

FENG HSIN STEEL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
WITH REPORT OF INDEPENDENT ACCOUNTANTS

FOR THE YEARS ENDED 31 DECEMBER 2018 AND 2017

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The reader is advised that these consolidated financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese language financial statements shall prevail.

Independent Auditors' Report

To FENG HSIN STEEL Co., Ltd.

Opinion

We have audited the accompanying consolidated balance sheets of FENG HSIN STEEL Co., Ltd. and its subsidiaries (the "Group") as of 31 December 2018 and 2017, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended 31 December 2018 and 2017, and notes to the consolidated financial statements, including the summary of significant accounting policies (together "the consolidated financial statements").

In our opinion, based on our audits and the reports of other auditors (please refer to the *Other Matter – Making Reference to the Audits of Component Auditors* section of our report), the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2018 and 2017, and their consolidated financial performance and cash flows for the years ended 31 December 2018 and 2017, in conformity with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed by Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the 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 (the "Norm"), and we have fulfilled our other ethical responsibilities in accordance with the Norm. Based on our audits and the reports of other auditor(s), we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of 2018 consolidated financial statements. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation for inventories

As of 31 December 2018, the Group's net inventories amounted to NT\$6,719,474 thousand which represented 29% of the total consolidated assets. The amount of inventories was significant to the Group's financial statements. The Group manufacture and sell various types of steel products. The main ingredient is iron scrap. The material and finished goods are affected by the fluctuation of international prices that may cause significant changes in inventory prices. As a result, the calculation of net realizable value was complicated, we therefore determined this a key audit mater. Our audit procedures included, but not limited to, understanding and testing the effectiveness of internal control; evaluating the adequacy of accounting policies around obsolete inventories; evaluating stocktaking plan and selecting important storage locations to observe inventory counts to ensure inventory quantities and status; obtaining inventory aging schedule to test whether inbound and outbound records are accurate; re-calculating the unit cost of inventories; evaluating and testing net realizable value adopted by management; testing selling prices; and implementing analytical procedures with respect to the gross profit ratios by products. We also assessed the adequacy of disclosures of inventories. Please refer to Note 6 to the Group's consolidated financial statements.

Other Matter – Making Reference to the Audits of Component Auditors

Those financial statements were audited by other auditors, whose reports thereon have been furnished to us, and our opinions expressed herein are based solely on the audit reports of the other auditors. We did not audit the financial statements of certain associates and joint ventures accounted for under the equity method whose statements are based solely on the reports of other auditors. Investment in these associates and joint ventures under equity method amounted to NT\$711,740 thousand and NT\$505,069 thousand, representing 3% and 2% of the consolidated total assets as of 31 December 2018 and 2017, respectively. The related shares of profits from the associates and joint ventures under the equity method amounted to NT\$155,367 thousand and NT\$168,797 thousand, representing 4% and 5% of the consolidated net income before tax for the years ended 31 December 2018 and 2017, respectively; and the related shares of other comprehensive income from the associates and joint ventures under the equity method amounted to NT\$(855) thousand and NT\$(22) thousand, both representing 0% of the consolidated other comprehensive income for the years ended 31 December 2018 and 2017, respectively.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed by 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 ability to continue as a going concern of the Group 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 financial reporting process of the Group.

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of 2018 consolidated financial statements and are therefore the key audit matters. We describe these matters in our auditor's 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.

Other

We have audited and expressed an unqualified opinion on the parent company only financial statements of FENG HSIN STEEL CO., Ltd. as of and for the years ended 31 December 2018 and 2017.

/s/Chen, Ming Hung

/s/Yen, Wen Pi

Ernst & Young, Taiwan

7 March 2019

Notice to Readers

The accompanying consolidated financial statements are intended only to present the consolidated financial position, results of operations 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 accepted and applied in the Republic of China.

English Translation of Consolidated Financial Statements Originally Issued in Chinese
FENG HSIN STEEL CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
31 December 2018 and 2017
(Expressed in Thousands of New Taiwan Dollars)

Assets	Notes	2018.12.31	2017.12.31
Current Assets			
Cash and cash equivalents	4, 6.(1)	\$650,333	\$1,981,758
Contract assets - current	4, 6.(17),(18)	250,924	-
Notes receivable, net	4, 6.(18)	2,796	9,038
Accounts receivable, net	4, 6.(2),(18)	1,455,699	1,579,574
Other receivables		28,315	3,679
Inventories, net	4, 6.(3)	6,719,474	3,611,146
Prepayments	6.(4)	569,360	422,500
Other current assets	6.(5), 12	2,116	135,821
Total current assets		<u>9,679,017</u>	<u>7,743,516</u>
Non-current assets			
Financial assets at fair value through other comprehensive income—noncurrent	4, 6.(6)	1,047,664	-
Available-for-sale financial assets	4, 6.(7)	-	53,741
Financial assets measured at cost	6.(8)	-	1,204,518
Investments accounted for under the equity method	4, 6.(9)	1,498,836	1,135,445
Property, plant and equipment	4, 6.(10)	9,953,300	8,845,656
Investment property, net	4, 6.(11)	381,635	382,852
Deferred tax assets	4, 6.(22)	140,715	224,606
Other non-current assets	6.(12)	101,589	1,080,025
Total non-current assets		<u>13,123,739</u>	<u>12,926,843</u>
Total assets		<u><u>\$22,802,756</u></u>	<u><u>\$20,670,359</u></u>

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English Translation of Consolidated Financial Statements Originally Issued in Chinese
FENG HSIN STEEL CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Continued)
31 December 2018 and 2017
(Expressed in Thousands of New Taiwan Dollars)

	Notes	2018.12.31	2017.12.31
Current liabilities			
Short-term loans	4, 6.(13)	\$1,018,533	\$158,996
Contract liabilities - current	4, 6.(17)	170,900	-
Notes payable		2,472	636
Accounts payable	7	1,556,131	1,409,150
Other payables	6.(14)	907,008	866,758
Current tax liabilities	4	326,455	360,539
Other current liabilities		1,220	82,950
Total current liabilities		<u>3,982,719</u>	<u>2,879,029</u>
Non-current liabilities			
Deferred tax liabilities	4, 6.(22)	159	76
Net defined benefit obligation, noncurrent	4, 6.(15)	181,711	184,958
Total non-current liabilities		<u>181,870</u>	<u>185,034</u>
Total liabilities		<u>4,164,589</u>	<u>3,064,063</u>
Equity attributable to the parent company			
Capital			
Common stock	6.(16)	5,815,994	5,815,994
Additional paid-in capital	6.(16)	615,583	448,351
Retained earnings	6.(16)		
Legal reserve		3,863,847	3,591,351
Special reserve		46,888	98,711
Unappropriated earnings		8,612,358	7,698,777
Total Retained earnings		<u>12,523,093</u>	<u>11,388,839</u>
Other components of equity			
Unrealized gains (losses) measured at fair value through other comprehensive income financial asset	4	(316,503)	-
Unrealized gains (losses) on available-for-sale financial assets		-	(45,809)
Effective portion of gains on hedging instruments in a cash flow hedge		-	(1,079)
Total Other components of equity		<u>(316,503)</u>	<u>(46,888)</u>
Total equity		<u>18,638,167</u>	<u>17,606,296</u>
Total liabilities and equity		<u>\$22,802,756</u>	<u>\$20,670,359</u>

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese
FENG HSIN STEEL CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the years ended 31 December 2018 and 2017
(Expressed in Thousands of New Taiwan Dollars, Except for Earnings per Share)

	Notes	2018	2017
Operating revenues	4,6.(17)	\$30,865,647	\$24,741,937
Operating costs	6.(19),7	(26,694,587)	(20,926,613)
Gross Profit-net		<u>4,171,060</u>	<u>3,815,324</u>
Operating expenses	6.(19)		
Sales and marketing expenses		(498,231)	(462,684)
General and administrative expenses		(291,096)	(274,256)
Research and development expenses		(46,061)	(44,903)
Subtotal		<u>(835,388)</u>	<u>(781,843)</u>
Operating Income		<u>3,335,672</u>	<u>3,033,481</u>
Non-operating income and expenses			
Other income	4,6.(20)	52,424	51,760
Other gains and losses	6.(20)	82,914	(9,973)
Finance costs	6.(20)	(8,217)	(2,531)
Share of profit or loss of associates and joint ventures	6.(9)	174,583	169,409
Subtotal		<u>301,704</u>	<u>208,665</u>
Income from continuing operations before income tax		<u>3,637,376</u>	<u>3,242,146</u>
Income tax expense	4,6.(22)	(694,961)	(517,189)
Net income		<u>2,942,415</u>	<u>2,724,957</u>
Other comprehensive income	6.(21)		
Items that will not to be reclassified subsequently to profit or loss			
Remeasurements of defined benefit pension plans		(27,863)	(12,527)
Unrealized gains (losses) from equity instruments investments measured at fair value through other comprehensive income		25,496	-
Share of other comprehensive of associates and joint ventures		(855)	22
Income tax related to items that will not to be reclassified subsequently to profit or loss		7,284	2,126
Items that will be reclassified subsequently to profit or loss			
Unrealized loss on available-for-sale financial assets		-	(2,438)
Effective portion of gains on hedging instruments in a cash flow hedge		1,300	65,374
Income tax related to items that will be reclassified subsequently to profit or loss		(221)	(11,113)
Total other comprehensive loss, net of tax		<u>5,141</u>	<u>41,444</u>
Total comprehensive income		<u>\$2,947,556</u>	<u>\$2,766,401</u>
Net income attributable to:			
Stockholders of the parent		\$2,942,415	\$2,724,957
Non-controlling interests		-	-
		<u>\$2,942,415</u>	<u>\$2,724,957</u>
Comprehensive income attributable to:			
Stockholder of the parent		\$2,947,556	\$2,766,401
Non-controlling interests		-	-
		<u>\$2,947,556</u>	<u>\$2,766,401</u>
Earnings per share (NTD)	4,6.(23)		
Earnings per share-basic		\$5.06	\$4.69
Earnings per share-diluted		\$5.06	\$4.69

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese
FENG HSIN STEEL CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the years ended 31 December 2018 and 2017
(Expressed in Thousands of New Taiwan Dollars)

	Equity Attributable to the parent company							Total Equity	
	Common Stock	Additional Paid-in Capital	Retained earnings			Other components of equity			
			Legal Reserve	Special reserve	Unappropriated Earnings	Unrealized Gains (losses) measured at fair value through other comprehensive income	Unrealized gain(losses) available-for-sale financial assets		Effective portion of gains and losses on hedging instruments in a cash flow hedge
Balance as of 1 January 2017	\$5,815,994	\$447,280	\$3,409,772	\$56,150	\$6,953,138	\$ -	\$ (43,371)	\$ (55,340)	\$16,583,623
Appropriation and distribution of 2016 retained earnings			181,579	42,561	(181,579)				-
Legal reserve					(42,561)				-
Special reserve					(1,744,799)				(1,744,799)
Cash dividends		1,071							1,071
Change in other paid-in capital					2,724,957				2,724,957
Net income for the year ended 31 December 2017					(10,379)		(2,438)	54,261	41,444
Other comprehensive income (loss), net of tax for the year ended 31 December 2017							(2,438)	54,261	2,766,401
Total comprehensive income (loss)									
Balance as of 31 December 2017	\$5,815,994	\$448,351	\$3,591,351	\$98,711	\$7,698,777	\$ -	\$ (45,809)	\$ (1,079)	\$17,606,296
Balance as of 1 January 2018	\$5,815,994	\$448,351	\$3,591,351	\$98,711	\$7,698,777	\$ -	\$ (45,809)	\$ (1,079)	\$17,606,296
Impact of retroactive applications	-	-	-	-	277,000	(370,128)	45,809	-	(47,319)
Adjusted balance as of 1 January 2018	\$5,815,994	448,351	3,591,351	98,711	7,975,777	(370,128)	-	(1,079)	17,558,977
Appropriation and distribution of 2017 retained earnings			272,496		(272,496)				-
Legal reserve					(2,035,598)				(2,035,598)
Cash dividends				(51,823)	51,823				-
Reversal of special reserve									
Change in other paid-in capital		165,644			2,942,415				165,644
Change in other paid-in capital of associates and joint ventures accounted for using the equity method		1,588			(21,434)				1,588
Change in other paid-in capital					2,920,981	25,496	-	1,079	2,942,415
Net income for the year ended 31 December 2018						25,496	-	1,079	5,141
Other comprehensive income (loss), net of tax for the year ended 31 December 2018							-	1,079	2,947,556
Total comprehensive income (loss)									
Disposal of financial assets at fair value through other comprehensive income						28,129			-
Balance as of 31 December 2018	\$5,815,994	\$615,583	\$3,863,847	\$46,888	\$8,612,358	\$ (316,503)	\$ -	\$ -	\$18,638,167

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

FENG HSIN STEEL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended 31 December 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	For the years ended 31 December	
	2018	2017
Cash flows from operating activities:		
Net income before tax	\$3,637,376	\$3,242,146
Adjustments to reconcile net income before tax to net cash provided by operating activities:		
Income and expense adjustments:		
Depreciation	1,018,307	1,198,304
Amortization	3,000	500
Net loss of financial assets and liabilities at fair value through profit or loss	-	834
Interest expense	8,217	2,531
Interest income	(2,861)	(9,773)
Dividend income	(28,443)	(25,672)
Share of profit of associates and joint ventures	(174,583)	(169,409)
Gain on disposal of property, plant and equipment	(66,328)	(1,121)
Gain on disposal of investments	-	(6,076)
Changes in operating assets and liabilities:		
Increase in current contract assets	(250,924)	-
Decrease in notes receivable	7,830	2,515
Decrease (Increase) in accounts receivable	123,875	(574,686)
(Increase) Decrease in other receivables	(24,923)	2,103
Increase in inventories, net	(3,106,893)	(589,761)
Increase in prepayments	(181,256)	(134,842)
Decrease (Increase) in other current assets	845	(841)
Increase in current contract liabilities	170,900	-
Increase (Decrease) in notes payable	1,836	(171)
Increase (Decrease) in accounts payable	146,981	(20,468)
Increase in other payables	52,530	93,651
(Decrease) Increase in other current liabilities	(81,730)	17,840
Decrease in net defined benefit obligation	(43,967)	(39,995)
Cash generated from operations	1,209,789	2,987,609
Interest received	3,168	10,759
Dividends received	28,443	25,672
Interest paid	(7,640)	(2,582)
Income tax paid	(638,008)	(411,417)
Net cash provided by operating activities	595,752	2,610,041

