

**CSBC CORPORATION, TAIWAN AND  
SUBSIDIARIES**  
**CONSOLIDATED FINANCIAL STATEMENTS AND**  
**REPORT OF INDEPENDENT ACCOUNTANTS**  
**DECEMBER 31, 2018 AND 2017**

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For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

CSBC CORPORATION, TAIWAN AND SUBSIDIARIES

Declaration of Consolidated Financial Statements of Affiliated Enterprises

Year ended December 31, 2018, pursuant to “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises,” the company that is required to be included in the consolidated financial statements of affiliates, is the same as the company required to be included in the consolidated financial statements of parent and subsidiary companies under IFRS 10. And if relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies, it shall not be required to prepare separate consolidated financial statements of affiliates.

Hereby declare,

CSBC CORPORATION, TAIWAN

WEN-LON CHENG

March 15, 2019

## REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

PWCRI8000429

To the Board of Directors and Shareholders of CSBC CORPORATION, TAIWAN

### ***Opinion***

We have audited the accompanying consolidated balance sheets of CSBC CORPORATION, TAIWAN and its subsidiaries (the “Group”) as at December 31, 2018 and 2017, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

### ***Basis for opinion***

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China (ROC GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. 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 judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

The most significant key audit matters in our audit of the consolidated financial statements of the current period are as follows:

### ***Accounting estimates and assumptions for total cost of construction contract***

#### Description

Please refer to Note 4(28) for a description of the accounting policy on construction contracts. Please refer to Note 5 for critical accounting estimates and assumptions for total cost of construction contracts.

The Group is engaged in the business of designing and building of various ships and cruisers. Assumptions for estimated construction cost include cost for equipment, material, labor and etc. Data used for assumptions involves subjective judgement and accounting estimates and are highly uncertain. As a result, assumptions used are material to the total construction cost and further affects the calculation of construction profit.

As the data used for assumptions involves subjective judgement and accounting estimates are highly uncertain, this may affect the completeness and relevant assertions. Considering that the estimated total cost of construction contracts is material to the financial statements, therefore, we assessed that these accounting estimates and assumptions as one of the key audit matters for this year.

#### How our audit addressed the matter

The scope of our audit responded to the risk as follows:

1. Assessing the effectiveness of CSBC Group's internal control regarding the estimation process of total cost of construction contract. This includes:
  - (1) Whether the data used by management for estimates and assumptions is complete, relevant and accurate.
  - (2) Whether accounting estimates and assumptions have been reviewed and approved by proper management level.
  - (3) Whether the segregation of duties is appropriate.
2. Obtaining the Estimate at Completion Reports, selecting sample reports and verifying the accuracy, completeness and relevance of the data that was used for assumptions and estimations. Checking whether the use of estimates and assumptions in the Estimate at Completion Reports are appropriate.
3. Comparing cost at completion for the same or similar ships and then assessing the reasonableness of the Estimate at Completion Report.

## ***Assessment of construction loss***

### Description

Please refer to Note 4(28) for a description of the accounting policy on construction contracts.

There is a concern regarding the oversupply in the shipbuilding industry worldwide. Customers tend to behave conservatively which causes a decline in ship prices. Thus, there is a high possibility of total construction cost exceeding total construction revenue. In accordance with the Group's accounting policy on construction contracts, when there is a high possibility of total construction cost exceeding total construction revenue, estimated loss shall be recognised immediately.

The aforementioned estimated loss shall include constructions that have not yet been initiated. As the estimated loss is material to the financial statements, therefore, we assessed that the estimated loss as one of the key audit matters for this year.

### How our audit addressed the matter

The scope of our audit responded to the risk as follows:

1. Obtaining calculation table of construction in progress – construction income / loss. Checking whether it includes all the construction contracts including those contracts that have not yet been initiated.
2. Testing the accuracy of calculation table by selecting samples and performing the following audit procedures:
  - (1) Reviewing construction contracts and checking the contractual price and foreign exchange rates in order to verify the accuracy of calculation.
  - (2) Verifying estimated total construction cost to management's calculation in order to check the consistency of estimates and assumptions used.

## ***Other matter – Parent company only financial reports***

We have audited and expressed an unqualified opinion on the parent company only financial statements of CSBC CORPORATION TAIWAN, as at and for the years ended December 31, 2018 and 2017.

## ***Responsibilities of management and those charged with governance for the consolidated financial statements***

Management of the Company is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

## ***Auditor’s responsibilities for the audit of the consolidated financial statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ROC GAAS 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 ROC GAAS, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

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

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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WANG, KUO-HUA

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WU, CHIEN-CHIH

For and on behalf of PricewaterhouseCoopers, Taiwan

March 15, 2019

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The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

**CSBC CORPORATION, TAIWAN AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2018 AND 2017**  
(Expressed in thousands of New Taiwan dollars)

Assets	Notes	December 31, 2018	December 31, 2017
<b>Current assets</b>			
1100	Cash and cash equivalents	6(1) \$ 137,942	\$ 281,814
1140	Current contract assets	6(17)(21) and 7 6,654,429	-
1150	Notes receivable, net	6(17) -	5,790
1170	Accounts receivable, net	6(2)(17) and 12(4) 900,190	1,361,950
1180	Accounts receivable - related parties	6(17) and 7 -	24,976
1190	Receivables from customers on construction contracts	6(17) and 12(5) -	5,326,519
1200	Other receivables	19,100	114,854
1210	Other receivables - related parties	7 83,760	24,942
1220	Current income tax assets	2,532	-
130X	Inventories, net	6(3)(17) 1,337,814	2,321,061
1410	Prepayments	6(4) and 7 1,278,330	626,292
1479	Other current assets, others	2,069	490
11XX	<b>Total current assets</b>	<b>10,416,166</b>	<b>10,088,688</b>
<b>Non-current assets</b>			
1550	Investments accounted for under equity method	6(5) 10,992	1,645
1600	Property, plant and equipment, net	6(6) 10,581,323	10,563,764
1760	Investment property, net	6(7) 208,162	234,055
1780	Intangible assets, net	6(8) 14,611	23,010
1840	Deferred income tax assets	6(27) 1,564,427	1,351,762
1920	Redundable deposits	7 30,750	20,469
15XX	<b>Total non-current assets</b>	<b>12,410,265</b>	<b>12,194,705</b>
1XXX	<b>Total assets</b>	<b>\$ 22,826,431</b>	<b>\$ 22,283,393</b>

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**CSBC CORPORATION, TAIWAN AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2018 AND 2017**  
(Expressed in thousands of New Taiwan dollars)

Liabilities and Equity	Notes	December 31, 2018	December 31, 2017
<b>Current liabilities</b>			
2100	Short-term borrowings	\$ 1,290,150	\$ 2,287,784
2110	Short-term notes and bills payable	-	699,769
2120	Financial liabilities at fair value through profit or loss - current	-	280
2130	Contract liabilities - Current	2,751,268	-
2150	Notes payable	-	15
2160	Notes payable - related parties	428,768	223,073
2170	Accounts payable	713,262	1,170,559
2190	Payables to customers on construction contracts	-	1,060,906
2195	Payables to customers on construction contracts - related parties	-	1,023,847
2200	Other payables	1,069,263	1,284,818
2230	Current income tax liabilities	-	222
2250	Provisions for liabilities - current	2,527,559	140,219
2310	Unearned receipts	3,344	91,074
21XX	<b>Total current liabilities</b>	<u>8,783,614</u>	<u>7,982,566</u>
<b>Non-current liabilities</b>			
2540	Long-term borrowings	5,698,537	5,498,057
2570	Deferred income tax liabilities	1,324,697	1,324,910
2610	Long-term notes, accounts and overdue payable	670,361	659,156
2630	Long-term deferred revenue	71,139	82,344
2640	Net defined benefit liability, non-current	94,368	171,702
2645	Guarantee deposits received	184,928	172,614
2670	Other non-current liabilities, others	13,233	12,960
25XX	<b>Total non-current liabilities</b>	<u>8,057,263</u>	<u>7,921,743</u>
2XXX	<b>Total Liabilities</b>	<u>16,840,877</u>	<u>15,904,309</u>
<b>Equity attributable to owners of parent</b>			
<b>Share capital</b>			
3110	Common stock	3,729,918	7,435,652
<b>Capital surplus</b>			
3200	Capital surplus	2,005,515	1,965
<b>Retained earnings</b>			
3310	Legal reserve	1,065,297	1,065,297
3320	Special reserve	3,166,471	3,190,349
3350	Accumulated deficit	(4,025,443)	(5,357,848)
31XX	<b>Total equity attributable to owners of the parent</b>	<u>5,941,758</u>	<u>6,335,415</u>
36XX	<b>Non-controlling interest</b>	43,796	43,669
3XXX	<b>Total equity</b>	<u>5,985,554</u>	<u>6,379,084</u>
<b>Significant contingent liabilities and unrecognized contract commitments</b>			
3X2X	<b>Total liabilities and equity</b>	<u>\$ 22,826,431</u>	<u>\$ 22,283,393</u>

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

**CSBC CORPORATION, TAIWAN AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**YEARS ENDED DECEMBER 31, 2018 AND 2017**  
(Expressed in thousands of New Taiwan dollars)

Items	Notes	2018	2017
4000 <b>Operating revenue</b>	6(21), 7 and 12(5)	\$ 13,012,326	\$ 16,404,344
5000 <b>Operating costs</b>	6(3)(8)(25)(26) and 7	( 15,606,190)	( 22,126,232)
5900 <b>Net operating loss</b>		( 2,593,864)	( 5,721,888)
<b>Operating expenses</b>	6(8)(25)(26)		
6100 Selling expenses		( 90,533)	( 78,575)
6200 General and administrative expenses		( 306,829)	( 301,826)
6300 Research and development expenses		( 117,013)	( 126,676)
6450 Impairment loss (impairment gain and reversal of impairment loss) determined in accordance with IFRS 9		( 309,358)	-
6000 <b>Total operating expenses</b>		( 823,733)	( 507,077)
6900 <b>Operating loss</b>		( 3,417,597)	( 6,228,965)
<b>Non-operating income and expenses</b>			
7010 Other income	6(7)(14)(22)	87,430	45,615
7020 Other gains and losses	6(23)	20,009	( 127,543)
7050 Finance costs	6(6)(14)(24)	( 26,130)	( 21,281)
7060 Share of loss of associates and joint ventures accounted for under equity method	6(5)	( 2,653)	( 20,868)
7000 <b>Total non-operating income and expenses</b>		78,656	( 124,077)
7900 <b>Loss before income tax</b>		( 3,338,941)	( 6,353,042)
7950 Income tax benefit	6(27)	238,857	469,843
8200 <b>Loss for the year</b>		( \$ 3,100,084)	( \$ 5,883,199)
<b>Other comprehensive income</b>			
<b>Components of other comprehensive income that will not be reclassified to profit or loss</b>			
8311 Gains on remeasurements of defined benefit plans	6(15)	\$ 128,756	\$ 39,602
8349 Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(27)	( 25,752)	( 6,732)
8300 <b>Other comprehensive income</b>		\$ 103,004	\$ 32,870
8500 <b>Total comprehensive loss for the year</b>		( \$ 2,997,080)	( \$ 5,850,329)
<b>Profit (loss), attributable to:</b>			
8610 Equity holders of the company		( \$ 3,100,211)	( \$ 5,880,118)
8620 Non-controlling interest		127	( 3,081)
<b>Total</b>		( \$ 3,100,084)	( \$ 5,883,199)
<b>Comprehensive (loss) income attributable to:</b>			
8710 Equity holders of the company		( \$ 2,997,207)	( \$ 5,847,248)
8720 Non-controlling interest		127	( 3,081)
<b>Total</b>		( \$ 2,997,080)	( \$ 5,850,329)
<b>Basic earnings per share</b>	6(28)		
9750 <b>Total basic earnings per share</b>		( \$ 8.87)	( \$ 18.79)

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

CSBC CORPORATION, TAIWAN AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
YEARS ENDED DECEMBER 31, 2018 AND 2017  
(Expressed in thousands of New Taiwan dollars)

	Notes	Equity attributable to owners of the parent								Total	Non-controlling interest	Total equity	
		Capital surplus		Retained earnings			Accumulated deficit	Total					
		Share capital—common stock	Additional paid-in capital	Employee share options	Others	Legal reserve			Special reserve				
<b>2017</b>													
Balance at January 1, 2017		\$ 7,435,652	\$ -	\$ -	\$ 1,965	\$ 1,065,297	\$ 3,190,349	\$ 489,400	\$ 12,182,663	\$ 46,995	\$ 12,229,658		
Loss for the year, net of tax		-	-	-	-	-	-	( 5,880,118 )	( 5,880,118 )	( 3,081 )	( 5,883,199 )		
Other comprehensive income		-	-	-	-	-	-	32,870	32,870	-	32,870		
Total comprehensive income		-	-	-	-	-	-	( 5,847,248 )	( 5,847,248 )	( 3,081 )	( 5,850,329 )		
Cash dividends distributed to non-controlling interests		-	-	-	-	-	-	-	-	( 245 )	( 245 )		
Balance at December 31, 2017		\$ 7,435,652	\$ -	\$ -	\$ 1,965	\$ 1,065,297	\$ 3,190,349	( \$ 5,357,848 )	\$ 6,335,415	\$ 43,669	\$ 6,379,084		
<b>2018</b>													
Balance at January 1, 2018		\$ 7,435,652	\$ -	\$ -	\$ 1,965	\$ 1,065,297	\$ 3,190,349	( \$ 5,357,848 )	\$ 6,335,415	\$ 43,669	\$ 6,379,084		
Profit (loss) for the year, net of tax		-	-	-	-	-	-	( 3,100,211 )	( 3,100,211 )	127	( 3,100,084 )		
Other comprehensive income		-	-	-	-	-	-	103,004	103,004	-	103,004		
Total comprehensive income		-	-	-	-	-	-	( 2,997,207 )	( 2,997,207 )	127	( 2,997,080 )		
Reversal of special reserve	6(20)	-	-	-	-	-	( 23,878 )	23,878	-	-	-		
Capital reduction to offset accumulated deficits	6(18)(20)	( 4,305,734 )	-	-	-	-	-	4,305,734	-	-	-		
Cash capital increase	6(18)	600,000	1,926,000	-	-	-	-	-	2,526,000	-	2,526,000		
Share-based payments	6(16)	-	-	77,550	-	-	-	-	77,550	-	77,550		
Balance at December 31, 2018		\$ 3,729,918	\$ 1,926,000	\$ 77,550	\$ 1,965	\$ 1,065,297	\$ 3,166,471	( \$ 4,025,443 )	\$ 5,941,758	\$ 43,796	\$ 5,985,554		

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

CSBC CORPORATION, TAIWAN AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2018 AND 2017  
(Expressed in thousands of New Taiwan dollars)

	Notes	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before tax		(\$ 3,338,941 )	(\$ 6,353,042 )
Adjustments			
Adjustments to reconcile profit (loss)			
Expected credit loss/Provision for bad debt expense	12(2)(4)	309,358	7,353
Depreciation of property, plant and equipment	6(6)(25)	547,334	515,546
Depreciation of investment property	6(7)	401	375
Amortization of intangible and other assets	6(8)(25)	17,396	15,908
Loss on investments accounted for using equity method	6(5)	2,653	20,868
(Loss)profit on valuation of financial assets and liabilities	6(23)	2,838	( 11,463 )
Government grant income	6(22)	( 11,206 )	( 11,018 )
Interest income	6(22)	( 7,809 )	( 2,368 )
Share-based payments	6(16)	77,550	-
Interest expense	6(24)	26,130	21,281
Loss on disposal of property, plant and equipment	6(23)	3,742	1,221
Gain on disposal of investment properties	6(23)	( 68,570 )	-
Impairment loss	6(5)(23)	-	144,103
Changes in operating assets and liabilities			
Changes in operating assets			
Increase in current contract assets		( 594,182 )	-
Decrease (increase) in notes receivable		5,790	( 5,790 )
Decrease (increase) in accounts receivable		157,690	( 624,030 )
Decrease (increase) in accounts receivable - related parties		24,976	( 21,212 )
Decrease in receivables from customers on construction contracts		-	2,416,985
Decrease in receivables from customers on construction contracts - related parties		-	1,793,119
Decrease (increase) in other receivables		93,795	( 48,280 )
(Increase) decrease in other receivables - related parties		( 58,818 )	17,098
Decrease in inventories		1,038,368	1,531,805
(Increase) decrease in prepayments		( 652,038 )	492,637
(Increase) decrease in other current assets		( 1,579 )	83
Changes in operating liabilities			
(Decrease) increase in financial liabilities at fair value through profit or loss		( 3,118 )	11,743
Increase in current contract liabilities		1,873,603	-
(Decrease) increase in notes payable		( 15 )	15
Increase (decrease) in notes payable - related parties		205,695	( 101,384 )
(Decrease) increase in accounts payable		( 457,297 )	90,515
Decrease in payables to customers on construction contracts		-	( 1,551,493 )
Increase in payables to customers on construction contracts - related parties		-	1,023,847
Decrease in other payables		( 201,470 )	( 5,529 )
Increase in provisions for liabilities - current		441,236	532
(Decrease) increased in unearned receipts		( 87,730 )	80,772
Increase in net defined benefit liability - non-current		51,422	30,790
Cash outflow generated from operations		( 602,796 )	( 519,013 )
Interest received		7,774	2,402
Payment of interest		( 69,215 )	( 82,089 )
Income tax paid		( 533 )	( 3,455 )
Net cash flows used in operating activities		( 664,770 )	( 602,155 )

