differences	-	(9,975)	(103,966)	-	-	(3,822)	-	(117,763)
Balance at December 31, 2019	<u>\$ -</u>	<u>\$ 2,891,395</u>	<u>\$ 24,369,209</u>	<u>\$ 2,448,670</u>	<u>\$ 1,509,889</u>	<u>\$ 623,105</u>	<u>\$ -</u>	<u>\$ 31,842,268</u>
Carrying amounts at December 31, 2019	<u>\$ 6,637,258</u>	<u>\$ 921,650</u>	<u>\$ 4,883,767</u>	<u>\$ 506,636</u>	<u>\$ 259,410</u>	<u>\$ 143,048</u>	<u>\$ 1,303,050</u>	<u>\$ 14,654,819</u>

(Concluded)

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

17. LEASE ARRANGEMENTS

a. Right-of-use assets - 2019

	December 31, 2019
<u>Carrying amounts</u>	
Land	\$ 445,680
Buildings	26,714
Office equipment	11,785
Transportation equipment	<u>3,254</u>
	<u>\$ 487,433</u>
	For the Year Ended December 31, 2019
Additions to right-of-use assets	<u>\$ 14,209</u>
Depreciation charge for right-of-use assets	
Land	\$ 14,233
Buildings	12,071
Office equipment	5,583
Transportation equipment	<u>1,583</u>
	<u>\$ 33,470</u>

b. Lease liabilities - 2019

	December 31, 2019
<u>Carrying amounts</u>	
Current	<u>\$ 20,202</u>
Non-current	<u>\$ 26,243</u>

Range of discount rate for lease liabilities was as follows:

	December 31, 2019
Land	1.21%
Buildings	1.21%-3.50%
Office equipment	1.21%
Transportation equipment	1.21%

c. Material lease-in activities and terms

The Group leases certain equipment for the use of operating activities with lease terms of 2 to 5 years. These arrangements do not contain renewal or purchase options at the end of the lease terms.

The Group also leases land and buildings for the use of plants, offices, and warehouses with lease terms of 2 to 6 years. The lease contract for land and buildings located in China specifies that land and buildings are mainly used as plants, and lease payments will be made at the beginning of the contract with lease terms of 50 years. The Group does not have bargain purchase options to acquire the leasehold land and buildings at the end of the lease terms.

d. Other lease information

Lease arrangements under operating leases for the leasing out of investment properties are set out in Note 18.

2019

	For the Year Ended December 31, 2019
Expenses relating to short-term leases and low-value asset leases	<u>\$ 54,842</u>
Total cash outflow for leases	<u>\$ (80,634)</u>

The Group has elected to apply the recognition exemption and, thus, did not recognize right-of-use assets and lease liabilities for these short-term leases and certain leases which qualify as low-value asset leases.

For the year ended December 31, 2019, expenses relating to short-term leases also include expenses relating to leases for which the lease terms end on or before December 31, 2019 and for which the recognition exemption is applied. The amount of lease commitments for short-term leases for which the recognition exemption is applied was \$43,976 thousand as of December 31, 2019.

2018

The future minimum lease payments of non-cancellable operating lease commitments are as follows:

	December 31, 2018
Not later than 1 year	\$ 27,026
Later than 1 year and not later than 5 years	<u>36,568</u>
	<u>\$ 63,594</u>

The lease payments recognized in profit or loss were as follows:

	For the Year Ended December 31, 2018
Minimum lease payments	<u>\$ 68,469</u>

18. INVESTMENT PROPERTIES

	For the Year Ended December 31	
	2019	2018
<u>Cost</u>		
Opening balance	<u>\$ 272,334</u>	<u>\$ 272,334</u>
Ending balance	<u>\$ 272,334</u>	<u>\$ 272,334</u>
<u>Accumulated depreciation and impairment</u>		
Opening balance	\$ (14,923)	\$ (14,656)
Depreciation expenses	<u>(267)</u>	<u>(267)</u>
Ending balance	<u>\$ (15,190)</u>	<u>\$ (14,923)</u>
Ending carrying amounts	<u>\$ 257,144</u>	<u>\$ 257,411</u>

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	
	2019	2018
Fair value	<u>\$ 341,731</u>	<u>\$ 341,731</u>

The investment properties were leased out as operating leases from May 1, 2015 to June 30, 2020. The lessees do not have bargain purchase options to acquire the investment properties at the expiry of the lease periods.

The future minimum lease payments of non-cancellable operating lease commitments as of December 31, 2019 are as follows:

	December 31, 2019
Payment period 2020	<u>\$ 3,540</u>

The future minimum lease payments of non-cancellable operating lease commitments as of December 31, 2018 are as follows:

	December 31, 2018
Not later than 1 year	\$ 7,080
Later than 1 year and not later than 5 years	<u>3,540</u>
	<u>\$ 10,620</u>

19. BORROWINGS

a. Short-term borrowings

	December 31	
	2019	2018
Bank credit loans	\$ 4,917,000	\$ 3,601,000
Letter of credit loans	<u>328,500</u>	<u>93,901</u>
	<u>\$ 5,245,500</u>	<u>\$ 3,694,901</u>

As of December 31, 2019 and 2018, the interest rates of short-term borrowings were 0.92%-2.68% per annum and 0.91%-3.89% per annum, respectively.

b. Short-term bills payable

	December 31	
	2019	2018
Commercial paper	\$ 2,450,000	\$ 1,850,000
Less: Unamortized discounts on bills payable	<u>(521)</u>	<u>(291)</u>
	<u>\$ 2,449,479</u>	<u>\$ 1,849,709</u>

Short-term bills payable are commercial papers due within one year. Interest rates on these bills payable were 0.98%-1.17% and 0.91%-1.12% as of December 31, 2019 and 2018, respectively.

c. Long-term borrowings

	<u>December 31</u>	
	2019	2018
Unsecured bank loans	\$ 150,000	\$ 1,700,000
Less: Loan management fees	<u>(2,325)</u>	<u>(4,125)</u>
Long-term bank loans	<u>\$ 147,675</u>	<u>\$ 1,695,875</u>

	Due Date	Article	Interest Rate	<u>December 31</u>	
				2019	2018
Taiwan Bank Credit loan A	2021.06.30	The credit can be revolved within 60 months from September 30, 2016, the first drawdown date of the loan.	1.80%	\$ -	\$ 1,700,000
KGI Bank Credit loan	2021.01.04	The credit can be revolved within 24 months from January 4, 2019, the first drawdown date of the loan.	1.10%	150,000	-
				<u>\$ 150,000</u>	<u>\$ 1,700,000</u>

20. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Company, Hwa Fong Investment Co., Ltd. and Genovella Renewables Inc. of the Group adopted a pension plan under the Labor Pension Act (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	
	2019	2018
Present value of defined benefit obligation	\$ 542,868	\$ 602,251
Fair value of plan assets	<u>(340,223)</u>	<u>(367,316)</u>
Net defined benefit liability	<u>\$ 202,645</u>	<u>\$ 234,935</u>