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English Translation of Consolidated Financial Statements Originally Issued in Chinese
FENG HSIN STEEL CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended 31 December 2018 and 2017
(Expressed in Thousands of New Taiwan Dollars)

	For the years ended 31 December	
	2018	2017
Cash flows from investing activities:		
Disposal of financial assets at fair value through other comprehensive income	\$10,876	\$ -
Return of paid-in capital for capital reduction in financial assets at fair value through other comprehensive income	1,960	-
Proceeds from disposal of financial assets at fair value through profit or loss	-	43,066
Acquisition of available-for-sale financial assets	-	(49,963)
Proceeds from disposal of available-for-sale financial assets	-	53,636
Acquisition of financial assets measured at cost	-	(77,061)
Proceeds from disposal of financial assets measured at cost	-	4,729
Acquisition of investments accounted for under the equity method	(4,202)	(546,514)
Decrease in investments accounted for under the equity method	38,412	-
Acquisition of property, plant and equipment	(2,104,612)	(2,578,387)
Proceeds from disposal of property, plant and equipment	79,167	214
Acquisition of Investment property	-	(152,530)
Decrease in other financial assets	134,160	1,053,940
Decrease (Increase) in non-current-assets	975,436	(589,017)
Dividends received	117,687	74,792
Net cash used in investing activities	(751,116)	(2,763,095)
Cash flows from financing activities:		
Increase (Decrease) in short-term loans	859,537	(195,083)
Cash dividends	(2,035,598)	(1,744,799)
Net cash used in financing activities	(1,176,061)	(1,939,882)
Net decrease in cash and cash equivalents	(1,331,425)	(2,092,936)
Cash and cash equivalents at beginning of period	1,981,758	4,074,694
Cash and cash equivalents at end of period	\$650,333	\$1,981,758

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

FENG HSIN STEEL CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended 31 December 2018 and 2017

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

1. History and organization

FENG HSIN STEEL Co., Ltd. (the Company) was incorporated in 1969. The Company operates in the blast furnaces and steel mills sector. Its products include angle irons, steel channel, flat structural frames and shafts. In June 1989, the third steel-rolling plants began operations, thus, the Company is capable of producing of other types of steel products such as: carbon steel and particular steel. Also, the third steel plant completed trial run in 1997. The third steel plant works primarily produces particular types of steelnet, which supplies the first steel-rolling plant work and second steel-rolling plant work to ensure the control over quality and reduce manufacturing costs. The Company was approved for listing on the Taiwan Stock Exchange (“TWSE”) in 1991. The Company’s common shares were publicly traded on the TWSE on 25 May 1992. The Company’s registered office and the main business location is at No.998, Sec.1, Jiahou Rd., Houli Dist., Taichung, Taiwan (R.O.C.).

2. Date and procedures of authorization of financial statements for issue

The consolidated financial statements of the Company and its subsidiaries (“the Group”) for the years ended 31 December 2018 and 2017 were authorized for issue by the Company’s board of directors (the Board) on 7 March 2019.

3. Newly issued or revised standards and interpretations

- (1) Changes in accounting policies resulting from applying for the first time certain standards and amendments

The Group applied for the first time International Financial Reporting Standards, International Accounting Standards, and Interpretations issued, revised or amended which are endorsed by Financial Supervisory Commission (“FSC”) and become effective for annual periods beginning on or after 1 January 2018. The nature and the impact of each new standard and amendment that has a material effect on the Group is described below:

- (1) *IFRS 15 “Revenue from Contracts with Customers” (including Amendments to IFRS 15 “Clarifications to IFRS 15 Revenue from Contracts with Customers”)*

IFRS 15 replaces IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations. In accordance with the transition provision in IFRS 15, the Group elected to recognize the cumulative effect of initially applying IFRS 15 at the date of initial application (1 January 2018). The Group also elected to apply this standard retrospectively only to contracts that are not completed contracts at the date of initial application.

The Group's principal activities consist of the sale of goods and rendering of services. The impacts arising from the adoption of IFRS 15 on the Group are summarized as follows:

- A. Please refer to Note 4 for the accounting policies before or after 1 January 2018.
- B. Before 1 January 2018, revenue from sale of goods was recognized when goods have been delivered to the buyer. Starting from 1 January 2018, in accordance with IFRS 15, the Group recognizes revenue when (or as) the Group satisfies a performance obligation by transferring a promised good to a customer. IFRS 15 has no impact on the Group's revenue recognition from sale of goods. However, for some contracts, if the Group has the right to transfer the goods to customers but does not have a right to an amount of consideration that is unconditional, these contracts should be presented as contract assets, which is different from the accounting treatment of recognizing trade receivables before the date of initial application. In addition, loss allowance for contract assets was assessed in accordance with IFRS 9. To compare with the requirements of IAS 18, the abovementioned differences decreased account receivables by NT\$250,924 thousand and increased contract assets by NT\$250,924 thousand as at 31 December 2018.
- C. For some rendering of services contracts, part of the consideration was received from customers upon signing the contract, then the Group has the obligation to provide the services subsequently. Before 1 January 2018, the Group recognized the consideration received in advance from customers under other current liabilities. Starting from 1 January 2018, in accordance with IFRS 15, it should be recognized as contract liabilities. The amount reclassified from other current liabilities to contracts liabilities of the Group as at the date of initial application was NT\$82,076 thousand. In addition, compared with the requirements of IAS 18, other current liabilities decreased by NT\$170,900 thousand and the contract liabilities increased by NT\$170,900 thousand as at 31 December 2018.
- D. Please refer to Notes 4, 5 and 6 for additional disclosure note required by IFRS 15.

(2) *IFRS 9 "Financial Instruments"*

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement*. In accordance with the transition provision in IFRS 9, the Group elected not to restate prior periods at the date of initial application (1 January 2018). The adoption of IFRS 9 has the following impacts on the Group:

- A. The Group adopted IFRS 9 on 1 January 2018 and it adopted IAS 39 before 1 January 2018. Please refer to Note 4 for more details on accounting policies.
- B. In accordance with the transition provision in IFRS 9, the assessment of the business model and classification of financial assets into the appropriate categories are based on the facts and circumstances that existed as at 1 January 2018. The classifications of financial assets and its carrying amounts as at 1 January 2018 are as follows:

IAS 39		IFRS 9	
Measurement categories	Carrying amounts	Measurement categories	Carrying amounts
Fair value through other comprehensive income	\$1,258,259	Fair value through other comprehensive income	\$1,210,940
Available-for-sale financial assets (including NT\$1,204,518 thousand measured at cost)			
At amortized cost		At amortized cost (including cash and cash equivalents, notes receivables, accounts receivables, financial assets measured at amortized cost and other receivables)	3,573,134
Loans and receivables (including cash and cash equivalents, notes receivables, accounts receivables, debt instrument investments for which no active market exists and other receivables)	3,573,134		
Total	<u>\$4,831,393</u>		<u>\$4,784,074</u>

C. The transition adjustments from IAS 39 to IFRS 9 for the classifications of financial assets and financial liabilities as at 1 January 2018 are as follows:

IAS 39		IFRS 9			Retained earnings	Other components of equity
Class of financial instruments	Carrying amounts	Class of financial instruments	Carrying amounts	Difference	Adjustment	Adjustment
Available-for-sale financial assets (including investments measured at cost with initial investment cost of NT\$1,204,518 thousand, reported as a separate line item) (Note 1)	\$1,258,259	Measured at fair value through other comprehensive income (equity instruments)	\$1,210,940	\$(47,319)	\$277,000	\$(324,319)
Loans and receivables (Note 2)		Financial asset measured at fair value through amortized cost				
Cash and cash equivalents	1,980,843	Cash and cash equivalents	1,980,843	-	-	-
Notes receivables	9,038	Notes receivables	9,038	-	-	-
Accounts receivables	1,579,574	Accounts receivables	1,579,574	-	-	-
Other receivables	3,679	Other receivables	3,679	-	-	-
Subtotal	<u>3,573,134</u>		<u>3,573,134</u>	-	-	-
Total	<u>\$4,831,393</u>	Total	<u>\$4,784,074</u>	<u>\$(47,319)</u>	<u>\$277,000</u>	<u>\$(324,319)</u>

Notes:

- (1) In accordance with of IAS 39, the Group's available-for-sale financial assets included investments in funds, stocks and bonds of listed companies and stocks of unlisted companies. Adjustment details are described as follows:

Stocks (including listed and unlisted companies)

The Group assessed the facts and circumstances existed as at 1 January 2018, and determined these stocks were not held-for-trading; therefore the Group elected to designate them as financial assets measured at fair value through other comprehensive income. As at 1 January 2018, the Group reclassified available-for-sale financial assets (including measured at cost) to financial assets measured at fair value through other comprehensive income of NT\$1,258,259 thousand. Other related adjustments are described as follows:

- (a) The stocks of unlisted companies previously measured at cost in accordance with IAS 39 had an original cost of NT\$1,481,518 thousand, and NT\$277,000 thousand was impaired. However, in accordance with IFRS 9, stocks of unlisted companies must be measured at fair value and shall not recognize impairment. The fair value of the stocks of unlisted companies amounted to NT\$1,157,199 thousand as at 1 January 2018. Accordingly, the Group adjusted the carrying amount of financial assets measured at fair value through other comprehensive income in the amount of NT\$1,157,199 thousand and also make adjustment to increase retained earnings by NT\$277,000 thousand and decrease other equity by NT\$324,319 thousand.
- (b) As at 1 January 2018, the Group reclassified the stocks of listed companies of NT\$53,741 thousand measured at fair value from available-for-sale financial assets to financial assets measured at fair value through other comprehensive income. This adjustment did not result any differences in the carrying amounts of assets, but reclassification was made within equity accounts.
- (2) In accordance with IAS 39, the cash flow characteristics for held-to-maturity financial assets and loans and receivables are solely payments of principal and interest on the principal amount outstanding. The assessment of the business model is based on the facts and circumstances that existed as at 1 January 2018. These financial assets were measured at amortized cost as they were held within a business model whose objective was to hold financial assets in order to collect contractual cash flows. Besides, in accordance with IFRS 9, there was no adjustment arising from the assessment of impairment losses for the aforementioned assets as at 1 January 2018.

D. Other impact

The Group adopted IFRS 9 on 1 January 2018, there were no adjustments for investment using equity method and retained earnings.

- E. Please refer to Notes 4, 5, 6 and 12 for the related disclosures required by IFRS 7 and IFRS 9.

(3) IFRIC 22 “Foreign Currency Transactions and Advance Consideration”

The interpretation clarifies that when applying paragraphs 21 and 22 of IAS 21 “The Effects of Changes in Foreign Exchange Rates”, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

The Group originally recorded their foreign currency sales transactions based on the exchange rate on the date of revenue recognition and converted into its functional currency. The exchange difference was recognized when the foreign currency advance payment was written off. The Group elected to apply this interpretation prospectively on 1 January 2018. This change in accounting principle did not significantly impact the Group's recognition and measurement.

(4) *Disclosure Initiative — Amendment to IAS 7 “Statement of Cash Flows”:*

The Group is required to provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. Please refer to Note 12 for more details.

- (2) Standards or interpretations issued, revised or amended, by International Accounting Standards Board (“IASB”) which are endorsed by FSC, but not yet adopted by the Group as at the end of the reporting period are listed below.

Items	New, Revised or Amended Standards and Interpretations	Effective Date issued by IASB
a	IFRS 16 “Leases”	1 January 2019
b	IFRIC 23 “Uncertainty Over Income Tax Treatments”	1 January 2019
c	IAS 28 “Investment in Associates and Joint Ventures” — Amendments to IAS 28	1 January 2019
d	Prepayment Features with Negative Compensation (Amendments to IFRS 9)	1 January 2019
e	Improvements to International Financial Reporting Standards (2015-2017 cycle)	1 January 2019
f	Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	1 January 2019

(a) *IFRS 16 “Leases”*

The new standard requires lessees to account for all leases under one single accounting model (except for short-term or low-value asset lease exemptions), which is for lessees to recognize right-of-use assets and lease liabilities on the balance sheet and the depreciation expense and interest expense associated with those leases in the consolidated statements of comprehensive income. Besides, lessors’ classification remains unchanged as operating or finance leases, but additional disclosure information is required.

(b) *IFRIC 23 “Uncertainty Over Income Tax Treatments”*

The interpretation clarifies application of recognition and measurement requirements in IAS 12 “Income Taxes” when there is uncertainty over income tax treatments.

(c) *IAS 28 “Investment in Associates and Joint Ventures” — Amendments to IAS 28*

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture before it applies IAS 28, and in applying IFRS 9, does not take account of any adjustments that arise from applying IAS 28.

(d) *Prepayment Features with Negative Compensation (Amendments to IFRS 9)*

The amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract, to be measured at amortized cost or at fair value through other comprehensive income.

(e) *Improvements to International Financial Reporting Standards (2015-2017 cycle):*

IFRS 3 “Business Combinations”

The amendments clarify that an entity that has joint control of a joint operation shall remeasure its previously held interest in a joint operation when it obtains control of the business.

IFRS 11 “Joint Arrangements”

The amendments clarify that an entity that participates in, but does not have joint control of, a joint operation does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.

IAS 12 “Income Taxes”

The amendments clarify that an entity shall recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

IAS 23 “Borrowing Costs”

The amendments clarify that an entity should treat as part of general borrowings any borrowing made specifically to obtain an asset when the asset is ready for its intended use or sale.

(f) Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

The amendments clarify that when a change in a defined benefit plan is made (such as amendment, curtailment or settlement, etc.), the entity should use the updated assumptions to remeasure its net defined benefit liability or asset.

The abovementioned standards and interpretations were issued by IASB and endorsed by FSC so that they are applicable for annual periods beginning on or after 1 January 2019. Apart from item (a) explained below, the remaining standards and interpretations have no material impact on the Group.

(1) IFRS 16 “Leases”

IFRS 16 “Leases” replaces IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, SIC-15 “Operating Leases - Incentives” and SIC-27 “Evaluating the Substance of Transactions Involving the Legal Form of a Lease”. The impact arising from the adoption of IFRS 16 on the Group are summarized as follows:

- A. For the definition of a lease, the Group elects not to reassess whether a contract is, or contains, a lease at the date of initial application (1 January 2019) in accordance with the transition provision in IFRS 16. Instead, the Group is permitted to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 but not to apply IFRS 16 to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Group is a lessee and elects not to restate comparative information in accordance with the transition provision in IFRS 16. Instead, the Group recognizes the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application.

