FORMOSA TAFFETA CO., LTD.

PARENT COMPANY ONLY FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT ACCOUNTANTS

DECEMBER 31, 2018 AND 2017

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

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To the Board of Directors and Stockholders of Formosa Taffeta Co., Ltd.

Opinion

We have audited the accompanying balance sheets of Formosa Taffeta Co., Ltd. (the "Company") as at December 31, 2018 and 2017, and the related statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the reports of other independent accountants, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers".

Basis for opinion

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

Key audit matters

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

Key audit matters for the Group's consolidated financial statements of the current period are stated as follows:

Valuation of allowance for uncollectible accounts

<u>Description</u>

Refer to Note 4(9) for accounting policy on financial assets impairment, Note 5(2) for accounting estimates and assumption uncertainty in relation to accounts receivable, and Note 6(4) for details of allowance for uncollectible accounts. As of December 31, 2018, the Company's accounts receivable amounted to NT$2,128,150 thousand (excluding allowance for bad debts amounting to NT$31,678 thousand), respectively.

The Company assesses the collectability of accounts receivable based on historical experience, known reason or existing objective evidence. For those accounts which are considered uncollectible, the Company recognizes impairment with a credit to accounts receivable. The Company examines the reasonableness periodically. As the estimation of allowance for uncollectible accounts is subject to management's judgement, and given the significance of accounts receivable and allowance for uncollectible accounts to the financial statements, we consider the valuation of allowance for uncollectible accounts a key audit matter.

<u>How our audit addressed the matter</u>

Our procedures in relation to management's assessment of the allowance for uncollectible accounts included:

A. Evaluating the reasonableness of the estimates used by management to estimate the expected credit losses of accounts receivable and obtaining relevant supporting documents, including: forward-looking adjustments, accounting disputes, overdue status, post-account collections and indications that show that the customer cannot repay the loan as scheduled;
B. Assessing the adequacy of allowance for uncollectible accounts estimated by management to confirm whether the provision policy on allowance for uncollectible accounts has been consistently applied in the comparative periods of financial statements and testing the related assessment to

confirm the accuracy of ageing analysis of accounts receivable; and

C. Testing collections after the balance sheet date to check the adequacy of allowance for uncollectible accounts.

Valuation of inventory

Description

Refer to Note 4(11) for accounting policy on inventory valuation, Note 5(3) for accounting estimates and assumption uncertainty in relation to inventory valuation, and Note 6(5) for description of allowance for inventory valuation losses. As of December 31, 2018, the Company's inventory and allowance for market value decline and obsolete and slow-moving inventories amounted to NT$5,334,258 thousand and NT$440,522 thousand, respectively.

The Company is primarily engaged in fiber dyeing and finishing, manufacturing and sales of curtains. As the textile manufacturing market is competitive, there is higher risk of incurring loss on inventory valuation. The Company recognizes inventories at the lower of cost and net realizable value, and the net realizable value is calculated based on the average price less estimated selling expenses. Since the calculation of net realizable value involves subjective judgement and uncertainty and the inventory is material to the financial statements, we consider the valuation of inventory a key audit matter.

How our audit addressed the matter

Our procedures in relation to management's assessment of the allowance for inventory valuation losses included:

A. Assessing the reasonableness of policies and procedures on allowance for inventory valuation loss, including the reasonableness of classification of inventory in determining the net realizable value;
B. Understanding the inventory management procedures, examining and participating in annual physical count and assessing the effectiveness of inventory management and inventory classification determined by management; and
C. Checking the method in calculating the net realizable value of inventory and assessing the reasonableness of allowance for valuation loss.

Other matter - audits of the other independent accountants

We did not audit the financial statements of certain investments accounted for under the equity method. The balance of these investments accounted for under the equity method amounted to NT$7,464,179 thousand and NT$7,133,622, constituting 9% and 8% of total assets as of December 31, 2018 and 2017, respectively, and comprehensive income was NT$382,256 thousand and NT$412,764 thousand, constituting 22% and 8% of total comprehensive income for the years then ended, respectively. The financial statements of these investees were audited by other independent accountants whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included in the financial statements relative to these investees is based solely on the audit reports of the other independent accountants.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including members of the Audit Committee, are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ROC GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Wu, Han-Chi Chou, Chien-Hung

For and on behalf of PricewaterhouseCoopers, Taiwan
March 15, 2019

FORMOSA TAFFETA CO., LTD.
PARENT COMPANY ONLY BALANCE SHEETS
(Expressed in thousands of New Taiwan dollars)

	Assets	Notes	December 31, 2018 AMOUNT	%	December 31, 2017 AMOUNT	%
	Current assets					
1100	Cash and cash equivalents	6(1)	$ 1,447,966	2	$ 851,569	1
1110	Financial assets at fair value through profit or loss - current	6(2)	-	-	398	-
1120	Current financial assets at fair value through other comprehensive income	6(3)	1,717,779	2	-	-
1125	Available-for-sale financial assets - current	12(4)	-	-	1,911,496	2
1150	Notes receivable, net		109,709	-	114,555	-
1160	Notes receivable - related parties	7	4,429	-	13,007	-
1170	Accounts receivable, net	6(4)	2,128,150	3	1,948,346	3
1180	Accounts receivable - related parties	7	220,365	-	194,371	-
1200	Other receivables	7	290,656	1	415,375	1
130X	Inventory	6(5)	4,893,736	6	4,963,569	6
1410	Prepayments		92,227	-	149,485	-
1470	Other current assets		194,023	-	188,207	-
11XX	**Total current assets**		11,099,040	14	10,750,378	13
	Non-current assets					
1517	Non-current financial assets at fair value through other comprehensive income	6(3)	40,556,651	50	-	-
1523	Available-for-sale financial assets - non-current	12(4)	-	-	43,363,486	51
1543	Financial assets carried at cost - non-current	7 and 12(4)	-	-	266,009	-
1550	Investments accounted for under equity method	6(6)	21,385,854	27	22,905,965	27
1600	Property, plant and equipment	6(7) and 7	6,785,900	8	7,432,389	9
1760	Investment property - net	7	473,658	1	498,499	-
1840	Deferred income tax assets	6(23)	79,023	-	124,629	-
1900	Other non-current assets		119,377	-	162,805	-
15XX	**Total non-current assets**		69,400,463	86	74,753,782	87
1XXX	**Total assets**		$ 80,499,503	100	$ 85,504,160	100

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FORMOSA TAFFETA CO., LTD.
PARENT COMPANY ONLY BALANCE SHEETS
(Expressed in thousands of New Taiwan dollars)