Movements in net defined benefit liability were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability
Balance at January 1, 2018	\$ 624,763	\$ (400,068)	\$ 224,695
Service cost			
Current service cost	19,143	-	19,143
Net interest expense (income)	<u>10,434</u>	<u>(8,905)</u>	<u>1,529</u>
Recognized in profit or loss	<u>29,577</u>	<u>(8,905)</u>	<u>20,672</u>
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	<u>310</u>	<u>-</u>	<u>310</u>
Recognized in other comprehensive income	<u>47,424</u>	<u>(7,181)</u>	<u>40,093</u>
Contributions from the employer	-	(50,525)	(50,525)
Benefits paid	<u>(99,363)</u>	<u>99,363</u>	<u>-</u>
Balance at December 31, 2018	<u>\$ 602,251</u>	<u>\$ (367,316)</u>	<u>\$ 234,935</u>
Balance at January 1, 2019	<u>\$ 602,251</u>	<u>\$ (367,316)</u>	<u>\$ 234,935</u>
Service cost			
Current service cost	17,257	-	17,257
Net interest expense (income)	<u>8,563</u>	<u>(5,392)</u>	<u>3,171</u>
Recognized in profit or loss	<u>25,820</u>	<u>(5,392)</u>	<u>20,428</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(12,270)	(12,270)
Actuarial loss - experience adjustments	341	-	341
Actuarial loss - changes in financial assumptions	<u>16,630</u>	<u>-</u>	<u>16,630</u>
Recognized in other comprehensive income	<u>16,971</u>	<u>(12,270)</u>	<u>4,701</u>
Contributions from the employer	-	(57,419)	(57,419)
Benefits paid	<u>(102,174)</u>	<u>102,174</u>	<u>-</u>
Balance at December 31, 2019	<u>\$ 542,868</u>	<u>\$ (340,223)</u>	<u>\$ 202,645</u>

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	
	2019	2018
Discount rates	1.00%	1.50%
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	
	2019	2018
Discount rates		
0.125% increase	<u>\$ (4,246)</u>	<u>\$ (4,602)</u>
0.125% decrease	<u>\$ 4,306</u>	<u>\$ 4,668</u>
Expected rates of salary increase		
0.125% increase	<u>\$ 4,301</u>	<u>\$ 4,686</u>
0.125% decrease	<u>\$ (4,252)</u>	<u>\$ (4,631)</u>

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

	December 31	
	2019	2018
The expected contributions to the plans for the next year	<u>\$ 17,076</u>	<u>\$ 57,419</u>
The average duration of the defined benefit obligation	6.4 years	7.2 years

21. EQUITY

a. Ordinary shares

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Number of shares authorized (in thousands)	<u>1,300,000</u>	<u>1,300,000</u>
Shares authorized	<u>\$ 13,000,000</u>	<u>\$ 13,000,000</u>
Number of shares issued and fully paid (in thousands)	<u>1,102,835</u>	<u>1,102,835</u>
Shares issued	<u>\$ 11,028,353</u>	<u>\$ 11,028,353</u>

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

b. Capital surplus

	<u>December 31</u>	
	<u>2018</u>	<u>2018</u>
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital*</u>		
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	484	1,349
<u>May be used to offset a deficit only</u>		
Arising from share of changes in capital surplus of associates	<u>8,262</u>	<u>9,302</u>
	<u>\$ 29,563</u>	<u>\$ 31,468</u>

* 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 (limited to a certain percentage of paid-in 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 22 (c).

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 2018 and 2017 approved in the shareholders' meetings on June 21, 2019 and June 26, 2018 were as follows:

	Appropriation of Earnings	
	For the Year Ended December 31	
	2018	2017
Legal reserve	<u>\$ 44,566</u>	<u>\$ 61,858</u>
Cash dividends	<u>\$ 385,992</u>	<u>\$ 551,418</u>
Cash dividends per share (NT\$)	\$ 0.35	\$ 0.5

d. Special reserves

	For the Year Ended December 31	
	2019	2018
Special reserves	<u>\$ 1,186,894</u>	<u>\$ 1,186,894</u>

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
<u>2019</u>				
Balance at January 1	\$ (100,013)	\$ 394,892	\$ (6,961)	\$ 287,918
Unrealized gain on financial assets at FVTOCI	-	308,482	-	308,482
Exchange differences arising on translating the foreign operation	(183,474)	-	-	(183,474)
Loss arising on changes in the fair value of hedging instrument	-	-	(2,106)	(2,106)

(Continued)

	Exchange Differences Arising on Translating the Foreign Operations	Unrealized Gain (Loss) on Financial Assets at FVTOCI	Gain (Loss) on Hedging Instruments	Total
The amount transferred to initial carrying amount of hedged items	\$ -	\$ -	\$ 3,291	\$ 3,291
Share of other comprehensive income (loss) of associates	(17,218)	23,490	-	6,272
Cumulative unrealized gain (loss) of equity instruments transferred to retained earnings due to disposal	<u>-</u>	<u>(10,344)</u>	<u>-</u>	<u>(10,344)</u>
Balance at December 31	<u>\$ (300,705)</u>	<u>\$ 716,520</u>	<u>\$ (5,776)</u>	<u>\$ 410,039</u>
<u>2018</u>				
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.	<u>-</u>	<u>358,643</u>	<u>(6,377)</u>	<u>352,266</u>
Balance at January 1 (IFRS 9)	(87,435)	358,643	(6,377)	264,831
Unrealized gain on financial assets at FVTOCI	-	59,458	-	59,458
Exchange differences on translating the financial statements of foreign operation	(11,048)	-	-	(11,048)
Gain (loss) arising on changes in the fair value of hedging instruments	-	-	(584)	(584)
Share of other comprehensive loss of associates	<u>(1,530)</u>	<u>(23,209)</u>	<u>-</u>	<u>(24,739)</u>
Balance at December 31	<u>\$ (100,013)</u>	<u>\$ 394,892</u>	<u>\$ (6,961)</u>	<u>\$ 287,918</u> (Concluded)

f. Non-controlling interests

	For the Year Ended December 31	
	2019	2018
Balance at January 1	\$ 2,428,958	\$ 2,406,511
Attributable to non-controlling interests:		
Share of (loss) profit for the year	(56,986)	64,583
Exchange differences on translating the financial statements of foreign operations	(94,179)	(43,036)
Business combination under common control	<u>-</u>	<u>900</u>
Balance at December 31	<u>\$ 2,277,793</u>	<u>\$ 2,428,958</u>

g. Equity attributable to former owner of business combination under common control