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CSBC CORPORATION, TAIWAN AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2018 AND 2017  
(Expressed in thousands of New Taiwan dollars)

	Notes	2018	2017
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Acquisition of investments accounted for using equity method	6(5)	( \$ 12,000 )	\$ -
Acquisition of property, plant and equipment	6(30)	( 583,550 )	( 420,965 )
Cash payments for acquiring investment properties	6(7)	( 940 )	-
Proceeds from disposal of investment properties		95,002	-
Acquisition of intangible assets	6(8)	( 8,997 )	( 10,071 )
Increase in refundable deposits		( 45,711 )	( 317,125 )
Decrease in refundable deposits		35,430	381,788
Net cash flows used in investing activities		( 520,766 )	( 366,373 )
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Decrease in short-term borrowings	6(31)	( 997,634 )	( 4,107,341 )
Decrease in short-term notes and bills payable	6(31)	( 699,769 )	( 299,966 )
Proceeds from long-term debt	6(31)	700,000	5,498,057
Repayments of long-term debt	6(31)	( 499,520 )	-
Increase in guarantee deposit received	6(31)	135,006	102,038
Decrease in guarantee deposit received	6(31)	( 122,692 )	( 133,141 )
Increase (decrease) in other non-current liabilities	6(31)	273	( 193 )
Cash dividends paid to non-controlling interests		-	( 245 )
Cash capital increase	6(18)	2,526,000	-
Net cash flows from financing activities		1,041,664	1,059,209
Net (decrease) increase in cash and cash equivalents		( 143,872 )	90,681
Cash and cash equivalents at beginning of year	6(1)	281,814	191,133
Cash and cash equivalents at end of year	6(1)	\$ 137,942	\$ 281,814

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

CSBC CORPORATION, TAIWAN AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

1. HISTORY AND ORGANIZATION

- (1) On May 1, 1946, Taiwan Machinery and Shipbuilding Company was established by merging Taiwan Dockyard Company with Taiwan Steel Works and Tong Kuang Company in Kaohsiung. The Headquarters is located in Kaohsiung.
- (2) In July, 1973, China Shipbuilding Corporation (the “Company”) was established and reverted to being a state-owned company. In January, 1978, China Shipbuilding Corporation merged with Taiwan Machinery and Shipbuilding Company resulting in the formation of China Shipbuilding Corporation. The Group is engaged in the business of building, manufacturing and repair of various ships and onshore equipment, ship coating, anti-corrosion coating on large steel structure, surface treatment and professional coating.
- (3) On March 1, 2007, China Shipbuilding Corporation changed its name to CSBC Corporation, Taiwan.
- (4) The Company is a listed company since December 22, 2008.

2. THE DATE OF AUTHORIZATION FOR ISSUANCE OF THE CONSOLIDATED FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORIZATION

These consolidated financial statements were authorized for issuance by the Board of Directors on March 15, 2019

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

- (1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards (“IFRS”) as endorsed by the Financial Supervisory Commission (“FSC”)

New standards, interpretations and amendments endorsed by the FSC effective from 2018 are as follows:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Amendments to IFRS 2, ‘Classification and measurement of share-based payment transactions’	January 1, 2018
Amendments to IFRS 4, ‘Applying IFRS 9, Financial instruments with IFRS 4, Insurance contracts’	January 1, 2018
IFRS 9, ‘Financial instruments’	January 1, 2018
IFRS 15, ‘Revenue from contracts with customers’	January 1, 2018

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 15, 'Clarifications to IFRS 15 Revenue from contracts with customers'	January 1, 2018
Amendments to IAS 7, 'Disclosure initiative'	January 1, 2017
Amendments to IAS 12, 'Recognition of deferred tax assets for unrealised losses'	January 1, 2017
Amendments to IAS 40, 'Transfers of investment property'	January 1, 2018
IFRIC 22, 'Foreign currency transactions and advance consideration'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 1, 'First-time adoption of International Financial Reporting Standards'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 12, 'Disclosure of interests in other entities'	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IAS 28, 'Investments in associates and joint ventures'	January 1, 2018

Except for the following, the above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment.

A. IFRS 9, 'Financial instruments'

- (a) Classification of debt instruments is driven by the entity's business model and the contractual cash flow characteristics of the financial assets, which would be classified as financial asset at fair value through profit or loss, financial asset measured at fair value through other comprehensive income or financial asset measured at amortised cost. Equity instruments would be classified as financial asset at fair value through profit or loss, unless an entity makes an irrevocable election at inception to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading.
- (b) The impairment losses of debt instruments are assessed using an 'expected credit loss' approach. An entity assesses at each balance sheet date whether there has been a significant increase in credit risk on that instrument since initial recognition to recognise 12-month expected credit losses or lifetime expected credit losses (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument that has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e. net of credit allowance). The Group shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that do not contain a significant financing component.
- (c) The Group has elected not to restate prior period financial statements using the modified retrospective approach under IFRS 9. For details of the significant effect as at January 1, 2018, please refer to Note 12(4).

## B. IFRS 15, 'Revenue from contracts with customers' and amendments

- (a) IFRS 15, 'Revenue from contracts with customers' replaces IAS 11 'Construction contracts', IAS 18 'Revenue' and relevant interpretations. According to IFRS 15, revenue is recognised when a customer obtains control of promised goods or services. A customer obtains control of goods or services when a customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

Step 1: Identify contracts with customer.

Step 2: Identify separate performance obligations in the contract(s).

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price.

Step 5: Recognise revenue when the performance obligation is satisfied.

Further, IFRS 15 includes a set of comprehensive disclosure requirements that requires an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

- (b) The Group has elected not to restate prior period financial statements and recognised the cumulative effect of initial application as retained earnings at January 1, 2018, using the modified retrospective approach under IFRS 15. The significant effects of adopting the modified transition as of January 1, 2018 are summarised below:

### Presentation of contract assets and contract liabilities

In line with IFRS 15 requirements, the Group expects to change the presentation of certain accounts in the balance sheet as follows:

- i. IFRS requires revenue arising from construction contracts in relation to shipbuilding, vessel construction and machinery manufacturing to be recognised as contract assets prior to the receipt of consideration or payment from customers. The revenue arising prior to the rendering of services that has been committed but not transferred to customers is recognised as contract liabilities. In accordance with IAS 11, net income or loss will be reclassified as receivables or payables on construction contracts.

Under IAS 37, provision is recognised for onerous contracts. An expected loss associated with the construction work performed during prior reporting period is measured in accordance with IAS 11, 'Construction contracts' and adjusted to receivables or payables on construction contracts accordingly.

The resulting difference is adjusted by decreasing construction contracts receivables and payables on construction contracts in the amount of \$5,326,519 and \$2,084,753, as well as increasing contract assets, contract liabilities and provision in the amount of \$6,065,535, \$877,665 and \$1,946,104, respectively.

- ii. Under IFRS 15, ship repairs and anti-corrosion coating contracts whereby services have been rendered but not yet billed are recognised as contract assets. As of January 1, 2018, the balance would amount to \$55,447.

#### C. Amendments to IAS 7, 'Disclosure initiative'

This amendment requires that an entity shall provide more disclosures related to changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The Group expects to provide additional disclosure to explain the changes in liabilities arising from financing activities.

#### (2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Group

New standards, interpretations and amendments endorsed by the FSC effective from 2019 are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 9, 'Prepayment features with negative compensation'	January 1, 2019
IFRS 16, 'Leases'	January 1, 2019
Amendments to IAS 19, 'Plan amendment, curtailment or settlement'	January 1, 2019
Amendments to IAS 28, 'Long-term interests in associates and joint ventures'	January 1, 2019
IFRIC 23, 'Uncertainty over income tax treatments'	January 1, 2019
Annual improvements to IFRSs 2015-2017 cycle	January 1, 2019

Except for the following, the above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment. The quantitative impact will be disclosed when the assessment is complete.

#### A. IFRS 16, 'Leases'

IFRS 16, 'Leases', replaces IAS 17, 'Leases' and related interpretations and SICs. The standard requires lessees to recognise a 'right-of-use asset' and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.

The Group expects to recognise the lease contract of lessees in line with IFRS 16. However, the Group does not intend to restate the financial statements of prior period (collectively referred herein as the “modified retrospective approach”). On January 1, 2019, it is expected that ‘right-of-use asset’ and lease liability will be both increased by \$4,037,939.

**B. IFRIC 23, ‘Uncertainty over income tax treatments’**

This Interpretation clarifies when there is uncertainty over income tax treatments, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in IAS 12, ‘Income taxes’ based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation.

**C. Annual improvements to IFRSs 2015-2017 cycle**

**(a) Amendments to IAS 12, ‘Income taxes’**

The amendment clarified that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised. These requirements apply to all income tax consequences of dividends.

**(b) Amendments to IAS 23, ‘Borrowing costs’**

The amendments clarified that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings.

**(3) IFRSs issued by IASB but not yet endorsed by the FSC**

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs as endorsed by the FSC are as follows:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Amendment to IAS 1 and IAS 8, ‘Disclosure Initiative-Definition of Material’	January 1, 2020
Amendments to IFRS 3, ‘Definition of a business’	January 1, 2020
Amendments to IFRS 10 and IAS 28, ‘Sale or contribution of assets between an investor and its associate or joint venture’	To be determined by International Accounting Standards Board
IFRS 17, ‘Insurance contracts’	January 1, 2021

The above standards and interpretations have no significant impact to the Group’s financial condition and financial performance based on the Group’s assessment.

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

##### (1) Compliance statement

The consolidated financial statements of the Group have been prepared in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the “IFRSs”).

##### (2) Basis of preparation

A. Except for the following items, these consolidated financial statements have been prepared under the historical cost convention:

- (a) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.
- (b) Defined benefit liabilities recognised based on the net amount of pension fund assets less present value of defined benefit obligation.

B. The preparation of financial statements in compliance with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

C. In adopting IFRS 9 and IFRS 15 effective January 1, 2018, the Group has elected to apply modified retrospective approach whereby the cumulative impact of the adoption was recognised as retained earnings or other equity as of January 1, 2018 and the financial statements for the year ended December 31, 2017 were not restated. The financial statements for the year ended December 31, 2017 were prepared in compliance with International Accounting Standard 39 (‘IAS 39’), International Accounting Standard 11 (‘IAS 11’), International Accounting Standard 18 (‘IAS 18’) and related financial reporting interpretations. Please refer to Notes 12(4) and (5) for details of significant accounting policies and details of significant accounts.

##### (3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

- (a) All subsidiaries are included in the Group’s consolidated financial statements. Subsidiaries are all entities (including structured entities) controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.

- (b) Inter-company transactions, balances and unrealised gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
- (c) Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income 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.
- (d) Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity.
- (e) When the Group loses control of a subsidiary, the Group remeasures any investment retained in the former subsidiary at its fair value. That fair value is regarded as the fair value on initial recognition of a financial asset or the cost on initial recognition of the associate or joint venture. Any difference between fair value and carrying amount is recognised in profit or loss. All amounts previously recognised in other comprehensive income in relation to the subsidiary are reclassified to profit or loss on the same basis as would be required if the related assets or liabilities were disposed of. That is, when the Group loses control of a subsidiary, all gains or losses previously recognised in other comprehensive income in relation to the subsidiary should be reclassified from equity to profit or loss, if such gains or losses would be reclassified to profit or loss when the related assets or liabilities are disposed of.

B. Subsidiaries included in the consolidated financial statements:

Name of investor	Name of Subsidiary	Main business activities	% of shares held as of	
			2018	2017
CSBC CORPORATION, TAIWAN	CSBC Coating Solutions Co., Ltd.	Marine coating, steel structure painting works, surface treatment, and high-tech anti-corrosion	70	70
CSBC Coating Solutions Co., Ltd.	BLUE ACE CORPORATION	Marine coating, steel structure painting works, surface treatment, and high-tech anti-corrosion	100	100
CSBC Coating Solutions Co., Ltd.	Blue Ocean Wind Power Engineering (Hong Kong) Limited	Marine works services	100	100

C. Subsidiaries not included in the consolidated financial statements: None.

D. Adjustments for subsidiaries with different balance sheet dates: None.

E. Significant restrictions: None.

F. Subsidiaries that have non-controlling interests that are material to the Group:

The non-controlling interests are not material to the Group.

(4) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in New Taiwan Dollar, which is the Company's functional and the Group's presentation currency.

- A. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in profit or loss in the period in which they arise.
- B. Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognised in profit or loss.
- C. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.
- D. All foreign exchange gains and losses are presented in the statement of comprehensive income within 'other gains and losses'.

(5) Classification of current and non-current items

- A. The Company is engaged in the business of shipbuilding, vessel building, major machinery building and ship repairing such that the contractual periods of these projects are usually over one year. Therefore, the assets and liabilities of these projects are classified as current assets or liabilities if the period of the project is shorter than the operating cycle; otherwise they are classified as non-current assets or liabilities. The classification criteria of assets and liabilities that are not project related are as follows : Current assets include cash, the assets held for trading or the assets arising from operating activities that are expected to be consumed or to be realized within twelve months from the balance sheet date; fixed assets and other assets that are not classified as current assets are non-current assets. Current liabilities include the liabilities arising mainly from trading activities and are expected to be settled within twelve months from the balance sheet date. The liabilities that are not classified as current liabilities are non-current liabilities.

B. Classification of current and non-current items of the Company's subsidiaries is as follows:

(a) Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:

- i. Assets arising from operating activities that are expected to be realised, or are intended to be sold or consumed within the normal operating cycle;
- ii. Assets held mainly for trading purposes;
- iii. Assets that are expected to be realised within twelve months from the balance sheet date;
- iv. Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.

(b) Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:

- i. Liabilities that are expected to be settled within the normal operating cycle;
- ii. Liabilities arising mainly from trading activities;
- iii. Liabilities that are to be settled within twelve months from the balance sheet date;
- iv. Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. 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.

(6) Cash equivalents

Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Time deposits that meet the definition above and are held for the purpose of meeting short-term cash commitments in operations are classified as cash equivalents.

(7) Accounts and notes receivable

A. Accounts and notes receivable entitle the Group a legal right to receive consideration in exchange for transferred goods or rendered services.

B. The short-term accounts and notes receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(8) Impairment of financial assets

For debt instruments measured at fair value through other comprehensive income and financial assets at amortised cost, at each reporting date, the Group recognises the impairment provision for 12 months expected credit losses if there has not been a significant increase in credit risk since initial recognition or recognises the impairment provision for the lifetime expected credit losses (ECLs) if such credit risk has increased since initial recognition after taking into consideration all reasonable and verifiable information that includes forecasts. On the other hand, for accounts receivable or contract assets that do not contain a significant financing component, the Group recognises the impairment provision for lifetime ECLs.

(9) Derecognition of financial assets

The Group derecognises a financial asset when one of the following conditions is met:

- A. The contractual rights to receive the cash flows from the financial asset expire.
- B. The contractual rights to receive cash flows of the financial asset have been transferred and the Group has transferred substantially all risks and rewards of ownership of the financial asset.
- C. The contractual rights to receive cash flows of the financial asset have been transferred; however, the Group has not retained control of the financial asset.

(10) Operating leases (lessee)

Lease income from an operating lease (net of any incentives given to the lessee) is recognised in profit or loss on a straight-line basis over the lease term.