(a) Leases classified as operating leases

For leases that were classified as operating leases applying IAS 17, the Group expects to measure and recognize those leases as lease liability on 1 January 2019 at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on 1 January 2019 and; the Group chooses, on a lease-by-lease basis, to measure the right-of-use asset at either:

- i. its carrying amount as if IFRS 16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate on 1 January 2019; or
- ii. an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet immediately before 1 January 2019.

The Group expects the right-of-use asset will increase by NT\$221,370 thousand, the lease liability will increase by NT\$218,059 thousand and prepaid rents will decrease by NT\$3,311 thousand on 1 January 2019.

(b) Leases classified as finance leases

None.

B. The additional disclosures of lessee and lessor required by IFRS 16 will be disclosed in the relevant notes.

(3) Standards or interpretations issued, revised or amended, by IASB but not yet endorsed by FSC at the date of issuance of the Group's financial statements are listed below.

Items	New, Revised or Amended Standards and Interpretations	Effective Date issued by IASB
a	IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" — Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures	To be determined by IASB
b	IFRS 17 "Insurance Contracts"	1 January 2021
c	Definition of a Business (Amendments to IFRS 3)	1 January 2020
d	Definition of Material (Amendments to IAS 1 and 8)	1 January 2020

(a) *IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” — Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures*

The amendments address the inconsistency between the requirements in IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures”, in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint ventures. IFRS 10 requires full profit or loss recognition on the loss of control of the subsidiary. IAS 28 was amended so that the gain or loss resulting from the sale or contribution of assets that constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized in full.

IFRS 10 was also amended so that the gains or loss resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors’ interests in the associate or joint venture.

(b) *IFRS 17 “Insurance Contracts”*

IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects (including recognition, measurement, presentation and disclosure requirements). The core of IFRS 17 is the General (building block) Model, under this model, on initial recognition, an entity shall measure a group of insurance contracts at the total of the fulfilment cash flows and the contractual service margin. The fulfilment cash flows comprise of the following:

- (1) estimates of future cash flows
- (2) discount rate: an adjustment to reflect the time value of money and the financial risks related to the future cash flows, to the extent that the financial risks are not included in the estimates of the future cash flows
- (3) a risk adjustment for non-financial risk.

The carrying amount of a group of insurance contracts at the end of each reporting period shall be the sum of the liability for remaining coverage and the liability for incurred claims. Other than the General Model, the standard also provides a specific adaptation for contracts with direct participation features (the Variable Fee Approach) and a simplified approach (Premium Allocation Approach) mainly for short-duration contracts.

(c) Definition of a Business (Amendments to IFRS 3)

The amendments clarify the definition of a business in IFRS 3 Business Combinations. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. IFRS 3 continues to adopt a market participant's perspective to determine whether an acquired set of activities and assets is a business. The amendments clarify the minimum requirements for a business; add guidance to help entities assess whether an acquired process is substantive; and narrow the definitions of a business and of outputs; etc.

(d) *Definition of a Material* (Amendments to IAS 1 and 8)

The main amendment is to clarify new definition of material. It states that "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

The abovementioned standards and interpretations issued by IASB have not yet endorsed by FSC at the date when the Group's financial statements were authorized for issue, the local effective dates are to be determined by FSC. As the Group is evaluating the impact of the standards and interpretations have no material impact in the Group.

4. Summary of significant accounting policies

(1) Statement of compliance

The consolidated financial statements of the Group for the years ended 31 December 2018 and 2017 have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers ("the Regulations"), IFRSs, IASs, IFRIC and SIC, which are endorsed by the FSC (collectively referred to as "TIFRSs").

(2) Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments that have been measured at fair value. The consolidated financial statements are expressed in thousands of New Taiwan Dollars (“NT\$”) unless otherwise stated.

(3) Basis of consolidation

Preparation principle of consolidated financial statement

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- (a) power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- (b) exposure, or rights, to variable returns from its involvement with the investee, and
- (c) the ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee
- (b) rights arising from other contractual arrangements
- (c) the Group’s voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Subsidiaries are fully consolidated from the acquisition date, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using uniform accounting policies. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

Total comprehensive income of the subsidiaries is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

If the Company loses control of a subsidiary, it:

- (a) derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- (b) derecognizes the carrying amount of any non-controlling interest;
- (c) recognizes the fair value of the consideration received;
- (d) recognizes the fair value of any investment retained;
- (e) recognizes any surplus or deficit in profit or loss; and
- (f) reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

The consolidated entities are as follows:

Investor	Subsidiary	Main businesses	Percentage of ownership (%)	
			31 December 2018	31 December 2017
The Company	GREAT FORTUNE HOLDING LIMITED	Trading and holding Group	100 %	100%

(4) Foreign currency transactions

The Group's consolidated financial statements are presented in NT\$, which is also the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency rates prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency closing rate of exchange ruling at the reporting date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

All exchange differences arising on the settlement of monetary items or on translating monetary items are taken to profit or loss in the period in which they arise except for the following:

- (a) Exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.
- (b) Foreign currency items within the scope of IFRS 9 Financial Instruments (Before 1 January 2018: IAS 39 Financial Instruments: Recognition and Measurement) are accounted for based on the accounting policy for financial instruments.
- (c) Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

(5) Current and non-current distinction

An asset is classified as current when:

- (a) The Group expects to realize the asset, or intends to sell or consume it, in its normal operating cycle
- (b) The Group holds the asset primarily for the purpose of trading
- (c) The Group expects to realize the asset within twelve months after the reporting period
- (d) The asset is cash or cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current. A liability is classified as current when:

- (a) The Group expects to settle the liability in its normal operating cycle.
- (b) The Group holds the liability primarily for the purpose of trading.
- (c) The liability is due to be settled within twelve months after the reporting period.
- (d) The Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities are classified as non-current.

(6) Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, demand deposits and short-term, highly liquid time deposits (including ones that have maturity within 6 months) or investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(7) Financial instruments

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

Financial assets and financial liabilities within the scope of IFRS 9 *Financial Instruments* (Before 1 January 2018: IAS 39 *Financial Instruments: Recognition and Measurement*) are recognized initially at fair value plus or minus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

(1) Financial instruments: Recognition and Measurement

The accounting policy from 1 January 2018 as follows:

The Group accounts for regular way purchase or sales of financial assets on the trade date.

The Group classified financial assets as subsequently measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss considering both factors below:

- A. the Group's business model for managing the financial assets.
- B. the contractual cash flow characteristics of the financial asset.

Financial assets measured at amortized cost

A financial asset is measured at amortized cost if both of the following conditions are met and presented as note receivables, trade receivables, financial assets measured at amortized cost and other receivables etc., on balance sheet as at the reporting date:

- A. the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- B. 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.

Such financial assets are subsequently measured at amortized cost (the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount and adjusted for any loss allowance). A gain or loss is recognized in profit or loss when the financial asset is derecognized, through the amortization process or in order to recognize the impairment gains or losses.

Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

- A. purchased or originated credit-impaired financial assets. For those financial assets, the Group applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.
- B. financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Group applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

Financial asset measured at fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

- A. the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- B. 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.

Recognition of gain or loss on a financial asset measured at fair value through other comprehensive income are described as below:

- A. A gain or loss on a financial asset measured at fair value through other comprehensive income recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognized or reclassified.

- B. When the financial asset is derecognized the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.
- C. Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:
- (i) Purchased or originated credit-impaired financial assets. For those financial assets, the Group applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.
 - (ii) Financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Group applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

Besides, for certain equity investments within the scope of IFRS 9 that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies, the Group made an irrevocable election to present the changes of the fair value in other comprehensive income at initial recognition. Amounts presented in other comprehensive income shall not be subsequently transferred to profit or loss (when disposal of such equity instrument, its cumulated amount included in other components of equity is transferred directly to the retained earnings) and these investments should be presented as financial assets measured at fair value through other comprehensive income on the balance sheet. Dividends on such investment are recognized in profit or loss unless the dividends clearly represents a recovery of part of the cost of investment.

The accounting policy before 1 January 2018 as follows:

The Group accounts for regular way purchase or sales of financial assets on the trade date.

Financial assets of the Group are classified as held-to-maturity investments, available-for-sale financial assets and loans and receivables. The Group determines the classification of its financial assets at initial recognition.

Available-for-sale financial assets

Available-for-sale investments are non-derivative financial assets that are designated as available-for-sale or those not classified as financial assets at fair value through profit or loss, held-to-maturity financial assets, or loans and receivables.

Foreign exchange gains and losses and interest calculated using the effective interest method relating to monetary available-for-sale financial assets, or dividends on an available-for-sale equity instrument, are recognized in profit or loss. Subsequent measurement of available-for-sale financial assets at fair value is recognized in equity until the investment is derecognized, at which time the cumulative gain or loss is reclassified in profit or loss.

If equity instrument investments do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial assets measured at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, as at the reporting date.

Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold it to maturity, other than those that are designated as available-for-sale, classified as financial assets at fair value through profit or loss, or meet the definition of loans and receivables.

After initial measurement held-to-maturity financial assets are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or transaction costs. The effective interest method amortization is recognized in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Group upon initial recognition designates as available for sale, classified as at fair value through profit or loss, or those for which the holder may not recover substantially all of its initial investment.

Loans and receivables are separately presented on the balance sheet as receivables or bond investments for which no active market exists. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or transaction costs. The effective interest method amortization is recognized in profit or loss.

(2) Impairment of financial assets

The accounting policy from 1 January 2018 as follows:

The Group recognizes a loss allowance for expected credit losses on financial asset measured at amortized cost.

The Group measures expected credit losses of a financial instrument in a way that reflects:

- A. an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes
- B. the time value of money
- C. reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The loss allowance is measures as follows:

- A. At an amount equal to 12-month expected credit losses: the credit risk on a financial asset has not increased significantly since initial recognition or the financial asset is determined to have low credit risk at the reporting date. In addition, the Group measures the loss allowance at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that the credit risk on a financial asset has increased significantly since initial recognition is no longer met.
- B. At an amount equal to the lifetime expected credit losses: the credit risk on a financial asset has increased significantly since initial recognition or financial asset that is purchased or originated credit-impaired financial asset.
- C. For trade receivables or contract assets arising from transactions within the scope of IFRS 15, the Group measures the loss allowance at an amount equal to lifetime expected credit losses.

At each reporting date, the Group needs to assess whether the credit risk on a financial asset has increased significantly since initial recognition by comparing the risk of a default occurring at the reporting date and the risk of default occurring at initial recognition. Please refer to Note 12 for further details on credit risk.

The accounting policy before 1 January 2018 as follows:

The Group assesses at each reporting date whether there is any objective evidence that a financial asset other than the financial assets at fair value through profit or loss is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more loss events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset. The carrying amount of the financial asset impaired, other than receivables impaired which are reduced through the use of an allowance account, is reduced directly and the amount of the loss is recognized in profit or loss.

A significant or prolonged decline in the fair value of an available-for-sale equity instrument below its cost is considered a loss event.

Other loss events include:

- A. significant financial difficulty of the issuer or obligor
- B. a breach of contract, such as a default or delinquency in interest or principal payments
- C. it becoming probable that the borrower will enter bankruptcy or other financial reorganization
- D. the disappearance of an active market for that financial asset because of financial difficulties

For held-to-maturity financial assets and loans and receivables measured at amortized cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial asset that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. Interest income is accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Receivables together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit or loss.

In the case of equity investments classified as available-for-sale, where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss - is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recognized in profit or loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

(3) Derecognition of financial assets

A financial asset is derecognized when:

- A. The rights to receive cash flows from the asset have expired.
- B. The Group has transferred the asset and substantially all the risks and rewards of the asset have been transferred.
- C. The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the consideration received or receivable including any cumulative gain or loss that had been recognized in other comprehensive income, is recognized in profit or loss.

(4) Financial liabilities and equity

Classification between liabilities or equity

The Group classifies the instrument issued as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The transaction costs of an equity transaction are accounted for as a deduction from equity (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

Financial liabilities

Financial liabilities within the scope of IFRS 9 *Financial Instruments* (before 1 January 2018: IAS 39 *Financial Instruments: Recognition and Measurement*) are classified as financial liabilities at fair value through profit or loss or financial liabilities measured at amortized cost upon initial recognition.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. A financial liability is classified as held for trading if:

- A. it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term
- B. on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- C. it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument)

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial liability at fair value through profit or loss; or a financial liability may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:

- A. it eliminates or significantly reduces a measurement or recognition inconsistency; or
- B. a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management personnel.

Gains or losses on the subsequent measurement of liabilities at fair value through profit or loss including interest paid are recognized in profit or loss.

Before 1 January 2018, if the financial liabilities at fair value through profit or loss do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial liabilities measured at cost on balance sheet and carried at cost as at the reporting date.

Financial liabilities at amortized cost

Financial liabilities measured at amortized cost include interest bearing loans and borrowings that are subsequently measured using the effective interest rate method after initial recognition. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or transaction costs.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified (whether or not attributable to the financial difficulty of the debtor), such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

(5) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

(8) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- (1) In the principal market for the asset or liability, or
- (2) In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

(9) Inventories

Inventories are valued at lower of cost and net realizable value item by item.

Costs incurred in bringing each inventory to its present location and condition are accounted for as follows:

Materials — Weighted average of actual procurements

Finished goods and work in process — Cost of direct materials and labor and a proportion of manufacturing overheads based on normal operating capacity. Finished goods and work in process are accounted under the weighted average method.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Starting from 1 January 2018, rendering of services is accounted in accordance with IFRS 15 and not within the scope of inventories.

(10) Investments accounted for using the equity method

The Group's investment in its associate is accounted for using the equity method other than those that meet the criteria to be classified as held for sale. An associate is an entity over which the Group has significant influence. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture.

Under the equity method, the investment in the associate or an investment in a joint venture is carried in the balance sheet at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the associate or joint venture. After the interest in the associate or joint venture is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the Group's related interest in the associate or joint venture.

When changes in the net assets of an associate or a joint venture occur and not those that are recognized in profit or loss or other comprehensive income and do not affect the Group's percentage of ownership interests in the associate or joint venture, the Group recognizes such changes in equity based on its percentage of ownership interests. The resulting capital surplus recognized will be reclassified to profit or loss at the time of disposing the associate or joint venture on a pro-rata basis.