	Liabilities and Equity	Notes	December 31, 2018 AMOUNT	%	December 31, 2017 AMOUNT	%
	Current liabilities					
2100	Short-term borrowings	6(8)	$ -	-	$ 7,386	-
2110	Short-term notes and bills payable	6(9)	-	-	1,299,806	2
2120	Financial liabilities at fair value through profit or loss - current	6(10)	774	-	-	-
2150	Notes payable		127,600	-	135,455	-
2160	Notes payable - related parties	7	331,828	-	239,553	-
2170	Accounts payable		484,745	1	684,049	1
2180	Accounts payable - related parties	7	964,825	1	1,062,882	1
2200	Other payables	7	854,276	1	837,873	1
2230	Current income tax liabilities	6(23)	104,403	-	51,445	-
2300	Other current liabilities		85,154	-	90,457	-
21XX	**Total current liabilities**		2,953,605	3	4,408,906	5
	Non-current liabilities					
2540	Long-term borrowings	6(11)	7,900,000	10	10,800,000	13
2570	Deferred income tax liabilities	6(23)	290,513	-	170,157	-
2600	Other non-current liabilities	6(12)	442,181	1	745,702	1
25XX	**Total non-current liabilities**		8,632,694	11	11,715,859	14
2XXX	**Total liabilities**		11,586,299	14	16,124,765	19
	Equity					
	Share capital	6(13)				
3110	Share capital - common stock		16,846,646	21	16,846,646	20
	Capital surplus	6(14)				
3200	Capital surplus		1,268,860	2	274,323	-
	Retained earnings	6(15)				
3310	Legal reserve		7,567,594	9	7,139,607	8
3320	Special reserve		2,214,578	3	2,214,578	3
3350	Unappropriated retained earnings		9,743,048	12	5,398,225	6
	Other equity interest	6(16)				
3400	Other equity interest		31,291,978	39	37,525,951	44
3500	**Treasury stocks**	6(13)	(19,500)	-	(19,935)	-
3XXX	**Total equity**		68,913,204	86	69,379,395	81
	Commitments and contingent liabilities					
	Subsequent event					
3X2X	**Total liabilities and equity**		$ 80,499,503	100	$ 85,504,160	100

The accompanying notes are an integral part of these parent company only financial statements.

FORMOSA TAFFETA CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME
(Expressed in thousands of New Taiwan dollars, except for earnings per share amount)

	Items	Notes	Years ended December 31 2018 AMOUNT	2018 %	2017 AMOUNT	2017 %
4000	**Sales revenue**	6(17) and 7	$ 27,593,484	100	$ 25,713,839	100
5000	**Operating costs**	6(5)(20)(21) and 7	(25,442,866)	(92)	(23,215,460)	(90)
5900	**Net operating margin**		2,150,618	8	2,498,379	10
	Operating expenses	6(20)(21) and 7				
6100	Selling expenses		(1,397,836)	(5)	(1,396,951)	(5)
6200	General and administrative expenses		(528,989)	(2)	(496,956)	(2)
6000	**Total operating expenses**		(1,926,825)	(7)	(1,893,907)	(7)
6900	**Operating profit**		223,793	1	604,472	3
	Non-operating income and expenses					
7010	Other income	6(18) and 7	2,820,730	10	2,664,014	10
7020	Other gains and losses	6(19) and 7	924,798	3	(168,551)	(1)
7050	Finance costs	6(22)	(103,358)	-	(117,088)	-
7070	Share of profit of associates and joint ventures accounted for using equity method, net	6(6)	1,389,799	5	1,500,573	6
7000	**Total non-operating income and expenses**		5,031,969	18	3,878,948	15
7900	**Profit before income tax**		5,255,762	19	4,483,420	18
7950	Income tax expense	6(23)	(518,356)	(2)	(203,549)	(1)
8200	**Profit for the year**		$ 4,737,406	17	$ 4,279,871	17
	Other comprehensive income (net)	6(16)				
	Components of other comprehensive income that will not be reclassified to profit or loss					
8311	Actuarial gains (losses) on defined benefit plans		$ 153,145	1	($ 330,584)	(1)
8316	Unrealized loss on valuation of financial assets at fair value through other comprehensive income	6(3)	(2,635,914)	(10)	-	-
8330	Share of other comprehensive loss of associates and joint ventures accounted for under equity method that will not be reclassified to profit or loss		(693,862)	(3)	-	-
8310	**Other comprehensive income that will not be reclassified to profit or loss**		(3,176,631)	(12)	(330,584)	(1)
	Components of other comprehensive income that will be reclassified to profit or loss					
8361	Financial statements translation differences of foreign operations		154,507	1	(927,654)	(4)
8362	Unrealized gain on valuation of available-for-sale financial assets	12(4)	-	-	2,127,178	8
8380	Share of other comprehensive income of associates and joint ventures accounted for under equity method that will be reclassified to profit or loss		14,914	-	-	-
8360	**Other comprehensive income that will be reclassified to profit or loss**		169,421	1	1,199,524	4
8300	**Total other comprehensive (loss) income for the year**		($ 3,007,210)	(11)	$ 868,940	3
8500	**Total comprehensive income for the year**		$ 1,730,196	6	$ 5,148,811	20

			2018 Before Tax	2018 After Tax	2017 Before Tax	2017 After Tax
9750	**Basic earnings per share**	6(24)	$ 3.12	$ 2.82	$ 2.66	$ 2.54
	Assuming shares held by subsidiary are not deemed as treasury stock:					
	Basic earnings per share		$ 3.12	$ 2.81	$ 2.66	$ 2.54

The accompanying notes are an integral part of these parent company only financial statements.

FORMOSA TAFFETA CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY
(Expressed in thousands of New Taiwan dollars)