(11) Inventories

The perpetual inventory system is adopted for inventory recognition. Inventories are stated at cost. The cost is determined using the weighted-average method. At the end of period, inventories are evaluated at the lower of cost or net realizable value, and the individual item approach is used in the comparison of cost and net realizable value. The calculation of net realizable value is based on the estimated selling price in the normal course of business, net of estimated costs of completion and estimated selling expenses.

(12) Investments accounted for under the equity method - associates

- A. Associates are all entities over which the Group has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20 percent or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognised at cost.
- B. The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.
- C. When changes in an associate's equity are not recognised in profit or loss or other comprehensive income of the associate and such changes do not affect the Group's ownership percentage of the associate, the Group recognises the Group's share of change in equity of the associate in 'capital surplus' in proportion to its ownership.
- D. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

E. When the Group disposes its investment in an associate, if it loses significant influence over this associate, the amounts previously recognised in other comprehensive income in relation to the associate, are reclassified to profit or loss, on the same basis as would be required if the relevant assets or liabilities were disposed of. If it still retains significant influence over this associate, then the amounts previously recognised in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately in accordance with the aforementioned approach.

(13) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalised.
- B. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. 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 must be depreciated separately.
- D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

Land improvements	5 ~ 50 years
Buildings and structures	5 ~ 65 years
Machinery and equipment	3 ~ 58 years
Transportation equipment	3 ~ 40 years
Leasehold improvements	10 ~ 14 years
Other equipment	3 ~ 14 years

(14) Operating leases (lessor)

Payments made under an operating lease (net of any incentives received from the lessor) are recognised in profit or loss on a straight-line basis over the lease term.

(15) Investment property

An investment property is stated initially at its cost and measured subsequently using the cost model. Except for land, investment property is depreciated on a straight-line basis over its estimated useful life of 60 years.

(16) Intangible assets

Computer software is stated at cost and amortised on a straight-line basis over its estimated useful life of 5 years.

(17) Impairment of non-financial assets

The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. Except for goodwill, when the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortised historical cost would have been if the impairment had not been recognised.

(18) Borrowings

Borrowings comprise long-term and short-term bank borrowings. Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

(19) Accounts and notes payable

- A. Accounts payable are liabilities for purchases of raw materials, goods or services and notes payable are those resulting from operating and non-operating activities.
- B. The short-term notes and accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(20) Financial liabilities at fair value through profit or loss

- A. Financial liabilities are classified in this category of held for trading if acquired principally for the purpose of repurchasing in the short-term. Derivatives are also categorised as financial liabilities held for trading unless they are designated as hedges.
- B. At initial recognition, the Group measures the financial liabilities at fair value. All related transaction costs are recognised in profit or loss. The Group subsequently measures these financial liabilities at fair value with any gain or loss recognised in profit or loss.

(21) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability specified in the contract is discharged or cancelled or expires.

(22) Non-hedging derivatives

Non-hedging derivatives are initially recognised at fair value on the date a derivative contract is entered into and recorded as financial assets or financial liabilities at fair value through profit or loss. They are subsequently remeasured at fair value and the gains or losses are recognised in profit or loss.

(23) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation on the balance sheet date, which is discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. When discounting is used, the increase in the provision due to passage of time is recognised as interest expense. Provisions are not recognised for future operating losses.

(24) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognised as expenses in that period when the employees render service.

B. Pensions

(a) Defined contribution plans

For defined contribution plans, the contributions are recognised as pension expenses when they are due on an accrual basis. Prepaid contributions are recognised as an asset to the extent of a cash refund or a reduction in the future payments.

(b) Defined benefit plans

- i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Group in current period or prior periods. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit net obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of government bonds (at the balance sheet date) of a currency and term consistent with the currency and term of the employment benefit obligations.
- ii. Remeasurement arising on defined benefit plans are recognised in other comprehensive income in the period in which they arise and are recorded as retained earnings.
- iii. Past service costs are recognised immediately in profit or loss.

### C. Termination benefits

Termination benefits are employee benefits provided in exchange for the termination of employment as a result from either the Group's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept an offer of redundancy benefits in exchange for the termination of employment. The Group recognises expense as it can no longer withdraw an offer of termination benefits or it recognises relating restructuring costs, whichever is earlier. Benefits that are expected to be due more than 12 months after balance sheet date shall be discounted to their present value.

### D. Employees' compensation and directors' and supervisors' remuneration

Employees' remuneration and directors' and supervisors' remuneration are recognised as expenses and liabilities, provided that such recognition is required under legal obligation or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates. If employee compensation is paid by shares, the Group calculates the number of shares based on the closing price at the previous day of the board meeting resolution.

#### (25) Employee share-based payment

For the equity-settled share-based payment arrangements, the employee services received are measured at the fair value of the equity instruments granted at the grant date, and are recognised as compensation cost over the vesting period, with a corresponding adjustment to equity. The fair value of the equity instruments granted shall reflect the impact of market vesting conditions and non-vesting conditions. Compensation cost is subject to adjustment based on the service conditions that are expected to be satisfied and the estimates of the number of equity instruments that are expected to vest under the non-market vesting conditions at each balance sheet date. Ultimately, the amount of compensation cost recognised is based on the number of equity instruments that eventually vest.

#### (26) Income tax

- A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.
- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.

- C. Deferred income tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, the deferred income tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.
- D. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognised and recognised deferred income tax assets are reassessed.
- E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realise the asset and settle the liability simultaneously.
- F. A deferred tax asset shall be recognised for the carryforward of unused tax credits resulting from acquisitions of equipment or technology, research and development expenditures, employees' training costs and equity investments to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilised.

(27) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are resolved by the Company's shareholders. Cash dividends are recorded as liabilities; stock dividends are recorded as stock dividends to be distributed and are reclassified to ordinary shares on the effective date of new shares issuance.

(28) Revenue recognition

- A. The revenues from construction contracts in relation to shipbuilding, vessel construction and machinery manufacturing are identified to be one performance obligation satisfied over time and are recognised by the percentage-of-completion as of the financial reporting date. The percentage-of-completion is measured based on the percentage of the workload completed to the total expected workload of the contracts. The customer pays at the time specified in the payment schedule. If the services rendered exceed the payment, a contract asset is recognised. If the payments exceed the services rendered, a contract liability is recognised.

- B. The revenues from service contract in relation to ship/vessel repairs and anti-corrosion coating are identified to be one performance obligation satisfied over time and are recognised by the percentage-of-completion as of the financial reporting date. The percentage-of-completion is measured based on the percentage of the actual cost incurred to the total expected cost of the contracts. At the beginning of the contract period, as the Group may find it difficult to estimate the result of obligation performance, it estimates the actual cost incurred for performing obligations which could be recovered. The contract revenue should be recognised only to the extent of actual costs incurred until the result of obligation performance could be measured reasonably.
- C. The Group's estimate about revenue, costs and progress towards complete satisfaction of a performance obligation is subject to a revision whenever there is a change in circumstances. Any increase or decrease in revenue or costs due to an estimate revision is reflected in profit or loss during the period when the management become aware of the changes in circumstances.
- D. As the time interval between the transfer of committed goods or service and the payment of customer does not exceed one year, according to the agreements, the Group does not adjust the transaction price to reflect the time value of money.

(29) Government grants

Government grants are recognised at their fair value only when there is reasonable assurance that the Group will comply with any conditions attached to the grants and the grants will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises expenses for the related costs for which the grants are intended to compensate.

(30) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision-Maker. The Chief Operating Decision-Maker is responsible for allocating resources and assessing performance of the operating segments.

5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Group's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year; and the related information is addressed below:

(1) Critical judgements in applying the Group's accounting policies

None.

(2) Critical accounting estimates and assumptions

Construction contracts

The Group recognises construction contract revenue and costs using the percentage-of-completion method, wherein the revenue to be recognised is equal to the percentage of completed work out of the total estimated work.

Assumptions for estimated construction cost include cost for equipment, material, labor and etc. Data used for assumptions involves subjective judgement and accounting estimates and are highly uncertain. As a result, assumptions used are material to the total construction cost and further affects the calculation of construction profit.

If the estimated total contract costs had increased/ decreased by 1% with all other variables held constant, construction profit for the year ended December 31, 2018 would have decreased by \$362,115 or increased by \$342,402 (the construction profit for the year ended December 31, 2017 would have decreased by \$355,480 or increased by \$333,684).

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Cash on hand and revolving funds	\$ 350	\$ 260
Checking accounts and demand deposits	101,892	219,005
Time deposits	<u>35,700</u>	<u>62,549</u>
	<u>\$ 137,942</u>	<u>\$ 281,814</u>

A. The Group transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.

B. The Group has no cash and cash equivalents pledged to others.

(2) Accounts receivable, net

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Construction receivables	\$ 1,053,963	\$ 1,228,341
Repair receivables	<u>165,826</u>	<u>149,138</u>
	1,219,789	1,377,479
Less: Allowance for doubtful accounts	<u>( 319,599)</u>	<u>( 15,529)</u>
	<u>\$ 900,190</u>	<u>\$ 1,361,950</u>

A. As at December 31, 2018 and 2017, with taking into account collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the Group' accounts receivable was \$900,190 and \$1,361,950, respectively.

B. As of December 31, 2018, the Group's past due construction receivables amounted to \$791,924 because a certain counterparty failed to fulfil the mutual agreements and the negotiations are still in progress.

C. Information relating to credit risk is provided in Note 12(2).

(3) Inventories

	December 31, 2018		
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 1,286,729	(\$ 33,993)	\$ 1,252,736
Work in process and repair of goods	85,078	-	85,078
	<u>\$ 1,371,807</u>	<u>(\$ 33,993)</u>	<u>\$ 1,337,814</u>
	December 31, 2017		
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 1,975,173	(\$ 34,862)	\$ 1,940,311
Work in process and repair of goods	380,750	-	380,750
	<u>\$ 2,355,923</u>	<u>(\$ 34,862)</u>	<u>\$ 2,321,061</u>

The amount of inventories recognised as expense for the years ended December 31, 2018 and 2017 is as follows:

	Years ended December 31,	
	2018	2017
Raw materials costs	\$ 7,748,084	\$ 10,756,455
Gain from reversal of obsolete inventories	( 869)	( 861,045)
	<u>\$ 7,747,215</u>	<u>\$ 9,895,410</u>

The Group reversed a previous inventory write-down and accounted for this transaction as a reduction of expenses because the related inventory items were scrapped or sold in 2018 and 2017.

(4) Prepayments

	December 31, 2018	December 31, 2017
Prepayments of suppliers	\$ 1,193,643	\$ 560,661
Excess VAT paid	64,889	56,132
Other prepayments	19,798	9,499
	<u>\$ 1,278,330</u>	<u>\$ 626,292</u>

(5) Investments accounted for under equity method

A. Details of investments accounted for under equity method are as follows:

	<u>2018</u>	<u>2017</u>
At January 1	\$ 1,645	\$ 166,616
Additional investments accounted for using the equity method	12,000	-
Share of profit or loss of investments accounted for using the equity method (	2,653) (	20,868)
Provision for impairment	-	(144,103)
At December 31	<u>\$ 10,992</u>	<u>\$ 1,645</u>
	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Taiwan International Windpower Training Corporation Ltd. (Note 1)	\$ 10,992	\$ -
Taiwan Offshore Wind Farm Services Corporation (Note 2)	-	1,645
Fuhai Wind Farm Corporation (Note 3)	-	-
	<u>\$ 10,992</u>	<u>\$ 1,645</u>

Note 1: On May 11, 2018, with reporting to the Board of Directors for future reference, the Group, Taiwan International Ports Corporation, Ltd. and other companies jointly established Taiwan International Windpower Training Corporation Ltd. for investment. The Group owns 12% of the investee's share capital and one seat in the Board of Directors of the investee.

Note 2: On March 21, 2014, the Board of Directors has resolved that the Group and Taiwan Generations Corporation would jointly establish Taiwan Offshore Wind Farm Services Corporation. The Company has acquired 40% of share capital in September 2014. The Group has ceased recognising its share of losses in this company since the fourth quarter of 2018 and the unrecognised share of losses in associate for the year ended December 31, 2018 and accumulated share of losses in associate both amounted to \$581.

Note 3: On August 9, 2016, the Board of Directors resolved to invest in Fuhai Wind Farm Corporation and obtained 37.97% of ownership shares. The Group has ceased recognising its share of losses in this company since the third quarter of 2017 and the unrecognised share of losses in associate for the year ended December 31, 2018 and accumulated share of losses in associate amounted to \$15,630 and \$37,218 respectively.

B. The Group's share of the operating results in all individually immaterial associates are summarized below:

	Years ended December 31,	
	2018	2017
Loss for the year from continuing operations	(\$ 2,653)	(\$ 20,868)
Other comprehensive income - net of tax	-	-
Total comprehensive loss	<u>(\$ 2,653)</u>	<u>(\$ 20,868)</u>

C. The Group recognised impairment loss of \$144,103 for investments accounted for using equity method as the carrying amount exceeds recoverable amount for the year ended December 31, 2017. The Group did not recognise impairment loss for the year ended December 31, 2018.

(6) Property, plant and equipment

	Land	Land improvements	Buildings and structures	Machinery and equipment	Transportation equipment	Leasehold improvements	Other equipment	Construction in progress	Total
<u>At January 1, 2018</u>									
Cost	\$ 6,096,033	\$ 999,776	\$ 7,630,625	\$ 9,909,253	\$ 947,159	\$ 1,072,631	\$ 146,569	\$ 104,149	\$ 26,906,195
Accumulated depreciation and impairment	-	( 678,873)	( 6,561,875)	( 7,791,377)	( 536,589)	( 682,437)	( 91,280)	-	( 16,342,431)
	<u>\$ 6,096,033</u>	<u>\$ 320,903</u>	<u>\$ 1,068,750</u>	<u>\$ 2,117,876</u>	<u>\$ 410,570</u>	<u>\$ 390,194</u>	<u>\$ 55,289</u>	<u>\$ 104,149</u>	<u>\$ 10,563,764</u>
<u>2018</u>									
Opening net book amount as at January 1	\$ 6,096,033	\$ 320,903	\$ 1,068,750	\$ 2,117,876	\$ 410,570	\$ 390,194	\$ 55,289	\$ 104,149	\$ 10,563,764
Additions	-	-	-	1,584	-	991	85	565,975	568,635
Disposals - costs	-	( 204)	( 2,099)	( 82,581)	( 6,373)	-	( 2,074)	-	( 93,331)
Reclassifications - costs	-	-	15,001	140,872	1,680	-	2,849	( 160,402)	-
Depreciation charge	-	( 31,024)	( 108,091)	( 302,349)	( 45,668)	( 48,696)	( 11,506)	-	( 547,334)
Disposals - accumulated depreciation	-	204	311	80,644	6,364	-	2,066	-	89,589
Closing net book amount as at December 31	<u>\$ 6,096,033</u>	<u>\$ 289,879</u>	<u>\$ 973,872</u>	<u>\$ 1,956,046</u>	<u>\$ 366,573</u>	<u>\$ 342,489</u>	<u>\$ 46,709</u>	<u>\$ 509,722</u>	<u>\$ 10,581,323</u>
<u>At December 31, 2018</u>									
Cost	\$ 6,096,033	\$ 999,572	\$ 7,643,527	\$ 9,969,128	\$ 942,466	\$ 1,073,622	\$ 147,429	\$ 509,722	\$ 27,381,499
Accumulated depreciation and impairment	-	( 709,693)	( 6,669,655)	( 8,013,082)	( 575,893)	( 731,133)	( 100,720)	-	( 16,800,176)
	<u>\$ 6,096,033</u>	<u>\$ 289,879</u>	<u>\$ 973,872</u>	<u>\$ 1,956,046</u>	<u>\$ 366,573</u>	<u>\$ 342,489</u>	<u>\$ 46,709</u>	<u>\$ 509,722</u>	<u>\$ 10,581,323</u>