When the associate or joint venture issues new stock, and the Group's interest in an associate or a joint venture is reduced or increased as the Group fails to acquire shares newly issued in the associate or joint venture proportionately to its original ownership interest, the increase or decrease in the interest in the associate or joint venture is recognized in Additional Paid in Capital and Investment accounted for using the equity method. When the interest in the associate or joint venture is reduced, the cumulative amounts previously recognized in other comprehensive income are reclassified to profit or loss or other appropriate items. The aforementioned capital surplus recognized is reclassified to profit or loss on a pro rata basis when the Group disposes the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate or an investment in a joint venture is impaired in accordance with IAS 28 *Investments in Associates and Joint Ventures* (before 1 January 2018: IAS 39 *Financial Instruments: Recognition and Measurement*). If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the amount in the 'share of profit or loss of an associate' in the statement of comprehensive income in accordance with IAS 36 *Impairment of Assets*. In determining the value in use of the investment, the Group estimates:

- (a) Its share of the present value of the estimated future cash flows expected to be generated by the associate or joint venture, including the cash flows from the operations of the associate and the proceeds on the ultimate disposal of the investment; or
- (b) The present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

Because goodwill that forms part of the carrying amount of an investment in an associate or an investment in a joint venture is not separately recognized, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in IAS 36 *Impairment of Assets*.

Upon loss of significant influence over the associate or joint venture, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss. Furthermore, 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 entity continues to apply the equity method and does not remeasure the retained interest.

(11) Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of dismantling and removing the item and restoring the site on which it is located and borrowing costs for construction in progress if the recognition criteria are met. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognized such parts as individual assets with specific useful lives and depreciation, respectively. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of IAS 16 *Property, plant and equipment*. When a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated economic lives of the following assets:

Items	Useful Lives
Buildings	6~56 years
Machinery and equipment	3~41 years
Transportation equipment	4~16 years
Furniture, fixtures and equipment	3~17 years
Leasehold improvements	2~ 5 years

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognized in profit or loss.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate, and are treated as changes in accounting estimates.

(12) Investment property

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are measured using the cost model in accordance with the requirements of IAS 16 for that model, other than those that meet the criteria to be classified as held for sale (or are included in a disposal group that is classified as held for sale) in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Depreciation is calculated on a straight-line basis over the estimated economic lives of the following assets:

Items	Useful Lives
Buildings	30~50 years

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss in the period of derecognition.

Assets are transferred to or from investment properties when there is a change in use.

Properties are transferred to or from investment properties when the properties meet, or cease to meet, the definition of investment property and there is evidence of the change in use.

(13)Leases

Group as a lessee

Finance leases which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

(14)Impairment of non-financial assets

The Group assesses at the end of each reporting period whether there is any indication that an asset in the scope of IAS 36 *Impairment of Assets* may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been an increase in the estimated service potential of an asset which in turn increases the recoverable amount. However, the reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

A cash generating unit, or groups of cash-generating units, to which goodwill has been allocated is tested for impairment annually at the same time, irrespective of whether there is any indication of impairment. If an impairment loss is to be recognized, it is first allocated to reduce the carrying amount of any goodwill allocated to the cash generating unit (group of units), then to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units). Impairment losses relating to goodwill cannot be reversed in future periods for any reason.

An impairment loss of continuing operations or a reversal of such impairment loss is recognized in profit or loss.

(15) Revenue recognition

The accounting policy from 1 January 2018 as follows:

The Group's revenue arising from contracts with customers are primarily related to sale of goods and rendering of services. The accounting policies are explained as follows:

Sale of goods

The Group manufactures and sells goods. Sales are recognized when control of the goods is transferred to the customer and the goods are delivered to the customers. The main product of the Group is iron and steel, and revenue is recognized based on the consideration stated in the contract. For certain sales of goods transactions, they are usually accompanied by volume discounts (based on the accumulated total sales amount for a specified period). Therefore, revenue from these sales is recognized based on the price specified in the contract, net of the estimated volume discounts. The Group estimates the discounts using the expected value method based on historical experiences. Revenue is only recognized to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur and when the uncertainty associated with the variable consideration is subsequently resolved. During the period specified in the contract, refund liability is recognized for the expected volume discounts.

The credit period of the Group's sale of goods is within 10 to 75 days. For most of the contracts, when the Group transfers the goods to customers and has a right to an amount of consideration that is unconditional, these contracts are recognized as trade receivables. The Group usually collects the payments shortly after transfer of goods to customers; therefore, there is no significant financing component to the contract. For some of the contracts, the Group has transferred the goods to customers but does not have a right to an amount of consideration that is unconditional, these contracts should be presented as contract assets. Besides, in accordance with IFRS 9, the Group measures the loss allowance for a contract asset at an amount equal to the lifetime expected credit losses.

Rendering of services

The Group provides maintenance services for the sale of iron and steel. Such services are separately priced or negotiated, and provided based on contract periods. As the Group provides the maintenance services over the contract period, the customers simultaneously receive and consume the benefits provided by the Group. Accordingly, the performance obligations are satisfied over time, and the related revenue is recognized by straight-line method over the contract period.

Most of the contractual considerations of the Group are collected evenly throughout the contract periods. When the Group has performed the services to customers but does not have a right to an amount of consideration that is unconditional, these contracts should be presented as contract assets. However, for some rendering of services contracts, part of the consideration was received from customers upon signing the contract, and the Group has the obligation to provide the services subsequently; accordingly, these amounts are recognized as contract liabilities.

The period between the transfers of contract liabilities to revenue is usually within one year, thus, no significant financial component arose.

The accounting policy before 1 January 2018 as follows:

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. The following specific recognition criteria must also be met before revenue is recognized:

Sale of goods

Revenue from the sale of goods is recognized when all the following conditions have been satisfied: the significant risks and rewards of ownership of the goods have transferred to the buyer; neither continuing managerial involvement nor effective control over the goods sold have been retained; the amount of revenue can be measured reliably; it is probable that the economic benefits associated with the transaction will flow to the entity; and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income

For all financial assets measured at amortized cost (including loans and receivables and held-to-maturity financial assets) and available-for-sale financial assets, interest income is recorded using the effective interest rate method and recognized in profit or loss.

Dividends

Revenue is recognized when the Group's right to receive the payment is established.

(16) Borrowing cost

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(17) Post-employment benefits

All regular employees of the Company are entitled to a pension plan that is managed by an independently administered pension fund committee. Fund assets are deposited under the committee's name in the specific bank account and hence, not associated with the Company and its domestic subsidiaries. Therefore fund assets are not included in the Group's consolidated financial statements.

For the defined contribution plan, the Company and its domestic subsidiaries will make a monthly contribution of no less than 6% of the monthly wages of the employees subject to the plan. The Company recognizes expenses for the defined contribution plan in the period in which the contribution becomes due.

Post-employment benefit plan that is classified as a defined benefit plan uses the Projected Unit Credit Method to measure its obligations and costs based on actuarial assumptions. Re-measurements, comprising of the effect of the actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets, excluding net interest, are recognized as other comprehensive income with a corresponding debit or credit to retained earnings in the period in which they occur. Past service costs are recognized in profit or loss on the earlier of:

- (a) the date of the plan amendment or curtailment, and
- (b) the date that the Group recognizes restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payment.

(18) Income taxes

Income tax expense (income) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current income tax relating to items recognized in other comprehensive income or directly in equity is recognized in other comprehensive income or equity and not in profit or loss.

The income tax for undistributed earnings is recognized as income tax expense in the subsequent year when the distribution proposal is approved by the Shareholders' meeting.

Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- (a) Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- (b) In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- (a) Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- (b) In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. The measurement of deferred tax assets and deferred tax liabilities 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.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets are reassessed at each reporting date and are recognized accordingly.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

5. Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements require management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumption and estimate could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

(1) Judgement

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognized in the consolidated financial statements:

(a) Investment Properties

Certain properties of the Group comprise a portion that is held to earn rentals or for capital appreciation and another portion that is owner-occupied. If these portions could be sold separately, the Group accounts for the portions separately as investment properties and property, plant and equipment. If the portions could not be sold separately, the property is classified as investment property in its entirety only if the portion that is owner-occupied is insignificant.

(b) Operating lease commitment — Group as the lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

(2) Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Pension benefits

The cost of post-employment benefit and the present value of the pension obligation under defined benefit pension plans are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate and future salary increases, mortality rates and future pension increases. Please refer to Note 6 for more details.

(b) Revenue recognition – sales returns and allowance

Starting from 1 January 2018:

The Group estimates sales returns and allowance based on historical experience and other known factors at the time of sale, which reduces the operating revenue. In assessing the aforementioned sales returns and allowance, revenue is recognized to the extent it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Please refer to Note 6 for more details.

Before 1 January 2018:

The Group estimates sales returns and allowance based on historical experience and other known factors at the time of sale, which reduces the operating revenue. Please refer to Note 6 for more details.

(c) Income tax

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group company's domicile.

Deferred tax assets are recognized for all carryforward of unused tax losses and unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available or there are sufficient taxable temporary differences against which the unused tax losses, unused tax credits or deductible temporary differences can be utilized. The amount of deferred tax assets determined to be recognized is based upon the likely timing and the level of future taxable profits and taxable temporary differences together with future tax planning strategies.

(d) Accounts receivables–estimation of impairment loss

Starting from 1 January 2018:

The Group estimates the impairment loss of accounts receivables at an amount equal to lifetime expected credit losses. The credit loss is the present value of the difference between the contractual cash flows that are due under the contract (carrying amount) and the cash flows that expects to receive (evaluate forward looking information). However, as the impact from the discounting of short-term receivables is not material, the credit loss is measured by the undiscounted cash flows. Where the actual future cash flows are lower than expected, a material impairment loss may arise. Please refer to Note 6 for more details.

Before 1 January 2018:

The Group considers the estimation of future cash flows when there is objective evidence showed indications of impairment. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. However, as the impact from the discounting of short-term receivables is not material, the impairment of short-term receivables is measured as the difference between the asset's carrying amount and the estimated undiscounted future cash flows. Where the actual future cash flows are lower than expected, a material impairment loss may arise. Please refer to Note 6 for more details.

(e) Inventories

Estimates of net realizable value of inventories take into consideration that inventories may be damaged, become wholly or partially obsolete, or their selling prices have declined. The estimates are based on the most reliable evidence available at the time the estimates are made. Please refer to Note 6 for more details.

6. Contents of significant accounts

(1) Cash and cash equivalents

	As of 31 December	
	2018	2017
Cash on hand	\$915	\$915
Demand deposits	649,418	1,381,292
Time deposits	-	300,000
Cash equivalents	-	299,551
Total	<u>\$650,333</u>	<u>\$1,981,758</u>

(2) Accounts receivables

	As of 31 December	
	2018	2017
Accounts receivables	\$1,457,817	\$1,581,692
Less: loss allowance	(2,118)	(2,118)
Total	<u>\$1,455,699</u>	<u>\$1,579,574</u>

Accounts receivables were not pledged.

Accounts receivables are generally on 10-75 day terms. The Group adopted IFRS 9 for impairment assessment on 1 January 2018. Please refer to Note 6(18) for more details on impairment of accounts receivables. The Group adopted IAS 39 for impairment assessment before 1 January 2018. The movements in the provision for impairment of accounts receivables and accounts receivables-related parties for the year ended 31 December 2017 are as follows (please refer to Note 12 for credit risk disclosure):

	Individually impaired	Collectively impaired	Total
As of 1 January 2017	\$ -	\$2,118	\$2,118
Charge/reversal for the current period	-	-	-
Write-off for uncollectable accounts	-	-	-
As of 31 December 2017	<u>\$ -</u>	<u>\$2,118</u>	<u>\$2,118</u>

Ageing analysis of accounts receivables is as follows:

As of 31 December	Neither past due nor impaired	Past due but not impaired					Total
		<=30 days	31-60 days	61-90 days	91-120 days	>= 121 days	
2017	\$1,560,544	\$19,030	\$ -	\$ -	\$ -	\$ -	\$1,579,574

(3) Inventories

	As of 31 December	
	2018	2017
Raw materials	\$2,828,502	\$1,222,505
Finished goods	1,540,741	1,006,654
Work in progress	1,538,598	1,048,648
Supplies & parts	811,633	333,339
Total	<u>\$6,719,474</u>	<u>\$3,611,146</u>

The cost of inventories recognized in expenses amounted to NT\$26,694,587 thousand and NT\$20,926,613 thousand, respectively, for the years ended 31 December 2018 and 2017.

No inventories were pledged.

(4) Prepayments

	As of 31 December	
	2018	2017
Factory supplies	\$465,585	\$337,301
Overpaid sales tax	65,945	-
Prepayments of purchases	27,915	75,210
Other prepayments	9,915	9,989
Total	<u>\$569,360</u>	<u>\$422,500</u>

Prepayments were not pledged.

(5) Other current assets

	As of 31 December	
	2018	2017
Temporary payments	\$2,116	\$1,661
Other financial assets	-	134,160
Total	<u>\$2,116</u>	<u>\$135,821</u>

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

	As of 31 December	
	2018	2017 (note)
Equity instrument investments measured at fair value through other comprehensive income – Non-current:		
Listed companies stocks	\$248,111	
Unlisted companies stocks	799,553	
Total	<u>\$1,047,664</u>	

Note: The Group adopted IFRS 9 on 1 January 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

Financial assets at fair value through other comprehensive income were not pledged.

In the first quarter of 2018, the Group represented on the board of directors' of the non-listed company, Wen-Shan Enterprise Co., Ltd, which was recorded as equity instrument measured at fair value through other comprehensive income. Upon the existence of significant influence by the Group, the abovementioned investment was accounted for using the equity method and reclassified into investments accounted for using the equity method in the amount of NT\$33,861 thousand, which was transferred from other equity to retained earnings.

The Group disposed of equity instrument measured at fair value through other comprehensive income for the year ended 2018. Upon derecognition, the fair value of the investments was NT\$10,896 thousand, and the cumulative disposal loss in the amount of NT\$5,732 thousand was transferred from other equity to retained earnings.

The return of paid-in capital for capital reduction from Ascentek Venture Capital Corporation amounted to NT\$1,960 thousand as at 1 August 2018.

(7) Available-for-sale financial assets, noncurrent

	As of 31 December	
	2018(note)	2017
Stocks		\$99,551
gain : Adjustments for change in value of investment		(45,810)
Total		<u>\$53,741</u>

	As of 31 December	
	2018(note)	2017
Current		\$ -
Noncurrent		53,741
Total		<u>\$53,741</u>

Note: The Group adopted IFRS 9 on 1 January 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

The Group adopted IAS 39 before 1 January 2018 and classified certain financial assets as available-for-sale financial assets which were not pledged.