				Retained Earnings			Other Equity Interest				
	Notes	Share capital - common stock	Capital Surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Financial statements translation differences of foreign operations	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Unrealized gain or loss on available-for-sale financial assets	Treasury stocks	Total equity
Year ended December 31, 2017											
Balance at January 1, 2017		$ 16,846,646	$ 266,458	$ 6,791,478	$ 1,708,542	$ 4,830,100	$ 13,387	$ -	$ 36,313,040	($ 21,501)	$ 66,748,150
Profit for the year		-	-	-	-	4,279,871	-	-	-	-	4,279,871
Other comprehensive income (loss) for the year	6(16)	-	-	-	-	(330,584)	(927,654)	-	2,127,178	-	868,940
Total comprehensive income		-	-	-	-	3,949,287	(927,654)	-	2,127,178	-	5,148,811
Appropriations of 2016 earnings:	6(15)										
Legal reserve		-	-	348,129	-	(348,129)	-	-	-	-	-
Special reserve		-	-	-	506,036	(506,036)	-	-	-	-	-
Cash dividends		-	-	-	-	(2,526,997)	-	-	-	-	(2,526,997)
Disposal of treasury stock	6(13)	-	2,891	-	-	-	-	-	-	1,566	4,457
Change in the net interest of associates recognized under the equity method		-	33	-	-	-	-	-	-	-	33
Adjustment of cash dividends paid to consolidated subsidiaries		-	3,439	-	-	-	-	-	-	-	3,439
Expired cash dividends transferred to capital surplus		-	1,502	-	-	-	-	-	-	-	1,502
Balance at December 31, 2017		$ 16,846,646	$ 274,323	$ 7,139,607	$ 2,214,578	$ 5,398,225	($ 914,267)	$ -	$ 38,440,218	($ 19,935)	$ 69,379,395
Year ended December 31, 2018											
Balance at January 1, 2018		$ 16,846,646	$ 274,323	$ 7,139,607	$ 2,214,578	$ 5,398,225	($ 914,267)	$ -	$ 38,440,218	($ 19,935)	$ 69,379,395
Retrospective adjustments	12(4)	-	-	-	-	4,890,917	-	33,680,146	(38,440,218)	-	130,845
Balance at January 1, 2018 after adjustments		16,846,646	274,323	7,139,607	2,214,578	10,289,142	(914,267)	33,680,146	-	(19,935)	69,510,240
Profit for the year		-	-	-	-	4,737,406	-	-	-	-	4,737,406
Other comprehensive income (loss) for the year	6(16)	-	-	-	-	153,145	169,421	(3,329,776)	-	-	(3,007,210)
Total comprehensive income		-	-	-	-	4,890,551	169,421	(3,329,776)	-	-	1,730,196
Appropriations of 2017 earnings:	6(15)										
Legal reserve		-	-	427,987	-	(427,987)	-	-	-	-	-
Cash dividends		-	-	-	-	(3,200,863)	-	-	-	-	(3,200,863)
Disposal of treasury stock	6(13)	-	1,041	-	-	-	-	-	-	435	1,476
Changes in the net interest of associates recognized under the equity method		-	5,264	-	-	1,562	-	(1,562)	-	-	5,264
Changes in share of consolidated subsidiaries		-	-	-	-	4,347	-	(3,804)	-	-	543
Difference between consideration and carrying amount of subsidiaries acquired or disposed		-	982,053	-	-	-	-	(118,806)	-	-	863,247
Adjustment of cash dividends paid to consolidated subsidiaries		-	4,357	-	-	-	-	-	-	-	4,357
Expired cash dividends transferred to capital surplus		-	1,822	-	-	-	-	-	-	-	1,822
Disposal of financial assets at fair value through other comprehensive income	6(3)	-	-	-	-	(1,813,704)	-	1,810,626	-	-	(3,078)
Balance at December 31, 2018		$ 16,846,646	$ 1,268,860	$ 7,567,594	$ 2,214,578	$ 9,743,048	($ 744,846)	$ 32,036,824	$ -	($ 19,500)	$ 68,913,204

The accompanying notes are an integral part of these parent company only financial statements.

FORMOSA TAFFETA CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS
(Expressed in thousands of New Taiwan dollars)

	Notes	Years ended December 31, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		$ 5,255,762	$ 4,483,420
Adjustments			
Adjustments to reconcile profit (loss)			
Reversal of impairment of receivable		-	(1,995)
Reversal of expected credit loss		(5,386)	-
Depreciation (including depreciation on investment property)	6(7)(20) and 7	740,702	804,763
Interest expense	6(22)	103,358	117,088
Interest income	6(18)	(5,537)	(1,883)
Dividend income	6(18)	(2,531,826)	(2,310,238)
Loss (gain) on valuation of financial assets	6(2)(19)	398	(398)
Loss on valuation of financial liabilities	6(10)(19)	774	-
Receipt of cash dividends from investment accounted for under the equity method		893,308	898,499
Share of profit of subsidiaries and associates accounted for under the equity method	6(6)	(1,389,799)	(1,500,573)
Gain on disposal and scrap of property, plant and equipment	6(19) and 7	(870,873)	(46,693)
Unrealized (gain) loss on disposal and scrap of property, plant and equipment, net	6(19) and 7	(43,894)	1,078
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable		4,846	(8,144)
Notes receivable - related parties		8,578	(1,364)
Accounts receivable, net		(174,418)	4,368
Accounts receivable - related parties		(25,994)	653
Other receivables		55,398	(67,673)
Inventories		69,833	(599,219)
Prepayments		57,258	318,583
Other current assets		(5,816)	(8,539)
Changes in operating liabilities			
Notes payable		(7,855)	(25,869)
Notes payable - related parties		92,275	109,847
Accounts payable		(199,304)	(180,892)
Accounts payable - related parties		(98,057)	(51,877)
Other payables		34,188	(31,210)
Other current liabilities		(5,303)	11,275
Other non-current assets		(147,909)	(347,246)
Cash inflow generated from operations		1,804,707	1,565,761
Interest received		5,537	1,883
Dividends received		2,526,309	2,310,238
Interest paid		(107,748)	(120,511)
Income tax paid		(230,114)	(179)
Net cash flows from operating activities		3,998,691	3,757,192

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FORMOSA TAFFETA CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS
(Expressed in thousands of New Taiwan dollars)

	Notes	Years ended December 31, 2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of available-for-sale financial assets		$ -	($ 85,852)
Proceeds from disposal of financial assets at fair value through other comprehensive income		693,200	-
Proceeds from capital reduction of financial assets at fair value through other comprehensive income		5,780	-
Acquisition of financial assets measured at cost		-	(198,066)
Proceeds from capital reduction of financial assets measured at cost		-	23,549
Acquisition of investments accounted for under the equity method		(566,417)	(585,073)
Proceeds from disposal of investments accounted for under the equity method		3,039,857	-
Acquisition of property, plant, and equipment	6(25)	(446,701)	(570,916)
Proceeds from disposal of property, plant and equipment		1,236,614	86,080
Decrease (increase) in other non-current assets		43,428	(59,498)
Net cash flows from (used in) investing activities		4,005,761	(1,389,776)
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in short-term borrowings		(7,386)	(12,776)
(Decrease) increase in short-term notes and bills payable		(1,299,806)	299,979
Increase in long-term borrowings		1,600,000	10,900,000
Payment of long-term borrowings		(4,500,000)	(11,200,000)
Cash dividends paid	6(15)	(3,200,863)	(2,526,997)
Net cash flows used in financing activities		(7,408,055)	(2,539,794)
Net increase (decrease) in cash and cash equivalents		596,397	(172,378)
Cash and cash equivalents at beginning of year	6(1)	851,569	1,023,947
Cash and cash equivalents at end of year	6(1)	$ 1,447,966	$ 851,569

The accompanying notes are an integral part of these parent company only financial statements.