	Land	Land improvements	Buildings and structures	Machinery and equipment	Transportation equipment	Leasehold improvements	Other equipment	Construction in progress	Total
<u>At January 1, 2017</u>									
Cost	\$ 6,096,033	\$ 997,998	\$ 7,422,915	\$ 9,570,491	\$ 947,254	\$ 1,072,631	\$ 136,678	\$ 358,372	\$ 26,602,372
Accumulated depreciation and impairment	-	( 650,027)	( 6,476,131)	( 7,558,739)	( 492,499)	( 633,815)	( 81,565)	-	( 15,892,776)
	<u>\$ 6,096,033</u>	<u>\$ 347,971</u>	<u>\$ 946,784</u>	<u>\$ 2,011,752</u>	<u>\$ 454,755</u>	<u>\$ 438,816</u>	<u>\$ 55,113</u>	<u>\$ 358,372</u>	<u>\$ 10,709,596</u>
<u>2017</u>									
Opening net book amount as at January 1	\$ 6,096,033	\$ 347,971	\$ 946,784	\$ 2,011,752	\$ 454,755	\$ 438,816	\$ 55,113	\$ 358,372	\$ 10,709,596
Additions	-	-	-	-	-	-	-	370,983	370,983
Disposals - costs	-	-	( 6,572)	( 55,360)	( 1,928)	-	( 1,206)	-	( 65,066)
Reclassifications - costs (Note)	-	1,778	214,282	394,122	1,833	-	11,097	( 625,206)	( 2,094)
Depreciation charge	-	( 28,846)	( 93,917)	( 287,234)	( 46,018)	( 48,622)	( 10,909)	-	( 515,546)
Disposals - accumulated depreciation	-	-	6,127	54,596	1,928	-	1,194	-	63,845
Reclassifications - accumulated depreciation (Note)	-	-	2,046	-	-	-	-	-	2,046
Closing net book amount as at December 31	<u>\$ 6,096,033</u>	<u>\$ 320,903</u>	<u>\$ 1,068,750</u>	<u>\$ 2,117,876</u>	<u>\$ 410,570</u>	<u>\$ 390,194</u>	<u>\$ 55,289</u>	<u>\$ 104,149</u>	<u>\$ 10,563,764</u>
<u>At December 31, 2018</u>									
Cost	\$ 6,096,033	\$ 999,776	\$ 7,630,625	\$ 9,909,253	\$ 947,159	\$ 1,072,631	\$ 146,569	\$ 104,149	\$ 26,906,195
Accumulated depreciation and impairment	-	( 678,873)	( 6,561,875)	( 7,791,377)	( 536,589)	( 682,437)	( 91,280)	-	( 16,342,431)
	<u>\$ 6,096,033</u>	<u>\$ 320,903</u>	<u>\$ 1,068,750</u>	<u>\$ 2,117,876</u>	<u>\$ 410,570</u>	<u>\$ 390,194</u>	<u>\$ 55,289</u>	<u>\$ 104,149</u>	<u>\$ 10,563,764</u>

Note: Refer to the reclassifications to investment property and related information is provided in Note 6(7).

A. Amount of borrowing costs capitalised as part of property, plant and equipment are as follows:

	Years ended December 31,	
	2018	2017
Amount capitalised	\$ 563	\$ 443
Interest rate	0.86%~2.06%	0.68%~1.05%

B. Significant components and the useful lives of land improvements, buildings, and machinery equipment of the Group are as follows:

- The significant components of land improvements include construction expenses for wharf, which are depreciated over 45 years.
- The significant components of buildings include shipyard, plants and warehouse, and office buildings, which are depreciated over 40, 45 and 60 years, respectively.
- The significant components of machinery equipment include hoisting machine, crane and substation, and carriers, welding machine as well as working platform, which are depreciated over 25, 20 and 10 years, respectively.

C. The Group does not pledge any property, plant and equipment to others as collaterals.

(7) Investment property, net

	Land	Buildings and structures	Total
At January 1, 2018			
Cost	\$ 226,918	\$ 24,905	\$ 251,823
Accumulated depreciation and impairment	-	( 17,768)	( 17,768)
	<u>\$ 226,918</u>	<u>\$ 7,137</u>	<u>\$ 234,055</u>
<u>2018</u>			
Opening net book amount as at January 1	\$ 226,918	\$ 7,137	\$ 234,055
Additions - from subsequent expenditures	-	940	940
Disposals	( 26,432)	-	( 26,432)
Depreciation charge	-	( 401)	( 401)
Closing net book amount as at December 31	<u>\$ 200,486</u>	<u>\$ 7,676</u>	<u>\$ 208,162</u>
At December 31, 2018			
Cost	\$ 200,486	\$ 25,845	\$ 226,331
Accumulated depreciation and impairment	-	( 18,169)	( 18,169)
	<u>\$ 200,486</u>	<u>\$ 7,676</u>	<u>\$ 208,162</u>

	Land	Buildings and structures	Total
At January 1, 2017			
Cost	\$ 226,918	\$ 22,811	\$ 249,729
Accumulated depreciation and impairment	<u>-</u>	<u>( 15,347)</u>	<u>( 15,347)</u>
	<u>\$ 226,918</u>	<u>\$ 7,464</u>	<u>\$ 234,382</u>
<u>2017</u>			
Opening net book amount as at January 1	\$ 226,918	\$ 7,464	\$ 234,382
Reclassifications - costs (Note)	-	2,094	2,094
Depreciation charge	-	( 375)	( 375)
Reclassifications - accumulated depreciation (Note)	<u>-</u>	<u>( 2,046)</u>	<u>( 2,046)</u>
Closing net book amount as at December 31	<u>\$ 226,918</u>	<u>\$ 7,137</u>	<u>\$ 234,055</u>
At December 31, 2017			
Cost	\$ 226,918	\$ 24,905	\$ 251,823
Accumulated depreciation and impairment	<u>-</u>	<u>( 17,768)</u>	<u>( 17,768)</u>
	<u>\$ 226,918</u>	<u>\$ 7,137</u>	<u>\$ 234,055</u>

Note: Refer to the reclassifications from property, plant and equipment and related information is provided in Note 6(6).

A. Rental income from the lease of the investment property and direct operating expenses arising from the investment property are shown below:

	Years ended December 31,	
	2018	2017
Rental income from the lease of the investment property	<u>\$ 8,641</u>	<u>\$ 7,720</u>
Direct operating expenses arising from the investment property that generate rental income in the period	<u>\$ 1,410</u>	<u>\$ 1,996</u>
Direct operating expenses arising from the investment property that did not generate rental income in the period	<u>\$ -</u>	<u>\$ -</u>

The fair value of the investment property held by the Group as at December 31, 2018 and 2017 were \$667,855 and \$664,261, respectively, which was revalued by independent valuers. Valuations were made using the comparison method, cost method for land development analysis and the income approach.

(8) Intangible assets

Software:	Years ended December 31,	
	2018	2017
<u>At January 1</u>		
Cost	\$ 57,952	\$ 59,483
Accumulated amortisation and impairment	( 34,942)	( 30,636)
	<u>\$ 23,010</u>	<u>\$ 28,847</u>
Opening net book amount as at January 1	\$ 23,010	\$ 28,847
Additions - acquired separately	8,997	10,071
Disposals - costs	( 17,095)	( 11,602)
Amortisation charge	( 17,396)	( 15,908)
Disposals - accumulated amortisation	17,095	11,602
Closing net book amount as at December 31	<u>\$ 14,611</u>	<u>\$ 23,010</u>
<u>At December 31</u>		
Cost	\$ 49,854	\$ 57,952
Accumulated amortisation and impairment	( 35,243)	( 34,942)
	<u>\$ 14,611</u>	<u>\$ 23,010</u>

Details of amortisation on intangible assets are as follows:

	Years ended December 31,	
	2018	2017
Operating costs	\$ 17,382	\$ 15,894
Research and development expenses	14	14
	<u>\$ 17,396</u>	<u>\$ 15,908</u>

(9) Short-term loans

Type of loans	December 31, 2018	Interest rate range	Collateral
Bank overdrafts	\$ 270,072	1.01%~1.57%	None
Bank loans			
Unsecured loans	1,000,000	0.90%~0.98%	None
Unsecured loans	20,078	0.32%~3.65%	None
	<u>\$ 1,290,150</u>		
Type of loans	December 31, 2017	Interest rate range	Collateral
Bank overdrafts	\$ 61,689	1.01%~1.57%	None
Bank loans			
Unsecured loans	2,200,000	0.84%~0.87%	None
Unsecured loans	26,095	0.48%~2.89%	None
	<u>\$ 2,287,784</u>		

(10) Short-term notes and bills payable

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Commercial papers payable	\$ -	\$ 700,000
Less: Unamortized discount	-	( 231)
	<u>\$ -</u>	<u>\$ 699,769</u>
Annual interest rates	-	<u>0.51%~0.60%</u>

The above commercial paper payables are guaranteed and issued by MEGA Bills Finance Co., Ltd., Taiwan Cooperative Bills Finance Corporation, China Bills Finance Corporation and International Bill Finance Corporation.

(11) Other payables

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Accrued expenses	\$ 1,001,758	\$ 1,201,058
Construction payment refund	45,588	60,503
Others	21,917	23,257
	<u>\$ 1,069,263</u>	<u>\$ 1,284,818</u>

(12) Provisions

	<u>Warranty</u>	<u>Onerous contracts (Note)</u>	<u>Total</u>
At January 1, 2018	\$ 140,219	\$ 1,946,104	\$ 2,086,323
Additional provisions	149,884	2,383,786	2,533,670
Used during the year	( 62,511)	( 1,866,946)	( 1,929,457)
Unused amounts reversed	( 11,800)	( 151,177)	( 162,977)
At December 31, 2018	<u>\$ 215,792</u>	<u>\$ 2,311,767</u>	<u>\$ 2,527,559</u>

Note: Information is provided in Note 3(1).

The analysis of provisions is as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Realised in one year	\$ 547,519	\$ 61,441
Realised after one year	1,980,040	78,778
	<u>\$ 2,527,559</u>	<u>\$ 140,219</u>

A. Provision for warranty

The Group gives warranties on contracts revenue in relation to shipbuilding and vessel construction. Provision for warranty is estimated based on historical warranty data of products.

B. Provision for onerous contract

Under the irrevocable contracts of shipbuilding, vessel construction and anti-corrosion coating, the Group's estimated provision for onerous contract is the difference between the inevitable cost of existing obligations to be performed in the future and the expected economic benefits from the contracts. The estimated provision may change with the actual construction situation.

(13) Long-term borrowings

	<u>Borrowing period and repayment term</u>	<u>Interest rate range</u>	<u>Collateral</u>	<u>December 31, 2018</u>
Long-term bank borrowings				
Unsecured borrowings				
Bank of Taiwan	Borrowing period is from Jun. 22, 2017 to Jun. 22, 2022; principal is repayable in 4 installments beginning in the 4th year.	1.36%	None	\$ 2,000,000
Taiwan Business Bank	Borrowing period is from Mar. 12, 2018 to Mar. 12, 2023; principal is repayable in 2.5 installments beginning in the 5th year.	1.30%	None	700,000
				<u>2,700,000</u>
Commercial papers payable				
International Bills Finance Corporation	Borrowing period is from Jun. 22, 2017 to Jun. 22, 2021. Details are set out below.	0.57%	None	500,000
Taishin International Bank	Borrowing period is from Jun. 22, 2017 to Dec. 15, 2020. Details are set out below.	0.62%~ 0.63%	None	800,000
China Bills Finance Corporation	Borrowing period is from Sep. 26, 2017 to Oct. 27, 2021. Details are set out below.	0.57%~ 0.62%	None	850,000
Mega Bills Finance Co., Ltd.	Borrowing period is from Sep. 26, 2017 to Dec. 15, 2021. Details are set out below.	0.65%~ 0.66%	None	850,000
Less: Discount on commercial papers payable				( <u>1,463</u> )
				<u>2,998,537</u>
				<u>\$ 5,698,537</u>

	<u>Borrowing period and repayment term</u>	<u>Interest rate range</u>	<u>Collateral</u>	<u>December 31, 2017</u>
Long-term bank borrowings				
Unsecured borrowings				
Bank of Taiwan	Borrowing period is from Jun. 22, 2017 to Jun. 22, 2022; principal is repayable in 4 installments beginning in the 4th year.	1.36%	None	\$ 2,000,000
JihSun Bank	Borrowing period is from Dec. 7, 2017 to Jul. 20, 2020; principal is repayable at maturity.	1.25%	None	200,000
				2,200,000
Commercial papers payable				
International Bills Finance Corporation	Borrowing period is from Jun 22, 2017 to Jun. 22, 2021. Details are set out below.	0.56%	None	500,000
Taishin International Bank	Borrowing period is from Jun. 22, 2017 to Dec. 15, 2020. Details are set out below.	0.61%	None	800,000
China Bills Finance Corporation	Borrowing period is from Sep. 26, 2017 to Sep. 26, 2020. Details are set out below.	0.45%	None	1,000,000
Mega Bills Finance Co., Ltd.	Borrowing period is from Sep. 26, 2017 to Sep. 26, 2020. Details are set out below.	0.64%	None	1,000,000
Less: Discount on commercial papers payable				( 1,943)
				3,298,057
				\$ 5,498,057

Note: The Group has repaid in advance at the end of January 2018.

The Group entered into an agreement for recurring issuance (maturity of 60~180 days) of certificates and dealership of commercial papers with the bill finance companies. During the contract term of 3~4 years, the Group is only liable for the service fees and interest and thus the commercial papers payable is included in long-term borrowings.

(14) Government grants

A. The Republic of China Government started to promote privatization starting from 2008. The Privatization Fund, Executive Yuan, would provide a loan in the amount of \$1,500,000 to cover a portion of the shortfall to settle the pension and severance obligation as a result of the privatization. The Group was required to repay the loan to the Privatization Fund in a period of ten years, under the condition that the Company is profitable. The Company extended the repayment period to 2026 as approved by the Executive Yuan. The Group uses the average long-term loan interest rate on the loan for discounting. The discounted values are recorded under “long-term notes payable and payables”. The difference between the discounted value and the amount received is listed in “deferred revenue”. The amounts that are payable within one year are listed in “other financial liabilities-current”. The unamortised amounts are shown below:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Long-term notes and accounts receivable	\$ 670,361	\$ 659,156
Long-term deferred revenue	<u>71,139</u>	<u>82,344</u>
	<u>\$ 741,500</u>	<u>\$ 741,500</u>

B. Government grants and interest expenses that should be amortised are recognised under ‘other revenue’ and ‘finance costs’, respectively, for the years December 31, 2018 and 2017. For more information, please refer to Notes 6(22) and (24).

(15) Pension

A. (a)The Group has a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees’ service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Group contributes monthly an amount equal to 15% of the employees’ monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company would assess the balance in the aforementioned labor pension reserve account by the end of December 31, every year. The Company has assessed that the balance is sufficient to pay the pension calculated by the aforementioned method, to the employees expected to be qualified for retirement next year.

(b)The amounts recognised in the balance sheet are as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Present value of funded obligations (\$	1,576,173)	(\$ 1,516,485)
Fair value of plan assets	<u>1,481,805</u>	<u>1,344,783</u>
Net defined benefit liability	<u>(\$ 94,368)</u>	<u>(\$ 171,702)</u>

(c) Movements in net defined benefit liabilities are as follows:

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
<u>Year ended December 31, 2018</u>			
Balance at January 1	(\$ 1,516,485)	\$ 1,344,783	(\$ 171,702)
Current service cost	( 169,651)	-	( 169,651)
Interest (expense) income	( 26,204)	24,433	( 1,771)
	<u>( 1,712,340)</u>	<u>1,369,216</u>	<u>( 343,124)</u>
Remeasurements:			
Return on plan assets	-	28,302	28,302
Experience adjustments	100,454	-	100,454
	<u>100,454</u>	<u>28,302</u>	<u>128,756</u>
Pension fund contribution	-	120,000	120,000
Paid pension	35,713	( 35,713)	-
Balance at December 31	<u>(\$ 1,576,173)</u>	<u>\$ 1,481,805</u>	<u>(\$ 94,368)</u>
	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
<u>Year ended December 31, 2017</u>			
Balance at January 1	(\$ 1,396,332)	\$ 1,215,818	(\$ 180,514)
Current service cost	( 174,904)	-	( 174,904)
Interest (expense) income	( 24,178)	22,292	( 1,886)
	<u>( 1,595,414)</u>	<u>1,238,110</u>	<u>( 357,304)</u>
Remeasurements:			
Return on plan assets	-	( 10,223)	( 10,223)
Experience adjustments	49,825	-	49,825
	<u>49,825</u>	<u>( 10,223)</u>	<u>39,602</u>
Pension fund contribution	-	146,000	146,000
Paid pension	29,104	( 29,104)	-
Balance at December 31	<u>(\$ 1,516,485)</u>	<u>\$ 1,344,783</u>	<u>(\$ 171,702)</u>

(d) The Bank of Taiwan was commissioned to manage the Fund of the Company's and domestic subsidiaries' defined benefit pension plan in accordance with the Fund's annual investment and utilisation plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilisation of the Labor Retirement Fund" (Article 6: The scope of utilisation for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilisation of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorized by the Regulator. The Company has no right to participate in managing and operating that fund and hence the Company is unable to disclose the classification of plan asset fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2018 and 2017 is given in the Annual Labor Retirement Fund Utilisation Report announced by the government.

