

**Taiwan Navigation Co., Ltd. and
Subsidiaries**

**Consolidated Financial Statements for the
Six Months Ended June 30, 2018 and 2017 and
Independent Auditors' Review Report**

INDEPENDENT AUDITORS' REVIEW REPORT

The Board of Directors and Shareholders
Taiwan Navigation Co., Ltd.

Introduction

We have reviewed the accompanying consolidated balance sheets of Taiwan Navigation Co., Ltd. and its subsidiaries (collectively, the "Group") as of June 30, 2018 and 2017, the consolidated statements of comprehensive income for the three months ended June 30, 2018 and 2017 and for the six months ended June 30, 2018 and 2017, the consolidated statements of changes in equity and cash flows for the six months then ended, and the related notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "consolidated financial statements"). Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

Scope of Review

Except as explained in the following paragraph, we conducted our reviews in accordance with Statement of Auditing Standard No. 65 "Review of Financial Information Performed by the Independent Auditor of the Entity". A review of consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

As disclosed in Note 12 to the consolidated financial statements, as of June 30, 2018 and 2017, investments accounted for using the equity method were NT\$103,746 thousand and NT\$87,437 thousand, respectively; for the three months ended June 30, 2018 and 2017 and for the six months ended June 30, 2018 and 2017, net comprehensive income recognized from these equity-method investments was NT\$8,973 thousand and NT\$456 thousand and NT\$4,442 thousand and NT\$6,431 thousand, respectively, which was calculated on the basis of financial statements that have not been reviewed.

Qualified Conclusion

Based on our reviews, except for the adjustments, if any, as might have been determined to be necessary had the financial statements of the aforementioned investees and the relevant information disclosed been reviewed, nothing has come to our attention that caused us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Group as of June 30, 2018 and 2017 and its consolidated financial performance for the three months ended June 30, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the six months ended June 30, 2018 and 2017 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 “Interim Financial Reporting” endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

The engagement partners on the reviews resulting in this independent auditors’ review report are Ya-Ling Wong and Chih-Ming Shao.

Deloitte & Touche
Taipei, Taiwan
Republic of China

August 13, 2018

Notice to Readers

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

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

TAIWAN NAVIGATION CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

	June 30, 2018 (Reviewed)		December 31, 2017 (Audited)		June 30, 2017 (Reviewed)	
ASSETS	Amount	%	Amount	%	Amount	%
CURRENT ASSETS						
Cash and cash equivalents (Notes 4 and 6)	\$ 306,716	2	\$ 382,811	3	\$ 255,718	2
Financial assets at fair value through profit or loss (Notes 4 and 7)	78,286	-	32,007	-	47,016	-
Financial assets at fair value through other comprehensive income (Notes 4, 8 and 22)	118,889	1	-	-	-	-
Available-for-sale financial assets (Notes 4, 9 and 22)	-	-	151,914	1	-	-
Accounts receivable, net (Notes 4 and 10)	64,742	-	67,529	-	69,407	1
Trade receivables from related parties (Notes 4 and 22)	134,362	1	36,465	-	69,149	-
Prepayments (Note 22)	121,259	1	125,932	1	109,761	1
Other financial assets (Notes 4 and 11)	268,473	2	176,512	1	247,306	2
Other current assets	<u>25,417</u>	<u>-</u>	<u>14,587</u>	<u>-</u>	<u>20,072</u>	<u>-</u>
Total current assets	<u>1,118,144</u>	<u>7</u>	<u>987,757</u>	<u>6</u>	<u>818,429</u>	<u>6</u>
NON-CURRENT ASSETS						
Financial assets at fair value through profit or loss (Notes 4, 7 and 22)	-	-	97,827	1	92,837	1
Financial assets at fair value through other comprehensive income (Notes 4, 8 and 22)	214,058	1	-	-	-	-
Available-for-sale financial assets (Notes 4, 9 and 22)	-	-	176,327	1	185,296	2
Financial assets measured at cost (Note 4)	-	-	45,900	-	45,900	-
Investments accounted for using the equity method (Note 12)	103,746	1	102,431	1	87,437	1
Property, plant and equipment (Notes 13 and 23)	12,325,837	81	12,519,739	81	9,419,510	71
Investment properties (Note 14)	1,098,046	7	1,098,722	7	1,099,398	8
Prepayments for equipment (Note 24)	149,415	1	143,957	1	1,232,559	9
Other non-current assets (Note 23)	<u>258,147</u>	<u>2</u>	<u>245,056</u>	<u>2</u>	<u>246,268</u>	<u>2</u>
Total non-current assets	<u>14,149,249</u>	<u>93</u>	<u>14,429,959</u>	<u>94</u>	<u>12,409,205</u>	<u>94</u>
TOTAL	<u>\$ 15,267,393</u>	<u>100</u>	<u>\$ 15,417,716</u>	<u>100</u>	<u>\$ 13,227,634</u>	<u>100</u>
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Short-term borrowings (Note 15)	\$ 405,530	3	\$ 372,754	3	\$ 254,435	2
Contract liabilities	56,380	-	-	-	-	-
Notes and accounts payable	145,266	1	132,795	1	144,352	1
Trade payables to related parties (Note 22)	49,551	-	34,326	-	27,988	-
Dividends payable	294,253	2	2,147	-	2,103	-
Other payables	101,090	1	112,854	1	73,406	1
Advance receipts	-	-	50,833	-	56,016	1
Other current liabilities	<u>14,725</u>	<u>-</u>	<u>23,957</u>	<u>-</u>	<u>28,533</u>	<u>-</u>
Total current liabilities	<u>1,066,795</u>	<u>7</u>	<u>729,666</u>	<u>5</u>	<u>586,833</u>	<u>5</u>
NON-CURRENT LIABILITIES						
Long-term borrowings (Notes 15 and 23)	4,016,422	26	4,748,871	31	2,949,879	22
Deferred tax liabilities	289,489	2	288,020	2	288,071	2
Net defined benefit liabilities	60,695	1	78,011	-	76,513	1
Other non-current liabilities	<u>17,213</u>	<u>-</u>	<u>16,161</u>	<u>-</u>	<u>18,203</u>	<u>-</u>
Total non-current liabilities	<u>4,383,819</u>	<u>29</u>	<u>5,131,063</u>	<u>33</u>	<u>3,332,666</u>	<u>25</u>
Total liabilities	<u>5,450,614</u>	<u>36</u>	<u>5,860,729</u>	<u>38</u>	<u>3,919,499</u>	<u>30</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION (Note 17)						
Ordinary shares	<u>4,172,945</u>	<u>27</u>	<u>4,172,945</u>	<u>27</u>	<u>4,172,945</u>	<u>32</u>
Capital surplus	<u>334,382</u>	<u>2</u>	<u>334,382</u>	<u>2</u>	<u>334,382</u>	<u>2</u>
Retained earnings						
Legal reserve	1,664,599	11	1,617,952	10	1,617,952	12
Special reserve	242,486	2	-	-	-	-
Unappropriated earnings	<u>3,497,809</u>	<u>23</u>	<u>3,674,194</u>	<u>24</u>	<u>3,255,477</u>	<u>25</u>
Total retained earnings	<u>5,404,894</u>	<u>36</u>	<u>5,292,146</u>	<u>34</u>	<u>4,873,429</u>	<u>37</u>
Other equity	<u>(95,442)</u>	<u>(1)</u>	<u>(242,486)</u>	<u>(1)</u>	<u>(72,621)</u>	<u>(1)</u>
Total equity attributable to owners of the Corporation	<u>9,816,779</u>	<u>64</u>	<u>9,556,987</u>	<u>62</u>	<u>9,308,135</u>	<u>70</u>
Total equity	<u>9,816,779</u>	<u>64</u>	<u>9,556,987</u>	<u>62</u>	<u>9,308,135</u>	<u>70</u>
TOTAL	<u>\$ 15,267,393</u>	<u>100</u>	<u>\$ 15,417,716</u>	<u>100</u>	<u>\$ 13,227,634</u>	<u>100</u>

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

(With Deloitte & Touche auditors' review report dated August 13, 2018)

TAIWAN NAVIGATION CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share) (Reviewed, Not Audited)

	For the Three Months Ended June 30				For the Six Months Ended June 30			
	2018		2017		2018		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
OPERATING REVENUE (Notes 4, 14 and 22)	\$ 837,146	100	\$ 650,904	100	\$ 1,634,400	100	\$ 1,298,349	100
OPERATING COSTS (Notes 13, 14, 16 and 22)	<u>637,482</u>	<u>76</u>	<u>574,716</u>	<u>88</u>	<u>1,242,346</u>	<u>76</u>	<u>1,196,475</u>	<u>92</u>
GROSS PROFIT	199,664	24	76,188	12	392,054	24	101,874	8
OPERATING EXPENSES (Notes 13 and 16)	<u>29,302</u>	<u>4</u>	<u>22,749</u>	<u>4</u>	<u>58,053</u>	<u>4</u>	<u>45,517</u>	<u>4</u>
PROFIT FROM OPERATIONS	<u>170,362</u>	<u>20</u>	<u>53,439</u>	<u>8</u>	<u>334,001</u>	<u>20</u>	<u>56,357</u>	<u>4</u>
NON-OPERATING INCOME AND EXPENSES								
Share of profit of associates accounted for using the equity method (Note 12)	3,709	-	(121)	-	3,691	-	(163)	-
Interest income (Note 4)	3,195	-	2,222	-	5,679	-	5,063	-
Dividend income (Note 4)	6,885	1	-	-	6,885	1	5,967	1
Other income (Note 22)	4,774	1	4,670	1	19,417	1	6,542	1
Gain on disposal of property, plant and equipment	113,414	14	-	-	113,414	7	-	-
Gain (loss) on foreign currency exchange	8,424	1	(315)	-	3,802	-	(8,956)	(1)
Interest expense (Note 13)	(31,291)	(4)	(9,855)	(2)	(58,543)	(3)	(20,729)	(2)
Other expenses	(1,089)	-	(701)	-	(2,462)	-	(2,340)	-
Gain (loss) on financial assets at fair value through profit or loss	<u>(11,452)</u>	<u>(1)</u>	<u>(8,354)</u>	<u>(1)</u>	<u>(13,530)</u>	<u>(1)</u>	<u>20,028</u>	<u>2</u>
Total non-operating income and expenses	<u>96,569</u>	<u>12</u>	<u>(12,454)</u>	<u>(2)</u>	<u>78,353</u>	<u>5</u>	<u>5,412</u>	<u>1</u>
INCOME BEFORE INCOME TAX	266,931	32	40,985	6	412,354	25	61,769	5
INCOME TAX EXPENSE (Notes 4 and 18)	<u>6,568</u>	<u>1</u>	<u>10,300</u>	<u>1</u>	<u>7,500</u>	<u>-</u>	<u>13,900</u>	<u>1</u>
NET INCOME FOR THE PERIOD	<u>260,363</u>	<u>31</u>	<u>30,685</u>	<u>5</u>	<u>404,854</u>	<u>25</u>	<u>47,869</u>	<u>4</u>
OTHER COMPREHENSIVE INCOME (LOSS) (Note 4)								
Items that will not be reclassified subsequently to profit or loss:								
Unrealized loss on investments in equity instruments designated as at fair value through other comprehensive income	(44,769)	(5)	-	-	(101,120)	(6)	-	-
Share of other comprehensive loss of associates accounted for using the equity method (Note 12)	5,264	-	-	-	751	-	-	-