FORMOSA TAFFETA CO., LTD.

NOTES TO THE PARENT COMPANY ONLY FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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

1. HISTORY AND ORGANIZATION

(1) Formosa Taffeta Co., Ltd. (the "Company") was incorporated on April 19, 1973 under the provisions of the Company Law of the Republic of China (R.O.C.). Factories were established in Douliou City of Yulin County, R.O.C. On December 24, 1985, the Company's common stock was officially listed on the Taiwan Stock Exchange Corporation.

The major operations of each department are as follows:

Business department	Major activities
Primary department: Fabrics, dyeing and others	Amine fabrics, polyester fabrics, cotton fabrics, blending fabrics and umbrella ribs
Secondary department: Cord fabrics & petroleum	Cord, plastics bags, refineries for gasoline, diesel, crude oil and the related petroleum products, cotton fibers, blending fibers and protection fibers

(2) Formosa Chemicals & Fiber Corp. has significant control over the Company since Formosa Chemicals & Fiber Corp. holds over half of the Board seats after the stockholders' meeting on June 27, 2008. Since June 27, 2008, Formosa Chemicals & Fiber Corp. became the Company's parent company and accordingly, the Company and its subsidiaries are included in its consolidated financial statements.

(3) As of December 31, 2018 and 2017, the Company had 4,706 and 4,741 employees, respectively.

2. THE DATE OF AUTHORIZATION FOR ISSUANCE OF THE PARENT COMPANY ONLY FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORIZATION

These parent company only financial statements were authorized for issuance by the Board of Directors on March 15, 2019.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

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

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 2, 'Classification and measurement of share-based payment transactions'	January 1, 2018

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 4, 'Applying IFRS 9, Financial instruments with IFRS 4, Insurance contracts'	January 1, 2018
IFRS 9, 'Financial instruments'	January 1, 2018
IFRS 15, 'Revenue from contracts with customers'	January 1, 2018
Amendments to IFRS 15, 'Clarifications to IFRS 15, Revenue from contracts with customers'	January 1, 2018
Amendments to IAS 7, 'Disclosure initiative'	January 1, 2017
Amendments to IAS 12, 'Recognition of deferred tax assets for unrealised losses'	January 1, 2017
Amendments to IAS 40, 'Transfers of investment property'	January 1, 2018
IFRIC 22, 'Foreign currency transactions and advance consideration'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle - Amendments to IFRS 1, 'First-time adoption of International Financial Reporting Standards'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle - Amendments to IFRS 12, 'Disclosure of interests in other entities'	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle - Amendments to IAS 28, 'Investments in associates and joint ventures'	January 1, 2018

Based on the Company's assessment, the major effects of the above standards and interpretations on the Company's financial condition and financial performance are summarized below:

A. IFRS 9, 'Financial instruments'

(a) Classification of debt instruments is driven by the entity's business model and the contractual cash flow characteristics of the financial assets, which would be classified as financial asset at fair value through profit or loss, financial asset measured at fair value through other comprehensive income or financial asset at amortized cost. Equity instruments would be classified as financial asset at fair value through profit or loss, unless an entity makes an irrevocable election at inception to present subsequent changes in the fair value of an investment in an equity instrument that is not held for trading in other comprehensive income.

(b) The impairment losses of debt instruments are assessed using an 'expected credit loss' approach. An entity assesses at each balance sheet date whether there has been a significant increase in credit risk on that instrument since initial recognition to recognize 12-month expected credit losses or lifetime expected credit losses (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e. net of credit allowance). The Company shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that do not contain a significant financing component.

(c) The amended general hedge accounting requirements align hedge accounting more closely with an entity's risk management strategy. Risk components of non-financial items and a group of items can be designated as hedged items. The standard relaxes the requirements for hedge effectiveness, removing the 80-125% bright line, and introduces the concept of 'rebalancing'; while its risk management objective remains unchanged, an entity shall rebalance the hedged item or the hedging instrument for the purpose of maintaining the hedge ratio.

(d) The Company has elected not to restate prior period financial statements using the modified retrospective approach under IFRS 9. For details of the significant effect as at January 1, 2018, please refer to Note 12(4).

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

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

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

Step 1: Identify contracts with customer

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

Step 3: Determine the transaction price

Step 4: Allocate the transaction price

Step 5: Recognize revenue when the performance obligation is satisfied

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

C. Amendments to IAS 7, 'Disclosure initiative'

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

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

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

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

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

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

IFRS 16, ‘Leases’

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

The Company expects to recognize the lease contract of lessees in line with IFRS 16. However, the Company does not intend to restate the financial statements of prior period (referred herein as the “modified retrospective approach”). On January 1, 2019, ‘right-of-use asset’ and lease liability will both be increased by $725,099.

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

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

(2) Basis of preparation

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

(a) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

(b) Financial assets at fair value through other comprehensive income/Available-for-sale financial assets measured at fair value.

(c) Defined benefit liabilities recognized based on the net amount of pension fund assets and unrecognized actuarial losses, and less unrecognized actuarial gains and present value of defined benefit obligation.

B. The preparation of financial statements in conformity with International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the "IFRSs") requires the use of certain Ecritical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the parent company only financial statements are disclosed in Note 5.

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

(3) Foreign currency translation

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). These parent company only financial statements are presented in New Taiwan Dollars, which is the Company's functional and presentation currency.

A. Foreign currency transactions and balances

(a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss in the period in which they arise.

(b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognized in profit or loss.

(c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions. All foreign exchange gains and losses are presented in the statement of comprehensive income within ‘other gains and losses.

B. Translation of foreign operations

The operating results and financial position of all the company entities and associates that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;

(b) Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and

(c) All resulting exchange differences are recognized in other comprehensive income.

(4) <u>Classification of current and non-current items</u>

A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:

(a) Assets arising from operating activities that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle;

(b) Assets held mainly for trading purposes;

(c) Assets that are expected to be realized within twelve months from the balance sheet date;

(d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.

B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:

(a) Liabilities that are expected to be paid off within the normal operating cycle;

(b) Liabilities arising mainly from trading activities;

(c) Liabilities that are to be paid off within twelve months from the balance sheet date;

(d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(5) Cash equivalents

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

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

Effective 2018

A. Financial assets at fair value through profit or loss are financial assets that are not measured at amortized cost or fair value through other comprehensive income.

B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognized and derecognized using settlement date accounting.