(e) The principal actuarial assumptions used were as follows:

	Years ended December 31,	
	2018	2017
Discount rate	1.75%	1.75%
Future salary increases	3.5%	3.5%

Future mortality rate is estimated with 70% of the 3rd Taiwan Standard Ordinary Experience Mortality Table. The disability rate is set based on 10% of mortality rate.

Because the main actuarial assumption changed, the present value of defined benefit obligation is affected. The analysis was as follows:

	Discount rate		Future salary increases	
	Increase 0.25%	Decrease 0.25%	Increase 0.25%	Decrease 0.25%
Effect on present value of defined benefit obligation				
December 31, 2018	(\$ 38,294)	\$ 39,606	\$ 35,124	(\$ 34,206)
December 31, 2017	(\$ 39,302)	\$ 40,721	\$ 36,375	(\$ 35,363)

The sensitivity analysis above is based on other conditions that are unchanged but only one assumption is changed. In practice, more than one assumption may change all at once. The method of analysing sensitivity and the method of calculating net pension liability in the balance sheet are the same.

(f) Expected contributions to the defined benefit pension plans of the Group for the year ending December 31, 2019 amounts to \$133,465.

(g) As of December 31, 2018, the weighted average duration of the defined benefit obligations is 10 years. The distribution of the present value of expected defined benefit obligations (within 10 years) is as follows:

For the year ended December 31, 2019	\$ 73,725
For the year ended December 31, 2020	54,698
For the year ended December 31, 2021	59,476
For the year ended December 31, 2022	110,619
For the year ended December 31, 2023	1,764,397
For the year ended December 31, 2024	1,781,192
For the year ended December 31, 2025	1,780,847
For the year ended December 31, 2026	1,731,247
For the year ended December 31, 2027	1,713,170
For the year ended December 31, 2028	1,576,053

Note: The same person who meets the retirement conditions will calculate the present value of expected defined benefit obligations in each subsequent year until he/she meets the mandatory retirement age of 65.

B. Effective July 1, 2005, the Company and its domestic subsidiaries have established a defined contribution pension plan (the “New Plan”) under the Labor Pension Act (the “Act”), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company and its domestic subsidiaries contribute monthly an amount based on 6% of the employees’ monthly salaries and wages to the employees’ individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment. The pension costs under the defined contribution pension plans of the Group for the years ended December 31, 2018 and 2017 were \$100,006 and \$104,750, respectively.

(16) Share-based payment

A. For the year ended December 31, 2018, the Group’s share-based payment arrangements were as follows:

<u>Type of arrangement</u>	<u>Grant date</u>	<u>Quantity granted</u>	<u>Contract period</u>	<u>Vesting conditions</u>
Cash capital increase reserved for employee preemption	2018.12.17	15 million shares	NA	Vested immediately

For the year ended December 31, 2017, the Group’s share-based payment arrangements: None. The above share-based payment arrangements are settled by equity.

B. The fair value of stock options granted on grant date is measured using the Black-Scholes option-pricing model. Relevant information is as follows:

Type of arrangement	Grant date	Stock price	Exercise price	Expected price volatility	Expected option life	Expected dividends	Risk-free interest rate	Fair value per unit
Cash capital increase reserved for employee preemption	2018.12.17	27.60 dollars	22.52 dollars	45.79% (Note)	30days	-	0.42%	5.17 dollars

Note: The expected price volatility was calculated from the grant date by using the annual standard deviation of the Company's return on the stock from June 18, 2018 to December 17, 2018 as assumption.

C. Expenses incurred on share-based payment transactions were settled by equity amounting to \$77,550 for the year ended December 31, 2018 and no expenses were incurred for the year ended December 31, 2017.

(17) Analysis of assets and liabilities

Assets and liabilities of the Group related to the business of shipbuilding, vessel building, major machinery and ship repair, are classified as current or non-current based on the operating cycle. However, such assets and liabilities were analyzed on "one year" basis as follows:

	Less than 12 months	More than 12 months	Total
<u>December 31, 2018</u>			
Assets	\$ 6,049,380	\$ 543,561	\$ 6,592,941
Contract assets (including related parties)	889,299	-	889,299
Accounts receivable, net (including related parties)	1,337,814	-	1,337,814
Inventories, net	<u>\$ 8,276,493</u>	<u>\$ 543,561</u>	<u>\$ 8,820,054</u>
Liabilities			
Contract liabilities (including related parties)	\$ 258,846	\$ 2,492,028	\$ 2,750,874
Notes payable (including related parties)	428,768	-	428,768
Accounts payable	677,088	-	677,088
Provision for liabilities	545,558	1,980,040	2,525,598
	<u>\$ 1,910,260</u>	<u>\$ 4,472,068</u>	<u>\$ 6,382,328</u>

<u>December 31, 2017</u>	<u>Less than 12 months</u>	<u>More than 12 months</u>	<u>Total</u>
<b>Assets</b>			
Notes receivable	\$ 5,790	\$ -	\$ 5,790
Accounts receivable, net (including related parties)	1,365,391	-	1,365,391
Receivables from customers on construction contracts (including related parties)	4,857,047	469,472	5,326,519
Inventories, net	<u>2,321,061</u>	<u>-</u>	<u>3,852,866</u>
	<u>\$ 8,549,289</u>	<u>\$ 469,472</u>	<u>\$ 9,018,761</u>
<b>Liabilities</b>			
Notes payable (including related parties)	\$ 223,073	\$ -	\$ 223,073
Accounts payable (including related parties)	1,156,762	-	1,156,762
Payables to customers on construction contracts (including related parties)	170,951	1,913,802	2,084,753
Provision for liabilities	<u>61,441</u>	<u>78,778</u>	<u>140,219</u>
	<u>\$ 1,612,227</u>	<u>\$ 1,992,580</u>	<u>\$ 3,604,807</u>

(18) Common stock

A. As of December 31, 2018, the Company's authorised capital was \$11,138,997, consisting of 1,113,899.7 thousand shares of ordinary stock and the paid-in capital was \$3,729,918 with a par value of NT\$10 (in dollars) per share. All proceeds from shares issued have been collected.

Movements in the number of the Company's ordinary shares outstanding are as follows:

	Shares in thousands	
	Years ended December 31,	
	<u>2018</u>	<u>2017</u>
At January 1	\$ 743,565	\$ 743,565
Capital reduction to offset company losses	( 430,573)	-
Cash capital increase - private placement	<u>60,000</u>	<u>-</u>
At December 31	<u>\$ 372,992</u>	<u>\$ 743,565</u>

B. The Company's special shareholders' meeting has approved the proposal regarding deficit compensation through capital reduction on December 21, 2017. The capital will be reduced by \$4,305,734, consisting of 430,573 thousand shares and equivalent to 57.91% of paid-in capital. Meanwhile, the shareholders also approved the proposal for private placement in cash of less than 200,000 thousand share of common stock on the same date.

According to the resolution at the special shareholders' meeting, the private placement will be held in multiple times within one year, for at least three times. The first issuance is expected to be 100,000 thousand shares. The investors in this private placement is entitled to the same rights and obligations as those of outstanding shares except that they cannot freely transfer the shares within 3 years of settlement unless under certain circumstances pursuant to Article 43-8 of Securities and Exchange Act. Under the resolution, the Board of Directors are authorised to file for listing the ordinary shares in private placement with the competent authority after 3 years of settlement.

The record date for capital reduction resolved by the Board of Directors at their meeting on May 4, 2018 was May 10, 2018. In addition, the record date for the first time private placement for capital increase resolved by the Board of Directors at their meeting on May 11, 2018 was May 25, 2018. The amount of capital raised through the private placement was \$2,526,000 by issuing common stock amounting to 60 million shares at premium of NT\$42.10 per share, of which the government related entity, Financing Investment Venture Capital, and the management committee of Yaohua Glass Corp., Ltd. each subscribed 30 million shares amounted to \$1,263,000.

The aforementioned interim proposal for deficit compensation through capital deduction was approved by Financial Supervisory Commission pursuant to Jin-Guan-Zheng-Fa-Zi Letter No.1060051278 dated January 17, 2018. The Company has completed the registration of the capital decrease and capital increase by issuing new shares at Ministry of Economic Affairs (MOEA).

In addition, the term of the aforementioned capital increase through private placement resolved by the stockholders at the interim stockholders' meeting will expire soon and the remaining quota will be stopped processing in the remaining period as resolved by the Board of Directors at their meeting on November 9, 2018.

- C. In order to fulfil its capital and repay the bank loans, as resolved by the Board of Directors on August 10, 2018, the Company conducted a public offering for cash capital increase by issuing common stock, which was approved by Financial Supervisory Commission pursuant to Jin-Guan-Zheng-Fa-Zi Letter No. 1070339392 dated November 19, 2018. The amount of capital raised was \$2.252 billion by issuing common stock amounting to 100 million shares at a par value of NT\$22.52 per share. In addition, the public offering completion date and record date for capital increase was January 31, 2019 and relevant registration procedures are still in process.

(19) Capital reserve

Pursuant to the R.O.C. Company Law, capital reserve arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Law requires that the amount of capital reserve to be capitalized mentioned above should not exceed 10% of the paid-in capital each year. Capital reserve should not be used to cover accumulated deficit unless the legal reserve is insufficient.

(20) Retained earnings

- A. Under the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay all taxes and offset prior years' operating losses and then 10% of the remaining amount shall be set aside as legal reserve until the legal reserve equals the total capital stock balance. Appropriation of the remainder shall be proposed by the Board of Directors and resolved by the stockholders.
- B. The Company's dividend policy is summarized below:  
As the Company operates in a volatile business environment and is in the stable growth stage, the residual dividend policy is adopted taking into consideration the Company's financial structure, operating results and future expansion plans. According to the dividend policy adopted by the Board of Directors, at least 10% of the Company's distributable earnings shall be appropriated as dividends, and cash dividends shall account for at least 10% of the total dividends distributed.
- C. Except for covering accumulated deficit or increasing capital, the legal reserve shall not be used for any other purpose. Capitalization of the legal reserve is permitted, provided that the balance of the reserve exceeds 50% of the Company's paid-in capital and the amount capitalized does not exceed 25% of the balance of the reserve.
- D. a) In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.  
b) The amounts previously set aside by the Company as special reserve amounting to \$3,201,365 on initial application of IFRSs in accordance with Jin-Guan-Zheng-Fa-Zi Letter No. 1010012865, dated April 6, 2012, shall be reversed proportionately when the relevant assets are used, disposed of or reclassified subsequently. Such amounts are reversed upon disposal or reclassified if the assets are investment property of land, and reversed over the use period if the assets are investment property other than land.  
c) The Company disposed land in 2018 and 2013. Therefore, the Company reversed special reserve of \$34,894 to undistributed earnings.
- E. The proposals for deficit compensation for the nine-month period ended September 30, 2017 and for deficit compensation through capital reduction were resolved by the stockholders at the interim stockholders' meeting on December 21, 2017. Please refer to Note 6(18) for details.  
The proposal for deficit compensation for the year ended December 31, 2017 was resolved by the stockholders at the regular stockholders' meeting on June 28, 2018. Dividends will not be distributed to stockholders due to the deficit compensation at the end of the year.  
On March 15, 2019, the Board of Directors has proposed the deficit compensation for year 2018.

(21) Operating revenue

The Group's operating revenue is from contracts with customers.

A. Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of goods and services over time in the following major product types:

	Year ended December 31, 2018
Construction of ships and vessels	
Shipbuilding	\$ 10,355,714
Vessel construction	1,465,670
	<u>11,821,384</u>
All other segments	
Ship/vessel repair	976,476
Machinery building	85,605
Anti-corrosion coating	120,698
Others	8,163
	<u>1,190,942</u>
	<u>\$ 13,012,326</u>

B. Contract assets and liabilities

The Group has recognised the following revenue-related contract assets and liabilities:

	December 31, 2018	December 31, 2017
Contract assets	\$ 4,464,528	\$ 6,065,535
Contract assets - related parties	2,385,379	190,190
Less: Loss allowance	( 195,478)	( 190,190)
	<u>\$ 6,654,429</u>	<u>\$ 6,065,535</u>
Contract liabilities	\$ 2,751,268	\$ 590,575
Contract liabilities - related parties	-	287,090
	<u>\$ 2,751,268</u>	<u>\$ 877,665</u>

Please refer to Note 7 for related party transactions.

Revenue recognised that was included in the contract liability balance at the beginning of the period

The Group had a contract liability balance at the beginning of the period, of which \$877,665 was recognised as revenue for the year ended December 31, 2018.

C. As of December 31, 2018, the total transaction price allocated to unfulfilled contract obligations was \$36,528,981 and this amount would be recognised as revenue gradually with the completion process of shipbuilding and vessel construction. The shipbuilding and vessel construction are expected to be completed during the period from March 2019 to September 2025.

D. Related disclosures for 2017 operating revenue are provided in Note 12(5) B.

(22) Other income

	Years ended December 31,	
	2018	2017
Rental revenue	\$ 9,141	\$ 10,008
Interest income:		
Interest income from bank deposits	7,809	2,368
Government grant revenue	11,206	11,018
Indemnity revenue	37,564	9,198
Others	21,710	13,023
	<u>\$ 87,430</u>	<u>\$ 45,615</u>

(23) Other gains and losses

	Years ended December 31,	
	2018	2017
Gains on disposal of investment property	\$ 68,570	\$ -
Net (loss) gains on financial assets and liabilities at fair value through profit or loss	( 2,838)	11,463
Losses on disposal of property, plant and equipment	( 3,742)	( 1,221)
Net currency exchange gains	57,217	16,299
Impairment loss (Note 1)	-	( 144,103)
Other losses (Note 2)	( 99,198)	( 9,981)
	<u>\$ 20,009</u>	<u>(\$ 127,543)</u>

Note 1: Please refer to Note 6(5) Investments accounted for under equity method for details.

Note 2: Details of loss on endorsements and guarantees are provided in Notes 7 and 9(7).

(24) Finance costs

	Years ended December 31,	
	2018	2017
Interest expense:		
Bank loans	\$ 70,608	\$ 74,239
Others	-	520
Expenses amortised from government grants payable	11,206	11,018
Less: Capitalisation of qualifying assets	( 55,684)	( 64,496)
	<u>\$ 26,130</u>	<u>\$ 21,281</u>

(25) Expenses by nature

	Years ended December 31,	
	2018	2017
Change in inventory of finished goods and work in process	\$ 629,313	\$ 3,537,016
Direct materials	7,748,084	10,756,455
Employee benefit expense	3,700,666	3,823,779
Depreciation and amortisation charges	564,730	531,454
Outsourcing fees	1,627,930	2,352,280
Other expenses	2,159,200	1,632,325
Operating costs and expenses	<u>\$ 16,429,923</u>	<u>\$ 22,633,309</u>

(26) Employee benefit expense

	Years ended December 31,	
	2018	2017
Wages and salaries	\$ 3,033,445	\$ 3,215,090
Employee share options	77,550	-
Labor and health insurance fees	251,007	270,153
Pension cost	271,428	281,540
Directors' remuneration	3,550	3,158
Other personnel expenses	63,686	53,838
	<u>\$ 3,700,666</u>	<u>\$ 3,823,779</u>

A. According to the Articles of Incorporation of the Company, the Company shall distribute employees' compensation, based on the distributable profit of the current year, in a ratio of profit. Employees' compensation can be distributed in the form of shares or in cash. If a company has accumulated deficit, earnings should first be channeled to cover losses. Employees' compensation shall account for 1% to 5%, directors' remuneration shall account for less than 5%, of the amount of current year's pre-tax profit but excluding the employees' compensation and directors' remuneration.

B. The Company did not recognise employees' compensation and directors' remuneration as a result of the operating deficit for the years ended December 31, 2018 and 2017.