(8) Financial assets measured at cost, noncurrent

Investee	As of 31 December	
	2018(note)	2017
Financial assets at fair value through profit or loss		
Shihlien China Holding Co., Ltd.		\$693,013
Wen-Shan Enterprise Co., Ltd.		209,777
CHIEN SHING Harbour Service Co., Ltd.		96,759
Gwo Uei Metals Industrial Co., Ltd.		83,419
Gwo Huei Iron & Steel Co., Ltd.		55,464
Fung-So Investment Co. Ltd.		42,156
Ascentek Venture Capital Corporation		19,600
Feng Xin Development Enterprise Co., Ltd.		1,731
Feng Ying Enterprise Co., Ltd.		1,604
Taichung International Entertainment Corporation		970
China Trade And Development Corporation		25
Total		<u>\$1,204,518</u>

Note: The Group adopted IFRS 9 on 1 January 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

The Group adopted IAS 39 before 1 January 2018. The above investments in the equity instruments of unlisted entities are measured at cost as the fair value of these investments are not reliably measurable due to the fact that the variability in the range of reasonable fair value measurements is significant for that investment and that the probabilities of the various estimates within the range cannot be reasonably assessed and used when measuring fair value.

In the first quarter of 2017, the Group disposed of the shares of Chien Shing Harbour Service Co., Ltd. in the amount of NT\$2,326 thousand and recognized gain on disposal of investment amounting to NT\$2,403 thousand.

In the first half of 2017, the Group invested NT\$77,061 thousand in Shihlien China Holding Co., Ltd.

Financial assets measured at cost were not pledged.

(9) Investments accounted for using the equity method

The following table lists the investments accounted for using the equity method of the Group:

Investees	As of 31 December			
	2018		2017	
	Carrying amount	Percentage of ownership(%)	Carrying amount	Percentage of ownership(%)
Investment in associates:				
Listed companies:				
Taiwan Steel Union Co., Ltd.(note)	\$711,740	19.81	\$505,069	22.01
Unlisted companies:				
Fong Yu Resources Co., Ltd	371,028	29.71	371,387	29.71
Feng Ying Development Enterprise Co., Ltd.	240,799	35.57	258,989	35.57
Wen-Shan Enterprise Co., Ltd.	175,269	18.00	-	-
Total	<u>\$1,498,836</u>		<u>\$1,135,445</u>	

Note: Taiwan Steel Union Co., Ltd. began trading on TWSE on 30 January 2018.

Taiwan Steel Union Co., Ltd. raised capital by cash; however, the Group did not participate in the capital raising. Therefore, its ownership dropped from 22.01% to 19.77%. The group recognized an increase in capital surplus in the amount of NT\$168,489 thousand.

In the fourth quarter of 2018, the Group increased its investment in Taiwan Steel Union Co., Ltd. in the amount of NT\$4,202 thousand, which increased its shareholding ratio from 19.77% to 19.81%. Thus, the Group and recognized capital surplus in the amount of NT\$(2,845) thousand.

The return of paid-in capital for capital reduction from Feng Ying Development Enterprise Co., Ltd. amounted to NT\$38,412 thousand as at 30 April 2018.

In May and December of 2017, the Group invested in Feng Ying Development Enterprise Co., Ltd. and Fong Yu Resource Co., Ltd in the amount of NT\$258,214 thousand and NT\$288,300 thousand, respectively.

Although the holding of Taiwan Steel Union Co., Ltd. and Wen-Shan Enterprise Co., Ltd. is less than 20%, the Group presumed to have significant influence on these invested companies. Hence, it evaluates the investment by using the equity method.

The Group's investments in Taiwan Steel Union Co., Ltd., Fong Yu Resources Co., Ltd., Feng Ying Development Enterprise Co., Ltd. and Wen-Shan Enterprise Co., Ltd are not individually material. The summarized financial information based on the Group's investment in associates is as follows:

	For the years ended 31 December	
	2018	2017
Profit from continuing operations	\$174,583	\$169,409
Other comprehensive income (post-tax)	(697)	19
Total comprehensive income	\$173,886	\$169,428

The abovementioned associates had no contingent liabilities or capital commitments as of 31 December 2018 and 2017. No investment in the associates was pledged.

Our audit, insofar as it related to the investments accounted for under the equity method amounting to NT\$711,740 thousand and NT\$505,069 thousand as of 31 December 2018 and 2017; the related shares of investment income from the associates and joint ventures amounted to NT\$155,367 thousand and NT\$168,797 thousand for the years ended 31 December 2018 and 2017, respectively; and the related shares of other comprehensive income from the associates and joint ventures amounted to NT\$(855) thousand and NT\$22 thousand for the years ended 31 December 2018 and 2017, respectively; are based solely on the reports of other independent accountants.

(10) Property, plant and equipment

	Land	Buildings	Machinery and equipment	Office equipment	Transportation equipment	Leasehold improvements	Construction in progress and equipment pending inspection	Total
Cost:								
As of 1 January 2018	\$1,196,407	\$2,545,868	\$15,451,274	\$22,775	\$371,086	\$261,931	\$1,498,141	\$21,347,482
Additions	-	4,153	259,829	4,157	17,916	-	1,818,557	2,104,612
Disposals	-	(135)	(1,660,771)	(30)	(12,094)	-	-	(1,673,030)
Other changes	-	433,737	2,499,686	-	-	-	(2,899,027)	34,396
As of 31 December 2018	<u>\$1,196,407</u>	<u>\$2,983,623</u>	<u>\$16,550,018</u>	<u>\$26,902</u>	<u>\$376,908</u>	<u>\$261,931</u>	<u>\$417,671</u>	<u>\$21,813,460</u>
Depreciation and impairment:								
As of 1 January 2018	\$-	\$1,170,111	\$11,026,554	\$21,929	\$252,890	\$30,342	\$-	\$12,501,826
Depreciation	-	86,001	894,139	474	24,948	11,528	-	1,017,090
Disposals	-	(127)	(1,649,420)	(30)	(9,179)	-	-	(1,658,756)
Other changes	-	-	-	-	-	-	-	-
As of 31 December 2018	<u>\$-</u>	<u>\$1,255,985</u>	<u>\$10,271,273</u>	<u>\$22,373</u>	<u>\$268,659</u>	<u>\$41,870</u>	<u>\$-</u>	<u>\$11,860,160</u>
Cost:								
As of 1 January 2017	\$1,169,451	\$2,463,163	\$14,560,549	\$23,972	\$361,820	\$258,500	\$351,690	\$19,189,145
Additions	26,956	9,888	216,919	-	21,946	3,431	2,299,247	2,578,387
Disposals	-	(350)	(464,193)	(1,197)	(12,680)	-	-	(478,420)
Other changes	-	73,167	1,137,999	-	-	-	(1,152,796)	58,370
As of 31 December 2017	<u>\$1,196,407</u>	<u>\$2,545,868</u>	<u>\$15,451,274</u>	<u>\$22,775</u>	<u>\$371,086</u>	<u>\$261,931</u>	<u>\$1,498,141</u>	<u>\$21,347,482</u>
Depreciation and impairment:								
As of 1 January 2017	\$-	\$1,082,539	\$10,423,036	\$22,509	\$239,347	\$14,612	\$-	\$11,782,043
Depreciation	-	87,922	1,067,711	617	26,223	15,730	-	1,198,203
Disposals	-	(350)	(464,193)	(1,197)	(12,680)	-	-	(478,420)
Other changes	-	-	-	-	-	-	-	-
As of 31 December 2017	<u>\$-</u>	<u>\$1,170,111</u>	<u>\$11,026,554</u>	<u>\$21,929</u>	<u>\$252,890</u>	<u>\$30,342</u>	<u>\$-</u>	<u>\$12,501,826</u>
Net carrying amount:								
As of 31 December 2018	<u>\$1,196,407</u>	<u>\$1,727,638</u>	<u>\$6,278,745</u>	<u>\$4,529</u>	<u>\$108,249</u>	<u>\$220,061</u>	<u>\$417,671</u>	<u>\$9,953,300</u>
As of 31 December 2017	<u>\$1,196,407</u>	<u>\$1,375,757</u>	<u>\$4,424,720</u>	<u>\$846</u>	<u>\$118,196</u>	<u>\$231,589</u>	<u>\$1,498,141</u>	<u>\$8,845,656</u>

There is no capitalization of interest due to purchase of property, plant and equipment.

As of 31 December 2018 and 2017 deeds of certain agriculture land both amounted to NT\$55,425 thousand. The ownership of the land was not transferred to the Group. The Group had entered into a trust deed with the entrusted registrant for such agriculture land.

Property, plant and equipment were not pledged.

(11) Investment property

	Land	Buildings	Total
Cost:			
As of 1 January 2018	\$376,867	\$6,086	\$382,953
Additions	-	-	-
As of 31 December 2018	<u>\$376,867</u>	<u>\$6,086</u>	<u>\$382,953</u>
Depreciation and impairment :			
As of 1 January 2018	\$ -	\$101	\$101
Depreciation	-	1,217	1,217
As of 31 December 2018	<u>\$ -</u>	<u>\$1,318</u>	<u>\$1,318</u>
Cost:			
As of 1 January 2017	\$230,423	\$ -	\$230,423
Additions	146,444	6,086	152,530
As of 31 December 2017	<u>\$376,867</u>	<u>\$6,086</u>	<u>\$382,953</u>
Depreciation and impairment :			
As of 1 January 2017	\$ -	\$ -	\$ -
Depreciation	-	101	101
As of 31 December 2017	<u>\$ -</u>	<u>\$101</u>	<u>\$101</u>
Net carrying amount :			
As of 31 December 2018	<u>\$376,867</u>	<u>\$4,768</u>	<u>\$381,635</u>
As of 31 December 2017	<u>\$376,867</u>	<u>\$5,985</u>	<u>\$382,852</u>

	For the years ended 31 December	
	2018	2017
Rental income from investment property	\$2,556	\$4,034
Less:		
Direct operating expenses from investment property generating rental income	-	-
Direct operating expenses from investment property not generating rental income	-	-
Total	<u>\$2,556</u>	<u>\$4,034</u>

No investment property was pledged.

Investment properties held by the Group are not measured at fair value but for which the fair value is disclosed. The fair value measurements of the investment properties are categorized within Level 3. The fair value of investment properties was both NT\$627,522 thousand as at 31 December 2018 and 31 December 2017. The fair value has been determined based on valuations performed by an independent appraiser and on transactions observable in the market. The valuation method used is direct capitalized method, and the inputs used are as follows:

	As of 31 December	
	2018	2017
Discount Rate	5.58%	5.58%

(12) Other non-current assets

	As of 31 December	
	2018	2017
Long-term prepaid rent	\$56,799	\$59,537
Advance payments in equipment	11,460	983,958
Refundable deposits	8,144	8,344
Other non-current assets - other	25,186	28,186
Total	\$101,589	\$1,080,025

(13) Short-term borrowings

	Interest Rates (%)	As of 31 December	
		2018	2017
Unsecured bank loans	0.80%-4.15%	\$1,018,533	\$158,996

The Group's unused short-term lines of credits amounted to NT\$10,021,937 thousand and NT\$10,775,896 thousand as of 31 December 2018 and 2017, respectively.

(14) Other payables

	As of 31 December	
	2018	2017
Accrued Salary and bonus	\$359,636	\$345,484
Accrued Discount	180,401	157,306
Accrued Utilities	170,582	150,936
Pollution control payable	104,588	101,776
Others	91,801	111,256
Total	\$907,008	\$866,758

(15) Post-employment benefits

Defined contribution plan

The Group adopt a defined contribution plan in accordance with the Labor Pension Act of the R.O.C. Under the Labor Pension Act, the Company will make monthly contributions of no less than 6% of the employees' monthly wages to the employees' individual pension accounts. The Group has made monthly contributions of 6% of each individual employee's salaries or wages to employees' pension accounts.

Pension expenses under the defined contribution plan for the years ended 31 December 2018 and 2017 were NT\$18,087 thousand and NT\$16,419 thousand, respectively.

Defined benefits plan

The Company adopts a defined benefit plan in accordance with the Labor Standards Act of the R.O.C. The pension benefits are disbursed based on the units of service years and the average salaries in the last month of the service year. Two units per year are awarded for the first 15 years of services while one unit per year is awarded after the completion of the 15th year. The total units shall not exceed 45 units. Under the Labor Standards Act, the Company and its domestic subsidiaries contribute an amount equivalent to 2% of the employees' total salaries and wages on a monthly basis to the pension fund deposited at the Bank of Taiwan in the name of the administered pension fund committee. Before the end of each year, the Company and its domestic subsidiaries assess the balance in the designated labor pension fund. If the amount is inadequate to pay pensions calculated for workers retiring in the same year, the Company and its domestic subsidiaries will make up the difference in one appropriation before the end of March the following year.

The Ministry of Labor is in charge of establishing and implementing the fund utilization plan in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund. The pension fund is managed by the in-house managers or under discretionary accounts, based on a passive-aggressive investment strategy for long-term profitability. The Ministry of Labor establishes checks and risk management mechanism based on the assessment of risk factors including market risk, credit risk and liquidity risk, in order to maintain adequate manager flexibility to achieve targeted return without over-exposure of risk. With regard to utilization of the pension fund, the minimum earnings in the annual distributions on the final financial statement shall not be less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. Treasury Funds can be used to cover the deficits after the approval of the competent authority. As the Company does not participate in the operation and management of the pension fund, no disclosure on the fair value of the plan assets categorized in different classes could be made in accordance with paragraph 142 of IAS 19. The Group expects to contribute NT\$19,478 thousand to its defined benefit plan during the 12 months beginning after 31 December 2018.

The weighted average duration of the defined benefits obligation was 9 years of 31 December 2018.