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TAIWAN NAVIGATION CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share) (Reviewed, Not Audited)

	For the Three Months Ended June 30				For the Six Months Ended June 30			
	2018		2017		2018		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss:								
Exchange differences on translating foreign operations	\$ 356,367	43	\$ 21,628	3	\$ 187,487	11	\$ (445,072)	(34)
Unrealized gain on available-for-sale financial assets	-	-	(38,739)	(6)	-	-	(14,694)	(1)
Share of other comprehensive income of associates accounted for using the equity method (Note 12)	-	-	577	-	-	-	6,594	-
Other comprehensive income (loss) for the period, net of income tax	316,862	38	(16,534)	(3)	87,118	5	(453,172)	(35)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	<u>\$ 577,225</u>	<u>69</u>	<u>\$ 14,151</u>	<u>2</u>	<u>\$ 491,972</u>	<u>30</u>	<u>\$ (405,303)</u>	<u>(31)</u>
NET INCOME								
ATTRIBUTABLE TO:								
Owners of the Corporation	\$ 260,363	31	\$ 30,685	5	\$ 404,854	25	\$ 47,869	4
Non-controlling interests	-	-	-	-	-	-	-	-
	<u>\$ 260,363</u>	<u>31</u>	<u>\$ 30,685</u>	<u>5</u>	<u>\$ 404,854</u>	<u>25</u>	<u>\$ 47,869</u>	<u>4</u>
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:								
Owners of the Corporation	\$ 577,225	69	\$ 14,151	2	\$ 491,972	30	\$ (405,303)	(31)
Non-controlling interests	-	-	-	-	-	-	-	-
	<u>\$ 577,225</u>	<u>69</u>	<u>\$ 14,151</u>	<u>2</u>	<u>\$ 491,972</u>	<u>30</u>	<u>\$ (405,303)</u>	<u>(31)</u>
EARNINGS PER SHARE (Note 19)								
Basic	<u>\$ 0.62</u>		<u>\$ 0.07</u>		<u>\$ 0.97</u>		<u>\$ 0.11</u>	
Diluted	<u>\$ 0.62</u>		<u>\$ 0.07</u>		<u>\$ 0.97</u>		<u>\$ 0.11</u>	

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

(With Deloitte & Touche auditors' review report dated August 13, 2018)

(Concluded)

TAIWAN NAVIGATION CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	Ordinary Shares			Retained Earnings				Other Equity		
	Shares (In Thousands)	Amount	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized Loss on Investments in Financial Assets at Fair Value Through Other Comprehensive Income	Unrealized Gain (Loss) on Available-for- sale Financial Assets	Total Equity
BALANCE AT JANUARY 1, 2017	417,294	\$ 4,172,945	\$ 334,382	\$ 1,617,952	\$ -	\$ 3,207,608	\$ 483,294	\$ -	\$ (102,743)	\$ 9,713,438
Net income for the six months ended June 30, 2017	-	-	-	-	-	47,869	-	-	-	47,869
Other comprehensive loss for the six months ended June 30, 2017, net of income tax	-	-	-	-	-	-	(445,072)	-	(8,100)	(453,172)
Total comprehensive income (loss) for the six months ended June 30, 2017	-	-	-	-	-	47,869	(445,072)	-	(8,100)	(405,303)
BALANCE AT JUNE 30, 2017	<u>417,294</u>	<u>\$ 4,172,945</u>	<u>\$ 334,382</u>	<u>\$ 1,617,952</u>	<u>\$ -</u>	<u>\$ 3,255,477</u>	<u>\$ 38,222</u>	<u>\$ -</u>	<u>\$ (110,843)</u>	<u>\$ 9,308,135</u>
BALANCE AT JANUARY 1, 2018	417,294	\$ 4,172,945	\$ 334,382	\$ 1,617,952	\$ -	\$ 3,674,194	\$ (131,037)	\$ -	\$ (111,449)	\$ 9,556,987
Effect of retrospective application and retrospective restatement	-	-	-	-	-	-	-	(51,523)	111,449	59,926
BALANCE AT JANUARY 1, 2018 AS RESTATED	417,294	4,172,945	334,382	1,617,952	-	3,674,194	(131,037)	(51,523)	-	9,616,913
Appropriation of 2017 earnings										
Legal reserve	-	-	-	46,647	-	(46,647)	-	-	-	-
Special reserve	-	-	-	-	242,486	(242,486)	-	-	-	-
Cash dividends	-	-	-	-	-	(292,106)	-	-	-	(292,106)
Net income for the six months ended June 30, 2018	-	-	-	-	-	404,854	-	-	-	404,854
Other comprehensive income (loss) for the six months ended June 30, 2018, net of income tax	-	-	-	-	-	-	187,487	(100,369)	-	87,118
Total comprehensive income (loss) for the six months ended June 30, 2018	-	-	-	-	-	404,854	187,487	(100,369)	-	491,972
BALANCE AT JUNE 30, 2018	<u>417,294</u>	<u>\$ 4,172,945</u>	<u>\$ 334,382</u>	<u>\$ 1,664,599</u>	<u>\$ 242,486</u>	<u>\$ 3,497,809</u>	<u>\$ 56,450</u>	<u>\$ (151,892)</u>	<u>\$ -</u>	<u>\$ 9,816,779</u>

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

(With Deloitte & Touche auditors' review report dated August 13, 2018)

TAIWAN NAVIGATION CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Six Months Ended June 30	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 412,354	\$ 61,769
Adjustments for:		
Depreciation and amortization expenses	394,862	364,769
Net loss (gain) on fair value change of financial instruments at fair value through profit or loss	13,530	(20,028)
Interest expense	58,543	20,729
Interest income	(5,679)	(5,063)
Dividend income	(6,885)	(5,967)
Share of loss of associates accounted for using the equity method	(3,691)	163
Gain on disposal of property, plant and equipment	(113,414)	-
Unrealized loss (gain) on foreign currency exchange	(1,923)	394
Changes in operating assets and liabilities		
Financial assets held for trading	-	(4,946)
Financial assets mandatorily classified as at fair value through profit or loss	32,018	-
Accounts receivable	3,231	28,020
Trade receivables from related parties	(88,619)	(2,371)
Prepayments	6,654	8,747
Other current assets	(1,493)	(183)
Other financial assets	(21,455)	(11,778)
Contract liabilities	4,811	-
Notes and accounts payable	9,820	(5,661)
Trade payables to related parties	13,666	5,466
Other payables	(13,207)	(7,684)
Advance receipts	-	19,173
Other current liabilities	(5,478)	4,254
Net defined benefit liabilities	(17,315)	(7,336)
Cash generated from operations	670,330	442,467
Income tax paid	(6,039)	(38)
Net cash generated from operating activities	664,291	442,429
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of available-for-sale financial assets	-	(199,990)
Acquisition of property, plant and equipment	(51,251)	(44,228)
Proceeds from disposal of property, plant and equipment	231,612	-
Decrease (increase) in other financial assets	(65,579)	277,092
Decrease (increase) in other non-current assets	(8,130)	10,010
Increase in prepayments of equipment	(2,023)	(333,136)

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TAIWAN NAVIGATION CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Six Months Ended June 30	
	2018	2017
Interest received	\$ 3,056	\$ 3,174
Dividends received	<u>-</u>	<u>261</u>
Net cash generated from (used in) investing activities	<u>107,685</u>	<u>(286,817)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term borrowings	28,911	219,435
Repayments of long-term borrowings	(824,381)	(326,777)
Increase in other non-current liabilities	1,052	3,576
Interest paid	<u>(58,005)</u>	<u>(20,827)</u>
Net cash used in financing activities	<u>(852,423)</u>	<u>(124,593)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>4,352</u>	<u>(8,770)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(76,095)	22,249
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	<u>382,811</u>	<u>233,469</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>\$ 306,716</u>	<u>\$ 255,718</u>

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

(With Deloitte & Touche auditors' review report dated August 13, 2018)

(Concluded)

TAIWAN NAVIGATION CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND 2017 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise) (Reviewed, Not Audited)

1. GENERAL INFORMATION

Taiwan Navigation Co., Ltd. (the “Corporation”), whose shares are listed on the Taiwan Stock Exchange, was originally majority-owned by the Taiwan Provincial Government but was privatized on June 20, 1998. The Corporation mainly engages in passenger and freight transport via water, port warehousing, aquatic sand mining, and navigation channel dredging and also acts as a shipping agency, provides tugboats, and acts as a land owner in agreements with construction companies for the use of its land for the construction of residential and commercial buildings for sale and rental.

Tai Shing Maritime Co., S.A. (Tai Shing) was established in the Republic of Panama, and Shin Wang Maritime Inc. (Shin Wang) was established in Liberia. The Corporation holds a respective 100% interest in Tai Shing and Shin Wang. Tai Shing and Shin Wang mainly engage in the general management, purchasing, sale, charter, and operation of sea navigation routes and in other maritime operations of ships.

The consolidated financial statements of the Corporation and its subsidiaries, collectively referred to as the “Group”, are presented in New Taiwan dollars, the functional currency of the Corporation.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Corporation’s board of directors on August 13, 2018.