C. At initial recognition, the Company measures the financial assets at fair value and recognizes the transaction costs in profit or loss. The Company subsequently measures the financial assets at fair value, and recognizes the gain or loss in profit or loss.

D. The Company recognizes the dividend income when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Company and the amount of the dividend can be measured reliably.

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

Effective 2018

A. Financial assets at fair value through other comprehensive income comprise equity securities which are not held for trading, and for which the Company has made an irrevocable election at initial recognition to recognize changes in fair value in other comprehensive income.

B. On a regular way purchase or sale basis, financial assets at fair value through other comprehensive income are recognized and derecognized using trade date accounting.

C. At initial recognition, the Company measures the financial assets at fair value plus transaction costs. The Company subsequently measures the financial assets at fair value:

The changes in fair value of equity investments that were recognized in other comprehensive income are reclassified to retained earnings and are not reclassified to profit or loss following the derecognition of the investment. Dividends are recognized as revenue when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Company and the amount of the dividend can be measured reliably.

(8) Accounts and notes receivable

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

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

(9) Impairment of financial assets

For financial assets at amortized cost including accounts receivable or contract assets that have a significant financing component, at each reporting date, the Company recognizes the impairment provision for 12 months expected credit losses if there has not been a significant increase in credit risk since initial recognition or recognizes the impairment provision for the lifetime expected credit losses (ECLs) if such credit risk has increased since initial recognition after taking into consideration all reasonable and verifiable information that includes forecasts. On the other hand, for accounts receivable or contract assets that do not contain a significant financing component, the Company recognizes the impairment provision for lifetime ECLs.

(10) Derecognition of financial assets

The Company derecognizes a financial asset when one of the following conditions is met:

A. The contractual rights to receive the cash flows from the financial asset expire.

B. The contractual rights to receive cash flows of the financial asset have been transferred and the Company has transferred substantially all risks and rewards of ownership of the financial asset.

C. The contractual rights to receive cash flows of the financial asset have been transferred, and the Company has not retained control of the financial asset.

(11) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted-average method. The cost of finished goods and work in process comprises raw materials, direct labour, other direct costs and related production overheads (allocated based on normal operating capacity). It excludes borrowing costs. The item by item approach is used in applying the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(12) Investments accounted for using equity method / subsidiaries and associates

A. Subsidiaries refer to the entities (including special purpose entities) that the Company has control over their financial and operating policies and own more than 50% of voting shares directly or indirectly. The Company evaluates investments in subsidiaries accounted under equity method in these parent company only financial statements.

B. Unrealized profit (loss) from the transactions between the Company and subsidiaries have been offset. The accounting policies of the subsidiaries have been adjusted to ensure consistency with the polices of the Company.

C. The Company's share of its subsidiaries' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income.

D. Associates are all entities over which the Company has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20% or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognized at cost.

E. The Company's share of its associates' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. When the Company's share of losses in an associate equals or exceeds its interest in the associate (including any other unsecured receivables), the Company does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

F. When changes in an associate's equity do not arise from profit or loss or other comprehensive income of the associate and such changes do not affect the Company's ownership percentage of the associate, the Company recognizes the Company's share of change in equity of the associate in 'capital surplus' in proportion to its ownership.

G. Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Company.

H. In the case that an associate issues new shares and the Company does not subscribe or acquire new shares proportionately, which results in a change in the Company's ownership percentage of the associate but maintains significant influence on the associate, then 'capital surplus' and 'investments accounted for under the equity method' shall be adjusted for the increase or decrease of its share of equity interest.

I. When the Company disposes its investment in an associate and loses significant influence over this associate, the amounts previously recognized as capital surplus in relation to the associate are transferred to profit or loss.

J. Pursuant to the "Regulations Governing the Preparation of Financial Reports by Securities Issuers," profit (loss) of the current period and other comprehensive income in the parent company only financial statements shall equal to the amount attributable to owners of the parent in the consolidated financial statements. Owners' equity in the parent company only financial statements shall equal to equity attributable to owners of the parent in the consolidated financial statements.

(13) Property, plant and equipment

A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalised.

B. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.

D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change.

The estimated useful lives of property, plant and equipment are as follows:

Item	Estimated useful lives
Buildings and structures	10 ~ 60 years
Machinery and equipment	5 ~ 20 years
Transportation equipment	5 ~ 10 years
Other equipment	2 ~ 15 years

(14) Investment property

An investment property is stated initially at its cost and measured subsequently using the cost model. Except for land, investment property is depreciated on a straight-line basis over its estimated useful life of 30 years.

(15) Impairment of non-financial assets

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

(16) Borrowings

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

(17) Notes and accounts payable

A. Accounts payable are liabilities for purchases of raw materials, goods or services and notes payable are those resulting from operating and non-operating activities.

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

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

A. Financial liabilities are classified in this category of held for trading if acquired principally for the purpose of repurchasing in the short-term. Derivatives are also categorized as financial liabilities held for trading unless they are designated as hedges.

B. At initial recognition, the Company measures the financial liabilities at fair value. All related transaction costs are recognized in profit or loss. The Company subsequently measures these financial liabilities at fair value with any gain or loss recognized in profit or loss.

(19) Derecognition of financial liabilities

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

(20) Offsetting financial instruments

Financial assets and liabilities are offset and reported in the net amount in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

(21) Financial guarantee contracts

A financial guarantee contract is a contract that requires the Company to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. At initial recognition, the Company measures financial guarantee contracts at fair value and subsequently at the higher of the amount of provisions determined by the expected credit losses and the cumulative gains that were previously recognized.

(22) Employee benefits

A. Short-term employee benefits

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

B. Pensions

(a) Defined contribution plan

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

(b) Defined benefit plan

i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Company in current period or prior periods. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized past service costs. The net defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of government bonds (at the balance sheet date) instead.

ii. Remeaurements arising on defined benefit plan are recognized in other comprehensive income in the period in which they arise and recorded as retained earnings.

iii. Past service costs are recognized immediately in profit or loss.

C. Employees' compensation and directors' and supervisors' remuneration

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

(23) Income tax

A. The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity.

B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.

C. Deferred income tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the balance sheet. However, the deferred income tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

D. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognized and recognized deferred income tax assets are reassessed.

E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.

F. A deferred tax asset shall be recognized for the carry forward of unused tax credits resulting from acquisitions of equipment or technology, research and development expenditures and equity investments to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilized.

(24) Share capital

Where the Company repurchases the Company’s equity share capital that has been issued, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company’s equity holders. Where such shares are subsequently reissued, the difference between their book value and any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company’s equity holders.