Pension costs recognized in profit or loss are as follows:

	For the years ended 31 December	
	2018	2017
Current period service costs	\$12,631	\$14,853
Net interest on the net defined benefit liabilities/assets	2,102	2,760
Past service cost	1,041	-
Gains and losses arising from settlements	-	760
Total	<u>\$15,774</u>	<u>\$18,373</u>

Reconciliations of the defined benefit obligation and fair value of plan assets are as follows:

	As of		
	31 December 2018	31 December 2017	1 January 2017
Defined benefit obligation at 1 January	\$709,018	\$726,213	\$730,101
Plan assets at fair value	(512,509)	(513,600)	(490,020)
Net defined benefit obligation	196,509	212,613	240,081
Less: current portion	(14,798)	(27,655)	(53,782)
Net defined benefit obligation-noncurrent	<u>\$181,711</u>	<u>\$184,958</u>	<u>\$186,299</u>

Reconciliation of liabilities (assets) of the defined benefit plan are as follows:

	Defined benefit obligation	Fair value of plan assets	Benefit liability (asset)
As at 1 January 2017	\$730,101	\$(490,020)	\$240,081
Current period service costs	14,853	-	14,853
Interest expense (income)	8,950	(6,190)	2,760
Past service cost and gains and losses arising from settlements	(5,605)	6,365	760
Subtotal	<u>18,198</u>	<u>175</u>	<u>18,373</u>
Remeasurements of the defined benefit liabilities/assets:			
Actuarial gains and losses arising from changes in demographic assumptions	29	-	29
Actuarial gains and losses arising from changes in financial assumptions	16,186	-	16,186
Experience adjustments	(5,898)	-	(5,898)
Remeasurements of the defined benefit assets	-	2,210	2,210
Subtotal	<u>10,317</u>	<u>2,210</u>	<u>12,527</u>

	Defined benefit obligation	Fair value of plan assets	Benefit liability (asset)
Payments of benefit obligation	(32,403)	30,842	(1,561)
Contributions by employer	-	(56,807)	(56,807)
As at 31 December 2017	\$726,213	\$(513,600)	\$212,613
Current period service costs	12,631	-	12,631
Interest expense (income)	7,118	(5,016)	2,102
Past service cost and gains and losses arising from settlements	1,041	-	1,041
Subtotal	20,790	(5,016)	15,774
Remeasurements of the defined benefit liabilities/assets:			
Actuarial gains and losses arising from changes in demographic assumptions	211	-	211
Actuarial gains and losses arising from changes in financial assumptions	(3,350)	-	(3,350)
Experience adjustments	46,864	-	46,864
Remeasurements of the defined benefit assets	-	(15,862)	(15,862)
Subtotal	43,725	(15,862)	27,863
Payments of benefit obligation	(76,925)	55,491	(21,434)
Contributions by employer	-	(33,522)	(33,522)
Liquidation or reduction of payment	(4,785)	-	(4,785)
As of 31 December 2018	\$709,018	\$(512,509)	\$196,509

The principal assumptions used in determining the Company's defined benefit plan are shown below:

	As of 31 December	
	2018	2017
Discount rate	1.00%	1.00%
Expected rate of salary increases	0.50%	0.55%

Sensitivity analysis for significant assumption are shown below:

	For the years ended 31 December			
	2018		2017	
	Defined benefit obligation increase	Defined benefit obligation decrease	Defined benefit obligation increase	Defined benefit obligation decrease
Discount rate increase by 0.25%	\$ -	\$16,260	\$ -	\$17,352
Discount rate decrease by 0.25%	16,823	-	17,973	-
Future salary increase by 0.25%	16,866	-	18,009	-
Future salary decrease by 0.25%	-	16,380	-	17,471

The sensitivity analyses above are based on a change in a significant assumption (for example: change in discount rate or future salary), keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

There was no change in the methods and assumptions used in preparing the sensitivity analyses compared to the previous period.

(16) Equities

(a) Common stock

The Company's authorized capital was both NT\$7,000,000 thousand as at 31 December 2018 and 31 December 2017, each at a par value of NT\$10. The Company has issued 581,599,424 common shares both as at 31 December 2018 and 31 December 2017. The paid-up capital was NT\$5,815,994 thousand. Each share has one voting right and a right to receive dividends.

(b) Capital surplus

	As of 31 December	
	2018	2017
Additional paid-in capital	\$271,134	\$271,134
Treasury share transactions	175,263	175,263
Share of changes in net assets of associates and joint ventures accounted for using the equity method	165,644	-
Gain on sale of assets	665	665
Donated assets	218	218
Other	2,659	1,071
Total	<u>\$615,583</u>	<u>\$448,351</u>

According to the Company Act, the capital reserve shall not be used except for making good the deficit of the company. When a company incurs no loss, it may distribute the capital reserves related to the income derived from the issuance of new shares at a premium or income from endowments received by the company. The distribution could be made in cash or in the form of dividend shares to its shareholders in proportion to the number of shares being held by each of them.

(c) Legal reserve

The Company Act provides that companies must retain at least 10% of their annual earnings, as defined in the Act, until such retention equals the amount of paid-in capital. This retention is accounted for as a legal reserve account. When the Company incurs no loss, it may distribute the portion of legal reserve which exceeds 25% of the paid-in capital by issuing new shares or by cash in proportion to the number of shares being held by each of the shareholders.

(d) Special reserve

When the Company distributed the earnings, it shall set aside supplemental special reserve based on the difference between the amount already set aside and other net deductions from shareholders' equity. For any subsequent reversal of other net deductions from shareholders' equity, the amount reversed may be distributed.

(e) Retained earnings and dividend policies

According to the Company's Articles of Incorporation, current year's earnings, if any, shall be distributed in the following order:

- a. Payment of all taxes and dues
- b. Offset prior years' operation losses
- c. Set aside 10% of the remaining amount after deducting items (a) and (b) as legal reserve
- d. Set aside or reverse special reserve in accordance with law and regulations
- e. The distribution of the remaining portion, if any, will be recommended by the Board of Directors and resolved in the shareholders' meeting

As the Company's industry is mature and the Company makes stable profits, most of the dividends will be distributed to shareholders as cash dividends. However, when there is significant capital expenditure, no more than 70% of total dividends can be distributed as stock dividends to shareholders.

According to the Company Act, the Company needs to set aside amount to legal reserve unless where such legal reserve amounts to the total authorized capital. The legal reserve can be used to make good the deficit of the Company. When the Company incurs no loss, it may distribute the portion of legal reserve which exceeds 25% of the paid-in capital by issuing new shares or by cash in proportion to the number of shares being held by each of the shareholders.

Details of the 2018 and 2017 earnings distribution and dividends per share as approved and resolved by the board of directors' meeting and shareholders' meeting on 7 March 2019 and 8 June 2018 respectively, are as follows:

	Appropriation of earnings		Dividend per share (NT\$)	
	2018	2017	2018	2017
Legal reserve	\$294,241	\$272,496		
Special reserve	269,614	(51,823)		
Common stock -cash dividend	2,326,398	2,035,598	\$4	\$3.5
Total	<u>\$2,890,253</u>	<u>\$2,256,271</u>		

Please refer to Note 6(19) for further details on employees' compensation and remuneration to directors and supervisors.

(17) Operating revenue

	For the years ended 31 December	
	2018(note)	2017
Revenue from contracts with customers		
Sale revenue	\$30,762,524	\$24,741,937
Revenue arising from rendering of services	103,123	-
Total	<u>\$30,865,647</u>	<u>\$24,741,937</u>

Note: The Group adopted IFRS 15 on 1 January 2018. The Group elected to apply the standard retrospectively by recognizing the cumulative effect of initially applying the standard at the date of initial application (1 January 2018).

The Group adopted IFRS 15 on 1 January 2018. Analysis of revenue from contracts with customers during the year is as follows:

(1) Contract balances

A. Contract assets - current

	Beginning balance	Ending balance	Difference
Sales of goods	<u>\$210,573</u>	<u>\$250,924</u>	<u>\$40,351</u>

Contract assets have increased for the year ended 31 December 2018 as the Group obtained an unconditional right to receive the consideration at the financial statement reporting date. Please refer to Note 6 (18) for more details on the impairment impact.

B. Contract liabilities - current

	Beginning balance	Ending balance	Difference
Sales of goods	\$82,076	\$170,900	\$(88,824)

During the period, contract liabilities significantly increased as performance obligations are not satisfied.

(2) Transaction price allocated to unsatisfied performance obligations

As at 31 December 2018, the Group expected that all of the transaction price allocated to unsatisfied performance obligations will be recognized as revenue within one year, therefore, it is not required to provide information about the unsatisfied performance obligations.

(3) Assets recognized from costs to fulfil a contract

None

(18) Expected credit losses

The Group expected credit losses for the year ended 31 December 2018: None.

Please refer to Note 12 for more details on credit risk.

The Group measures the loss allowance of its contract assets and trade receivables (including note receivables and trade receivables) at an amount equal to lifetime expected credit losses. The assessment of the Group's loss allowance as at 31 December 2018 is as follows:

- (1) the gross carrying amount of the contract asset was NT\$250,924 thousand; its loss allowance which is measured at expected credit loss ratio of 0%, amounted to NT\$0.
- (2) the Group considers the grouping of trade receivables by counterparties' credit rating, by geographical region and by industry sector and its loss allowance is measured by using a provision matrix, details are as follows:

	Not yet due (note)	<=30 days	31-60 days	Overdue 61-90 days	91-120 days	>=121 days	Total
Gross carrying amount	\$1,446,020	\$15,240	\$540	\$ -	\$ -	\$ -	\$1,461,800
Loss ratio	0-1%	-%	-%	-%	-%	-%	
Lifetime expected credit losses	3,305	-	-	-	-	-	3,305
Carrying amount of trade receivables	<u>\$1,442,715</u>	<u>\$15,240</u>	<u>\$540</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,458,495</u>

Note: The Group's trade receivables are not overdue, and the credit loss of its duration period is all recorded in the previous year.

The movement in the provision for impairment of contract assets, note receivables and trade receivables for the year ended 31 December 2018 is as follows:

	Contract assets	Note receivables	Trade receivables
Beginning balance (in accordance with IAS 39)	\$ -	\$1,187	\$2,118
Transition adjustment to retained earnings	-	-	-
Beginning balance (in accordance with IFRS 9)	-	1,187	2,118
Addition/(reversal) for the current period	-	-	-
Write off	-	-	-
Ending balance	<u>\$ -</u>	<u>\$1,187</u>	<u>\$2,118</u>

(19) Summary statement of employee benefits, depreciation and amortization expenses by function for the year ended 31 December 2018 and 2017:

Nature \ Function	2018			2017		
	Operating costs	Operating expenses	Total amount	Operating costs	Operating expenses	Total amount
Employee benefits expense						
Salaries	\$708,489	\$250,531	\$959,020	\$615,852	\$234,188	\$850,040
Labor and health insurance	48,241	16,860	65,101	45,468	14,987	60,455
Pension	28,086	5,712	33,798	27,224	6,208	33,432
Other employee benefits expense	33,743	8,703	42,446	25,297	6,422	31,719
Depreciation	998,599	19,708	1,018,307	1,171,126	27,178	1,198,304
Amortization	3,000	-	3,000	500	-	500

The number of employees of the Group for the years ended 31 December 2018 and 2017 were 872 and 853, respectively.

According to the Articles of Incorporation, no less than 2% of profit of the current year is distributable as employees' compensation and no higher than 2% of profit of the current year is distributable as remuneration to directors and supervisors. However, the company's accumulated losses shall have been covered. The Company may, by a resolution adopted by a majority vote at a meeting of board of directors attended by two-thirds of the total number of directors, have the profit distributable as employees' compensation in the form of cash; and in addition thereto a report of such distribution is submitted to the shareholders' meeting. Information on the board meeting resolution regarding the employees' compensation and remuneration to directors and supervisors can be obtained from the "Market Observation Post System" on the website of the TWSE.

Based on profit of 31 December 2018, the Company estimated the amounts of the employees' compensation and remuneration to directors and supervisors for the period ended of 31 December 2018 to be 8.02% and 1.15% of profit, respectively. The employees' compensation and remuneration to directors and supervisors for the period ended of 31 December 2018 amounted to NT\$321,252 thousand and NT\$46,000 thousand respectively, recognized as employee benefits expense.

A resolution was passed at a board meeting to distribute NT\$321,252 thousand and NT\$46,000 thousand in cash as employees' compensation and remuneration to directors and supervisors of 2018, respectively. Differences between the estimated amount and the actual distribution of the employee compensation and remuneration to directors and supervisors for the year ended 31 December 2018 were recognized in profit or loss of the subsequent year in 2018.

The employees' compensation and remuneration to directors and supervisors for the period ended of 31 December 2017 amount to NT\$279,182 thousand and NT\$40,000 thousand respectively. No material differences exist between the estimated amount and the actual distribution of the employee bonuses and remuneration to directors and supervisors for the year ended 31 December 2017.

(20) Non-operating income and expenses

(a) Other income

	For the years ended 31 December	
	2018	2017
Dividend income	\$28,443	\$25,672
Rental income	3,265	4,743
Interest income	2,861	9,773
Others	17,855	11,572
Total	<u>\$52,424</u>	<u>\$51,760</u>

Note: The Group adopted IFRS 9 on 1 January 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

(b) Other gains and losses

	For the years ended 31 December	
	2018	2017
Gains on disposal of property, plant and equipment, net	\$66,328	\$1,121
Foreign exchange (losses) gains, net	18,795	(11,166)
Gains on disposal of investments	-	6,076
Losses of financial assets at fair value through profit or loss (note)	-	(834)
Others	(2,209)	(5,170)
Total	<u>\$82,914</u>	<u>\$ (9,973)</u>

Note: Financial asset was measured at fair value through profit or loss for the year ended 31 December 2017.

(c) Finance costs

	For the years ended 31 December	
	2018	2017
Interest on loans from bank	<u>\$ (8,217)</u>	<u>\$ (2,531)</u>

(21) Components of other comprehensive income

For the year ended 31 December 2018:

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax effect	Other comprehensive income, net of tax
Not to be reclassified to profit or loss in subsequent periods:					
Remeasurements of defined benefit plans(note)	\$(27,863)	\$ -	\$(27,863)	\$7,127	\$(20,736)
Unrealized gains (losses) from equity instruments investments measured at fair value through other comprehensive income	25,496	-	25,496	-	25,496
Share of other comprehensive income of associates and joint ventures accounted for using the equity method(note)	(855)	-	(855)	157	(698)
To be reclassified to profit or loss in subsequent periods:					
Effective portion of gains and losses on hedging instruments in a cash flow hedge (note)	1,300	-	1,300	(221)	1,079
Total of other comprehensive income	<u>\$(1,922)</u>	<u>\$ -</u>	<u>\$(1,922)</u>	<u>\$7,063</u>	<u>\$5,141</u>

Note: including the effects of change in income tax rate applicable in 2018.

For the year ended 31 December 2017:

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax effect	Other comprehensive income, net of tax
Not to be reclassified to profit or loss in subsequent periods:					
Remeasurements of defined benefit plans	\$(12,527)	\$ -	\$(12,527)	\$2,129	\$(10,398)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	22	-	22	(3)	19
To be reclassified to profit or loss in subsequent periods:					
Unrealized gains (losses) from available-for-sale financial assets	(2,438)	-	(2,438)	-	(2,438)
Effective portion of gains and losses on hedging instruments in a cash flow hedge	65,374	-	65,374	(11,113)	54,261
Total of other comprehensive income	<u>\$50,431</u>	<u>\$ -</u>	<u>\$50,431</u>	<u>\$(8,987)</u>	<u>\$41,444</u>

(22) Income tax

Based on the amendments to the Income Tax Act announced on 7 February 2018, the Company's applicable corporate income tax rate for the year ended 31 December 2018 has changed from 17% to 20%. The corporate income surtax on undistributed retained earnings has changed from 10% to 5%.