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

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

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

- 1) IFRS 9 “Financial Instruments” and related amendments

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

The requirements for the classification, measurement, and impairment of financial assets have been applied retrospectively starting from January 1, 2018, and the requirements for hedge accounting have been applied prospectively. IFRS 9 is not applicable to items that have already been derecognized as of December 31, 2017.

Classification, measurement, and impairment of financial assets

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

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

Financial Asset	Measurement Category		Carrying Amount		Remark
	IAS 39	IFRS 9	IAS 39	IFRS 9	
Cash and cash equivalents	Loans and receivables	At amortized cost	\$ 382,811	\$ 382,811	a)
Derivatives	At fair value through profit or loss	Mandatorily at fair value through profit or loss (i.e. FVTPL)	97,827	97,827	d)
Equity securities	Available-for-sale	At fair value through other comprehensive income (i.e. FVTOCI) - equity instruments	374,141	434,067	b)
Mutual funds	Held-for-trading	Mandatorily at FVTPL	32,007	32,007	c)
Time deposits with original maturities of more than 3 months	Loans and receivables	At amortized cost	146,122	146,122	a)
Accounts receivable (including related parties)	Loans and receivables	At amortized cost	103,994	103,994	a)
Others financial assets	Loans and receivables	At amortized cost	30,390	30,390	a)

Financial Asset	IAS 39 Carrying Amount as of January 1, 2018	Reclassifi- cation	Remea- surement	IFRS 9 Carrying Amount as of January 1, 2018	Other Equity Effect on January 1, 2018	Remark
<u>FVTOCI</u>						
Equity instruments						
Add: Reclassification from available-for-sale (IAS 39)	\$ -	\$ 374,141	\$ 59,926	\$ 434,067	\$ 59,926	b)
<u>Amortized cost</u>	-					
Add: Reclassification from loans and receivables (IAS 39)	-	663,317	-	663,317	-	a)
	<u>\$ -</u>	<u>\$ 1,037,458</u>	<u>\$ 59,926</u>	<u>\$ 1,097,384</u>	<u>\$ 59,926</u>	

- a) Cash and cash equivalents, accounts receivable (including related parties), time deposits with original maturities of more than 3 months and other financial assets that were previously classified as loans and receivables under IAS 39 were classified as at amortized cost with an assessment of expected credit losses under IFRS 9, because the contractual cash flows were solely payments of principal and interest on the principal outstanding and these investments were held within a business model whose objective is to collect contractual cash flows.
- b) The Group elected to designate all its investments in equity securities previously classified as available-for-sale under IAS 39 as at FVTOCI under IFRS 9, because these investments are not held for trading. As a result, the related other equity - unrealized loss on available-for-sale financial assets of \$(111,449) thousand was reclassified to other equity - unrealized loss on financial assets at FVTOCI.

Investments in unlisted shares previously measured at cost under IAS 39 have been designated as at FVTOCI under IFRS 9 and were remeasured at fair value. Consequently, an increase of \$59,926 thousand was recognized in both financial assets at FVTOCI and other equity - unrealized gain (loss) on financial assets at FVTOCI on January 1, 2018.

- c) Mutual funds previously classified as held for trading under IAS 39 were classified mandatorily as at FVTPL under IFRS 9, because the contractual cash flows are not solely payments of principal and interest on the principal outstanding and they are not equity instruments.
- d) Mandatory convertible bond investments were designated as at FVTPL under IAS 39 because they were hybrid instruments. They have been classified as mandatorily measured at FVTPL in their entirety under IFRS 9 since they contain host contracts that are assets within the scope of IFRS 9.

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

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

The Group evaluated the retrospective application of IFRS 15 on assets, liabilities, and equity as of January 1, 2018 and the comprehensive income and cash flows for the six months ended June 30, 2018. The application of IFRS 15 has no material impact on the Group. The following table shows the impact on the classification of assets and liabilities.

Impact on assets, liabilities, and equity for current period

	As Originally Stated	Adjustments Arising from Initial Application	Restated
Current liabilities			
Contract liabilities	\$ -	\$ 50,833	\$ 50,833
Advance receipts	<u>50,833</u>	<u>(50,833)</u>	<u>-</u>
Total effect on liabilities	<u>\$ 50,833</u>	<u>\$ -</u>	<u>\$ 50,833</u>
			June 30, 2018
Increase in contract liabilities - current			\$ 56,380
Decrease in advance receipts			<u>(56,380)</u>
Total effect on liabilities			<u>\$ -</u>

- b. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed by the FSC for application starting from 2019

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

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

Note 2: The FSC permits the election for early adoption of the amendments starting from January 1, 2018.

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

IFRS 16 “Leases”

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 and a number of related interpretations.

Definition of a lease

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

The Group as lessee

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

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

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

The Group expects to apply the following practical expedients:

- a) The Group will apply a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.
- b) The Group will account for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.
- c) The Group will exclude initial direct costs from the measurement of right-of-use assets on January 1, 2019.

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

The Group as lessor

The Group will not make any adjustments to leases in which it is a lessor and will account for those leases with the application of IFRS 16 starting from January 1, 2019.

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

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

New IFRSs	Effective Date Announced by IASB (Note 1)
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2021

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Statement of compliance

These interim consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IAS 34 "Interim Financial Reporting" as endorsed and issued into effect by the FSC. Disclosure information included in these interim consolidated financial statements is less than the disclosed information required in a complete set of annual consolidated financial statements.

- b. Basis of preparation

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

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

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

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

c. Basis of consolidation

1) Principles for preparing consolidated financial statements

The consolidated financial statements incorporate the financial statements of the Corporation and the entities controlled by the Corporation (i.e. its subsidiaries).

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

All intra-group transactions, balances, income, and expenses are eliminated in full upon consolidation.

2) Subsidiaries included in the consolidated financial statements

The Group holds 100% of the interest of the subsidiaries which are included in the consolidated financial statements. The subsidiaries are Tai Shing and Shin Wang, which are mainly engaged in marine freight transportation services.

d. Other significant accounting policies

Except for the following the accounting policies applied in these consolidated financial statements are consistent with those applied in the consolidated financial statements for the year ended December 31, 2017. For the summary of other significant accounting policies, please refer to the consolidated financial statements for the year ended December 31, 2017.

1) Financial instruments

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

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

a) Financial assets

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

i. Measurement categories

2018

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

i) Financial assets at FVTPL

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

Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividends or interest earned on such a financial asset. Fair value is determined in the manner described in Note 21.

ii) Financial assets at amortized cost

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

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents, accounts receivable (including related parties) at amortized cost and other financial assets, are measured at amortized cost, which equals the gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

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

iii) Investments in equity instruments at FVTOCI

On initial recognition, the Group may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation as at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

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

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

2017

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

i) Financial assets at FVTPL

Financial assets are classified as at FVTPL when such financial assets are either held for trading or designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on their remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividends or interest earned on such a financial assets. Fair value is determined in the manner described in Note 21.

ii) Held-to-maturity investments

Corporate bonds, which have credit ratings above a specific credit rating and which the Group has a positive intent and ability to hold to maturity, are classified as held-to-maturity investments.

Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment.

iii) Available-for-sale financial assets

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

Available-for-sale financial assets are measured at fair value. Changes in the carrying amounts of available-for-sale monetary financial assets (relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and dividends on available-for-sale equity investments) are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when such investments are disposed of or are determined to be impaired.

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

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

iv) Loans and receivables

Loans and receivables are measured using the effective interest method at amortized cost less any impairment, except for short-term receivables when the effect of discounting is immaterial.

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

ii. Impairment of financial assets

2018

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

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

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

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and does not reduce the carrying amount of such a financial asset.

2017

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

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

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

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

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

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

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

In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss is not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. In respect of available-for-sale debt securities, impairment loss is subsequently reversed through profit or loss if an increase in the fair value of such an investment can be objectively related to an event occurring after the recognition of the impairment loss.

For a financial asset measured at cost, the amount of the impairment loss is measured as the difference between such an asset's carrying amount and the present value of its estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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

iii Derecognition of financial assets

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

Before 2017, on derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss which had been recognized in other comprehensive income is recognized in profit or loss. Starting from 2018, on derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. On derecognition of an investment in a debt instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss which had been recognized in other comprehensive income is recognized in profit or loss. However, on derecognition of an investment in an equity instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss, and the cumulative gain or loss which had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

b) Financial liabilities

Financial liabilities are measured at amortized cost using the effective interest method. The difference between the carrying amount of a financial liability derecognized and the consideration paid is recognized in profit or loss.

2) Revenue recognition

2018

The Group identifies contracts with customers, allocates the transaction price to the performance obligations and recognizes revenue when performance obligations are satisfied.

For contracts where the period between the date on which the Group transfers a promised good or service to a customer and the date on which the customer pays for that good or service is one year or less, the Group does not adjust the promised amount of consideration for the effects of a significant financing component.

Services for ship management, ship chartering and freight transport

As the Group provides services for ship management, ship chartering and freight transport, customers simultaneously obtain and consume the benefit provided by the Group's performance, and the relevant revenue is recognized when the services are provided. The revenue from ship management and ship chartering services are recognized with reference to the number of days incurred, and the revenue from freight transport services is recognized with reference to the stage of completion of the services provided.

2017

The Group identifies contracts with the customers, allocates the transaction price to the performance obligations and recognizes revenue when performance obligation are satisfied.

a) Service income

Service income is recognized when services are provided.

The revenue from ship management and ship chartering services is recognized with reference to the stage of completion of the relevant contract.

b) Dividend and interest income

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

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

3) Employee benefits

Pension costs for an interim period are calculated on a year-to-date basis using the respective actuarially determined annual pension cost discount rate which is determined at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant plan amendments, settlements, or other significant one-off events.

4) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Interim period income taxes are assessed on an annual basis and calculated by applying to an interim period's pre-tax income the tax rate that would be applicable to the expected total annual earnings. The effect of a change in tax rate resulting from a change in the tax law is recognized consistently with the accounting for the transaction itself which gives rise to the tax consequence, and this is recognized in profit or loss in full in the period in which the change in tax rate occurs.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Assessment of Impairment of Assets

When assessing assets for impairment, the Group relies on subjective judgments, such as the usage of assets and the business environment, to determine expected cash flows, useful lives and future gains and losses generated from these assets. Significant impairment may result from economic changes or changes in the Group's strategy.