(25) Dividends

Dividends are recorded in the Company’s financial statements in the period in which they are approved by the Company’s shareholders. Cash dividends are recorded as liabilities.

(26) Revenue recognition

A. The Company manufactures and sells various fabrics and renders services as an oil distributor Sales are recognized when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler’s acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, or the Company has objective evidence that all criteria for acceptance have been satisfied.

B. Revenue is measured at the fair value of the consideration received or receivable taking into account business tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Company's activities.

C. A receivable is recognized when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

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

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

(1) Impairment assessment of investments accounted for using equity method

The Company assesses the impairment of an investment accounted for using equity method as soon as there is any indication that it might have been impaired and its carrying amount cannot be recovered. The Company assesses the recoverable amount of an investment accounted for under the equity method based on the present value of the Company's share of expected future cash flows of the investee, and analyses the reasonableness.

(2) Impairment valuation of accounts receivable

In evaluating impairment, the Company determines future recoverability of accounts receivable based on subjective judgement and estimates, taking into consideration the customer's financial condition, internal credit rating, and historical transaction records. If the future indicators decline, the impairment of accounts receivable may be significant.

(3) Evaluation of inventories

As inventories are stated at the lower of cost and net realizable value, the Company must determine the net realizable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technology innovation, the Company evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on balance sheet date, and writes down the cost of inventories to the net realizable value. Such an evaluation of inventories is principally based on the demand for the products within the specified period in the future. Therefore, there might be material changes to the evaluation.

As of December 31, 2018, the carrying amount of inventories was $4,893,736.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	December 31, 2018	December 31, 2017
Cash on hand and petty cash	$ 137,858	$ 127,882
Checking accounts and demand deposits	716,435	583,406
Cash equivalents - Commercial paper	593,673	140,281
	$ 1,447,966	$ 851,569

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

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

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

Items	December 31, 2018	December 31, 2017
Current items:		
Forward foreign exchange contracts	$ -	$ 398

A. For the years ended December 31, 2018 and 2017, the Company recognized ($398) and $398 in profit or loss in relation to financial assets at fair value through profit or loss, respectively.

B. The Company entered into contracts relating to derivative financial assets which were not accounted for under hedge accounting. The information is listed below:

	December 31, 2017	
Derivative Instruments	Contract Amount (Notional Principal)	Contract Period
Current items:		
Forward foreign exchange contracts		
Taipei Fubon Bank	JPY 192,020	2017.11~2018.02

The forward exchange contracts are buy and sell to hedge the change of exchange rate due to import and export transactions, but not adopting hedge accounting.

C. Information relating to credit risk of financial assets at fair value through profit or loss is provided in Note 12(2).

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

Effective 2018

Items	December 31, 2018	
Current items:		
Equity instruments		
Listed stocks	$	900,285
Unlisted stocks		100,000
		1,000,285
Valuation adjustment		717,494
	$	1,717,779
Non-current items:		
Equity instruments		
Listed stocks	$	8,163,125
Unlisted stocks		403,790
		8,566,915
Valuation adjustment		31,989,736
	$	40,556,651

A. The Company has elected to classify equity investments that are considered to be steady dividend income as financial assets at fair value through other comprehensive income. The fair value of such investments amounted to $42,274,430 as at December 31, 2018.

B. Aiming to satisfy the operating capital needs, the Company sold its equity investment in Nan Ya Technology Corp. at fair value of $696,277 which resulted in loss on disposal of ($1,810,626) during the year ended December 31, 2018 which was reclassified to retained earnings.

C. Amounts recognized in profit or loss and other comprehensive income in relation to the financial assets at fair value through other comprehensive income are listed below:

	Year ended December 31, 2018	
Equity instruments at fair value through other comprehensive income		
Fair value change recognized in other comprehensive income	($	2,635,914)
Cumulative losses reclassified to retained earnings due to derecognition (including the portion attributable to non-controlling interest)	($	1,813,704)

D. As at December 31, 2018, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the financial assets at fair value through other comprehensive income held by the Company was $42,274,430.

E. Information relating to credit risk of financial assets at fair value through other comprehensive income is provided in Note 12(2).

F. Information on available-for-sale financial assets and financial assets at cost as of December 31, 2017 is provided in Note 12(4).

(4) Notes and accounts receivable

	December 31, 2018	December 31, 2017
Notes receivable	$ 109,709	$ 114,555
Accounts receivable	$ 2,159,828	$ 1,985,410
Less: Allowance for uncollectible accounts	(31,678)	(37,064)
	$ 2,128,150	$ 1,948,346

A. The ageing analysis of notes and accounts receivable are as follows:

	December 31, 2018	December 31, 2017
Not past due	$ 2,222,050	$ 2,046,580
Up to 30 days	28,939	42,773
31 to 90 days	17,818	6,944
Over 90 days	730	3,668
	$ 2,269,537	$ 2,099,965

The above ageing analysis was based on past due date.

B. As at December 31, 2018 and 2017, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the Company's notes and accounts receivable were $2,269,537 and $2,099,965 respectively.

C. Information relating to credit risk of accounts receivable and notes receivable is provided in Note 12(2).

(5) Inventories

	December 31, 2018		
	Cost	Allowance for valuation loss	Book value
Raw materials	$ 471,312	($ 9,898)	$ 461,414
Supplies	66,872	(1,287)	65,585
Work in process	1,835,698	-	1,835,698
Finished goods	2,409,232	(429,337)	1,979,895
Merchandise inventory	159,786	-	159,786
Materials in transit	251,557	-	251,557
Outsourced processed materials	139,801	-	139,801
	$ 5,334,258	($ 440,522)	$ 4,893,736

	December 31, 2017		
	Cost	Allowance for valuation loss	Book value
Raw materials	$ 435,007	($ 8,283)	$ 426,724
Supplies	73,480	(5,309)	68,171
Work in process	1,710,500	-	1,710,500
Finished goods	2,212,326	(230,286)	1,982,040
Merchandise inventory	286,276	-	286,276
Materials in transit	369,828	-	369,828
Outsourced processed materials	120,030	-	120,030
	$ 5,207,447	($ 243,878)	$ 4,963,569

The cost of inventories recognized as expense for the years ended December 31, 2018 and 2017 were as follows:

	Years ended December 31,	
	2018	2017
Cost of inventories sold	$ 25,252,173	$ 23,211,459
Loss on inventory valuation	196,644	24,564
Others (Note)	(5,951)	(20,563)
	$ 25,442,866	$ 23,215,460

Note: Others consist of inventory overage/shortage and disposal of scrap and defective materials.