	For the Year Ended December 31	
	2019	2018
Balance at January 1	\$ 13,440	\$ 44,409
Attributable to non-controlling interests:		
Issuance of common stock for cash	-	53,130
Share of profit for the period	-	21,999
Exchange differences on translating the financial statements of foreign operations	-	(3,766)
Equity attributable to owners of the Company from former owner of business combination under common control	<u>(13,440)</u>	<u>(102,332)</u>
Balance at December 31	<u>\$ -</u>	<u>\$ 13,440</u>

22. NET (LOSS) PROFIT FROM CONTINUING OPERATIONS

a. Finance costs

	For the Year Ended December 31	
	2019	2018
Interest on bank loans	\$ 93,038	\$ 92,860
Less: Amounts included in the cost of qualifying assets	<u>(1,733)</u>	<u>(557)</u>
	<u>\$ 91,305</u>	<u>\$ 92,303</u>

Information about capitalized interest was as follows:

	For the Year Ended December 31	
	2019	2018
Capitalization rate	0.99%-1.24%	0.99%-1.22%

b. Depreciation and amortization

	For the Year Ended December 31	
	2019	2018
An analysis of depreciation by function		
Operating costs	\$ 1,090,512	\$ 1,095,360
Operating expenses	<u>31,126</u>	<u>8,294</u>
	<u>\$ 1,121,638</u>	<u>\$ 1,103,654</u>
An analysis of amortization by function		
Operating costs	\$ 163	\$ 12,487
Operating expenses	<u>26,746</u>	<u>25,647</u>
	<u>\$ 26,909</u>	<u>\$ 38,134</u>

c. Employee benefit expense

	For the Year Ended December 31	
	2019	2018
Post-employment benefits		
Defined contribution plans	\$ 67,279	\$ 67,598
Defined benefit plans	<u>20,428</u>	<u>20,672</u>
	87,707	88,270
Other employee benefits	<u>1,782,035</u>	<u>1,864,826</u>
Total employee benefit expense	<u>\$ 1,869,742</u>	<u>\$ 1,953,096</u>
An analysis of employee benefit expense by function		
Operating costs	\$ 1,660,197	\$ 1,715,352
Operating expenses	<u>209,545</u>	<u>237,744</u>
	<u>\$ 1,869,742</u>	<u>\$ 1,953,096</u>

As of December 31, 2019 and 2018, the Group had 2,642 and 2,683 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. For the year ended December 31, 2019, because of operation loss, the Company did not estimate the compensation of employees and the remuneration of directors and supervisors. The compensation of employees and remuneration of directors and supervisors for the years ended December 31, 2018, which were approved by the Company's board of directors on March 21, 2019 are as follows:

Amount

	For the Year Ended December 31, 2018
	<u>Cash</u>
Compensation of employees	\$ 5,500
Remuneration of directors and supervisors	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 in the following year.

There was no difference between the actual amounts of the compensation and remuneration proposed in 2018 and 2017, and the amounts recognized in the consolidated financial statements for the years ended December 31, 2018 and 2017.

Information on the compensation of employees and remuneration of directors and supervisors resolved by the Company's board of directors in 2019 and 2018 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

23. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Income tax recognized in profit or loss

The major components of tax (benefit) expense were as follows:

	For the Year Ended December 31	
	2019	2018
Current tax		
In respect of the current year	\$ 5,637	\$ 61,606
Adjustments for prior years	<u>(30,421)</u>	<u>6,418</u>
	<u>(24,784)</u>	<u>68,024</u>
Deferred tax		
In respect of the current year	(36,608)	66,453
Effect of change in tax rate	-	747
Adjustments for prior years	<u>1,064</u>	<u>1,627</u>
	<u>(35,544)</u>	<u>68,827</u>
Income tax (benefit) expense recognized in profit or loss	<u>\$ (60,328)</u>	<u>\$ 136,851</u>

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

	For the Year Ended December 31	
	2019	2018
(Loss) profit before tax from continuing operations	<u>\$ (362,412)</u>	<u>\$ 669,096</u>
Income tax (benefit) expense calculated at the statutory rate	\$ (72,482)	\$ 133,819
Permanent differences	(22,925)	(18,939)
Unrecognized loss carryforwards	64,605	16
Adjustments for prior years	(29,357)	8,045
Effect of change in tax rate	-	747
Effect of different tax rates of group entities operating in other jurisdictions	<u>(169)</u>	<u>13,163</u>
Income tax expense (benefit) recognized in profit or loss	<u>\$ (60,328)</u>	<u>\$ 136,851</u>

The Income Tax Act in the ROC was amended in 2018, and the corporate income tax rate was adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings was reduced from 10% to 5%.

The applicable tax rate used by subsidiaries in China is 25%. Under the “Criteria for Designation of High and New Technology Enterprise”, a designated high and new technology enterprise is allowed a 15% income tax rate. Guangdong Dingfung Pulp & Paper Co., Ltd. had obtained its qualification certificates and have a tax incentive of 15% income tax rate. Tax rates used by other entities operating in other jurisdictions are based on the tax laws in those jurisdictions.

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2019	2018
<u>Deferred tax</u>		
Effect of change in tax rate	\$ -	\$ 8,587
Remeasurement on defined benefit plan	<u>940</u>	<u>8,019</u>
Total income tax recognized in other comprehensive income	<u>\$ 940</u>	<u>\$ 16,606</u>

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, 2019

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre- hensive Income	Exchange Differences	Closing Balance
<u>Deferred tax assets</u>					
Temporary differences					
Defined benefit obligation	\$ 46,987	\$ (7,398)	\$ 940	\$ -	\$ 40,529
Loss carryforwards	9,896	26,176	-	-	36,072
Others	<u>20,093</u>	<u>13,473</u>	<u>-</u>	<u>(115)</u>	<u>33,451</u>
	<u>\$ 76,976</u>	<u>\$ 32,251</u>	<u>\$ 940</u>	<u>\$ (115)</u>	<u>\$ 110,052</u>
<u>Deferred tax liabilities</u>					
Temporary differences					
Land value increment tax	\$ 1,924,940	\$ -	\$ -	\$ -	\$ 1,924,940
Others	<u>80,520</u>	<u>(3,293)</u>	<u>-</u>	<u>-</u>	<u>77,227</u>
	<u>\$ 2,005,460</u>	<u>\$ (3,293)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,002,167</u>

For the year ended December 31, 2018

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre- hensive Income	Exchange Differences	Closing Balance
<u>Deferred tax assets</u>					
Temporary differences					
Defined benefit obligation	\$ 38,198	\$ (7,817)	\$ 16,606	\$ -	\$ 46,987
Loss carryforwards	61,721	(51,825)	-	-	9,896
Others	<u>15,285</u>	<u>4,848</u>	<u>-</u>	<u>(40)</u>	<u>20,093</u>
	<u>\$ 115,204</u>	<u>\$ (54,794)</u>	<u>\$ 16,606</u>	<u>\$ (40)</u>	<u>\$ 76,976</u>

(Continued)

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

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

Hwa Fong Investments Co., Ltd.