6. CASH AND CASH EQUIVALENTS

	June 30, 2018	December 31, 2017	June 30, 2017
Cash on hand	\$ 688	\$ 262	\$ 319
Checking accounts and demand deposits	47,940	32,631	87,481
Cash equivalents			
Time deposits with original maturities of less than 3 months	<u>258,088</u>	<u>349,918</u>	<u>167,918</u>
	<u>\$ 306,716</u>	<u>\$ 382,811</u>	<u>\$ 255,718</u>

The market rate intervals of cash in banks at the end of the reporting period were as follows:

	June 30, 2018	December 31, 2017	June 30, 2017
Bank balance	0.01%-2.58%	0.01%-2.50%	0.001%-1.30%

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	June 30, 2018	December 31, 2017	June 30, 2017
<u>Financial assets at FVTPL - current</u>			
Derivative financial assets			
Mandatory convertible bonds	\$ 78,286	\$ -	\$ -
Mutual funds	<u>-</u>	<u>32,007</u>	<u>47,016</u>
	<u>\$ 78,286</u>	<u>\$ 32,007</u>	<u>\$ 47,016</u>
<u>Financial assets at FVTPL - non-current</u>			
Derivative financial assets			
Mandatory convertible bonds	<u>\$ -</u>	<u>\$ 97,827</u>	<u>\$ 92,837</u>

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - 2018

**June 30,
2018**

Current

Domestic investments

Listed shares

Yang Ming Marine Transport Corporation

\$ 118,889

Non-current

Domestic investments

Private placement listed shares

Yang Ming Marine Transport Corporation

\$ 139,306

Unlisted shares

Chunghwa Investment Co., Ltd.

74,752

\$ 214,058

The Group invested in the ordinary shares of Yang Ming Marine Transport Corporation and Chunghwa Investment Co., Ltd. and expected to earn profit through dividend income. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes. These investments in equity instruments were classified as available-for-sale under IAS 39. Refer to Notes 3 and 9 for information relating to their reclassification and comparative information for 2017.

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS - 2017

**December 31,
2017**

**June 30,
2017**

Current

Domestic investments

Listed shares

\$ 151,914

\$ -

Non-current

Domestic investments

Private placement listed shares

\$ 176,327

\$ 185,296

The Group invested in restricted private shares of domestic listed companies. Because the impact of share restrictions is reliably measured and the results are comparable to those of the average market participant, the aforementioned equity investments were classified as available-for-sale financial assets - non-current.

10. ACCOUNTS RECEIVABLE, NET

	June 30, 2018	December 31, 2017	June 30, 2017
<u>Accounts receivable</u>			
At amortized cost			
Gross carrying amount	\$ 67,342	\$ 70,129	\$ 72,007
Less: Allowance for impairment loss	<u>2,600</u>	<u>2,600</u>	<u>2,600</u>
	<u>\$ 64,742</u>	<u>\$ 67,529</u>	<u>\$ 69,407</u>

For the six months ended June 30, 2018

No interest was charged on accounts receivable. The Group adopted a policy of only dealing with entities that are rated the equivalent of investment grade or higher and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. Credit rating information is obtained from independent rating agencies where available, or if not available, the Group uses other publicly available financial information or its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored, and the aggregate value of concluded transactions is spread amongst approved counterparties.

The Group applies the simplified approach to allowing for expected credit losses prescribed by IFRS 9, which permits the use of a lifetime expected credit losses allowance for all accounts receivable. The expected credit losses on accounts receivables are estimated by reference to past default experience with the respective debtors and an analysis of the debtors' current financial positions. As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the loss allowance, which is based on the past due status of receivables, is not further distinguished according to the different segments of the Group's customer base.

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

The aging of receivables is as follows:

	June 30, 2018
Up to 60 days	\$ 63,163
61-90 days	3,706
More than 90 days	<u>473</u>
Gross carrying amount	67,342
Loss allowance (lifetime ECLs)	<u>(2,600)</u>
Amortized cost	<u>\$ 64,742</u>

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

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

	2018
Balance at January 1, 2018 per IAS 39	\$ 2,600
Adjustment on initial application of IFRS 9	<u>-</u>
Balance at January 1, 2018 per IFRS 9	<u>2,600</u>
Balance at June 30, 2018	<u>\$ 2,600</u>

For the six months ended June 30, 2017

The Group applied the same credit policy in 2018 and 2017. Due to insignificant risks on the recoverability of the Group's notes receivable and accounts receivable historically, an allowance for impairment loss was recognized based on the estimated irrecoverable amounts determined by reference to the Group's past default experience with the respective counterparties and an analysis of their current financial positions.

For the balances of some notes and accounts receivable that were past due at the end of the reporting period, the Group did not recognize an allowance for impairment loss because there was no significant change in credit quality and the amounts were still considered recoverable. The Group did not hold any collateral or other credit enhancements for these balances.

For the balances of some accounts receivable that were past due at the end of the reporting period, the Group did not recognize an allowance for impairment loss because there was no significant change in credit quality and the amounts were still considered recoverable.

The aging of receivables was as follows:

	December 31, 2017	June 30, 2017
Up to 60 days	\$ 54,078	\$ 30,425
61-90 days	13,161	15,030
More than 90 days	<u>2,890</u>	<u>26,552</u>
	<u>\$ 70,129</u>	<u>\$ 72,007</u>

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

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

	December 31, 2017	June 30, 2017
Up to 30 days	\$ 13,161	\$ 15,030
31-60 days	883	26,061
More than 60 days	<u>2,007</u>	<u>491</u>
	<u>\$ 16,051</u>	<u>\$ 41,582</u>

The above aging schedule was based on the number of past due days from the end of the credit term.

As of December 31, 2017 and June 30, 2017, the amounts of the allowances for impairment loss individually and collectively assessed for were \$2,600 thousand.

The Group did not hold any collateral over these balances.

11. OTHER FINANCIAL ASSETS

	June 30, 2018	December 31, 2017	June 30, 2017
Time deposits with original maturities of more than 3 months	\$ 216,266	\$ 146,122	\$ 220,849
Others	<u>52,207</u>	<u>30,390</u>	<u>26,457</u>
	<u>\$ 268,473</u>	<u>\$ 176,512</u>	<u>\$ 247,306</u>

The market rate intervals of time deposits with original maturities of more than 3 months at the end of the reporting period were as follows:

	June 30, 2018	December 31, 2017	June 30, 2017
Time deposits with original maturities of more than 3 months	2.00%-2.60%	1.55%-2.02%	1.17%-1.91%

12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	June 30, 2018	December 31, 2017	June 30, 2017
<u>Investments in associates</u>			
Associates that are not individually material			
Yunn Wang Investment Co., Ltd.	<u>\$ 103,746</u>	<u>\$ 102,431</u>	<u>\$ 87,437</u>

At the end of the reporting period, the Group holds 49.75% interest in Yunn Wang Investment Co., Ltd. (Yunn Wang).

Refer to Table 6 “Information on Investees” (following these Notes to Consolidated Financial Statements) for the nature of activities, principle place of business and country of incorporation of Yunn Wang.

The share of profit or loss and other comprehensive income of Yunn Wang were calculated based on the financial statements that have not been reviewed.

The aggregate information of associates is as follows:

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
The Group's share of:				
Net profit (loss) for the period	\$ 3,709	\$ (121)	\$ 3,691	\$ (163)
Other comprehensive income	<u>5,264</u>	<u>577</u>	<u>751</u>	<u>6,594</u>
Total comprehensive income for the period	<u>\$ 8,973</u>	<u>\$ 456</u>	<u>\$ 4,442</u>	<u>\$ 6,431</u>

13. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Buildings	Transportation Equipment	Other Equipment	Total
<u>Cost</u>					
Balance at January 1, 2017	\$ 191,103	\$ 82,555	\$ 16,983,179	\$ 7,617	\$ 17,264,454
Additions	-	-	44,228	-	44,228
Disposals	-	-	(33,282)	-	(33,282)
Effects of foreign currency exchange differences	<u>-</u>	<u>-</u>	<u>(875,782)</u>	<u>(284)</u>	<u>(876,066)</u>
Balance at June 30, 2017	<u>\$ 191,103</u>	<u>\$ 82,555</u>	<u>\$ 16,118,343</u>	<u>\$ 7,333</u>	<u>\$ 16,399,334</u>
<u>Accumulated depreciation</u>					
Balance at January 1, 2017		\$ 32,927	\$ 6,948,614	\$ 6,104	\$ 6,987,645
Disposals		-	(33,282)	-	(33,282)
Depreciation expenses		856	362,713	154	363,723
Effects of foreign currency exchange differences		<u>-</u>	<u>(338,056)</u>	<u>(206)</u>	<u>(338,262)</u>
Balance at June 30, 2017		<u>\$ 33,783</u>	<u>\$ 6,939,989</u>	<u>\$ 6,052</u>	<u>\$ 6,979,824</u>
Carrying amounts at June 30, 2017	<u>\$ 191,103</u>	<u>\$ 48,772</u>	<u>\$ 9,178,354</u>	<u>\$ 1,281</u>	<u>\$ 9,419,510</u>
<u>Cost</u>					
Balance at January 1, 2018	\$ 191,103	\$ 82,555	\$ 18,582,208	\$ 12,381	\$ 18,868,247
Additions	-	-	34,591	16,660	51,251
Disposals	-	-	(627,784)	(1,142)	(628,926)
Effects of foreign currency exchange differences	<u>-</u>	<u>-</u>	<u>386,319</u>	<u>575</u>	<u>386,894</u>
Balance at June 30, 2018	<u>\$ 191,103</u>	<u>\$ 82,555</u>	<u>\$ 18,375,334</u>	<u>\$ 28,474</u>	<u>\$ 18,677,466</u>
<u>Accumulated depreciation</u>					
Balance at January 1, 2018		\$ 34,638	\$ 6,308,132	\$ 5,738	\$ 6,348,508
Depreciation expenses		856	391,988	1,010	393,854
Disposals		-	(509,830)	(898)	(510,728)
Effects of foreign currency exchange differences		<u>-</u>	<u>119,920</u>	<u>75</u>	<u>119,995</u>
Balance at June 30, 2018		<u>\$ 35,494</u>	<u>\$ 6,310,210</u>	<u>\$ 5,925</u>	<u>\$ 6,351,629</u>
Carrying amounts at January 1, 2018 and December 31, 2017	<u>\$ 191,103</u>	<u>\$ 47,917</u>	<u>\$ 12,274,076</u>	<u>\$ 6,643</u>	<u>\$ 12,519,739</u>
Carrying amounts at June 30, 2018	<u>\$ 191,103</u>	<u>\$ 47,061</u>	<u>\$ 12,065,124</u>	<u>\$ 22,549</u>	<u>\$ 12,325,837</u>

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

Buildings	
Main buildings	48-60 years
Renovation work	8 years
Transportation equipment	
Vessels	20-25 years
Drydock	2-3 years
Vehicles and motorcycles	3-8 years
Other equipment	3-20 years

Property, plant and equipment pledged as collateral for bank borrowings are set out in Note 23.