The Board of Directors resolved not to appropriate employees' compensation and directors' remuneration as a result of the operating deficit for the years ended December 31, 2018 and 2017. Information about employees' compensation and directors' and supervisors' remuneration of the Company as resolved by the meeting of Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(27) Income tax expense

A. Income tax (benefit) expense

(a) Components of income tax (benefit) expense:

	Years ended December 31,	
	2018	2017
Current tax:		
Current tax on profits for the period	\$ 43	\$ -
(Over) under provision of income tax in prior year	( 270)	91
Total current tax	( 227)	91
Deferred tax:		
Origination and reversal of temporary differences	( 132)	( 469,934)
Impact of change in tax rate	( 238,498)	-
Total deferred tax	( 238,630)	( 469,934)
Income tax benefit	<u>(\$ 238,857)</u>	<u>(\$ 469,843)</u>

(b) The income tax (charge)/credit relating to components of other comprehensive income is as follows:

	Years ended December 31,	
	2018	2017
Remeasurement of defined benefit obligations	<u>\$ 25,752</u>	<u>\$ 6,732</u>

B. Reconciliation between income tax benefit and accounting profit:

	Years ended December 31,	
	2018	2017
Tax calculated based on loss before tax and statutory tax rate	(\$ 667,460)	(\$ 1,081,227)
Tax exempt income by tax regulation	( 13,714)	-
Effects from items disallowed by tax regulation	14,567	28,904
Taxable loss not recognised as deferred tax assets	666,475	582,389
Impact of change in the tax rate on temporary differences between current year and the year realised	( 238,498)	-
Over (under) provision of income tax in prior year	( 270)	91
Land VAT	43	-
Income tax benefit	<u>(\$ 238,857)</u>	<u>(\$ 469,843)</u>

C. Amounts of deferred tax assets or liabilities as a result of temporary difference and tax losses are as follows:

	Year ended December 31, 2018			December 31
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	
Deferred tax assets:				
Temporary differences:				
Estimation of construction loss	\$ 365,538	\$ 96,815	\$ -	\$ 462,353
Unused compensated absences payable	51,356	6,274	-	57,630
Unrealized warranty liability	23,837	19,097	-	42,934
Accrued pension liabilities	29,189	15,437	( 25,752)	18,874
Unrealised investments gains	169	38	-	207
Unrealised exchange losses	2,915	( 2,667)	-	248
Inventory valuation loss	3,454	434	-	3,888
Allowance for doubtful accounts	639	100,001	-	100,640
Tax losses	874,665	2,988	-	877,653
	<u>1,351,762</u>	<u>238,417</u>	<u>( 25,752)</u>	<u>1,564,427</u>
Deferred tax liabilities:				
Unrealised land value incremental reserve	( 1,324,910)	213	-	( 1,324,697)
Total	<u>\$ 26,852</u>	<u>\$ 238,630</u>	<u>(\$ 25,752)</u>	<u>\$ 239,730</u>

	Year ended December 31, 2017			
	January 1	Recognised		December 31
		in profit or loss	in other comprehensive income	
Deferred tax assets:				
Temporary differences:				
Estimation of construction loss	\$ 314,983	\$ 50,555	\$ -	\$ 365,538
Unused compensated absences payable	52,326	( 970)	-	51,356
Unrealized warranty liability	23,746	91	-	23,837
Accrued pension liabilities	30,687	5,234	( 6,732)	29,189
Unrealised investments gains	( 50)	219	-	169
Unrealised exchange losses	31	2,884	-	2,915
Inventory valuation loss	149,831	( 146,377)	-	3,454
Allowance for doubtful accounts	492	147	-	639
Tax losses	316,514	558,151	-	874,665
	<u>888,560</u>	<u>469,934</u>	<u>( 6,732)</u>	<u>1,351,762</u>
Deferred tax liabilities:				
Unrealised land value incremental reserve	( 1,324,910)	-	-	( 1,324,910)
Total	<u>(\$ 436,350)</u>	<u>\$ 469,934</u>	<u>(\$ 6,732)</u>	<u>\$ 26,852</u>

D. Expiration dates of unused tax losses and amounts of unrecognised deferred tax assets are as follows:

December 31, 2018				
Year incurred	Amount filed/ assessed	Unused amount	Unrecognised deferred tax assets	Expiry year
2015	Assessed	\$ 671,021	\$ -	2025
2016	Assessed	1,190,829	-	2026
2017	Amount filed	6,700,185	4,180,985	2027
2018	Estimated filing amount	2,576,930	2,576,930	2028
December 31, 2017				
Year incurred	Amount filed/ assessed	Unused amount	Unrecognised deferred tax assets	Expiry year
2015	Assessed	\$ 671,021	\$ -	2025
2016	Amount filed	1,190,829	-	2026
2017	Estimated filing amount	6,709,058	3,425,820	2027

E. The Company's income tax returns through 2016 have been assessed and approved by the Tax Authority. As of March 15, 2019, there was no administrative remedies.

F. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China on February 7, 2018, the Company's applicable income tax rate was raised from 17% to 20% effective from January 1, 2018. The Group has assessed the impact of the change in income tax rate.

(28) Losses per share

	<u>Year ended December 31, 2018</u>		
	<u>Amount</u>	<u>Weighted average number of ordinary shares outstanding (shares in thousands)</u>	<u>Losses per share (in dollars)</u>
	<u>after tax</u>		
<u>Basic losses per share</u>			
Loss attributable to ordinary shareholders	(\$ 3,100,211)	349,322	(\$ 8.87)
	<u>Year ended December 31, 2017</u>		
	<u>Amount</u>	<u>Weighted average number of ordinary shares outstanding (shares in thousands)</u>	<u>Losses per share (in dollars)</u>
	<u>after tax</u>		
<u>Basic losses per share</u>			
Loss attributable to ordinary shareholders	(\$ 5,880,118)	312,992	(\$ 18.79)

Effect of deficit compensation through capital deduction was adjusted retroactively when calculating loss per share and the record date for capital reduction was May 10, 2018. Details are provided in Note 6(18).

(29) Operating leases

A. The Group leases investment property to others under non-cancellable operating lease agreements. These leases will expire on August 31, 2020, and all these lease agreements are not renewable at the end of the lease period. The future aggregate minimum lease payments receivable under non-cancellable operating leases are as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Not later than one year	\$ 8,396	\$ 6,601
Later than one year but not later than five years	9,306	10,520
	<u>\$ 17,702</u>	<u>\$ 17,121</u>

- B. The Group leases in assets for places of business from National Property Administration of Ministry of Finance and Taiwan International Ports Corporation, Ltd. under non-cancellable operating lease agreements. The lease terms are between 1996 and 2027, and all these lease agreements are renewable at the end of the lease period. Partial leases are charged extra rents following the changes in local price indexes. The Group recognised rental expenses of \$263,679 and \$262,900 in profit or loss for the years ended December 31, 2018 and 2017, respectively. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Not later than one year	\$ 264,731	\$ 263,423
Later than one year but not later than five years	956,987	1,001,217
Later than five years	608,572	810,169
	<u>\$ 1,830,290</u>	<u>\$ 2,074,809</u>

(30) Supplemental cash flow information

- A. Investing activities with partial cash payments:

	<u>Years ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
Purchase of property, plant and equipment	\$ 568,635	\$ 370,983
Add : Beginning balance of payable on equipment	60,503	110,485
Less : Ending balance of payable on equipment	( 45,588)	( 60,503)
Cash paid on purchase of property, plant and equipment during the year	<u>\$ 583,550</u>	<u>\$ 420,965</u>

- B. Investment and financing activities with no cash flow effects:

	<u>Years ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
Payable on investments (shown as other payables) (Note)	<u>\$ -</u>	<u>\$ 19,188</u>
Interest expense amortised from government grants	<u>\$ 11,206</u>	<u>\$ 11,018</u>

Note: The Company reclassified the amount of \$19,188 to revenue for the year ended December 31, 2018 according to the result from Chinese Arbitration Association.

(31) Changes in liabilities from financing activities

	<u>January 1, 2018</u>	<u>Cash flow</u>	<u>December 31, 2018</u>
Short-term borrowings	\$ 2,287,784	(\$ 997,634)	\$ 1,290,150
Short-term notes and bills payable	699,769	( 699,769)	-
Long-term borrowings	5,498,057	200,480	5,698,537
Guarantee deposits received	172,614	12,314	184,928
Other non-current liabilities, others	12,960	273	13,233
	<u>\$ 8,671,184</u>	<u>(\$ 1,484,336)</u>	<u>\$ 7,186,848</u>

7. RELATED PARTY TRANSACTIONS

(1) Names of related parties and relationship

<u>Names of related parties</u>	<u>Relationship with the Group</u>
CPC Corporation, Taiwan	The Company's legal entity director
China Steel Corporation	The Company's legal entity director
China Steel Express Corporation	Subsidiary of the Company's legal entity director
Taiwan International windpower Training Corporation Ltd.	Investee accounted for using equity method
Taiwan Generations Corporation	Investee accounted for using equity method
Fuhai Wind Farm Corporation	Investee accounted for using equity method
Yung Chi Paint & Varnish Mfg. Co., Ltd.	Shareholder who owns 30% of the Company's subsidiary
Financing Investment Venture Capital	Government related entity
Yao Hua Glass Co.,Ltd. Management Committee	Government related entity

(2) Significant related party transactions and balances

A. Operating revenue

	<u>Years ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
Other related parties:		
China Steel Express Corporation	\$ 2,147,665	\$ -
Fuhai Wind Farm Corporation	-	4,987
Yung Chi Paint & Varnish Mfg. Co., Ltd.	-	261
Key management:		
Legal entity director		
CPC Corporation, Taiwan	( 990)	73,893
	<u>\$ 2,146,675</u>	<u>\$ 79,141</u>

(a) The price was based on the contract signed by both parties, and the collection terms were approximately the same as those to third parties.

- (b) In August and December 2017, the Group was commissioned by China Steel Express Corporation to build 4 208,000 DWT double hull bulk cargo steamers for a total contract price of NT\$5.6 billion. The expected delivery date of the last cargo steamer is by the end of March in 2020. The Group received \$849,451 as advance receipts of contract price in accordance with the agreements. As of December 31, 2018, the balance of estimated provision for onerous contract amounted to \$795,265.
- (c) In March 2014, the Group was commissioned by Fuhai Wind Farm Corporation (hereafter referred to as Fuhai) for the construction of a meteorological observation tower, offshore windfarm off the coast of Changhua County included in Changhua Offshore Pilot Project and Fuhai offshore windfarm for a total contract price of NT\$32 billion. However, Bureau of Energy, MOEA decided to reject the development project because of the disapproved Environmental Impact Assessment. For the contracts assets, please refer to item C below.

**B. Purchases of goods**

	Years ended December 31,	
	2018	2017
Key management:		
Legal entity director		
China Steel Corporation	\$ 2,165,572	\$ 1,240,118
CPC Corporation, Taiwan	93,690	121,405
Other related parties:		
Yung Chi Paint & Varnish Mfg. Co., Ltd.	4,170	2,353
	<u>\$ 2,263,432</u>	<u>\$ 1,363,876</u>

The price was based on the contract signed by both parties, and the collection terms were approximately the same as those to third parties.

**C. Contract assets**

	December 31, 2018	December 31, 2017
Other related parties:		
China Steel Express Corporation	\$ 2,195,189	\$ -
Fuhai Wind Farm Corporation (Note)	190,190	190,190
	2,385,379	190,190
Less: Loss allowance	( 191,946)	( 190,190)
	<u>\$ 2,193,433</u>	<u>\$ -</u>

Note: The Group has recognised impairment loss amounting to \$190,190 since the contract assets may not be recovered as assessed.

Information on effects of initial application of IFRS 15 is provided in Note 3(1).

D. Accounts receivable

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Key management:		
Legal entity director		
CPC Corporation, Taiwan	\$ -	\$ 22,990
Other related parties:		
Yung Chi Paint & Varnish Mfg. Co., Ltd.	-	1,986
	<u>\$ -</u>	<u>\$ 24,976</u>

E. Other receivables

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Key management:		
Legal entity director		
China Steel Corporation	\$ 83,760	\$ 24,942

F. Prepaid accounts

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Key management:		
Legal entity director		
China Steel Corporation	\$ 165,925	\$ 95,958
CPC Corporation, Taiwan	7,515	30,157
	<u>\$ 173,440</u>	<u>\$ 126,115</u>

G. Refundable deposits

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Other related parties:		
Yung Chi Paint & Varnish Mfg. Co., Ltd.	\$ -	\$ 2,182

H. Contract liabilities

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Other related parties:		
China Steel Express Corporation	\$ -	\$ 287,090

Information on effects of initial application of IFRS 15 is provided in Note 3(1).

I. Notes payable

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Key management:		
Legal entity director		
China Steel Corporation	\$ 428,768	\$ 223,073

J. Accounts payable

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Other related parties:		
Yung Chi Paint & Varnish Mfg. Co., Ltd.	\$ -	\$ 1,947

K. Payables to customers on construction contracts

	<u>December 31, 2017</u>
Other related parties:	
China Steel Express Corporation	\$ 1,023,847

Information on effects of initial application of IFRS 15 is provided in Note 3(1).

L. Endorsements and guarantees provided to related parties

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Other related parties:		
Fuhai Wind Farm Corporation	\$ -	\$ 886,000

As of December 31, 2018 and 2017, the actual amount drawn down of endorsements and guarantees provided by the Group to other related parties amounted to \$0 and \$75,000 respectively. Because Fuhai Wind Farm Corporation failed to comply with the regulation of the “Incentive Program of Offshore Wind Power Demonstration System”, the Bureau of Energy exercised the right of performance bond and took back the entire government grant. Accordingly, the Group recognised losses amounting to \$75,000 in the second quarter of 2018. In addition, the Group cancelled the entire amount of endorsements and guarantees to Fuhai Wind Farm Corporation as resolved by the Board of Directors on November 9, 2018.

M. Others

Details on capital increase from the government related entities are provided in Note 6(18).

(3) Key management compensation

	<u>Years ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
Salaries and other short-term employee benefits	\$ 22,746	\$ 25,311
Post-employment benefits	728	2,715
Share-based payments	314	-
	<u>\$ 23,788</u>	<u>\$ 28,026</u>

8. PLEGDED ASSETS

None.

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

(1) The balance of the Group's unused letters of credit for import of materials is as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Balance of unused letters of credit	\$ 707,184	\$ 1,224,209

(2) The amounts of unfulfilled contract obligations of the Group's contracts are as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Unfulfilled customer contract obligations	\$ 36,528,989	\$ 15,120,420

(3) The guaranteed credit by banks for the Group's construction projects is as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Guaranteed credit by banks	\$ 5,615,049	\$ 4,522,610

(4) The amount of the Group's purchase contracts and outsourcing construction contracts to be paid is as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Purchase contracts to be paid	\$ 8,849,060	\$ 3,698,067
Outsourcing construction contracts to be paid	1,363,050	1,266,499
	<u>\$ 10,212,110</u>	<u>\$ 4,964,566</u>

(5) The amount of construction performance promissory note issued by the Group for contracted construction is as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Construction performance promissory note	\$ 99,850	\$ 99,850

(6) The non-cancellable operating leases with more than one-year lease term for the Group are stated in Note 6 (29).

(7) The Group, Century Iron and Steel Industrial Co., Ltd. and Taiwan Generations Corp. are the joint-originators for Fuhai Wind Farm Corporation (Fuhai Corporation). The joint-originators entered into the "Incentive Program of Offshore Wind Power Demonstration System" ("the Government Grant Scheme") on August 19, 2013, which was granted by the Ministry of Economic Affairs, and committed to be jointly responsible for Fuhai Corporation. The total amount of endorsement/guarantee provided by the Group amounted to NT\$886 million. As of December 31, 2018 and 2017, the actual amount drawn down amounted to \$0 and \$75,000 respectively. Please refer to Note 7 for details.

Because Fuhai Wind Farm Corporation failed to comply with the regulation of the "Incentive Program of Offshore Wind Power Demonstration System", the Bureau of Energy exercised the right of performance bond and took back the entire government grant. Accordingly, the Group recognised losses amounting to \$75,000 for the year ended December 31, 2018.

In addition, the Ministry of Economic Affairs claimed past due liquidated damages amounting to \$ 88.6 million from Fuhai Corporation, as a joint-originator of the Incentive Program, the Group was committed to be jointly responsible for Fuhai Corporation. Currently, the case is still ongoing. According to the Group's designated lawyer, the Ministry of Economic Affairs has not indicated its intention of claiming the liquidated damages from the Group and the Group has not reached the payment stage, therefore, the Group did not estimate the possible losses on liquidated damages.