	<u>December 31</u>	
	2019	2018
Loss carryforwards		
Expiry in 2028	\$ 82	\$ -
Expiry in 2029	<u>120</u>	<u>82</u>
	<u>\$ 202</u>	<u>\$ 82</u>

- e. Loss carryforwards as of December 31, 2019 comprised:

The Company

Unused Amount	Expiry Year
\$ 44,158	2024
<u>136,204</u>	2029
<u>\$ 180,362</u>	

Hwa Fong Investments Co., Ltd.

Unused Amount	Expiry Year
\$ 82	2028
<u>120</u>	2029
<u>\$ 202</u>	

Syntax Communication (H.K.) Limited

Unused Amount	Expiry Year
<u>\$ 10,889</u>	Unlimited

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

As of December 31, 2019 and 2018, the taxable temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognized were \$636,479 thousand and \$663,452 thousand, respectively.

- g. Income tax assessments

	<u>Latest Approved Year</u>
The Company	2017
Hwa Fong Investments Co., Ltd.	2018
Genovella Renewables Inc.	2017

24. (LOSS) EARNINGS PER SHARE

	<u>For the Year Ended December 31</u>	
	<u>2019</u>	<u>2018</u>
Basic (loss) earnings per share	\$ (0.22)	\$ <u>0.40</u>
Diluted earnings per share		\$ <u>0.40</u>

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

Net (loss) profit for the year:

	<u>For the Year Ended December 31</u>	
	<u>2019</u>	<u>2018</u>
(Loss) profit for the year attributable to owners of the Company	\$ (245,098)	\$ <u>445,663</u>

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

	<u>For the Year Ended December 31</u>	
	<u>2019</u>	<u>2018</u>
Weighted average number of ordinary shares used in the computation of basic earnings (loss) per share	<u>1,102,835</u>	1,102,835
Effect of potentially dilutive ordinary shares:		
Bonuses issued to employees		<u>719</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share		<u>1,103,554</u>

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.

25. BUSINESS COMBINATIONS

a. Subsidiaries acquired

Subsidiary	Principal Activity	Date of Reorganization	Proportion of Voting Equity Interests Acquired (%)	Consideration Transferred
Shenzhen Jinglun Paper Co., Ltd.	Note 14	The fourth quarter, 2018	100	<u>\$ 100,083</u>
Syntax Communication (H.K.) Limited	Note 14	The first quarter, 2019	100	<u>\$ 14,305</u>

The acquisition of Shenzhen Jinglun Paper Co., Ltd. and Syntax Communication (H.K.) Limited is the Group's operating strategy to continue the expansion of its business activities in China and Hong Kong.

b. Consideration transferred

	Shenzhen Jinglun Paper Co., Ltd.	Syntax Communication (H.K.) Limited
Cash	<u>\$ 100,083</u>	<u>\$ 14,305</u>

The Group paid RMB22,560 thousand and HK\$3,653 thousand to the related parties of YFY Group in exchange for the equity of Shenzhen Jinglun Paper Co., Ltd. and Syntax Communication (H.K.) Limited, respectively, and the amount of investments held by the related parties were measured at the carrying amount of RMB23,062 thousand and HK\$3,428 thousand, respectively, by using the equity method at the time of acquisition.

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

	Shenzhen Jinglun Paper Co., Ltd.	Syntax Communication (H.K.) Limited
Current assets		
Cash and cash equivalents	\$ 675	\$ 12,115
Trade and other receivables	416,256	2,003
Inventories	66,625	-
Other current assets	28,235	383
Non-current assets	1,917	2,692
Current liabilities		
Trade and other payables	(401,830)	(3,654)
Other current liabilities	<u>(9,546)</u>	<u>(99)</u>
	<u>\$ 102,332</u>	<u>\$ 13,440</u>

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

	Shenzhen Jinglun Paper Co., Ltd.	Syntax Communication (H.K.) Limited
Consideration transferred	\$ 100,083	\$ 14,305
Less: Carrying amount of identifiable net assets acquired	<u>(102,332)</u>	<u>(13,440)</u>
	(2,249)	865
Equity attributable to former owner due to business combination under common control		
Capitals surplus	1,349	(865)
Non-controlling interests	<u>900</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ -</u>

26. 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.

27. 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, 2019

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Mutual funds	\$ 1,357	\$ -	\$ -	\$ 1,357
Derivative financial assets - foreign exchange forward contracts (not under hedge accounting)	-	10,794	-	10,794
Bank debentures in the ROC	<u>-</u>	<u>171,035</u>	<u>-</u>	<u>171,035</u>
	<u>\$ 1,357</u>	<u>\$ 181,829</u>	<u>\$ -</u>	<u>\$ 183,186</u>

(Continued)

	Level 1	Level 2	Level 3	Total
Financial assets at FVTOCI				
Securities listed in the ROC	\$ 1,610,459	\$ -	\$ -	\$ 1,610,459
Domestic unlisted shares	<u>-</u>	<u>-</u>	<u>293,985</u>	<u>293,985</u>
	<u>\$ 1,610,459</u>	<u>\$ -</u>	<u>\$ 293,985</u>	<u>\$ 1,904,444</u>
Hedging financial assets				
Derivative financial assets - foreign exchange forward contracts	<u>\$ -</u>	<u>\$ 24</u>	<u>\$ -</u>	<u>\$ 24</u>
Hedging financial liabilities at FVTPL				
Derivative financial liabilities - foreign exchange forward contracts (not under hedge accounting)	<u>\$ -</u>	<u>\$ 5,995</u>	<u>\$ -</u>	<u>\$ 5,995</u> (Concluded)

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	<u>-</u>	<u>171,035</u>	<u>-</u>	<u>171,035</u>
	<u>\$ 4,349</u>	<u>\$ 174,201</u>	<u>\$ -</u>	<u>\$ 178,550</u>
Financial assets at FVTOCI				
Securities listed in the ROC	\$ 1,313,065	\$ -	\$ -	\$ 1,313,065
Domestic unlisted shares	<u>-</u>	<u>-</u>	<u>300,123</u>	<u>300,123</u>
	<u>\$ 1,313,065</u>	<u>\$ -</u>	<u>\$ 300,123</u>	<u>\$ 1,613,188</u>
Hedging financial assets				
Derivative financial assets - foreign exchange forward contracts	<u>\$ -</u>	<u>\$ 50</u>	<u>\$ -</u>	<u>\$ 50</u>
Hedging financial liabilities				
Derivative financial liabilities - foreign exchange forward contracts	<u>\$ -</u>	<u>\$ 250</u>	<u>\$ -</u>	<u>\$ 250</u>

There were no transfers between Levels 1 and 2 for the years ended December 31, 2019 and 2018.