Information about capitalized interest is as follows:

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Capitalized interest	\$ 1,125	\$ 5,492	\$ 2,023	\$ 10,053
Range of capitalization rate	2.44%-3.16%	1.77%-2.05%	2.10%-3.16%	1.62%-2.10%

Depreciation expenses related to property, plant and equipment and investment properties were as follows:

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Operating costs	\$ 198,646	\$ 181,541	\$ 393,616	\$ 363,381
Operating expenses	<u>475</u>	<u>509</u>	<u>914</u>	<u>1,018</u>
	<u>\$ 199,121</u>	<u>\$ 182,050</u>	<u>\$ 394,530</u>	<u>\$ 364,399</u>

Amortization expenses related to other non-current assets were as follows:

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Operating expenses	<u>\$ 170</u>	<u>\$ 187</u>	<u>\$ 332</u>	<u>\$ 370</u>

14. INVESTMENT PROPERTIES

	June 30, 2018	December 31, 2017	June 30, 2017
Cost			
Land	\$ 1,055,678	\$ 1,055,678	\$ 1,055,678
Buildings	<u>121,072</u>	<u>121,072</u>	<u>121,072</u>
	1,176,750	1,176,750	1,176,750
Less: Accumulated depreciation - buildings	<u>78,704</u>	<u>78,028</u>	<u>77,352</u>
	<u>\$ 1,098,046</u>	<u>\$ 1,098,722</u>	<u>\$ 1,099,398</u>

Except for depreciation, the Group did not recognize material additions, disposals, or impairment loss of investment properties during the six months ended June 30, 2018 and 2017.

Investment properties were depreciated using the straight-line method over their estimated useful lives of 60 years.

The fair values of the investment properties were \$3,505,306 thousand and \$3,530,770 thousand as of December 31, 2017 and 2016, respectively. Management of the Group had assessed and determined that there was no significant change in the fair value during the six months ended June 30, 2018 and 2017, respectively.

Rental income and operating expenses directly related to investment properties are as follows:

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Rental income related to investment properties	<u>\$ 13,175</u>	<u>\$ 11,749</u>	<u>\$ 25,744</u>	<u>\$ 23,616</u>
Operating expenses directly related to investment properties				
Direct operating expenses from investment properties generating rental income	\$ 4,005	\$ 4,895	\$ 8,008	\$ 9,728
Direct operating expenses from investment properties not generating rental income	<u>110</u>	<u>115</u>	<u>219</u>	<u>230</u>
	<u>\$ 4,115</u>	<u>\$ 5,010</u>	<u>\$ 8,227</u>	<u>\$ 9,958</u>

15. BORROWINGS

a. Short-term borrowings

	June 30, 2018	December 31, 2017	June 30, 2017
<u>Unsecured borrowings</u>			
Line of credit borrowings	<u>\$ 405,530</u>	<u>\$ 372,754</u>	<u>\$ 254,435</u>
Interest rate range	0.98%-2.65%	0.95%-2.17%	0.95%-1.70%

b. Long-term borrowings

	June 30, 2018	December 31, 2017	June 30, 2017
<u>Secured borrowings</u>			
Bank loans	<u>\$ 4,016,422</u>	<u>\$ 4,748,871</u>	<u>\$ 2,949,879</u>
Interest rate range	3.07%-3.16%	2.10%-2.46%	1.91%-2.05%

Secured borrowings include bank loans of the Corporation and project loans for the construction of ships of Tai Shing, whose freehold ships are provided as collateral (refer to Note 23), which have principal and interest amortized on a monthly, quarterly and semi-annual basis and which are expected to be paid off in October 2027. Tai Shing paid off a portion of the principal due in November 2020 as of June 30, 2018.

16. RETIREMENT BENEFIT PLANS

Employee benefits expense in respect of the Group's defined retirement benefit plans for the six months ended June 30, 2018 and 2017 were calculated using the respective actuarially determined annual pension cost discount rate as of December 31, 2017 and 2016.

The details of employee benefits expense were as follow:

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Post-employment benefits				
Defined contribution plans	\$ 2,517	\$ 2,402	\$ 4,975	\$ 4,353
Defined benefit plans	<u>642</u>	<u>719</u>	<u>1,453</u>	<u>1,438</u>
	3,159	3,121	6,428	5,791
Other employee benefits	<u>179,792</u>	<u>169,262</u>	<u>358,577</u>	<u>333,274</u>
	<u>\$ 182,951</u>	<u>\$ 172,383</u>	<u>\$ 365,005</u>	<u>\$ 339,065</u>
An analysis of employee benefits expense by function				
Operating costs	\$ 162,986	\$ 157,175	\$ 325,189	\$ 309,552
Operating expenses	<u>19,965</u>	<u>15,208</u>	<u>39,816</u>	<u>29,513</u>
	<u>\$ 182,951</u>	<u>\$ 172,383</u>	<u>\$ 365,005</u>	<u>\$ 339,065</u>

Employee's compensation and remuneration of directors and supervisors

According to the Articles of Incorporation of the Corporation, the Corporation accrued employees' compensation at the rates of no less than 0.5% and remuneration of directors and supervisors at rates of no higher than 1.5%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors.

For the three months ended June 30, 2018 and six months ended June 30, 2018, the employees' compensation and the remuneration of directors and supervisors were as follows:

Amount

	For the Three Months Ended June 30, 2018	For the Six Months Ended June 30, 2018
Employees' compensation	<u>\$ 976</u>	<u>\$ 1,952</u>
Remuneration of directors and supervisors	<u>\$ 976</u>	<u>\$ 1,952</u>

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

The appropriation of employees' compensation and remuneration of directors and supervisors for 2017, which were resolved by the board of directors in March 2018, was as follows:

Amount

	For the Year Ended December 31, 2017
	Cash
Employees' compensation	\$ 4,970
Remuneration of directors and supervisors	4,970

The employees' compensation and the remuneration of directors and supervisors were not estimated for 2016 because of the Corporation's loss for the year ended December 31, 2016.

The actual amounts of the employees' compensation and remuneration of directors and supervisors paid for 2017 differed from the amounts recognized in the consolidated financial statements for the year ended December 31, 2017. The differences were adjusted to profit and loss for the year ended December 31, 2018.

	For the Year Ended December 31, 2017	
	Employees' Compensation	Remuneration of Directors and Supervisors
Amounts approved in the board of directors' meeting	<u>\$ 4,970</u>	<u>\$ 4,970</u>
Amounts recognized in the annual consolidated financial statements	<u>\$ 4,975</u>	<u>\$ 4,974</u>

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

17. EQUITY

a. Ordinary shares

	June 30, 2018	December 31, 2017	June 30, 2017
Number of shares authorized (in thousands)	<u>480,000</u>	<u>480,000</u>	<u>480,000</u>
Value of shares authorized	<u>\$ 4,800,000</u>	<u>\$ 4,800,000</u>	<u>\$ 4,800,000</u>
Number of shares issued and fully paid (in thousands)	<u>417,294</u>	<u>417,294</u>	<u>417,294</u>
Value of shares issued	<u>\$ 4,172,945</u>	<u>\$ 4,172,945</u>	<u>\$ 4,172,945</u>

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

b. Capital surplus

	June 30, 2018	December 31, 2017	June 30, 2017
Treasury share transactions	\$ 334,352	\$ 334,352	\$ 334,352
Donations	<u>30</u>	<u>30</u>	<u>30</u>
	<u>\$ 334,382</u>	<u>\$ 334,382</u>	<u>\$ 334,382</u>

Such capital surplus may be used to offset a deficit; in addition, when the Corporation has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Corporation's capital surplus and to once a year).

c. Retained earnings and dividends policy

Under the dividends policy as set out in the Corporation's Articles of Incorporation, where the Corporation made a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as a legal reserve of 10% of the remaining profit or until the legal reserve equals the Corporation's paid-in capital, and setting aside or reversing a special reserve in accordance with the laws and regulations. Then, any remaining profit together with any undistributed retained earnings shall be used by the Corporation's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders. For the policies on the distribution of employees' compensation and remuneration of directors and supervisors, refer to Note 16.

The Articles of Incorporation also stipulate a dividends policy whereby the payment of cash dividends takes precedence over the issuance of share dividends. In principle, cash dividends shall not be less than 50% of the total dividends distributed.

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

Items referred to under Rule No. 1010012865 issued by the FSC should be appropriated to a special reserve by the Corporation.

The appropriation of earnings for 2017 were approved in shareholders' meetings in June 2018, was as follows:

	For the Year Ended December 31, 2017	
	Appropriation of Earnings	Dividends Per Share (NT\$)
Legal reserve	\$ 46,647	
Special reserve	242,486	
Cash dividends	292,106	<u>\$ 0.7</u>

Information on deficit compensation for 2016 approved in the shareholders' meetings is available on the Market Observation Post System website of the Taiwan Stock Exchange.