- (8) The ships under construction have all been insured with shipbuilding insurance. On September 14, 2016, Typhoon Meranti caused damages in a third party's property and thus claimed for compensation of approximately NT\$806 million. The case is still ongoing. However, according to the Group's designated lawyer, the damage loss is covered by the insurance so no material impact on the Group's operation is expected.
- (9) The Group was commissioned by Fuhai Wind Farm Corporation for offshore wind power maritime engineering (details are provided in Note 7(2) A (c)) and Zhongwei Wind Farm Corporation (Zhongwei Corporation) undertook the construction of the meteorological observation tower, self-elevating lifting platform for demonstration unit and demonstration wind farm, fan lifting and other constructions of the aforementioned engineering. Zhongwei Corporation claimed that the Group did not notify them the performance date leading to their damages and informed the Group to pay US\$ 2.5 million to compensate their losses. The Group disagreed with the claim since Zhongwei Corporation did not meet the requirements of payment terms in the contract and Zhongwei Corporation filed a lawsuit in Taiwan Kaohsiung District Court. According to the Group's designated lawyer, the impact of this lawsuit depends on the litigation proceedings and the results of the judgement.

#### 10. SIGNIFICANT DISASTER LOSS

None.

#### 11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

Details of cash capital increase of the Company are provided in Note 6(18).

#### 12. OTHERS

##### (1) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Following the industry practices, the Group uses gearing ratio to control capital.

The Group's policy is to maintain a stable gearing ratio. Ratios are as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Gearing ratio	<u>74%</u>	<u>71%</u>

(2) Financial instruments

A. Financial instruments by category

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>Financial assets</u>		
Financial assets at amortised cost/loans and receivables		
Cash and cash equivalents	\$ 137,942	\$ 281,814
Notes receivable	-	5,790
Accounts receivable (including related parties)	900,190	1,386,926
Other receivables (including related parties)	102,860	139,796
Guarantee deposits paid	30,750	20,469
	<u>\$ 1,171,742</u>	<u>\$ 1,834,795</u>
<u>Financial liabilities</u>		
Financial liabilities at fair value through profit or loss		
Financial liabilities held for trading	\$ -	\$ 280
Financial liabilities at amortised cost		
Short-term borrowings	1,290,150	2,287,784
Short-term notes and bills payable	-	699,769
Notes payable (including related parties)	428,768	223,088
Accounts payable	713,262	1,170,559
Other payables	1,069,263	1,284,818
Long-term borrowings	5,698,537	5,498,057
Long-term notes and accounts payable	670,361	659,156
Guarantee deposits received	184,928	172,614
	<u>\$ 10,055,269</u>	<u>\$ 11,996,125</u>

B. Financial risk management policies

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk. To minimise any adverse effects on the financial performance of the Group, derivative financial instruments, such as forward foreign exchange contracts are used to hedge certain exchange rate risk. Derivatives are used exclusively for hedging purposes and not as trading or speculative instruments.

For supervising management, the Board of Directors has set related rules to authorize the management to perform daily operations within acceptable risk range and requires the internal audit to inspect the management and report on a regular basis. The internal audit must report to the Board of Directors if there is any unusual situation at any time, and respond to the situations adequately.

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

- i. The foreign exchange risk is mainly arising from USD and JPY. Management has set up a policy to require group companies to manage their foreign exchange risk against their functional currency. The companies are required to hedge their entire foreign exchange risk exposure with the Group treasury. Exchange rate risk is measured through a forecast of highly probable USD revenues and JPY expenditures. Forward foreign exchange contracts are adopted to minimise the volatility of the exchange rate affecting forecast foreign currency income and cost of inventory purchases.
- ii. The Group's businesses involve some non-functional currency operations. The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

December 31, 2018			
	Foreign Currency (in thousands)	Exchange Rate	Book Value (NTD)
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 27,197	30.665	\$ 833,996
<u>Financial liabilities</u>			
<u>Monetary items</u>			
JPY:NTD	37,843	0.2802	10,604
December 31, 2017			
	Foreign Currency (in thousands)	Exchange Rate	Book Value (NTD)
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 31,713	29.710	\$ 942,193
<u>Financial liabilities</u>			
<u>Monetary items</u>			
JPY:NTD	737	29,810	21,970

iii.If NTD had appreciated/ depreciated by 1% against USD with all other variables held constant, effect to post-tax profit (loss) is as follows:

If NTD had appreciated/ depreciated by 1% against tax	Years ended December 31,	
	2018	2017
Increase (decrease) in net profit (loss) after tax	\$ 6,587	\$ 7,638

iv.The net exchange gain arising from significant foreign exchange variation on the monetary items held by the Group for the years ended December 31, 2018 and 2017, amounted to \$57,217 and \$16,299, respectively.

#### Price risk

The Group is not exposed to significant commodity price risk.

#### Interest rate risk

The Group's long-term and short-term borrowings carry fixed interest rate and therefore no significant cash flow interest rate risk arises.

#### (b)Credit risk

##### Effective 2018

Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable and other receivables based on the agreed terms. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors.

##### Cash and cash equivalents and derivative financial instruments

The Group only trades with counterparties with good credit, in accordance with the Group's transaction policies. There is no recent violation of significant cash and cash equivalents and derivative financial products.

##### Contract assets, accounts receivable and other receivables

i. The Group appointed external agency to perform proper credit investigations for customers before signing the contracts of shipbuilding, vessel construction and machinery manufacturing. The results of the credit investigations were low risk, therefore, the credit risks of relevant receivables (primarily under accounts receivable or contract assets) were low risk.

- ii. The Group's contract assets and accounts receivable were due from government (including state-owned enterprises) and general business. To maintain the quality of the accounts receivable and contract assets, the Group has established credit risk management procedures for operating. The Group considered customers' financial status, historical trading record and future economic condition in accordance with types of customer, and took into account factors that may influence customers' ability to pay to assess the credit quality of customers. The Group estimated expected credit loss by individual assessment.
- iii. In line with credit risk management procedure, when the counterparty failed to fulfil the mutual agreements nor to conduct negotiation, the default has occurred.
- iv. On December 31, 2018, the expected loss rate of not past due accounts receivable and contract assets were 1% and 0.08%, respectively, when estimating loss allowance. In addition, the Group's past due receivables amounted to \$791,924, because the counterparty failed to fulfil the mutual agreements, and the Group estimated the provision for expected credit loss amounting to \$315,838 by considering customers' financial status, historical experience and other factors.
- v. Movements in relation to the Group applying the simplified approach to provide loss allowance for accounts receivable and contract assets are as follows:

	Year ended December 31, 2018	
	Accounts receivable	Contract assets
At January 1 _ IAS 39	\$ 15,529	\$ -
Adjustments under new standards	-	190,190
At January 1 _ IFRS 9	15,529	190,190
Provision for impairment	304,070	5,288
At December 31, 2018	<u>\$ 319,599</u>	<u>\$ 195,478</u>

The loss provision recognised for the year ended December 31, 2018, of which the impairment loss arising from accounts receivable and contract assets generated from customers' contracts amounted to \$309,358.

- vi. Information on credit risk of 2017 is provided in Note 12(4).

**(c) Liquidity risk**

The table below analyses the Group's non-derivative financial liabilities and net-settled or gross-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities and to the expected maturity date for derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

December 31, 2018:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 Years
Non-derivative financial liabilities:				
Short-term borrowings	\$ 1,293,864	\$ -	\$ -	\$ -
Payables	2,430,550	182,186	304,074	445,471
Long-term borrowings	37,429	1,338,486	4,433,415	-
	<u>\$ 3,761,843</u>	<u>\$ 1,520,672</u>	<u>\$ 4,737,489</u>	<u>\$ 445,471</u>

Derivative financial liabilities: Note.

December 31, 2017:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 Years
Non-derivative financial liabilities:				
Short-term borrowings	\$ 2,290,668	\$ -	\$ -	\$ -
Short-term notes and bills payable	700,000	-	-	-
Payables	2,880,775	105,209	161,087	595,571
Long-term borrowings	29,772	30,829	5,552,884	-
	<u>\$ 5,901,215</u>	<u>\$ 136,038</u>	<u>\$ 5,713,971</u>	<u>\$ 595,571</u>
Derivative financial liabilities				
Total				
Forward exchange contracts				
- inflow	<u>\$ 105,840</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
- outflow	<u>\$ 106,120</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The Group has also repaid the principal of \$200,164 beforehand by the end of January, 2018, in addition to the principal of \$200,000 and interest of \$6,458 that were due within 2 to 5 years by December 31, 2017. Other than that, the Group does not expect the timing of occurrence of the cash flows estimated through the maturity date analysis will be significantly earlier, nor expect the actual cash flow amount will be significantly different.

### (3) Fair value estimation

A. The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of the Group's investment in derivative instruments is included in Level 2.

Level 3: Unobservable inputs for the asset or liability.

B. Fair value information of investment property at cost is provided in Note 6(7).

C. Financial instruments not measured at fair value

The carrying amounts of cash and cash equivalents, contract assets, notes receivable, accounts receivable (including related parties), other receivables (including related parties), short-term borrowings, contract liabilities, notes payable (including related parties), accounts payable, other payables and long-term borrowings (including current portion) are approximate to their fair values.

D. The related information of financial and non-financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets and liabilities at December 31, 2018 and 2017 is as follows:

(a) The related information of natures of the assets and liabilities is as follows:

December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Liabilities</b>				
<u>Recurring fair value</u>				
<u>measurements</u>				
Financial liabilities at fair value through profit or loss				
Forward foreign exchange contracts	\$ -	\$ 280	\$ -	\$ 280

As of December 31, 2018: There was no related liabilities as mentioned above.

(b) The methods and assumptions the Group used to measure fair value are as follows:

The valuation of derivative financial instruments is based on valuation model widely accepted by market participants, such as present value techniques and option pricing models. Forward exchange contracts are usually valued based on the current forward exchange rate.

E. For the years ended December 31, 2018 and 2017, there was no transfer between Level 1 and Level 2.

(4) Effects on initial application of IFRS 9 and information on application of IAS 39 in 2017

A. Summary of significant accounting policies adopted in 2017:

(a) Financial assets at fair value through profit or loss

i. They are financial assets held for trading or financial assets designated as at fair value through profit or loss on initial recognition. Financial assets are classified in this category of held for trading if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as financial assets held for trading unless they are designated as hedges. Financial assets that meet one of the following criteria are designated as at fair value through profit or loss on initial recognition:

(i) Hybrid (combined) contracts; or

- (ii) They eliminate or significantly reduce a measurement or recognition inconsistency; or
  - (iii) They are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
- ii. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using settlement date accounting.
- iii. Financial assets at fair value through profit or loss are initially recognised at fair value. Related transaction costs are recognised in current profit or loss. These financial liabilities are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial liabilities are recognised in profit or loss. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured or derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are presented in 'financial assets measured at cost'.

(b) Accounts receivable

Accounts receivable are claims resulting from undertaking construction projects or providing services. They are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(c) Impairment of financial assets

- i. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.
- ii. The criteria that the Group uses to determine whether there is objective evidence of an impairment loss is as follows:
  - (i) Significant financial difficulty of the issuer or debtor;
  - (ii) A breach of contract, such as a default or delinquency in interest or principal payments;
  - (iii) The Group, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that a lender would not otherwise consider;
  - (iv) It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
  - (v) The disappearance of an active market for that financial asset because of financial difficulties;

- (vi) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group;
  - (vii) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered;
  - (viii) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.
- iii. When the Group assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows according to the category of financial assets:

(i) Financial assets at amortised cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, and is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortised cost that would have been at the date of reversal had the impairment loss not been recognised previously. Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(ii) Financial assets at cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at current market return rate of similar financial asset, and is recognised in profit or loss. Impairment loss recognised for this category shall not be reversed subsequently. Impairment loss is recognised by adjusting the carrying amount of the asset directly.

(d) Derivative instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Any changes in the fair value are recognised in profit or loss.

(e) Financial liabilities at fair value through profit or loss

i. Financial liabilities at fair value through profit or loss are financial liabilities held for trading or are designated as a financial liability as at fair value through profit or loss on initial recognition. Financial liabilities are classified as financial liabilities held for trading if acquired principally for the purpose of purchasing in the short-term. Derivatives are also categorized as financial liabilities held for trading unless they are designated as hedges. Financial liabilities that meet one of the following criteria are designated as at fair value through profit or loss at initial recognition:

(i) Hybrid (combined) contracts; or

(ii) They eliminate or significantly reduce a measurement or recognition inconsistency; or

(iii) They are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management policy.

ii. Financial liabilities at fair value through profit or loss are initially recognised at fair value. Related transaction costs are recognised in current profit or loss. These financial liabilities are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial liabilities are recognised in profit or loss. Derivatives that are linked to unquoted equity instruments without reliably measured fair value and must be settled by delivery of such unquoted equity liabilities are presented in 'financial liabilities at cost'.

B. There was no significant reconciliation of the Group transferred from December 31, 2017, IAS 39, to January 1, IFRS 9.

C. The significant accounts as of December 31, 2017 are as follows:

Financial liabilities at fair value through profit or loss

<u>Items</u>	<u>December 31, 2017</u>
Financial liabilities held for trading:	
Non-hedging derivatives	\$ <u>280</u>

(a) The Group's net gains on financial assets and liabilities held for trading recognised for the year ended December 31, 2017 amounted to \$11,463.

(b) The counterparties of the Group's investments in debt instruments have good credit quality.

(c) The non-hedging derivative instruments transaction and contract information are as follows:

	<u>December 31, 2017</u>	
<u>Derivative financial liabilities</u>	<u>Contract amount</u> <u>(notional principal)</u>	<u>Contract period</u>
Forward foreign exchange contracts	JPY 400,000 thousand	2017.12.07~2018.02.09

(d) The Group entered into forward foreign exchange contracts to hedge exchange rate risk of import proceeds. However, these forward foreign exchange contracts are not accounted for under hedge accounting.

D. Information relating to credit risk on December 31, 2017 and for the year ended December 31, 2017 is shown as follows:

(a) Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. The Group transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote. The Group's accounts receivable are due from government (including state-owned enterprises) and general business. To maintain the quality of the accounts receivable, the Group has established credit risk management procedures for operating.

The Group considered customers' financial status, historical trading record and present economic condition, and took into account factors that may influence customers' ability to pay to assess the credit quality of customers. The Group assessed the credit quality of customers periodically, the credit quality of accounts receivable that were neither past due nor impaired was good.

(b) For the year ended December 31, 2017, no credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.

(c) The Group does not hold any individual accounts receivable that are significantly impaired.

(d) Movement analysis of financial assets that were impaired for the year ended December 31, 2017 is as follows:

	<u>Individual provision</u>	<u>Group provision</u>	<u>Total</u>
At January 1	\$ -	\$ 8,176	\$ 8,176
Provision for impairment	-	<u>7,353</u>	<u>7,353</u>
At December 31	<u>\$ -</u>	<u>\$ 15,529</u>	<u>\$ 15,529</u>

(5) Effects of initial application of IFRS 15 and information on application of IAS 11 and IAS 18 in 2017

A. The significant accounting policies applied on revenue recognition for the year ended December 31, 2017 are set out below.

(a) Construction contracts

i. IAS 11, 'Construction Contracts', defines a construction contract as a contract specifically negotiated for the construction of an asset. If the outcome of a construction contract can be estimated reliably and it is probable that this contract would make a profit, contract revenue should be recognised by reference to the stage of completion of the contract activity, using the percentage-of-completion method of accounting, over the contract term. Contract costs are expensed as incurred. The stage of completion of a contract is measured by the proportion of contract costs incurred for work performed to date to the estimated total costs for the contract. An expected loss where total contract costs will exceed total contract revenue on a construction contract should be recognised as an expense as soon as such loss is probable. If the outcome of a construction contract cannot be estimated reliably, contract revenue should be recognised only to the extent of contract costs incurred that are likely to be recoverable.

ii Contract revenue should include the revenue arising from variations from the original contract work, claims and incentive payments that are agreed by the customer and can be measured reliably.

iii The excess of the cumulative costs incurred plus recognised profits (less recognised losses) over the progress billings on each construction contract is presented as an asset within 'receivables from customers on construction contracts'. While, the excess of the progress billings over the cumulative costs incurred plus recognised profits (less recognised losses) on each construction contract is presented as a liability within 'payables to customers on construction contracts'.