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

Financial Assets	Financial Assets of Equity Securities at FVTOCI
Balance at January 1, 2019	\$ 300,123
Purchases	3
Proceeds from capital reduction	(17,229)
Recognized in other comprehensive income	<u>11,088</u>
Balance at December 31, 2019	<u>\$ 293,985</u>

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	<u>49,952</u>
Balance at December 31, 2018	<u>\$ 300,123</u>

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

<u>Financial Instruments</u>	<u>Valuation Techniques and Inputs</u>
Derivatives - foreign exchange forward contracts	Discounted cash flow: <ul style="list-style-type: none"> a) The average exchange rate (i.e., difference between the highest and the lowest exchange rates) of the counterparties' financial institutions in the accordance with the Reuters quoting system, or b) The daily spot exchange rate quoted by financial institutions.
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, 2019	December 31, 2018
Discount for lack of marketability	15%	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, 2019	December 31, 2018
Discount for lack of marketability		
2.5% increase	<u>\$ (8,647)</u>	<u>\$ (8,827)</u>
2.5% decrease	<u>\$ 8,647</u>	<u>\$ 8,827</u>

b. Categories of financial instruments

	December 31	
	2019	2018
<u>Financial assets</u>		
Financial assets at FVTPL		
Mandatorily classified as at FVTPL	\$ 183,186	\$ 178,550
Financial assets for hedging	24	50
Financial assets at amortized cost (1)	4,403,820	4,917,529
Financial assets at FVTOCI	1,904,444	1,613,188
<u>Financial liabilities</u>		
Financial liabilities at FVTPL	5,995	-
Financial liabilities at amortized cost (2)	10,928,529	10,603,284
Financial liabilities for hedging	-	250

- 1) 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 from related parties, other receivables (accounted as other current assets), and refundable deposits (accounted as other non-current assets).
- 2) 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, other payables to related parties, long-term borrowings, and deposits received (accounted as other non-current liabilities).

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	
	2019	2018
Influence to profit or loss at 5% variance		
USD	\$ 52,288	\$ 3,950
RMB	85,031	30,491

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	
	2019	2018
Fair value interest rate risk		
Financial assets	\$ 1,129,371	\$ 1,122,349
Financial liabilities	2,602,348	3,553,017
Cash flow interest rate risk		
Financial assets	255,484	564,547
Financial liabilities	5,245,500	3,694,901

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, 2019 and 2018 would decrease/increase as follows:

	<u>For the Year Ended December 31</u>	
	2019	2018
Decrease/increase	<u>\$ 4,990</u>	<u>\$ 3,130</u>

c) Other price risk

The Group was exposed to equity price risk through its investments in equity securities and mutual funds. 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, 2019 and 2018 would increase/decrease as follows:

	<u>For the Year Ended December 31</u>	
	2019	2018
Profit before tax		
Increase/decrease	\$ 68	\$ 217
Other comprehensive income		
Increase/decrease	95,222	65,653

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.

As of December 31, 2019 and 2018, the Group's unused financing facilities were \$8,339,131 thousand and \$5,788,780 thousand, respectively.

28. 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, 2019 and 2018.

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

<u>Related Party Name</u>	<u>Related Party Category</u>
YFY Consumer Products Co., Ltd.	Fellow subsidiary
YFY Packaging Inc.	Fellow subsidiary
YFY International BVI Corp.	Fellow subsidiary
Yuen Foong Yu Paper MFG (Yangzhou) Co., Ltd.	Fellow subsidiary
YFY Family Care (Kunshan) Co., Ltd.	Fellow subsidiary
YFY Family Paper (Beijing) Co., Ltd.	Fellow subsidiary
YFY Capital Co., Ltd.	Fellow subsidiary
Union Paper Corp.	Fellow subsidiary
Shin Foong Specialty & Applied Materials Co., Ltd.	Fellow subsidiary
YFY Japan Co., Ltd.	Fellow subsidiary
YFY Investment Co., Ltd.	Fellow subsidiary
China Color Printing Co., Ltd.	Fellow subsidiary
Cupid InfoTech Co., Ltd.	Fellow subsidiary
YFY Holding Management Co., Ltd.	Fellow subsidiary
YFY Jupiter Ltd.	Fellow subsidiary
Yuen Foong Yu Blue Economy Natural Resource (Yangzhou) Co., Ltd.	Fellow subsidiary
Ever Growing Agriculture Biotech Co., Ltd.	Fellow subsidiary
Arizon RFID Technology (Hong Kong) Co., Ltd., Taiwan Branch	Fellow subsidiary
MOBIUS105 LIMITED	Fellow subsidiary
Yuen Foong Yu Consumer Products (Yangzhou) Co., Ltd.	Fellow subsidiary
Sustainable Carbohydrate Innovation Co., Ltd.	Fellow subsidiary
YFY Biotechnology Co., Ltd.	Parent's associate
Yuen Foong Paper Co., Ltd.	Substantial related-party
Shin-Yi Foundation	Substantial related-party
Beautone Co., Ltd.	Substantial related-party
Shin-Yi Enterprise Co., Ltd.	Substantial related-party
SinoPac Leasing Co., Ltd.	Substantial related-party
SinoPac Securities Co., Ltd.	Substantial related-party

b. Sales of goods

Related Party Type	For the Year Ended December 31	
	2019	2018
Fellow subsidiaries	\$ 3,891,318	\$ 4,971,242
Substantial related-parties	305,268	354,677
Parent's associates	76	-
Parent company	<u>41</u>	<u>164</u>
	<u>\$ 4,196,703</u>	<u>\$ 5,326,083</u>

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	
	2019	2018
Fellow subsidiaries	\$ 2,429,748	\$ 3,103,668
Substantial related-parties	2,263	3,600
Parent's associates	<u>599</u>	<u>479</u>
	<u>\$ 2,432,610</u>	<u>\$ 3,107,747</u>

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

d. Notes and accounts receivable from related parties

Related Party Type	December 31	
	2019	2018
Fellow subsidiaries		
YFY Investment Co., Ltd.	\$ 107,284	\$ 106,240
YFY Packaging Inc.	69,428	114,679
Union Paper Corp.	54,999	112,940
YFY Capital Co., Ltd.	53,914	54,726
YFY Consumer Products Co., Ltd	49,565	261,088
Others	<u>60,025</u>	<u>61,063</u>
	395,215	710,736
Substantial related-parties		
Beautone Co., Ltd.	49,142	60,002
Others	<u>11,114</u>	<u>4,697</u>
	60,256	64,699
Parent's associates	39	-
Parent company	<u>3</u>	<u>8</u>
	<u>\$ 455,513</u>	<u>\$ 775,443</u>

The outstanding accounts receivable from related parties are unsecured. No bad debt was recognized for the years ended December 31, 2019 and 2018 for allowance of impaired accounts receivable from related parties.