The major components of income tax expense (income) are as follows:

Income tax expense (income) recognized in profit or loss

	For the years ended 31 December	
	2018	2017
Current income tax expense:		
Current income tax charge	\$603,924	\$554,356
Deferred tax income:		
Deferred tax income relating to origination and reversal of temporary differences	129,080	(37,167)
Deferred tax expense (income) relating to changes in tax rate or the imposition of new taxes	(38,043)	-
Total income tax expense	<u>\$694,961</u>	<u>\$517,189</u>

Income tax relating to components of other comprehensive income

	For the years ended 31 December	
	2018	2017
Deferred tax expense (income):		
Remeasurements of defined benefit plans	\$(7,127)	\$(2,129)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(157)	3
Unrealized gains and losses on hedging instruments in a cash flow hedge	221	11,113
Income tax relating to components of other comprehensive income	<u>\$(7,063)</u>	<u>\$8,987</u>

A reconciliation between tax expense and the product of accounting profit multiplied by applicable tax rate is as follows:

	For the years ended 31 December	
	2018	2017
Accounting profit before tax from continuing operations	<u>\$3,637,376</u>	<u>\$3,242,146</u>
Tax at the domestic rates applicable to profits in the country concerned	\$727,475	\$551,165
Tax effect of revenues exempt from taxation	(40,609)	(34,181)
Tax effect of expenses not deductible for tax purposes	307	205
Tax expense (income) relating to changes in tax rate	(38,043)	-
10% surtax on undistributed retained earnings	45,831	-
Total income tax expenses recognized in profit or loss	<u>\$694,961</u>	<u>\$517,189</u>

Deferred tax assets (liabilities) relate to the following:

For the year ended 31 December 2018:

Items	Balance as of 1 January	Recognized in profit or loss	Recognized in other comprehensive income	Balance as of 31 December
Temporary difference				
Bonus payable	\$4,338	\$575	\$ -	\$4,913
Impairment losses on available-for-sale financial assets	3,679	649	-	4,328
Loss from price recovery (reduction) of inventories	1,112	196	-	1,308
Unrealized foreign exchange gains or losses	421	(580)	-	(159)
Investments accounted for using the equity method	47,120	8,315	-	55,435
Share of other comprehensive of associates and joint ventures	(76)	-	157	81
Non-current liability – Defined benefit Liability	26,973	(4,034)	-	22,939
Remeasurements of defined benefit plans	8,805	-	7,127	15,932
Difference between book depreciation expense and tax depreciation expense	131,937	(96,158)	-	35,779
Effective portion of gains on hedging instruments in a cash flow hedge	221	-	(221)	-
Deferred tax income		<u>\$(91,037)</u>	<u>\$7,063</u>	
Net deferred tax assets	<u>\$224,530</u>			<u>\$140,556</u>
Reflected in balance sheet as follows:				
Deferred tax assets	<u>\$224,606</u>			<u>\$140,715</u>
Deferred tax liabilities	<u>\$(76)</u>			<u>\$(159)</u>

For the year ended 31 December 2017:

Items	Balance as of 1 January	Recognized in profit or loss	Recognized in other comprehensive income	Balance as of 31 December
Temporary difference				
Bonus payable	\$6,267	\$(1,929)	\$ -	\$4,338
Impairment losses on available-for-sale financial assets	3,679	-	-	3,679
Loss from price recovery (reduction) of inventories	1,112	-	-	1,112
Unrealized foreign exchange gains or losses	(690)	1,111	-	421
Investments accounted for using the equity method	47,094	26	-	47,120
Share of other comprehensive of associates and joint ventures	(73)	-	(3)	(76)
Non-current liability – Defined benefit Liability	33,772	(6,799)	-	26,973
Remeasurements of defined benefit plans	6,676	-	2,129	8,805
Difference between book depreciation expense and tax depreciation expense	87,179	44,758	-	131,937
Effective portion of gains and losses on hedging instruments in a cash flow hedge	11,334	-	(11,113)	221
Deferred tax income		<u>\$37,167</u>	<u>\$(8,987)</u>	
Net deferred tax assets	<u>\$196,350</u>			<u>\$224,530</u>
Reflected in balance sheet as follows:				
Deferred tax assets	<u>\$197,113</u>			<u>\$224,606</u>
Deferred tax liabilities	<u>\$(763)</u>			<u>\$(76)</u>

The assessment of income tax returns

As of 31 December 2018, the Company's income tax returns through 2016 have been assessed and approved by the tax authority.

(23) Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

Basic earnings per share	For the years ended 31 December	
	2018	2017
Profit attributable to ordinary equity holders of the Company	<u>\$2,942,415</u>	<u>\$2,724,957</u>
Weighted-average number of ordinary shares for basic earnings per share (in thousands)	<u>581,599</u>	<u>581,599</u>
Basic earnings per share (NT\$)	<u>\$5.06</u>	<u>\$4.69</u>

The Company's diluted earnings per share amounts equal to its basic earnings per share amounts.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date the financial statements were authorized for issue.

7. Related party transactions

Information of the related parties that had transactions with the Group during the financial reporting period is as follows:

Name and nature of relationship of the related parties

<u>Name of the related parties</u>	<u>Nature of relationship of the related parties</u>
Gei Tai International Ltd (note)	Substantive related party
Taiwan Steel Union Co., Ltd.	Associate
Feng Ying Development Enterprise Co., Ltd.	Associate

Note: The company became a non- related party on 30 June 2018 .

Significant transactions with the related parties

(a) Purchases

	For the years ended 31 December	
	2018	2017
Substantive related party	\$126,477	\$296,450
Associates	-	3,880
Total	<u>\$126,477</u>	<u>\$300,330</u>

The purchase price from the above related parties was determined through mutual agreement based on the market rates. The payment terms from the related party suppliers are comparable with third party suppliers.

(b) Account Payable

	As of 31 December	
	2018	2017
Associates	<u>\$3,275</u>	<u>\$3,238</u>

(c) Other

Taiwan Steel Union Co., Ltd was commissioned to process the electric arc furnace dust. Other expenditures paid to Taiwan Steel Union Co., Ltd for the years ended 31 December 2018 and 2017 were NT\$26,030 thousand and NT\$40,446 thousand, respectively, and were recorded as manufacturing expenses. The unpaid amounts as of 31 December 2018 and 2017 were NT\$3,275 thousand and NT\$3,238 thousand.

(d) Key management personnel compensation

	For the years ended 31 December	
	2018	2017
Short-term employee benefits	\$117,961	\$92,947
Post-Employment Benefits	538	785
Total	<u>\$118,499</u>	<u>\$93,732</u>

8. Assets pledged as security

None.

9. Commitments and contingencies

(1) As of 31 December 2018 and 2017, the Group issued guaranty notes as security for borrowings in the amount of NT\$12,955,250 thousand and NT\$13,362,450 thousand, respectively.

(2) As of 31 December 2018 and 2017, the Group was issued letters of guarantee by banks both in the amount of NT\$35,500 thousand for importing goods.

(3) Amounts available under unused letters of credit are as follows:

Currency	Carrying amount	
	2018.12.31	2017.12.31
USD	\$14,783	\$19,915
JPY	111,274	113,306
EUR	1,893	4,225

The amounts that are available under unused letters of credit above are unguaranteed.

(4) The following table lists major purchase contracts of the Group:

Contract counterparty	Contract content	Contract amount	Contract amount paid	Unpaid amount as of 31 December 2018
Company A	New building	\$300,000	\$83,529	\$216,471

10. Losses due to major disasters

None.

11. Significant subsequent events

None.

12. Others

(1) Categories of financial instruments

	As of 31 December	
	2018	2017
<u>Financial assets</u>		
Financial assets at fair value through other comprehensive income	\$1,047,664	(Note)
Available-for-sale financial assets		
Financial assets at fair value	(Note)	\$53,741
Financial assets at cost-noncurrent	(Note)	1,204,518
Subtotal	1,047,664	1,258,259
Financial assets measured at amortized cost:		
Cash and cash equivalents (exclude cash on hand)	649,418	(Note)
Contract assets	250,924	(Note)
Notes and accounts receivable	1,458,495	(Note)
Other receivables	28,315	(Note)
Other financial assets -Current	-	(Note)
Other financial assets -Non Current	13,686	(Note)
Subtotal	2,400,838	(Note)
Loans and receivables:		
Cash and cash equivalents (exclude cash on hand)	(Note)	1,980,843
Notes and accounts receivable	(Note)	1,588,612
Other receivables	(Note)	3,679
Other financial assets-Current	(Note)	134,160
Other financial assets-Non Current	(Note)	13,686
Subtotal	(Note)	3,720,980
Total	\$3,448,502	\$4,979,239
<u>Financial liabilities</u>		
Financial liabilities at amortized cost:		
Short-term borrowings	\$1,018,533	\$158,996
Notes and accounts payable	1,558,603	1,409,786
Other payables	907,008	866,758
Total	\$3,484,144	\$2,435,540

Note:

The Group adopted IFRS 9 on 1 January 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

(2) Financial risk management objectives and policies

The Group's principal financial risk management objective is to manage the market risk, credit risk and liquidity risk related to its operating activities. The Group identifies measures and manages the aforementioned risks based on the Group's policy and risk appetite.

The Group has established appropriate policies, procedures and internal controls for financial risk management. Before entering into significant financial activities, due approval process by the board of directors and audit committee must be carried out based on related protocols and internal control procedures. The Group complies with its financial risk management policies at all times.

(3) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in market prices. Market prices comprise currency risk, interest rate risk and other price risk.

In practice, it is rarely the case that a single risk variable will change independently from other risk variables, there is usually interdependencies between risk variables. However the sensitivity analysis disclosed below does not take into account the interdependencies between risk variables.

Foreign currency risk

The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a different currency from the Group's functional currency).

The Group has certain foreign currency receivables to be denominated in the same foreign currency with certain foreign currency payables, therefore natural hedge is received.

The foreign currency sensitivity analysis of the possible change in foreign exchange rates on the Group's profit is performed on significant monetary items denominated in foreign currencies as of the end of the reporting period. The Group's foreign currency risk is mainly related to the volatility in the exchange rates for USD, JPY and EUR.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's loans and receivables at variable interest rates, bank borrowings with fixed interest rates and variable interest rates.

The interest rate sensitivity analysis is performed on the borrowings and investments with variable interest rates as of the end of the reporting period, under the assumption that, a change of 10 basis points of interest rates in a reporting period.

Pre-tax sensitivity analysis of changes in related risk factors for the years ended 31 December 2018 and 2017 are as follows:

For the year ended 31 December 2018

Main Risk	Fluctuation	Sensitivity of profit/loss	Sensitivity of equity
Foreign currency risk	NTD/USD rate +/- 1%	+/-\$(4,250)	\$ -
Interest rate risk	Market rate +/- 10 basis points	+/- \$1,019	\$ -

For the year ended 31 December 2017

Main Risk	Fluctuation	Sensitivity of profit/loss	Sensitivity of equity
Foreign currency risk	NTD/USD rate +/- 1%	+/- \$3,225	+/- \$18
	NTD/JPY rate +/- 1%	+/- \$(132)	+/- \$68
	NTD/EUR rate +/- 1%	+/- \$(344)	+/- \$1,255
Interest rate risk	Market rate +/- 10 basis points	+/- \$159	\$ -

Equity price risk

The fair value of the Group's listed and unlisted equity securities and conversion rights of the Euro-convertible bonds issued are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group's listed and unlisted equity securities are classified under held for trading financial assets or available-for-sale financial assets, while conversion rights of the Euro-convertible bonds issued are classified as financial liabilities at fair value through profit or loss as it does not satisfy the definition of an equity component. The Group manages the equity price risk through diversification and placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Group's senior management on a regular basis. The Group's board of directors reviews and approves all equity investment decisions.

At the reporting date, a change of 1% in the price of the listed equity securities, mandatorily measured at fair value through other comprehensive income could increase/decrease the Group's profit for the twelve-month periods ended 31 December 2018 by NT\$2,481 thousand.

At the reporting date, a change of 1% in the price of the listed equity securities, measured at available-for-sale securities could increase/decrease the Group's profit for the twelve-month periods ended 31 December 2017 by NT\$537 thousand.

(4) Credit risk management

Credit risk is the risk that counterparty will not meet its obligations under a contract, leading to a financial loss. The Group is exposed to credit risk from operating activities (primarily for trade receivables and notes receivables) and from its financing activities, including bank deposits and other financial instruments.

Credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to credit risk management. Credit limits are established for all counter parties based on their financial position, ratings from credit rating agencies, historical experiences, prevailing economic condition and the Group's internal rating criteria, etc. Certain counterparty's credit risk will also be managed by taking credit enhancing procedures, such as requesting for prepayment.

As of 31 December 2018 and 2017, account receivables from top ten customers represented 19.46% and 6.25% of the total trade receivables of the Group, respectively. The credit concentration risk of other accounts receivables is insignificant.

Credit risk from balances with banks, fixed income securities and other financial instruments is managed by the Group's treasury in accordance with the Group's policy. The Group only transacts with counterparties approved by the internal control procedures, which are banks and financial institutions, companies and government entities with good credit rating and with no significant default risk. Consequently, there is no significant credit risk for these counterparties.

(5) Liquidity risk management

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of cash and cash equivalents, highly liquid equity investments and bank loans. The table below summarizes the maturity profile of the Company's financial liabilities based on the contractual undiscounted payments and contractual maturity. The payment amount includes the contractual interest. The undiscounted payment relating to borrowings with variable interest rates is extrapolated based on the estimated interest rate yield curve as of the end of the reporting period.

Non-derivative financial liabilities

	Less than 1 year	2 to 3 years	4 to 5 years	> 5 years	Total
As of 31 December 2018					
Short-term borrowings	\$1,046,803	\$ -	\$ -	\$ -	\$1,046,803
Notes and accounts payable	1,558,603	-	-	-	1,558,603
Other receivables	907,008	-	-	-	907,008
As of 31 December 2017					
Short-term borrowings	\$162,845	\$ -	\$ -	\$ -	\$162,845
Notes and accounts payable	1,409,786	-	-	-	1,409,786
Other receivables	866,758	-	-	-	\$866,758

Derivative financial liabilities

None.