(6) Investments accounted for using equity method

A. List of long-term investments

	December 31, 2018	December 31, 2017
Formosa Advanced Technologies Co., Ltd.	$ 5,350,424	$ 7,347,846
Formosa Taffeta (Cayman) Limited	5,524,284	5,490,420
Formosa Taffeta Dong Nai Co., Ltd.	2,281,893	2,228,212
Formosa Industry Co., Ltd.	2,008,842	1,938,483
Taffeta (Zhong Shan) Co, Ltd.	1,695,852	1,635,550
Formosa Taffeta Vietnam Co., Ltd.	1,963,366	1,806,539
Formosa Taffeta (Hong Kong) Co., Ltd.	1,133,880	1,092,248
Quang Viet Enterprise Co., Ltd.	1,191,261	1,149,965
Formosa Development Co., Ltd.	217,235	206,279
Schoeller F.T.C. (Hong Kong) Co., Ltd.	5,663	4,217
Xiamen Xiangyu Formosa Import & Export Trading Co., Ltd.	13,154	6,206
	$ 21,385,854	$ 22,905,965

B. The investment income (loss) on subsidiaries and associates accounted for using equity method for the years ended December 31, 2018 and 2017 was as follows:

	Years ended December 31,	
	2018	2017
Formosa Advanced Technologies Co., Ltd.	$ 838,593	$ 914,979
Quang Viet Enterprise Co., Ltd.	116,954	112,417
Formosa Taffeta Vietnam Co., Ltd.	139,974	163,188
Formosa Industry Co., Ltd.	121,457	77,090
Formosa Development Co., Ltd.	13,708	11,313
Taffeta (Zhong Shan) Co, Ltd.	94,273	72,999
Formosa Taffeta Dong Nai Co., Ltd.	(5,943)	57,981
Schoeller F.T.C. (Hong Kong) Co., Ltd.	3,103	2,653
Formosa Taffeta (Hong Kong) Co., Ltd.	60,477	89,049
Xiamen Xiangyu Formosa Import & Export Trading Co., Ltd.	7,203	(959)
Formosa Taffeta (Cayman) Limited	-	(137)
	$ 1,389,799	$ 1,500,573

Except for the investee companies, Formosa Advanced Technologies Co., Ltd., Formosa Taffeta (Zhong Shan) Co., Ltd., Formosa Taffeta (Cayman) Co., Ltd., Formosa Taffeta (Hong Kong) Co., Ltd. and its subsidiary, Formosa Taffeta (Changshu) Co., Ltd., Formosa Development Co., Ltd. and its subsidiary, Public More Internation Ltd. (established in 2017), the investment income or loss for the years ended December 31, 2018 and 2017 was based on the investees' financial statements audited by other auditors.

C. The share of income of subsidiaries and associates accounted for using equity method of $382,748 and $412,370 for the years ended December 31, 2018 and 2017, respectively, were based on the audited financial statements of the investee companies.

D. Subsidiaries

(a) Information on the Company's subsidiaries is provided in Note 4(3) of the Company's 2018 consolidated financial statements.

(b) As at December 31, 2018 and 2017, the Company's common stocks owned by its subsidiary, Formosa Development Co., Ltd., were 2,243,228 and 2,293,228 shares, respectively, treated as treasury stock.

E. Associates

(a) The financial information of the Company's principal associates is summarized below:

Company name	Principal place of business	Shareholding ratio December 31, 2018	Shareholding ratio December 31, 2017	Nature of relationship	Method of measurement
Formosa Industry Co., Ltd.	Vietnam	10.00%	10.00%	Associate	Equity method
Kuang Yueh Co., Ltd.	Taiwan	17.99%	17.92%	Associate	Equity method

(b) As the Company is a director of Formosa Industry Co., Ltd. and Quang Viet Enterprise Co., Ltd., it exercises significant influence over its operations. Accordingly, Formosa Industry Co., Ltd. and Quang Viet Enterprise Co., Ltd. are accounted for using equity method.

(c) The financial information of the Company's principal associates is summarized below:

Balance sheets

	Formosa Industry Co., Ltd. December 31, 2018	Formosa Industry Co., Ltd. December 31, 2017
Current assets	$ 12,272,938	$ 9,291,100
Non-current assets	21,232,063	20,614,037
Current liabilities	(11,529,804)	(5,965,869)
Non-current liabilities	(2,749,255)	(5,439,066)
Total net assets	$ 19,225,942	$ 18,500,202
Share in associate's net assets	$ 1,922,594	$ 1,850,020
Difference	86,248	88,463
Carrying amount of the associate	$ 2,008,842	$ 1,938,483

	Quang Viet Enterprise Co., Ltd. December 31, 2018	Quang Viet Enterprise Co., Ltd. December 31, 2017
Current assets	$ 7,605,631	$ 5,987,697
Non-current assets	3,222,091	2,705,609
Current liabilities	(3,043,953)	(2,064,121)
Non-current liabilities	(329,187)	(52,152)
Total net assets	$ 7,454,582	$ 6,577,033
Share in associate's net assets	$ 1,341,079	$ 1,178,604
Difference	(149,818)	(28,639)
Carrying amount of the associate	$ 1,191,261	$ 1,149,965

Statements of comprehensive income

	Formosa Industry Co., Ltd. Year ended December 31, 2018	Formosa Industry Co., Ltd. Year ended December 31, 2017
Revenue	$ 31,560,607	$ 25,827,459
Profit for the year from continuing operations (Total comprehensive income)	$ 1,202,739	$ 806,833

	Quang Viet Enterprise Co., Ltd.	
	Year ended December 31, 2018	Year ended December 31, 2017
Revenue	$ 13,280,633	$ 10,203,655
Profit for the year from continuing operations	849,357	546,996
Other comprehensive income (loss)	9	(110,617)
Total comprehensive income	$ 849,366	$ 436,379

F. The significant associate, Kuang Yueh Co., Ltd., has quoted market prices. As of December 31, 2018 and 2017, the fair value was $1,952,512 and $2,426,693, respectively.

G. Investment in Formosa Advanced Technologies Co., Ltd. has quoted market price and the fair value was $6,564,871 and $9,135,108 as of December 31, 2018 and 2017, respectively.

H. The Company sold 84,022 thousand shares of Formosa Advanced Technologies Co., Ltd. at fair value of $3,039,857 on July 23, 2018, resulting in gain on disposal of $980,948 in 2018 which was reclassified to retained earnings, causing the decline in shareholding ratio to 46.68%.