18. INCOME TAX

a. Income tax recognized in profit or loss

Major components of income tax expense were as follows:

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Current tax				
In respect of the current period	\$ 5,601	\$ 9,998	\$ 5,601	\$ 14,107
Adjustments for the prior periods	<u>122</u>	<u>-</u>	<u>122</u>	<u>-</u>
	<u>5,723</u>	<u>9,998</u>	<u>5,723</u>	<u>14,107</u>
Deferred tax				
In respect of the current period	845	302	877	(207)
Adjustments to deferred tax attributable to changes in tax rates and laws	<u>-</u>	<u>-</u>	<u>900</u>	<u>-</u>
	<u>845</u>	<u>302</u>	<u>1,777</u>	<u>(207)</u>
Income tax expense recognized in profit or loss	<u>\$ 6,568</u>	<u>\$ 10,300</u>	<u>\$ 7,500</u>	<u>\$ 13,900</u>

The Income Tax Act in the ROC was amended in 2018, and the corporate income tax rate was adjusted from 17% to 20%, effective in 2018. The effect of the change in tax rate on deferred tax expense to be recognized in profit or loss is recognized in full in the period in which the change in the tax rate occurs. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings will be reduced from 10% to 5%.

b. Income tax return assessments

The income tax returns of the Corporation and Taishing through 2016 have been assessed by the tax authorities.

19. EARNINGS PER SHARE

Unit: NT\$ Per Share

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Basic earnings per share	<u>\$ 0.62</u>	<u>\$ 0.07</u>	<u>\$ 0.97</u>	<u>\$ 0.11</u>
Diluted earnings per share	<u>\$ 0.62</u>	<u>\$ 0.07</u>	<u>\$ 0.97</u>	<u>\$ 0.11</u>

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

Net Profit for the Period

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Earnings used in the computation of basic earnings per share	<u>\$ 260,363</u>	<u>\$ 30,685</u>	<u>\$ 404,854</u>	<u>\$ 47,869</u>

Weighted Average Number of Ordinary Shares Outstanding (In Thousand Shares)

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Weighted average number of ordinary shares in computation of basic earnings per share	417,294	417,294	417,294	417,294
Effect of potentially dilutive ordinary shares:				
Employees' compensation	<u>117</u>	<u>-</u>	<u>262</u>	<u>-</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>417,411</u>	<u>417,294</u>	<u>417,556</u>	<u>417,294</u>

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

20. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged in the future.

Key management personnel of the Group review the capital structure on an annual basis. As part of this review, the key management personnel consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the key management personnel, in order to balance the overall capital structure, the Group may adjust the amount of dividends paid to shareholders, the number of new shares issued, or the existing debt redeemed.

21. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments not measured at fair value

The Group's management believes that the carrying amount of financial assets and liabilities recognized in the consolidated financial statements approximate their fair values or their fair values cannot be reliably measured.

b. Fair value of financial instruments measured at fair value on a recurring basis

1) Fair value hierarchy

June 30, 2018

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial assets	\$ -	\$ 78,286	\$ -	\$ 78,286
Financial assets at FVTOCI				
Investments in equity instruments				
Listed shares - ROC	\$ 118,889	\$ 139,306	\$ -	\$ 258,195
Unlisted shares - ROC	-	-	74,752	74,752
	<u>\$ 118,889</u>	<u>\$ 139,306</u>	<u>\$ 74,752</u>	<u>\$ 332,947</u>

December 31, 2017

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial assets	\$ -	\$ 97,827	\$ -	\$ 97,827
Non-derivative financial assets held for trading	32,007	-	-	32,007
	<u>\$ 32,007</u>	<u>\$ 97,827</u>	<u>\$ -</u>	<u>\$ 129,834</u>
Available-for-sale financial assets				
Investments in equity instruments				
Listed shares - ROC	<u>\$ 151,914</u>	<u>\$ 176,327</u>	<u>\$ -</u>	<u>\$ 328,241</u>

June 30, 2017

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial assets	\$ -	\$ 92,837	\$ -	\$ 92,837
Non-derivative financial assets held for trading	<u>47,016</u>	<u>-</u>	<u>-</u>	<u>47,016</u>
	<u>\$ 47,016</u>	<u>\$ 92,837</u>	<u>\$ -</u>	<u>\$ 139,853</u>
Available-for-sale financial assets				
Investments in equity instruments				
Listed shares - ROC	<u>\$ -</u>	<u>\$ 185,296</u>	<u>\$ -</u>	<u>\$ 185,296</u>

There were no transfers between Levels 1 and 2 in the current and prior periods.

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

- a) Derivative financial assets with no market price available for reference of their fair values have their fair values estimated using the respective mandatory convertible bonds' evaluation model. The estimations and assumptions used by the Group for the evaluation method are consistent with those used by market participants in the pricing of financial instruments.
- b) Domestic listed private shares with no market price available for reference of their fair values have their fair values estimated using the evaluation method. The estimations and assumptions used by the Group for the evaluation method are consistent with those used by market participants in the pricing of financial instruments. The relevant information used in the evaluation was obtainable by the Corporation.

The evaluation method used by the Group for estimating fair value is the Black-Scholes model.

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

Unlisted equity securities - ROC held by the Corporation are mainly investment in domestic listed shares. Thus, the aforementioned unlisted equity securities were evaluated using the asset-based approach. Separate assets and liabilities of the underlying investments were respectively regarded as individual evaluation targets and were evaluated according to their nature to reflect their overall fair value. Unobservable inputs used by the Group were an 89.75% discount rate for lack of marketability as of June 30, 2018. If the discount rate for lack of marketability were to increase/decrease by 1% and all other variables were held constant, the fair value would decrease/increase by \$7,296 thousand.

c. Categories of financial instruments

	June 30, 2018	December 31, 2017	June 30, 2017
<u>Financial assets</u>			
Financial assets at FVTPL			
Held for trading	\$ -	\$ 32,007	\$ 47,016
Designated as at FVTPL	-	97,827	92,837
Mandatorily at FVTPL	78,286	-	-
Loans and receivables (Note 2)	-	663,317	641,580
Available-for-sale financial assets (Note 1)	-	374,141	231,196
Financial assets at amortized cost (Note 3)	774,293	-	-
Financial assets at FVTOCI			
Equity instruments	332,947	-	-

Financial liabilities

Financial liabilities at amortized cost (Note 4)	5,012,112	5,403,747	3,452,163
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Note 1: The balances include the carrying amount of available-for-sale financial assets measured at cost.

Note 2: The balances include loans and receivables measured at amortized cost, which comprise cash and cash equivalents, accounts receivable, trade receivables from related parties, and other financial assets.

Note 3: The balances include financial assets measured at amortized cost, which comprise cash and cash equivalents, accounts receivable, trade receivables from related parties, and other financial assets.

Note 4: The balances include financial liabilities measured at amortized cost, which comprise short-term borrowings, notes and accounts payable, trade payables to related parties, dividends payable, other payables, and long-term borrowings.

d. Financial risk management objectives and policies

The Group's major financial instruments include equity and debt investments, accounts receivable, accounts payables, and borrowings. The Group's corporate treasury function is responsible for monitoring and managing the financial risks related to the operations of the Group. These risks include market risk, credit risk, and liquidity risk.

1) Market risk

The Group's activities exposed it primarily to the financial risks of changes in foreign currency risk, interest rate risk and other price risk.

a) Foreign currency risk

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities (including those eliminated on consolidation) are set out in Note 25.

Sensitivity analysis

The Group was mainly exposed to the U.S. dollar (USD).

The following table details the Group's sensitivity to a 2% increase and decrease in New Taiwan dollars against the relevant foreign currencies. The sensitivity rate used when reporting foreign currency risk internally to key management personnel and representing management's assessment of the reasonably possible change in foreign exchange rates is 2%. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 2% change in foreign currency rates. The table below indicates an increase (a decrease) in pre-tax profit associated with the New Taiwan dollar strengthening 2% against the U.S. dollar.

	USD Impact on NTD	
	For the Six Months Ended	
	June 30	
	2018	2017
Loss	\$ <u>(3,988)</u>	\$ <u>(3,412)</u>

b) Interest rate risk

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

	June 30, 2018	December 31, 2017	June 30, 2017
Fair value interest rate risk			
Financial assets	\$ 78,286	\$ 97,827	\$ 92,837
Cash flow interest rate risk			
Financial assets	20,543	21,960	62,617
Financial liabilities	4,421,952	5,121,625	3,204,314

Sensitivity analysis

The following sensitivity analysis was based on the Group's exposure to changes in interest rates for non-derivative instruments at the end of the reporting period. For variable interest rate liabilities, the analysis was prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. The sensitivity rate of 1% is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

The financial assets and liabilities held by the Group with variable interest rates will change according to the effective interest rates, which vary with market interest rates, and will result in fluctuations of the future cash flows.

If interest rates had been 1% higher/lower and all other variables were held constant, the Group's pre-tax profit for the six months ended June 30, 2018 and 2017 would have decreased/increased by \$22,007 thousand and \$15,709 thousand, respectively, which would be mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

c) Other price risk

The Group was exposed to equity price risk on its investments in mutual funds and listed shares.

Sensitivity analysis

The Group assessed the risk of the financial assets with variances in equity prices. Sensitivity analyses were used for evaluating the exposure to equity price risks.

If equity prices had been 5% higher/lower, the pre-tax profit for the six months ended June 30, 2018 would have increased/decreased by \$3,914 thousand, as a result of the changes in fair value of financial assets at FVTPL, and the pre-tax other comprehensive income for the six months ended June 30, 2018 would have increased/decreased by \$16,647 thousand, as a result of the changes in fair value of financial assets at FVTOCI.

If equity prices had been 5% higher/lower, pre-tax profit for the six months ended June 30, 2017 would have increased/decreased by \$2,351 thousand, as a result of the changes in fair value of held-for-trading investments, and the pre-tax other comprehensive income for the six months ended June 30, 2017 would have increased/decreased by \$9,265 thousand, as a result of the changes in fair value of available-for-sale shares.

2) Credit risk

There is no significant concentration of credit risk for the Group. Credit risk is from cash and cash equivalent deposits in banks and accounts receivable from customers.

The Group adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient letters of bank guarantees and security deposits, where appropriate, as a means of mitigating the risk of financial loss from defaults. To reduce credit risk, the Group has established internal monitoring procedures to monitor credit risk exposure and the credit condition of counterparties.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks and financial institutions with high credit-ratings assigned by international credit-rating agencies.