e. Notes and accounts payable to related parties

Related Party Type	December 31	
	2019	2018
Fellow subsidiaries		
YFY Packaging Inc.	\$ 260,528	\$ 346,869
Shin Foong Specialty & Applied Materials Co., Ltd.	97,603	132,512
YFY Capital Co., Ltd.	59,291	65,315
Others	<u>61,464</u>	<u>55,663</u>
	478,886	600,359
Substantial related-parties	1,491	2,152
Parent company	259	259
Parent's associates	<u>29</u>	<u>-</u>
	<u>\$ 480,665</u>	<u>\$ 602,770</u>

The outstanding accounts payable to related parties are unsecured.

f. Loan to related parties (interest receivable included)

Related Party Type	December 31	
	2019	2018
Fellow subsidiaries		
Yuen Foong Yu Paper MFG (Yangzhou) Co., Ltd.	\$ 121,926	\$ 460,215
YFY International BVI Corp.	<u>301,894</u>	<u>309,164</u>
	<u>\$ 423,820</u>	<u>\$ 769,379</u>

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

For the years ended December 31, 2019 and 2018, the interest income from the loans to related parties amounted to \$21,805 thousand and \$18,994 thousand, respectively.

g. Loans from related parties

Related Party Type	December 31	
	2019	2018
Fellow subsidiaries		
Yuen Foong Yu Paper MFG (Yangzhou) Co., Ltd.	<u>\$ 5,194</u>	<u>\$ 7,433</u>

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

For the years ended December 31, 2019 and 2018, the interest expense from the loans to related parties amounted to \$570 thousand and \$3 thousand, respectively.

h. Disposals of property, plant and equipment

Related Party Type	Proceeds		Gain (Loss) on Disposal	
	For the Year Ended December 31		For the Year Ended December 31	
	2019	2018	2019	2018
Fellow subsidiaries				
Yuen Foong Yu Consumer Products (Yangzhou) Co., Ltd.	\$ 7,867	\$ -	\$ -	\$ -

i. Lease arrangements

Related Party Type	For the Year Ended December 31	
	2019	2018
<u>Interest expense</u>		
Parent company	\$ 260	\$ -
<u>Lease expense</u>		
Parent company	\$ 10,885	\$ 10,885
Substantial related-parties	7,049	7,091
	\$ 17,934	\$ 17,976

j. Other transactions with related parties

Related Party Type	Rental Income (Accounted as Other Income)	
	For the Year Ended December 31	
	2019	2018
Fellow subsidiaries	\$ 1,429	\$ 1,429
Parent company	114	114
	\$ 1,543	\$ 1,543

Related Party Type	Other Operating Expense	
	For the Year Ended December 31	
	2019	2018
Fellow subsidiaries	\$ 42,117	\$ 37,128

Related Party Type	Management Fee (Accounted as Operating Expenses)	
	For the Year Ended December 31	
	2019	2018
Fellow subsidiaries	\$ 84,932	\$ 81,377

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

k. Compensation of key management personnel

	For the Year Ended December 31	
	2019	2018
Salaries and benefits	\$ 22,140	\$ 30,030
Executive fees	<u>2,900</u>	<u>3,132</u>
	<u>\$ 25,040</u>	<u>\$ 33,162</u>

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

29. SIGNIFICANT COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2019 and 2018, unused letters of credit for purchases of raw materials and machinery and equipment amounted to approximately \$113,669 thousand and \$447,769 thousand, respectively.

30. 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, 2019		
	Foreign Currency (In Thousands)	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>			
Monetary items			
USD	\$ 44,979	29.98	\$ 1,348,470
RMB	395,767	4.297	1,700,611
Non-monetary items			
Derivative instruments			
USD	33,400	29.98	1,001,332
<u>Financial liabilities</u>			
Monetary items			
USD	23,497	29.98	704,440
Non-monetary items			
Derivative instruments			
USD	20,000	29.98	599,600
EUR	300	33.59	10,077

	December 31, 2018		
	Foreign Currency (In Thousands)	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>			
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
<u>Financial liabilities</u>			
Monetary items			
USD	51,905	30.715	1,594,262
Non-monetary items			
Derivative instruments			
EUR	3,470	35.20	122,144

For the years ended December 31, 2019 and 2018, realized and unrealized foreign exchange losses were \$66,848 thousand and \$14,453 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.

31. 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 (None)
- 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 4)
- 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital (Table 5)
- 9) Trading in derivative instruments (Notes 7 and 9)

10) Intercompany relationships and significant intercompany transactions (Table 8)

11) Information on investees (Table 6)

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 7)

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

32. 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
<u>For the year ended December 31, 2019</u>					
Revenue from external customers	<u>\$ 20,602,331</u>	<u>\$ 38,464</u>	<u>\$ 48,602</u>	<u>\$ -</u>	<u>\$ 20,689,397</u>
Revenue from other internal operating segments	<u>\$ 1,133,382</u>	<u>\$ 180,434</u>	<u>\$ 8,868</u>	<u>\$ (1,322,684)</u>	<u>\$ -</u>
Segment profit or loss	<u>\$ (307,581)</u>	<u>\$ 7,175</u>	<u>\$ (1,678)</u>	<u>\$ -</u>	<u>\$ (302,084)</u>
<u>For the year ended December 31, 2018</u>					
Revenue from external customers	<u>\$ 23,877,912</u>	<u>\$ 85,511</u>	<u>\$ 61,798</u>	<u>\$ -</u>	<u>\$ 24,025,221</u>
Revenue from other internal operating segments	<u>\$ 1,096,653</u>	<u>\$ 255,061</u>	<u>\$ 7,290</u>	<u>(\$ 1,359,004)</u>	<u>\$ -</u>
Segment profit or loss	<u>\$ 527,442</u>	<u>\$ 515</u>	<u>\$ 4,288</u>	<u>\$ -</u>	<u>\$ 532,245</u>

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		Non-current Assets	
	For the Year Ended December 31		December 31	
	2019	2018	2019	2018
Taiwan	\$ 17,201,870	\$ 20,036,279	\$ 13,312,792	\$ 12,984,417
Mainland China	<u>3,487,527</u>	<u>3,988,942</u>	<u>2,741,508</u>	<u>2,937,997</u>
	<u>\$ 20,689,397</u>	<u>\$ 24,025,221</u>	<u>\$ 16,054,300</u>	<u>\$ 15,922,414</u>

Information about Major Customers

No other single customers contributed 10% or more to the Group's revenue for both 2019 and 2018.