(b) Service revenue (ship-repair revenue) is recognised when owners of the ship completes inspection.

B. The revenue recognised by using above accounting policies for the year ended December 31, 2017 are as follows:

	<u>Year ended December 31, 2017</u>
Construction contract revenue	\$ 13,944,784
Sales revenue	1,345,813
Service revenue	1,098,141
Others	15,606
	<u>\$ 16,404,344</u>

C. The construction contract receivable/payable recognised by using above construction contract accounting policies on December 31, 2017 are as follows:

	<u>Year ended December 31, 2017</u>
Aggregate costs incurred plus recognised profits (less recognised losses)	\$ 8,900,203
Less: Progress billings	( 5,658,437)
Net balance sheet position for construction in progress	<u>\$ 3,241,766</u>
Presented as:	
Receivables from customers on construction contracts	\$ 5,326,519
Payables to customers on construction contracts	( 1,060,906)
Payables to customers on construction contracts - related parties	( 1,023,847)
	<u>\$ 3,241,766</u>

As at December 31, 2017, there has been no construction retentions related to construction contracts.

D. There is no effect on current comprehensive income statements and the effects and description on current balance sheets if the Group continues adopting above accounting policies are as follows:

<u>Balance sheet items</u>	December 31, 2018		
	Balance by using IFRS 15	Balance by using previous accounting policies	Effects from changes in accounting policy
Contract assets	\$ 6,654,429	\$ -	\$ 6,654,429
Receivables from customers on construction contracts	-	6,042,344	( 6,042,344)
Contract liabilities	( 2,751,268)	-	( 2,751,268)
Payables to customers on construction contracts	-	( 4,445,662)	4,445,662
Provisions	( 2,311,767)	-	( 2,311,767)
	<u>\$ 1,591,394</u>	<u>\$ 1,596,682</u>	<u>(\$ 5,288)</u>

Note: IFRS 15 requires revenue arising from construction contracts in relation to shipbuilding, vessel construction and machinery manufacturing to be recognised as contract assets prior to the receipt of consideration or payment from customers. The revenue arising prior to the rendering of services that has been committed but not transferred to customers is recognised as contract liabilities. In accordance with IAS 11, net income or loss will be reclassified as receivables or payables on construction contracts.

Under IAS 37, provision is recognised for onerous contracts. An expected loss associated with the construction work performed during prior reporting period is measured in accordance with IAS 11, 'Construction contracts' and adjusted to receivables or payables on construction contracts accordingly.

Under IFRS 9, the Group provided expected credit loss for contract assets for the year ended December 31, 2018 amounting to \$5,288.

### 13. SUPPLEMENTARY DISCLOSURES

#### (1) Significant transactions information

- A. Loans to others: None.
- B. Provision of endorsements and guarantees to others: Please refer to table 1.
- C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): None.
- D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital: None.
- E. Acquisition of real estate reaching NT\$300 million or 20% of paid-in capital or more: None.

- F. Disposal of real estate reaching NT\$300 million or 20% of paid-in capital or more: None.
- G. Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid-in capital or more: Please refer to table 2.
- H. Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more: None.
- I. Trading in derivative instruments undertaken during the reporting periods: None.
- J. Significant inter-company transactions during the reporting periods: Please refer to table 3.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China): Please refer to table 4.

(3) Information on investments in Mainland China

A. Basic information: None.

B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: None.

14. SEGMENT INFORMATION

(1) General information

Management has determined the operating segments based on the reports reviewed by the Chief Operating Decision-Maker that are used to make strategic decisions. The Chief Operating Decision-Maker considers the business from a product perspective. The reportable operating segments derive their revenue primarily from the construction of ships and vessels. As other businesses mainly including machinery engineering, ship/vessel repairs and coating do not meet the quantitative thresholds required by IFRS 8, the results of these operations are included in the 'all other segments' column.

(2) Measurement of segment information

The Chief Operating Decision-Maker assesses the performance of the operating segments based on the gross profit of each business category. This measurement basis excludes the effects of operating expenses, non-operating revenue and non-operating expenses from the operating segments.

(3) Information about operating segments

The segment information provided to the Chief Operating Decision-Maker for the reportable segments for the years ended December 31, 2018 and 2017 is as follows:

Year ended December 31, 2018

	Construction of ships and vessels	All other segments	Adjustments and eliminations (Note 1)	Total
Revenue from external customers	\$ 11,821,384	\$ 1,190,942	\$ -	\$ 13,012,326
Inter-segment revenue	-	66,086	( 66,086)	-
Total segment revenue	<u>\$ 11,821,384</u>	<u>\$ 1,257,028</u>	<u>(\$ 66,086)</u>	<u>\$ 13,012,326</u>
Segment (loss) profit	<u>(\$ 3,067,033)</u>	<u>\$ 473,169</u>	<u>\$ -</u>	<u>(\$ 2,593,864)</u>
Undistributed amount:				
Operating expenses				(\$ 810,924)
Depreciation and amortization				( 12,809)
Interest income				7,809
Interest expense				( 70,608)
Income tax benefit				238,857
Loss on investments accounted for using equity method				( 2,653)
Total undistributed amount				<u>(\$ 650,328)</u>
Segment assets (Note 2)				<u>\$ 22,826,431</u>
Investments accounted for under equity method				<u>\$ 10,992</u>
Increase in non-current assets				<u>\$ 593,489</u>
Segment liabilities (Note 2)				<u>\$ 16,840,877</u>

Year ended December 31, 2017

	Construction of ships and vessels	All other segments	Adjustments and eliminations (Note 1)	Total
Revenue from external customers	\$ 15,259,115	\$ 1,145,229	\$ -	\$ 16,404,344
Inter-segment revenue	-	204,185	( 204,185)	-
Total segment revenue	<u>\$ 15,259,115</u>	<u>\$ 1,349,414</u>	<u>(\$ 204,185)</u>	<u>\$ 16,404,344</u>
Segment (loss) profit	<u>(\$ 5,649,861)</u>	<u>(\$ 72,027)</u>	<u>\$ -</u>	<u>(\$ 5,721,888)</u>
Undistributed amount:				
Operating expenses				(\$ 494,712)
Depreciation and amortization				( 12,365)
Interest income				2,368
Interest expense				( 74,759)
Income tax benefit				469,843
Loss on investments accounted for using equity method				( 20,868)
Total undistributed amount				<u>(\$ 130,493)</u>
Segment assets (Note 2)				<u>\$ 2,283,393</u>
Investments accounted for under equity method				<u>\$ 1,645</u>
Increase in non-current assets				<u>\$ 381,054</u>
Segment liabilities (Note 2)				<u>\$ 15,904,309</u>

Note 1: Refers to the elimination of inter-segment revenue.

Note 2: Segment assets and liabilities are regularly provided to the Chief Operating Decision-Maker, but not distributed to each reportable segment.

(4) Information about segment profit or loss, assets and liabilities

The revenue from external parties reported to the Chief Operating Decision-Maker is measured in a manner consistent with that in the statement of comprehensive income. A reconciliation of segment profit to (loss) profit before tax and discontinued operations is provided as follows:

	Years ended December 31,	
	2018	2017
Segment loss	(\$ 3,067,033)	(\$ 5,649,861)
Other segment profit (loss)	473,169	(72,027)
Total segments	(2,593,864)	(5,721,888)
Operating expenses	(823,733)	(507,077)
Non-operating income and expenses	78,656	(124,077)
Loss before tax and discontinued operations	(\$ 3,338,941)	(\$ 6,353,042)

(5) Information on products and services

Revenues from external customers are mainly derived from the construction of ships and vessels. Breakdown of the revenue from all sources is as follows:

	Years ended December 31,	
	2018	2017
Revenue from construction of ships and vessels	\$ 11,821,384	\$ 13,913,302
Revenue from ship/vessel repair	976,476	1,075,447
Revenue from machinery manufacturing	85,605	31,482
Sales revenue	-	1,345,813
Revenue from anti-corrosion coating	120,698	22,694
Other revenue	8,163	15,606
Total	\$ 13,012,326	\$ 16,404,344

(6) Geographical information

Revenue information by geographic area:

	Year ended and as of December 31, 2018		Year ended and as of December 31, 2017	
	Revenue	Non-current assets	Revenue	Non-current assets
Taiwan	\$ 6,552,438	\$ 10,804,096	\$ 7,537,306	\$ 10,820,829
Singapore	1,016,660	-	4,304,975	-
Marshall	4,877,783	-	2,624,566	-
Japan	-	-	1,345,813	-
Hong Kong	378,789	-	497,386	-
Panama	32,874	-	41,704	-
Greece	-	-	-	-
Others	153,782	-	52,594	-
Total	<u>\$ 13,012,326</u>	<u>\$ 10,804,096</u>	<u>\$ 16,404,344</u>	<u>\$ 10,820,829</u>

(7) Major customer information

The customers accounting for more than 10% of the Group's operating revenues are as follows:

Clients	Year ended December 31, 2018	
	Sales amount	Department
Client G	\$ 4,877,783	Construction of ships and vessels
Client C	2,128,515	Construction of ships and vessels
Client B	2,057,084	Construction of ships and vessels
Client E	1,375,937	Construction of ships and vessels
	<u>\$ 10,439,319</u>	

  

Clients	Year ended December 31, 2017	
	Sales amount	Department
Client B	\$ 8,525,296	Construction of ships and vessels
Client G	2,624,566	Construction of ships and vessels
Client I	2,220,273	Construction of ships and vessels
	<u>\$ 13,370,135</u>	

**CSBC CORPORATION TAIWAN**

**Provision of endorsements and guarantees to others**

Year ended December 31, 2018

Table 1

Expressed in thousands of NTD  
(Except as otherwise indicated)

Number	Endorser/ guarantor	Company name	Relationship with the endorser/ guarantor	Limit on endorsements/ guarantees provided for a single party	Maximum outstanding endorsement/ guarantee amount as of December 31, 2018	Outstanding endorsement/ guarantee amount at December 31, 2018	Actual amount drawn down	Amount of endorsements/ guarantees secured with collateral	Ratio of accumulated endorsement/ guarantee amount to net asset value of the endorser/ guarantor company	Ceiling on total amount of endorsements/ guarantees provided	Provision of endorsements /guarantees by parent company to subsidiary	Provision of endorsements/ guarantees by subsidiary to parent company	Provision of endorsements/ guarantees to the party in Mainland China	Footnote
0	CSBC Corporation, Taiwan	Blue Ocean Wind Power Engineering (Hong Kong) Limited	Note 1	\$ 594,175	\$ 437,938	\$ -	\$ -	\$ -	2,970,879	Y	N	N	N	Note 3
0	CSBC Corporation, Taiwan	Fuhai Wind Farm Corporation	Note 2	594,175	886,000	-	-	-	2,970,879	N	N	N	N	Note 3, 4 and 5

Note 1 : The endorser/guarantor parent company and its subsidiaries jointly own more than 50% voting shares of the endorsed/guaranteed company.

Note 2 : Having business relationship.

Note 3 : In accordance with the Company's Management Directions for Provision of Endorsements and Guarantees to Others, the total amount of endorsements and guarantees must not exceed 50% of the Company's net assets while the amount of endorsements and guarantees for each entity must not exceed 10% of the Company's net assets.

Note 4 : In accordance with the Company's Management Directions for Provision of Endorsements and Guarantees to Others, in case the amount of endorsements and guarantees exceeds the limit because of change in circumstances, the Company shall take steps based on the improvement plan submitted to audit committee.

In addition, the Group cancelled the entire amount of endorsements and guarantees to Fuhai Wind Farm Corporation as resolved by the Board of Directors on November 9, 2018.

Note 5: Details of loss on endorsements and guarantees are provided in Note 9(7).

CSEC CORPORATION TAIWAN

Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid-in capital or more

Year ended December 31, 2018

Table 2

Expressed in thousands of NTD  
(Except as otherwise indicated)

Purchaser/seller	Counterparty	Relationship with the counterparty	Purchases		Amount	Percentage of total purchases (sales)	Credit term	Unit price	Differences in transaction terms compared to third party transactions	Notes/accounts receivable (payable)	Percentage of total notes/accounts receivable (payable)	Footnote
			Purchases	Sale								
CSBC Corporation, Taiwan	China Steel Corporation	Corporate Director	Purchases		\$ 2,165,752	29	Note 1	Note 1			39	Note 2
CSBC Corporation, Taiwan	China Steel Express Corporation	Subsidiary of the	Sale		( 2,147,665)	17	Note 1	Note 1			-	Note 3

Note 1: Based on the contract, the payment terms is the same as in general transactions.

Note 2: The prepayments to China Steel Corporation amounted to \$165,925 and other receivables amounted to \$83,760.

Note 3: The Company recognised contract assets for China Steel Express Corporation amounting to \$2,195,189.

**CSBC CORPORATION TAIWAN**

**Significant inter-company transactions during the reporting periods**

**Year ended December 31, 2018**

Table 3

Expressed in thousands of NTD  
(Except as otherwise indicated)

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction		Transaction terms	Percentage of consolidated total operating revenues or total assets (Note 3)
				General ledger account	Amount		
0	CSBC Corporation, Taiwan	BLUE ACE CORPORATION	Parent company to subsidiary	Outsourcing expenses	\$ 64,620	Note 4	-
0	CSBC Corporation, Taiwan	BLUE ACE CORPORATION	Parent company to subsidiary	Accounts payable	3,372	Note 4	-
0	CSBC Corporation, Taiwan	CSBC Coating Solutions Co., Ltd.	Parent company to subsidiary	Outsourcing expenses	1,466	Note 4	-

Note 1 : The numbers filled in for the transaction company in respect of inter-company transactions are as follows:

(1)Parent company is '0'.

(2)The subsidiaries are numbered in order starting from '1'.

Note 2 : If transactions between parent company and subsidiaries or between subsidiaries refer to the same transaction, it is not required to disclose twice. For example, if the parent company has already disclosed its transaction with a subsidiary, then the subsidiary is not required to disclose the transaction; for transactions between two subsidiaries, if one of the subsidiaries has disclosed the transaction, then the other is not required to disclose the transaction.

Note 3 : Regarding percentage of transaction amount to consolidated total operating revenues or total assets, it is computed based on period-end balance of transaction to consolidated total assets for balance sheet accounts, based on accumulated transaction amount for the period to consolidated total operating revenues for income statement accounts.

Note 4 : Based on the contract, the payment terms is the same as in general transactions.

**CSBC CORPORATION TAIWAN**

Information on investees

Year ended December 31, 2018

Table 4

Expressed in thousands of NTD  
(Except as otherwise indicated)

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2018		Ownership (%)	Book value	Net profit (loss) of the investee for the year ended December 31, 2018	Investment income(loss) recognised by the Company for the year ended December 31, 2018	Footnote
				Balance as at December 31, 2018	Balance as at December 31, 2017	Number of shares	December 31, 2018					
CSBC Corporation, Taiwan	CSBC Coating Solutions Co., Ltd.	Taiwan	Marine coating, steel structure painting works, surface treatment, and high-tech anti-corrosion etc.	\$ 87,500	\$ 87,500	8,750,000	\$ 102,192	70.00	\$ 424	\$ 297		
CSBC Corporation, Taiwan	Taiwan International Windpower Training Corporation Ltd.	Taiwan	Research and development, energy technology service	12,000	-	1,200,000	10,992	12.00	( 8,396)	( 1,008)		
CSBC Corporation, Taiwan	Taiwan Generations Corporation	Taiwan	Manufacturing of metal structure, building component, power generation and others	4,000	4,000	400,000	-	40.00	( 5,566)	( 1,645)	Note 1	
CSBC Corporation, Taiwan	Fuhai Wind Farm Corporation	Taiwan	Wind power industry	178,156	197,344	15,000,000	-	37.97	( 41,163)	-	Note 1	
CSBC Coating Solutions Co., Ltd	BLUE ACE CORPORATION	Taiwan	Marine coating, steel structure painting works, surface treatment, and high-tech anti-corrosion etc.	25,000	25,000	-	25,524	100.00	1,224	-	Note 2	
CSBC Coating Solutions Co., Ltd.	Blue Ocean Wind Power Engineering (Hong Kong) Limited	Hong Kong	Marine works services	304	304	100	294	100.00	164	-	Note 2	

Note 1 : Please refer to Note 6(5) for details about investments accounted for under equity method.

Note 2 : The amount has been included in the profit (loss) of the Company's investee accounted for using equity method and has been recognised as gain (loss) on investment.