3) Liquidity risk

The Group manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As of June 30, 2018, December 31, 2017, and June 30, 2017, the Group had available unutilized short-term bank loan facilities of \$318,780 thousand, \$549,485 thousand, and \$210,965 thousand, respectively.

The following table details the Group's remaining contractual maturity of its non-derivative financial liabilities with variable interest rates and agreed repayment periods. The table was drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

June 30, 2018

	On Demand or Less than 1 Year	1-3 Years	3-5 Years	5+ Years
Variable interest rate liabilities	<u>\$ 412,261</u>	<u>\$ 512,933</u>	<u>\$ 1,509,074</u>	<u>\$ 2,118,549</u>

December 31, 2017

	On Demand or Less than 1 Year	1-3 Years	3-5 Years	5+ Years
Variable interest rate liabilities	\$ <u>377,862</u>	\$ <u>962,313</u>	\$ <u>1,509,766</u>	\$ <u>2,380,795</u>

June 30, 2017

	On Demand or Less than 1 Year	1-3 Years	3-5 Years	5+ Years
Variable interest rate liabilities	\$ <u>257,519</u>	\$ <u>686,121</u>	\$ <u>988,754</u>	\$ <u>1,332,833</u>

22. TRANSACTIONS WITH RELATED PARTIES

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

a. Names and categories of the related parties

<u>Related Party Name</u>	<u>Related Party Category</u>
Yang Ming Marine Transport Corporation (Yang Ming)	Government - related parties
Hong Ming Terminal & Stevedoring Corp.	Subsidiary of government - related parties
Yunn Wang Investment Co., Ltd.	Associates

b. Operating transactions

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
<u>Operating revenue</u>				
Government - related parties				
Yang Ming	\$ 80,667	\$ 37,742	\$ 144,331	\$ 111,633
Associates				
Others	<u>28</u>	<u>28</u>	<u>57</u>	<u>57</u>
	<u>\$ 80,695</u>	<u>\$ 37,770</u>	<u>\$ 144,388</u>	<u>\$ 111,690</u>
<u>Operating costs</u>				
Government and its subsidiaries				
- related parties				
Yang Ming	\$ 72,640	\$ 39,205	\$ 138,282	\$ 103,555
Others	<u>603</u>	<u>397</u>	<u>873</u>	<u>731</u>
	<u>\$ 73,243</u>	<u>\$ 39,602</u>	<u>\$ 139,155</u>	<u>\$ 104,286</u>

Transactions with related parties were based on agreements. Lease contracts with associates were based on market conditions.

At the end of reporting period, trade receivables from related parties were as follows:

	June 30, 2018	December 31, 2017	June 30, 2017
Government - related parties			
Yang Ming	\$ 128,362	\$ 36,465	\$ 63,149
Government - related parties			
Others	<u>6,000</u>	<u>-</u>	<u>6,000</u>
	<u>\$ 134,362</u>	<u>\$ 36,465</u>	<u>\$ 69,149</u>

At the end of reporting period, prepayments from related parties (included in prepayments) were as follows:

	June 30, 2018	December 31, 2017	June 30, 2017
Government - related parties			
Others	<u>\$ 5,280</u>	<u>\$ 666</u>	<u>\$ 1,580</u>

At the end of reporting period, trade payables to related parties were as follows:

	June 30, 2018	December 31, 2017	June 30, 2017
Government - related parties			
Yang Ming	\$ 49,551	\$ 34,123	\$ 27,988
Others	<u>-</u>	<u>203</u>	<u>-</u>
	<u>\$ 49,551</u>	<u>\$ 34,326</u>	<u>\$ 27,988</u>

The Group did not recognize allowance for doubtful accounts and did not receive guarantees during the six months ended June 30, 2018 and 2017. In addition, the outstanding payables to related parties had no guarantees.

c. Other transactions with government - related parties

The Ministry of Transportation and Communication of the Executive Yuan of the ROC holds a 26.46% interest in the Corporation. In June 2012, the Corporation purchased seven-year, privately placed, secured mandatory convertible bonds (classified as at FVTPL) issued by Yang Ming (of which the Ministry of Transportation and Communication of the Executive Yuan of the ROC holds a 35.51% interest) for \$200,000 thousand. The bonds, with a coupon rate of 3% per annum, are due in June 2019 and were transferrable starting from three months after issuance. The bonds shall only be converted into Yang Ming's ordinary shares at the prevailing conversion price on the last day of the seven-year maturity.

In February 2017, the Corporation purchased 19,083 thousand shares of private ordinary shares issued by Yang Ming for \$199,990 thousand (classified as at FVTOCI - non-current as of June 30, 2018 and as available-for-sale financial assets - non-current as of December 31, 2017 and June 30, 2017, respectively), and the rights and obligations of the private ordinary shares are the same as those of the ordinary shares issued by Yang Ming. However, the private shares are subject to the restrictions on transfer by the Securities Exchange Act., which say that private shares may not be transferred within 3 years of the delivery date. After 3 full years have elapsed since the delivery date of the private ordinary shares, Yang Ming may apply for registration of the retroactive handling of public issuance and listing with the FSC, if Yang Ming complies with the relevant laws and regulations.

In November 2017, the Group paid \$158,519 thousand in cash to acquire an additional 13,210 thousand shares issued by Yang Ming. However, the Group's investment in Yang Ming was still classified as at FVTOCI - current as of June 30, 2018 and as available-for-sale financial assets - current as of December 31, 2017 and June 30, 2017, respectively, as the Group did not have any significant influence over Yang Ming.

d. Other transactions with related parties (included in non-operating income - other income)

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Associates (management service revenue)				
Others	<u>\$ 28</u>	<u>\$ 28</u>	<u>\$ 57</u>	<u>\$ 57</u>

e. Compensation of key management personnel

The compensation of directors, supervisors and other key management personnel were as follows:

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Short-term employee benefits	\$ 5,069	\$ 3,343	\$ 10,168	\$ 6,555
Post-employment benefits	<u>249</u>	<u>803</u>	<u>499</u>	<u>856</u>
	<u>\$ 5,318</u>	<u>\$ 4,146</u>	<u>\$ 10,667</u>	<u>\$ 7,411</u>

23. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were pledged or mortgaged as collateral for long-term borrowings and transactions:

	June 30, 2018	December 31, 2017	June 30, 2017
Property, plant and equipment	\$ 9,561,359	\$ 9,543,458	\$ 5,935,668
Pledged deposits (included in other non-current assets)	<u>253,790</u>	<u>240,281</u>	<u>241,399</u>
	<u>\$ 9,815,149</u>	<u>\$ 9,783,739</u>	<u>\$ 6,177,067</u>

24. SIGNIFICANT UNRECOGNIZED COMMITMENTS

a. Significant unrecognized commitments of the Group as of June 30, 2018 were as follows:

1) Aggregate information of the Group entering into ship management agreements with other entities is stated below:

<u>Ship</u>	<u>Date of Agreement</u>	<u>Calculation and Fee Collection Method</u>
CPC Corporation, Taiwan YUN AN I. II. III. V. VI	2015.05.16-2020.05.15	Basic fees of ship management were \$1,400 thousand per month with additional bonuses and with collection on a monthly basis.
TAI CHIN 201, 202, 203 and 205	2007.02.10-2032.12.31	The fee was \$350 thousand per day with collection on a monthly basis.
HONG YUN and SHENH YUN	2017.01.05-2023.01.24	Basic fees of ship management were \$112 thousand for each ship per day, calculated by day, with collection on a monthly basis.
HUA YUN, TONG YUN and DER YUN	2017.04.07-2022.10.29	Basic fees of ship management were \$96-\$104 thousand for each ship per day, calculated by day, with collection on a monthly basis.

2) In May 2017, the board of directors of the subsidiary Tai Shing resolved to build two 62,000-ton bulk carriers with Oshima Shipbuilding Co., Ltd., each of which cost US\$25,500 thousand. As of the date on which these consolidated financial statements were reviewed, the unpaid amount was US\$43,290 thousand. The parent company is Tai Shing's guarantor.

b. Significant unrecognized commitments of the Group as of December 31, 2017 were as follows:

1) Aggregate information of the Group entering into ship management agreements with other entities is stated below:

<u>Ship</u>	<u>Date of Agreement</u>	<u>Calculation and Fee Collection Method</u>
CPC Corporation, Taiwan YUN AN I. II. III. V. VI	2015.05.16-2020.05.15	Basic fees of ship management were \$1,400 thousand per month with additional bonuses and with collection on a monthly basis.
TAI CHIN 201, 202, 203 and 205	2007.02.10-2032.12.31	The fee was \$349 thousand per day with collection on a monthly basis.
HONG YUN and SHENH YUN	2017.01.05-2023.01.24	Basic fees of ship management were \$112 thousand for each ship per day, calculated by day, with collection on a monthly basis.
HUA YUN, TONG YUN and DER YUN	2017.04.07-2022.10.29	Basic fees of ship management were \$96-\$104 thousand for each ship per day, calculated by day, with collection on a monthly basis.

- 2) In May 2017, the board of directors of the subsidiary Tai Shing resolved to build two 62,000-ton bulk carriers with Oshima Shipbuilding Co., Ltd., each of which cost US\$25,500 thousand. As of the date of the independent auditors' report for the consolidated financial statements for the year ended December 31, 2017, the unpaid amount was US\$43,290 thousand. The parent company is Tai Shing's guarantor.

c. Significant unrecognized commitments of the Group as of June 30, 2017 were as follows:

- 1) Aggregate information of the Group entering into ship management agreements with other entities is stated below:

Ship	Date of Agreement	Calculation and Fee Collection Method
CPC Corporation, Taiwan YUN AN I. II. III. V. VI	2015.05.16-2018.05.15	Basic fees of ship management were \$1,400 thousand per month with additional bonuses and with collection on a monthly basis.
TAI CHIN 201, 202, 203 and 205	2007.02.10-2032.12.31	The fee was \$349 thousand per day with collection on a monthly basis.
HONG YUN and SHENH YUN	2017.01.05-2023.01.24	Basic fees of ship management were \$112 thousand for each ship per day, calculated by day, with collection on a monthly basis.
HUA YUN, TONG YUN and DER YUN	2017.04.07-2022.10.29 (Expected)	Basic fees of ship management were \$96-\$104 thousand for each ship per day, calculated by day, with collection on a monthly basis.
Taiwan Power Company TAIPOWER PROSPERITY VIII	2011.10.17-2017.10.16	Basic fees of ship management were \$133 thousand per day, calculated by day, with collection on a monthly basis.