CHUNG HWA PULP CORPORATION AND SUBSIDIARIES

FINANCING PROVIDED TO OTHERS
FOR THE YEAR ENDED DECEMBER 31, 2019
(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		Financing Limit for Each Borrower (Foreign Currencies in Thousands) (Notes 3 and 4)	Aggregate Financing Limit (Foreign Currencies in Thousands) (Notes 3 and 4)
													Item	Value		
1	Guangdong Dingfung Pulp & Paper Co., Ltd.	Yuen Foong Yu Paper MFG (Yangzhou) Co., Ltd	Other receivables from related parties	Yes	\$ 521,007 (RMB 121,249)	\$ 487,633 (RMB 113,482)	\$ 121,243 (RMB 28,216)	3.25	Short-term financing	\$ -	Operating capital	\$ -	-	-	\$ 487,633 (RMB 113,482)	\$ 1,950,533 (RMB 453,929)
2	CHP International (BVI) Corporation	YFY International BVI Corp.	Other receivables from related parties	Yes	316,000 (US\$ 10,540)	299,800 (US\$ 10,000)	299,800 (US\$ 10,000)	2.80	Short-term financing	-	Operating capital	-	-	-	524,716 (US\$ 17,502)	2,098,863 (US\$ 70,009)
		Guangdong Dingfung Pulp & Paper Co., Ltd.	Other receivables from related parties	Yes	1,037,795 (US\$ 34,616)	979,823 (US\$ 32,683)	979,823 (US\$ 32,683)	3.10	Short-term financing	-	Operating capital	-	-	-	2,098,863 (US\$ 70,009)	2,098,863 (US\$ 70,009)
		Zhaoqing Dingfung Forestry Ltd.	Other receivables from related parties	Yes	379,200 (US\$ 12,648)	359,760 (US\$ 12,000)	359,760 (US\$ 12,000)	2.50	Short-term financing	-	Operating capital	-	-	-	2,098,863 (US\$ 70,009)	2,098,863 (US\$ 70,009)
3	Zhaoqing Dingfung Forestry Ltd.	Guangdong Dingfung Pulp & Paper Co., Ltd.	Other receivables from related parties	Yes	91,023 (RMB 21,183)	-	-	-	Short-term financing	-	Operating capital	-	-	-	1,132,240 (RMB 263,495)	1,132,240 (RMB 263,495)
4	Shenzhen Jinglun Paper Co., Ltd.	Yuen Foong Yu Paper MFG (Yangzhou) Co., Ltd	Other receivables from related parties	Yes	10,737 (RMB 2,499)	10,049 (RMB 2,339)	-	3.25	Short-term financing	-	Operating capital	-	-	-	10,049 (RMB 2,339)	40,198 (RMB 9,355)

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

- The Company is numbered 0.
- 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 Dingfung 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 Dingfung 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 Jinglun 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\$29.98 or RMB1=NT\$4.297 as of December 31, 2019.

CHUNG HWA PULP CORPORATION AND SUBSIDIARIES

ENDORSEMENTS/GUARANTEES PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2019
(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.	\$ 23,432,565	\$ 869,250 (US\$ 28,994)	\$ 704,530 (US\$ 23,500)	\$ 38,546	\$ -	4.66	\$ 31,243,420	Note 8	N	N
		Guangdong Dingfung Pulp & Paper Co., Ltd.	b.	23,432,565	183,973 (RMB 42,814)	171,899 (RMB 40,004)	-	-	1.14	31,243,420	Note 8	N	N

Note 1: The number column is illustrated as follows:

- The Company is numbered 0.
- 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:

- The companies with which it has business relations.
- Subsidiaries in which it holds more than 50% of its total outstanding common shares.
- Companies in which it holds more than 50% of its total outstanding common shares.
- Companies in which it holds more than 90% of its total outstanding common shares.
- 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.
- Shareholders making endorsements/guarantees for their mutually invested companies in proportion to their shareholding percentages.
- 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, 2019

(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, 2019				
				Number of Shares	Carrying Amount	Percentage of Ownership (%)	Fair Value (Note 1)	
Chung Hwa Pulp Corporation	<u>Ordinary shares</u>	-	The investor is the member of the investee's board of directors.	Financial assets at fair value through other comprehensive income - current	99,809,327	\$ 1,297,521	0.9	\$ 1,297,521
	SinoPac Holdings Co., Ltd.			800,000	-	6.3	-	
	NTU Innovation & Incubation Co., Ltd.							
	Groundhog Technologies Inc.			275,000	-	1.0	-	
	KHL IB Venture Capital Co., Ltd.			19,161,529	293,982	14.9	293,982	
	Direct Insight Inc.			275,000	3	1.0	3	
	TaiGen Biopharmaceuticals Holdings Ltd.			15,315,356	281,803	2.1	281,803	
	<u>Subordinated bank debentures</u>							
	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.	<u>Ordinary shares</u>	-		Financial assets at fair value through profit or loss - non-current	150,000	-	0.2	-
	Caihui Technology Co., Ltd.			2,394,960	31,135	-	31,135	
	SinoPac Holdings Co., Ltd.							
Genovella Renewables Inc.	<u>Beneficiary certificates</u>	-		Financial assets at fair value through profit or loss - current	97,099	1,357	-	1,357
	SinoPac TWD Money Market Fund							

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 6 and Table 7 for information on investments in subsidiaries and associates.

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, 2019
(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	\$ (822,562)	(4)	0.5 month after transaction month	\$ -	-	\$ 53,914	2	\$ -
	Shenzhen Jinglun Paper Co., Ltd.	b.	Sale	(1,106,237) (Note 2)	(6)	5 months after transaction month	-	-	727,224	26	2,312
	YFY Consumer Products Co., Ltd.	a.	Sale	(584,410)	(3)	2 months after transaction month	-	-	49,565	2	-
	YFY Packaging Inc.	a.	Sale	(315,693)	(2)	3 months after transaction month	-	-	69,428	2	-
	YFY Packaging Inc.	a.	Purchase	1,509,486	9	1 months after transaction month	-	-	(260,528)	(16)	-
	Union Paper Corp.	a.	Sale	(860,847)	(5)	1 month after transaction month	-	-	54,999	2	-
	Union Paper Corp.	a.	Purchase	143,210	1	1 month after transaction month	-	-	(11,857)	(1)	-
	Shin Foong Specialty and Applied Materials Co., Ltd.	a.	Purchase	219,279	1	4 months after transaction month	-	-	(97,603)	(6)	-
	Eihoyo Shoji Co., Ltd.	a.	Purchase	376,522	2	In agreed terms	-	-	-	-	-
	Beautone Co., Ltd.	c.	Sale	(264,584)	(1)	1 month after transaction month	-	-	49,142	2	-
Zhaoqing Dingfung Forestry Ltd.	Guangdong Dingfung Pulp & Paper Co., Ltd.	b.	Sale	(180,434) (Note 2)	(82)	In agreed terms	-	-	61,882	94	965
Guangdong Dingfung Pulp & Paper Co., Ltd.	Zhaoqing Dingfung Forestry Ltd.	b.	Purchase	180,434 (Note 2)	8	In agreed terms	-	-	(61,882)	(24)	-
	YFY Investment Co., Ltd.	a.	Purchase	170,739	8	2 months after transaction month	-	-	(11,630)	(5)	-
	YFY Investment Co., Ltd.	a.	Sale	(1,057,936)	(49)	2 months after transaction month	-	-	107,284	26	-
Shenzhen Jinglun Paper Co., Ltd.	Chung Hwa Pulp Corporation	b.	Purchase	1,106,237 (Note 2)	100	5 months after transaction month	-	-	(727,224)	(100)	-

Note 1: a. Fellow subsidiaries.
b. Parent company and subsidiary.
c. Substantial related parties.