(6) Reconciliation of liabilities arising from financing activities

Reconciliation of liabilities for the year ended 31 December 2018:

	Short-term borrowings
As at 1 Jan. 2018	\$158,996
Cash flows	859,537
As at 31 Dec. 2018	<u>\$1,018,533</u>

Reconciliation of liabilities for the year ended 31 December 2017:

Not applicable

(7) Fair value of financial instruments

(1) The methods and assumptions applied in determining the fair value of financial instruments:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions were used by the Group to measure or disclose the fair values of financial assets and financial liabilities:

- A. The carrying amount of cash and cash equivalents, accounts receivables, accounts payable and other current liabilities approximate their fair value due to their short maturities.
- B. For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (including listed equity securities and bonds) at the reporting date.
- C. Fair value of equity instruments without market quotations (including unquoted public company and private company equity securities) are estimated using the market method valuation techniques based on parameters such as recent fund raising activities, valuation of similar companies, individual company's development, market conditions and other economic indicators.
- D. Fair value of debt instruments without market quotations, bank loans, bonds payable and other non-current liabilities are determined based on the counterparty prices or valuation method. The valuation method uses DCF method as a basis, and the assumptions such as the interest rate and discount rate are primarily based on relevant information of similar instrument (such as yield curves published by the GreTai Securities Market, average prices for Fixed Rate Commercial Paper published by Reuters and credit risk, etc.)

(2) Fair value of financial instruments measured at amortized cost

The book value of the Group's financial assets and financial liabilities measured at amortized cost is very close to the fair value.

(3) Fair value measurement hierarchy for financial instruments

Please refer to Note 12. (9) for fair value measurement hierarchy for financial instruments of the Group.

(8) Derivative financial instruments

None.

(9) Fair value measurement hierarchy

(1) Fair value measurement hierarchy

All asset and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole. Level 1, 2 and 3 inputs are described as follows:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 – Unobservable inputs for the asset or liability

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization at the end of each reporting period.

(2) Fair value measurement hierarchy of the Group's assets and liabilities

The Group does not have assets that are measured at fair value on a non-recurring basis. Fair value measurement hierarchy of the Group's assets and liabilities measured at fair value on a recurring basis is as follows:

As of 31 December 2018

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets:				
Financial assets measured at fair value through other comprehensive income				
Equity instrument measured at fair value through other comprehensive income	\$248,111	\$ -	\$799,553	\$1,047,664

As of 31 December 2017

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets at fair value through profit or loss				
Available-for-sale financial assets				
Stocks	\$53,741	\$ -	\$ -	\$53,741
Other financial assets				
Deposits designated as hedging instruments	134,160	-	-	134,160

Transfers between Level 1 and Level 2 during the period

During the three-month period ended 31 December 2018 and 2017, there were no transfers between Level 1 and Level 2 fair value measurements.

Reconciliation for fair value measurements in Level 3 of the fair value hierarchy for movements during the period is as follows:

	Assets
	At fair value through other comprehensive income
	Stocks
Beginning balances as at 1 January 2018	\$976,574
Total gains and losses recognized for the year ended 31 December 2018:	
Amount recognized in OCI (presented in “Unrealized gains (losses) from equity instruments investments measured at fair value through other comprehensive income)	8,629
Disposal/settlements for the year ended 31 December 2018	(7,774)
Return of paid-in capital for capital reduction	(1,960)
Reclassification to investment using equity method	(175,916)
Ending balances as at 31 December 2018	<u>\$799,553</u>

Information on significant unobservable inputs to valuation

Description of significant unobservable inputs to valuation of recurring fair value measurements categorized within Level 3 of the fair value hierarchy is as follows:

As at 31 December 2018

	Valuation	Significant	Quantitative	Relationship	Sensitivity of the input
	techniques	unobservable inputs	information	between inputs and fair value	to fair value
Financial assets at fair value through other comprehensive income					
Stocks and others	Asset approach	discount for lack of marketability	10%~30%	The higher the discount for lack of marketability, the lower the fair value of the stocks	10% increase (decrease) in the discount for lack of marketability would result in increase (decrease) in the Group's equity by NT\$79,955 thousand

Valuation process used for fair value measurements categorized within Level 3 of the fair value hierarchy

The Group's financial Department is responsible for validating the fair value measurements and ensuring that the results of the valuation are in line with market conditions, based on independent and reliable inputs which are consistent with other information, and represent exercisable prices. The department analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies at each reporting date.

(3) Fair value measurement hierarchy of the Group's assets and liabilities not measured at fair value but for which the fair value is disclosed

As of 31 December 2018

	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value but for which the fair value is disclosed:				
Investment properties (Notes 6, 11)	\$ -	\$ -	\$627,522	\$627,522
Investments accounted for using the equity method (please refer to Notes 6, 9)	1,873,875	-	-	1,873,875

As of 31 December 2017

	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value but for which the fair value is disclosed:				
Investment properties (Notes 6, 11)	\$ -	\$ -	\$627,522	\$627,522

(10) Significant assets and liabilities denominated in foreign currencies

Information regarding the significant assets and liabilities denominated in foreign currencies is listed below:

Unit: Thousands

	As of 31 December 2018			As of 31 December 2017		
	Foreign currencies	Foreign exchange rate	NTD	Foreign currencies	Foreign exchange rate	NTD
<u>Financial assets</u>						
Monetary items:						
USD	\$10,488	30.68	\$321,763	\$18,204	29.79	\$542,295
EUR	-	35.05	-	3,568	35.50	126,674
JPY	2	0.28	-	25,992	0.26	6,836
<u>Financial liabilities</u>						
Monetary item:						
USD	\$24,261	30.78	\$746,697	\$7,294	29.89	\$217,981
EUR	-	35.41	-	991	35.86	35,550
JPY	-	0.28	-	49,432	0.27	13,188

The Company has a number of different functional currencies; therefore, we are unable to disclose the exchange loss and gain of monetary financial assets and financial liabilities under each foreign currency that has significant impact. The Company had NT\$18,795 thousand and NT\$(11,166) thousand foreign exchange (losses) gains for the years ended 31 December 2018 and 2017, respectively.

The above information is disclosed based on the carrying amount of foreign currency (after conversion to functional currency).

(11) Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize the shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust dividend payment to shareholders, return capital to shareholders or issue new shares.

13. Other disclosure

(1) Information at significant transactions

- a. Financing provided to others for the year ended 31 December 2018: None.
- b. Endorsement/Guarantee provided to others for the year ended December 31, 2018:

None.

c. Securities held as of 31 December 2018:

Name of company	Type of securities	Name of securities	Relationship	Financial statement account	December 31, 2018				
					Shares	Book value	Percentage of ownership (%)	Market value/Net assets value	Note
GREAT FORTUNE HOLDING LIMITED. FENG HSIN STEEL CO.,LTD.	Stock	Shihlien China Holding Co., Ltd	-	Financial assets at fair value through other comprehensive income, noncurrent	27,033,543	\$515,411	5.63%	\$515,411	
	Stock	Chien Shing Harbour Service Co., Ltd.	-	Financial assets at fair value through other comprehensive income, noncurrent	8,203,800	187,867	10.11%	187,867	
		Fung-So Investment Co. Ltd	-	Financial assets at fair value through other comprehensive income, noncurrent	3,640,000	175,954	18.20%	175,954	
		Taiwan Fertilizer Co., LTD.	-	Financial assets at fair value through other comprehensive income, noncurrent	1,390,000	60,048	-	60,048	
		Gwo Uei Metals Industrial Co., Ltd.	-	Financial assets at fair value through other comprehensive income, noncurrent	3,800,000	50,778	19.00%	50,778	
		Gwo Huei Iron & Steel Co., Ltd.	-	Financial assets at fair value through other comprehensive income, noncurrent	3,800,000	36,676	19.00%	36,676	
		Ascentek Venture Capital Corporation	-	Financial assets at fair value through other comprehensive income, noncurrent	1,764,000	19,739	5.35%	19,739	
		Taichung International Entertainment Corporation	-	Financial assets at fair value through other comprehensive income, noncurrent	1	970	0.03%	970	
		Pacgen Biopharmaceuticals	-	Financial assets at fair value through other comprehensive income, noncurrent	249,346	196	-	196	
		China Trade And Development Corporation	-	Financial assets at fair value through other comprehensive income, noncurrent	1,925	25	-	25	
Total						<u>\$1,047,664</u>			

- d. Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the paid-in capital for the year ended 31 December 2018: None.
- e. Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the paid-in capital for the year ended 31 December 2018: None.
- f. Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock for the year ended 31 December 2018: None.
- g. Related party transactions for purchases and sales amounts exceeding the lower of NT\$100 million or 20 percent of the capital stock for the year ended 31 December 2018:

Related-party	Counter-party	Relationship	Intercompany Transactions				Details of non-arm's length transaction		Notes and accounts receivable (payable)		Note
			Purchases (Sales)	Amount	Percentage of total consolidated purchase (Sales)	Terms	Unit price	Terms	Carrying amount	Percentage of total consolidated receivables (payable)	
The Company	GEI TAI INTERNATIONAL Co., Ltd	Substantive related party	Purchase	\$126,477	0.5%	30 days	N/A	-	\$ -	- %	

- h. Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of capital stock as of year ended 31 December 2018: None.
- i. Financial instruments and derivative transactions: None.
- j. Others: The business relationship, significant transactions and amounts between parent company and subsidiaries: None.

(2) Information on investees

Names, locations, main businesses and products, original investment amount, investment as of 31 December 2018, net income (loss) of investee company and investment income (loss) recognized as of 31 December 2018 (excluding investees in mainland China):

Investment company	Investee company	Address	Main businesses and products	Initial Investment		Investment as of December 31, 2018			Net income (loss) of investee company (Note)	Investment income (loss) recognized	Note
				Ending balance	Beginning balance	Number of Shares (thousand)	Percentage of ownership (%)	Book value			
FENG HSIN STEEL CO.,LTD.	GREAT FORTUNE HOLDING LIMITED	Offshore Chamber, P.O. Box217, Apia, Samoa	General investment business	\$971,367	\$971,367	31,406,834	100.00%	\$516,592	\$2	\$2	Subsidiary company of the Company
FENG HSIN STEEL CO.,LTD.	TAIWAN STEEL UNION CO., LTD.	No. 36, Xiangong N. 1 st Rd., Shengang Township, Changhua County 509, Taiwan (R.O.C.)	General business and hazardous industrial waste treatment, the manufacture and sale of zinc oxide and non-metallic mineral products.	\$104,182	\$99,980	22,045,587	19.81%	\$711,740	\$785,480	\$155,367	Associated company of the Company
FENG HSIN STEEL CO.,LTD.	FONG YU RESOURCES CO., LTD.	No.998, Jiahou Rd., Sec. 1, Houli Dist., Taichung City 421, Taiwan (R.O.C.)	General business and hazardous industrial waste treatment	\$371,700	\$371,700	37,170,000	29.71%	\$371,028	\$(1,209)	\$(359)	Associated company of the Company
FENG HSIN STEEL CO.,LTD.	FENG YING DEVELOPMENT ENTERPRISE CO., LTD.	No.998, Jiahou Rd., Sec. 1, Houli Dist., Taichung City 421, Taiwan (R.O.C.)	Real Estate Investment and general investment	219,803	\$258,214	426,801	35.57%	\$240,799	\$137,005	\$20,222	Associated company of the Company
FENG HSIN STEEL CO.,LTD.	Wen-Shan Enterprise Co., Ltd.	No.16, Wuncyuan Ln., Sec. 1, Dongguan Rd., Heping Dist., Taichung City 42444, Taiwan (R.O.C.)	General business and the operation of hotel industry	175,916	\$ -	18,000,000	18.00%	\$175,269	\$(3,597)	\$(647)	Associated company of the Company

Note: The Company has recognized investment income from subsidiaries, and the investment income was eliminated in the consolidated report.

(3) Information on investments in mainland China

a. Information on investments in mainland China from the subsidiaries through GREAT FORTUNE HOLDING LIMITED as of 31 December 2018:

Investee company	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment	Accumulated Outflow of Investment from Taiwan as of 1 January 2018	Investment Flows		Accumulated Outflow of Investment from Taiwan as of 31 December 2018	Net income (loss) of investee company	Percentage of Ownership	Investment income (loss) recognized	Carrying Value as of 31 December 2018 (Note 1)	Accumulated Inward Remittance of Earnings as of 31 December 2018
					Outflow	Inflow						
Shihlien Chemical Industrial Jiangsu Co.	Sodium carbonate, which is the ingredient of glass production	USD 800,000,000	Investment in Mainland China companies through a company invested and established in a third region	\$839,184 (USD27,352,800)	-	-	\$839,184 (USD27,352,800)	Note 1	3.15%	\$ -	\$488,816	\$ -
Shihlien Brine Huaian Co.	Brine, which is the ingredient of sodium carbonate	USD 32,000,000	Investment in Mainland China companies through a company invested and established in a third region	\$45,615 (USD1,486,800)	-	-	\$45,615 (USD1,486,800)	Note 1	3.94%	\$ -	\$26,595	\$ -

Accumulated Investment in Mainland China as of 31 December 2018	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
		The lender's net accounts value×60%
\$884,799 (USD 28,839,600)	\$884,799 (USD 28,839,600)	\$11,182,900 (Note 2)

Note 1: The Company's subsidiary's investment in Mainland China was made indirectly through financial assets at fair value through other comprehensive income investee established in the third region.

Note 2: Pursuant to the Investment Commission, Ministry of Economic Affairs, R.O.C., the Company's investment in Mainland China is limited to 60% of net worth or consolidated net worth.

Note 3: Initial investment amounts denominated in foreign currencies are translated into New Taiwan Dollars using the spot rates at the financial statement reporting date.

b. Directly or indirectly significant transactions through third regions with the investees in Mainland China, including price, payment terms, unrealized gain or loss, and other events with significant effects on the operating results and financial condition: None.

14. Segment information

- (a) The Company is considered as a single operating segment as judged by the managements that, the organization's primary income comes from manufacturing and processing various angle irons, round irons, and flat irons.

(b) Geographical information

i. Revenue from external customers:

	<u>For the years ended 31 December</u>	
	<u>2018</u>	<u>2017</u>
Taiwan	\$26,643,821	\$21,095,310
Export - Asia	2,236,450	2,034,042
Export - Other	<u>1,985,376</u>	<u>1,612,585</u>
Total	<u>\$30,865,647</u>	<u>\$24,741,937</u>

The revenue information above is based on the location of the customers.

ii. Non-current assets:

	<u>As of 31 December</u>	
	<u>2018</u>	<u>2017</u>
Taiwan	<u>\$10,436,524</u>	<u>\$10,308,533</u>

(c) Information about major customers

No single customer's sales revenue accounted for over 10% of revenue on the Group income statement for the years ended 31 December 2018 and 2017.