- 2) In February 2014, the Corporation's subsidiary, Tai Shing, entered into a construction contract with Oshima Shipbuilding Co., Ltd. to build two 82,000-ton bulk carriers and two 84,000-ton bulk carriers, with each 82,000-ton bulk carrier and each 84,000-ton bulk carrier costing US\$31,650 thousand and US\$33,450 thousand, respectively. Two of the four bulk carriers have been delivered in July 2017 and such two delivered bulk carriers have been fully paid. As of the date the consolidated financial statements for the six months ended June 30, 2017 were reviewed, the unpaid amount was US\$45,570 thousand. The parent company is Tai Shing's guarantor.
- 3) In May 2017, the board of directors of the subsidiary Tai Shing resolved to build two 62,000-ton bulk carriers with Oshima Shipbuilding Co., Ltd., each of which shall not cost more than US\$25,500 thousand. As of the date the consolidated financial statements for the six months ended June 30, 2017 were reviewed, Tai Shing has not entered into a construction contract yet.

25. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by foreign currencies other than functional currencies of the group entities, and the exchange rates between foreign currencies and the respective functional currencies are disclosed. The significant assets and liabilities denominated in foreign currencies were as follows:

June 30, 2018

	Foreign Currencies (In Thousands)	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items USD	\$ <u>8,651</u>	30.46 (USD:NTD)	\$ <u>263,523</u>
<u>Financial liabilities</u>			
Monetary items USD	\$ <u>2,105</u>	30.46 (USD:NTD)	\$ <u>64,110</u>

December 31, 2017

	Foreign Currencies (In Thousands)	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items USD	\$ <u>9,002</u>	29.76 (USD:NTD)	\$ <u>267,889</u>
<u>Financial liabilities</u>			
Monetary items USD	\$ <u>2,334</u>	29.76 (USD:NTD)	\$ <u>69,456</u>

June 30, 2017

	Foreign Currencies (In Thousands)	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items USD	\$ <u>7,572</u>	30.42 (USD:NTD)	\$ <u>230,337</u>
<u>Financial liabilities</u>			
Monetary items USD	\$ <u>1,962</u>	30.42 (USD:NTD)	\$ <u>59,695</u>

For the three months ended June 30, 2018 and 2017 and for the six months ended June 30, 2018 and 2017, net foreign exchange gain (losses) were \$8,424 thousand, \$(315) thousand, \$3,802 thousand and \$(8,956) thousand, respectively, resulting from the fluctuation of the USD.

26. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

- 1) Financing provided to others (None)
- 2) Endorsements/guarantees provided (Table 1)
- 3) Marketable securities held (Table 2)
- 4) Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital (None)
- 5) Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital (None)
- 6) Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital (None)
- 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital (Table 3)
- 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital (Table 4)
- 9) Trading in derivative instruments (Note 7)
- 10) Intercompany relationships and significant intercompany transactions (Table 5)
- 11) Information on investees (Table 6)

b. Information on investments in mainland China (None)

27. SEGMENT INFORMATION

The Group managed its organization and allocated resources by reference to a single operating segment, and its operating activities are related to the business of passenger and freight transportation and acting as a shipping agency.

TABLE 1

TAIWAN NAVIGATION CO., LTD. AND SUBSIDIARIES

ENDORSEMENTS/GUARANTEES PROVIDED
FOR THE SIX MONTHS ENDED JUNE 30, 2018
(New Taiwan Dollars/U.S. Dollars in Thousands)

No.	Endorser/Guarantor	Endorsee/Guarantee		Limit on Endorsement/ Guarantee Given on Behalf of Each Party (Notes 1 and 2)	Maximum Amount Endorsed/ Guaranteed During the Period (Note 2)	Outstanding Endorsement/ Guarantee at the End of the Period (Note 2)	Actual Borrowing Amount (Note 2)	Amount Endorsed/ Guaranteed by Collaterals (Note 2)	Ratio of Accumulated Endorsement/ Guarantee to Net Equity in Latest Financial Statements (%)	Aggregate Endorsement/ Guarantee Limit (Notes 1 and 2)	Endorsement/ Guarantee Given by Parent on Behalf of Subsidiary	Endorsement/ Guarantee Given by Subsidiary on Behalf of Parent	Endorsement/ Guarantee Given on Behalf of Company in Mainland China	Note
		Name	Relationship											
0	Taiwan Navigation	Tai Shing	Subsidiary	\$ 8,345,890	\$ 6,688,476 (US\$ 219,582)	\$ 6,023,461 (US\$ 197,750)	\$ 5,502,565 (US\$ 180,649)	\$ -	61	\$ 8,345,890	Yes	-	-	-
1	Tai Shing	Taiwan Navigation	Parent	7,151,159 (US\$ 234,772)	334,359 (US\$ 10,977)	246,574 (US\$ 8,095)	243,375 (US\$ 7,990)	243,375 (US\$ 7,990)	3	7,151,159 (US\$ 234,772)	-	Yes	-	-

Note 1: Not more than twice the endorser’s/guarantor’s paid-in capital.

Note 2: Translated at the exchange rate on June 30, 2018, US\$1=NT\$30.46.

TABLE 2

TAIWAN NAVIGATION CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD
JUNE 30, 2018
(In Thousands of New Taiwan Dollars)

Holding Company Name	Type and Name/Issuer of Marketable Security	Relationship with the Holding Company	Financial Statement Account	June 30, 2018				Note
				Number of Shares (In Thousands)	Carrying Amount	Percentage of Ownership (%)	Fair Value	
Taiwan Navigation Co., Ltd.	<u>Mandatorily convertible bonds</u> Yang Ming	More than half of directors assigned by the Ministry of Transportation and Communications	Financial assets at fair value through profit or loss - current	-	\$ 78,286	-	\$ 78,286	
	<u>Shares</u> Chunghwa Investment Co., Ltd.	-	Financial assets at fair value through other comprehensive income - non-current	4,590	74,752	6.00	74,752	
	<u>Private placement listed shares</u> Yang Ming	More than half of directors assigned by the Ministry of Transportation and Communications	Financial assets at fair value through other comprehensive income - non-current	19,083	139,306	0.82	139,306	
	<u>Listed shares</u> Yang Ming	More than half of directors assigned by the Ministry of Transportation and Communications	Financial assets at fair value through other comprehensive income - current	13,210	118,889	0.57	118,889	

Note: See Table 6 for the information on investments in subsidiaries and associates.

TABLE 3

TAIWAN NAVIGATION CO., LTD. AND SUBSIDIARIES

**TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE SIX MONTHS ENDED JUNE 30, 2018
(In Thousands of New Taiwan Dollars)**

Seller/Buyer	Related Party	Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Receivable (Payable)		Note
			Purchase/Sale	Amount	% of Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total (Note 2)	
Taiwan Navigation Co., Ltd.	Yang Ming	(Note 1)	Freight transportation revenue	\$ (144,331)	(25)	By negotiations	\$ -	-	\$ 134,362	100	
			Rental expense and stevedoring expense	138,282	26	By negotiations	-	-	(49,551)	(83)	
Tai Shing	Shin Wang	The same parent company	Rental revenue	(285,288)	(26)	By negotiations	-	-	50,272	83	
Shin Wang	Tai Shing	The same parent company	Rental expense	285,288	96	By negotiations	-	-	(50,272)	(100)	

Note 1: More than half of directors assigned by the Ministry of Transportation and Communications.

Note 2: The proportion of the individual related party’s total receivables (payables).

Note 3: Eliminated upon consolidation.

TABLE 4

TAIWAN NAVIGATION CO., LTD. AND SUBSIDIARIES

**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
JUNE 30, 2018
(In Thousands of New Taiwan Dollars)**

Company Name	Related Party	Relationship	Ending Balance	Turnover Rate	Overdue		Amount Received in Subsequent Period	Allowance for Impairment Loss
					Amount	Actions Taken		
Taiwan Navigation Co., Ltd.	Yang Ming	More than half of directors assigned by the Ministry of Transportation and Communications	\$ 134,362	1.69	\$ -	-	\$ 18,084	\$ -

TABLE 5

TAIWAN NAVIGATION CO., LTD. AND SUBSIDIARIES

**INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
FOR THE SIX MONTHS ENDED JUNE 30, 2018
(In Thousands of New Taiwan Dollars)**

No.	Company Name	Related Party	Relationship	Transaction Details			
				Financial Statement Account	Amount	Payment Terms	% of Total Sales or Assets
1	Tai Shing	Taiwan Navigation Co., Ltd.	Parent	Operating revenue - rental	\$ 76,467	The rental of 2 ships in total was calculated for each ship at \$2-14 thousand per day and was collected on a monthly basis.	5
		Shin Wang	The same parent company	Operating revenue - rental	285,288	The rental of 6 ships in total was calculated for each ship at \$2-14 thousand per day and was collected on a monthly basis.	17
				Trade receivables from related parties	50,272	The payment terms were based on agreements	-

Note: Eliminated upon consolidation.

TABLE 6

TAIWAN NAVIGATION CO., LTD. AND SUBSIDIARIES

**INFORMATION ON INVESTEEES
FOR THE SIX MONTHS ENDED JUNE 30, 2018
(In Thousands of New Taiwan Dollars)**

Investor Company	Investee Company	Location	Main Business and Products	Investment Amount		As of June 30, 2018			Net Income (Loss) of the Investee	Share of Profit (Loss)	Note
				December 31, 2017	June 30, 2018	Number of Shares (In Thousands)	%	Carrying Amount			
Taiwan Navigation Co., Ltd.	Tai Shing Shin Wang Yunn Wang	Panama City, Panama Monrovia City, Liberia Taipei	Rental and sale of ships	\$ 3,921,447	\$ 3,921,447	-	100.00	\$ 8,119,625	\$ 385,705	\$ 385,705	Note Note
			Rental and sale of ships	32,500	32,500	-	100.00	31,252	76	76	
			Investment	41,861	41,861	5,211	49.75	103,746	7,419	3,691	

Note: Eliminated upon consolidation.