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

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, 2019

(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	Shenzhen Jinglun Paper Co., Ltd.	Parent company and subsidiary	\$ 727,224 (Note)	1.65	\$ -	-	\$ 173,105	\$ -
Guangdong Dingfung Pulp & Paper Co., Ltd.	YFY Investment Co., Ltd.	Fellow subsidiaries	107,284	9.90	-	-	34,929	-

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

CHUNG HWA PULP CORPORATION AND SUBSIDIARIES

INFORMATION ON INVESTEEES

FOR THE YEAR ENDED DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		As of December 31, 2019			Net Income (Loss) of the Investee	Share of Profits (Loss)	Note
				December 31, 2019	December 31, 2018	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	\$ 5,136,559	\$ (57,213)	\$ (53,850)	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	417,192	3,083,789	54,456	b.
	Effion Enertech Co., Ltd.	Taipei, Taiwan	To operate cogeneration and provide power technology	343,000	343,000	34,300,000	49.0	284,522	(96,377)	(47,224)	b.
	Taiwan Global BioFund Co., Ltd.	Taipei, Taiwan	Biotechnology and biopharmaceutical business investment	32,832	60,000	3,283,200	4.4	80,460	(229,750)	(10,255)	b.
	Hwa Fong Investment Co., Ltd.	Taipei, Taiwan	Investment and holding	36,000	36,000	3,600,000	100.0	52,908	2,893	2,893	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	5,807	(96,377)	(964)	b.
	Genovella Renewables Inc. (Note 3)	Hualien, Taiwan	Fertilizer production, sale of fertilizer, retail sale of food products and groceries, special crop and edible fungus cultivation, refractory materials manufacturing, cement and concrete products manufacturing, ready-mixed concrete manufacturing, refractory materials wholesale and sale of building material	5,000	5,000	-	100.0	9,429	2,453	2,453	a.
CHP International (BVI) Corporation	Syntax Communication (H.K.) Limited	Hong Kong	Sale and print of paper merchandise	US\$ 466 (Note 2)	- (Note 2)	34,000,000	100.0	13,781	602	602	a.

Note1: a. Subsidiaries.
b. Investments accounted for using the equity method.
c. Refer to Table 8 for information on investments in mainland China.

Note 2: CHP International (BVI) Corporation, subsidiary of the Company, acquire shares of Syntax Communication (H.K.) Limited by cash from a fellow subsidiary, YFY International BVI Corp. in January 2019.

Note 3: Formerly as Kuang Hwa Fertilizer Limited Company.

CHUNG HWA PULP CORPORATION AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2019
(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, 2019 (Foreign Currencies in Thousand) (Note 1)	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2018 (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, 2019	Accumulated Repatriation of Investment Income as of December 31, 2019
					Outward	Inward						
Guangdong Dingfung Pulp & Paper Co., Ltd.	Pulp and paper production, trading and forestry business	\$ 2,567,187 (US\$ 85,630) (Note 3)	Investment in mainland China through companies set up in another country.	\$ 395,736 (US\$ 13,200)	\$ -	\$ -	\$ 395,736 (US\$ 13,200)	\$ (144,885) (Note 2,b.)	60.0	\$ (86,931) (Note 2,b.)	\$ 2,842,449	\$ -
Shenzhen Jinglun Paper Co., Ltd.	Sale of paper merchandise and import/export business	13,750 (RMB 3,200)	(Note 5)	-	-	-	(Note 5)	17,390 (Note 2,b.)	100.0 (Note 6)	17,390 (Note 2,b.)	117,155	-
Zhaoqing Dingfung Forestry Ltd.	Export factoring, domestic factoring, business factoring and related consulting services, develop credit risk management platform	655,962 (US\$ 21,880)	Investment in mainland China through companies set up in another country.	132,751 (US\$ 4,428)	-	-	132,751 (US\$ 4,428)	7,175 (Note 2,b.)	86.5 (Note 4)	6,206 (Note 2,b.)	2,454,651	-
Zhaoqing Xinchuan Green Technology Co., Ltd. (Note 4)	Environmental equipment technology research and development; construction of wastewater, flue gas, noise and solid waste treatment; pure water treatment construction; environmental technology consulting; sale of environmental protection equipment and chemical raw material; import and export of cargo and technology	8,594 (RMB 2,000) (Note 7)	(Note 5)	-	-	-	(Note 5)	700 (Note 2,b.)	100.0 (Note 7)	700	9,266	-

Accumulated Investment in Mainland China as of December 31, 2019	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
\$528,487 (Note 1)	\$1,277,328 (Note 1)	\$9,070,339

Note 1: The exchange rates are US\$1=NT\$29.98 or RMB1=NT\$4.297 as of December 31, 2019.

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 Dingfung 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 Dingfung Pulp & Paper Co., Ltd. are 20.2% and 66.3%, respectively.

Note 5: Investment in mainland China through companies set up in another country. The direct investor is Guangdong Dingfung Pulp & Paper Co., Ltd.

Note 6: Guangdong Dingfung Pulp & Paper Co., Ltd. acquired shares of Shenzhen Jinglun Paper Co., Ltd. from a fellow subsidiary, Hwa Fong Paper (Hong Kong) Limited, in 2018.

Note 7: On September 12, 2019, the board of directors of Guangdong Dingfung Pulp & Paper Co., Ltd. decided to establish Zhaoqing Xinchuan Green Technology Co., Ltd. The total investment was RMB10,000 thousand and Guangdong Dingfung Pulp & Paper held 100% equity. The total capital injection was RMB2,000 thousand as of December 31, 2019.

CHUNG HWA PULP CORPORATION AND SUBSIDIARIES

**INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2019
(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 Jinglun Paper Co., Ltd.	Subsidiary	Accounts receivable Sales	\$ 727,224 1,106,237	5 months after transaction month By market price	2 5
2	Zhaoqing Dingfung Forestry Ltd.	Guangdong Dingfung Pulp & Paper Co., Ltd.	Parent company	Accounts receivable Sales	61,882 180,434	Net 120 days By market price	- 1
3	Genovella Renewables Inc.	Chung Hwa Pulp Corporation	Parent company	Accounts receivable Sales	856 8,868	Prepaid or Net 30 days By market price	- -
4	Syntax Communication (H.K.) Limited	Chung Hwa Pulp Corporation	Parent company	Accounts receivable Commission	2,928 27,003	Net 30 days By market price	- -

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