(7) Property, plant and equipment

	Land	Buildings and structures	Machinery	Transportation equipment and other equipment	Prepayments for equipment	Total
At January 1, 2018						
Cost	$ 2,411,087	$ 6,293,337	$ 14,217,461	$ 4,251,596	$ 412,462	$ 27,585,943
Accumulated depreciation	-	(4,092,322)	(11,870,188)	(4,035,306)	-	(19,997,816)
Accumulated impairment	(155,738)	-	-	-	-	(155,738)
	$ 2,255,349	$ 2,201,015	$ 2,347,273	$ 216,290	$ 412,462	$ 7,432,389
2018						
Opening net book amount	$ 2,255,349	$ 2,201,015	$ 2,347,273	$ 216,290	$ 412,462	$ 7,432,389
Additions	-	-	-	-	435,113	435,113
Disposals	(342,670)	-	(23,014)	(57)	-	(365,741)
Transfers	-	95,468	435,093	58,496	(589,057)	-
Depreciation charge	-	(207,233)	(460,418)	(48,210)	-	(715,861)
Closing net book amount	$ 1,912,679	$ 2,089,250	$ 2,298,934	$ 226,519	$ 258,518	$ 6,785,900
At December 31, 2018						
Cost	$ 2,068,417	$ 6,388,806	$ 14,293,461	$ 4,226,369	$ 258,518	$ 27,235,571
Accumulated depreciation	-	(4,299,556)	(11,994,527)	(3,999,850)	-	(20,293,933)
Accumulated impairment	(155,738)	-	-	-	-	(155,738)
	$ 1,912,679	$ 2,089,250	$ 2,298,934	$ 226,519	$ 258,518	$ 6,785,900

	Land	Buildings and structures	Machinery	Transportation equipment and other equipment	Prepayments for equipment	Total
At January 1, 2017						
Cost	$ 2,410,979	$ 6,339,163	$ 14,156,729	$ 4,330,752	$ 159,812	$ 27,397,435
Accumulated depreciation	-	(3,864,255)	(11,659,728)	(4,103,065)	-	(19,627,048)
Accumulated impairment	(155,738)	-	-	-	-	(155,738)
	$ 2,255,241	$ 2,474,908	$ 2,497,001	$ 227,687	$ 159,812	$ 7,614,649
2017						
Opening net book amount	$ 2,255,241	$ 2,474,908	$ 2,497,001	$ 227,687	$ 159,812	$ 7,614,649
Additions	-	-	-	-	574,174	574,174
Disposals	-	(29)	(39,032)	(326)	-	(39,387)
Transfers (Note)	108	(45,614)	394,748	35,157	(321,524)	62,875
Depreciation charge	-	(228,250)	(505,444)	(46,228)	-	(779,922)
Closing net book amount	$ 2,255,349	$ 2,201,015	$ 2,347,273	$ 216,290	$ 412,462	$ 7,432,389
At December 31, 2017						
Cost	$ 2,411,087	$ 6,293,337	$ 14,217,461	$ 4,251,596	$ 412,462	$ 27,585,943
Accumulated depreciation	-	(4,092,322)	(11,870,188)	(4,035,306)	-	(19,997,816)
Accumulated impairment	(155,738)	-	-	-	-	(155,738)
	$ 2,255,349	$ 2,201,015	$ 2,347,273	$ 216,290	$ 412,462	$ 7,432,389

Note: Transferred from non-current assets held for sale and discontinued operations.

A. Borrowing costs capitalized as part of property, plant and equipment and the range of the interest rates for such capitalization are as follows:

	Years ended December 31, 2018	Years ended December 31, 2017
Amount capitalized	$ 2,733	$ 3,485
Interest rate	0.98%~1.04%	0.97%~1.03%

B. The components and useful lives of property, plant and equipment are as follows:

Items	Significant components	Estimated useful lives
Buildings	Factory and gasoline stations	10 ~ 60 years
Machinery and equipment	Impregnating machine, dyeing machine and other machinery equipment	5 ~ 20 years
Transportation equipment	Pallet trucks and fork lift trucks	5 ~ 10 years
Other equipment	Cogeneration power generation equipment	2~ 15 years

C. Certain regulations restrict ownership of land to individuals, thus, the title of land which the Company has acquired for future plant expansion is under the name of third parties but the titles were transferred and mortgaged by the Company. As of December 31, 2018 and 2017, the amount of titles mortgaged to the Company was $808,300.

(8) Short-term borrowings

Type of borrowings	December 31, 2018	Interest rate range	Collateral
Bank borrowings			
Purchase loans	$ -	-	-

Type of borrowings	December 31, 2017	Interest rate range	Collateral
Bank borrowings			
Purchase loans	$ 7,386	0.32%~0.36%	-

(9) Short-term notes and bills payable

	December 31, 2018	December 31, 2017
Commercial papers payable	$ -	$ 1,300,000
Less: Commercial papers payable discount	-	(194)
	$ -	$ 1,299,806
Interest rate	-	0.56%

As at December 31, 2017, the abovementioned commercial papers payable are guaranteed by International Bills Finance Corporation, etc.

(10) Financial liabilities at fair value through profit or loss - current

Items	December 31, 2018
Financial liabilities held for trading	
Forward foreign exchange contracts	$ 774

A. The Company recognized net loss of $774 and $0 on financial liabilities held for trading for the years ended December 31, 2018 and 2017, respectively.

B. Explanations of the transactions and contract information in respect of derivative financial liabilities that the Company does not adopt hedge accounting are as follows:

	December 31, 2018		
Derivative Financial Liabilities	Contract Amount (Notional Principal)		Contract Period
Current items:			
Forward foreign exchange contracts			
Taipei Fubon Bank	JPY	50,000,000	2018.12~2019.2
Taipei Fubon Bank	JPY	56,680,000	2018.12~2019.2
Chang Hwa Bank	JPY	50,000,000	2018.12~2019.1
Chang Hwa Bank	JPY	50,210,000	2018.12~2019.1

The Company had no financial liabilities held for trading on December 31, 2017.

The Company entered into forward foreign exchange contracts to hedge exchange rate risk of assets and liabilities denominated in foreign currencies. However, these forward foreign exchange contracts do not meet all conditions of hedge accounting and are not accounted for under hedge accounting.

(11) Long-term borrowings

	December 31, 2018	December 31, 2017
Credit borrowing	$ 7,900,000	$ 10,800,000
Interest rate	0.98%~1.04%	1.00%~1.05%

(12) Pensions

A. (a) The Company has a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company would assess the balance in the aforementioned labor pension reserve account by December 31, every year. If the account balance is not enough to pay the pension calculated by the aforementioned method to the employees expected to qualify for retirement in the following year, the Company will make contribution for the deficit by next March.

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

	December 31, 2018	December 31, 2017
Present value of defined benefit obligations	$ 2,500,851	$ 2,789,932
Fair value of plan assets	(2,068,801)	(2,055,899)
Net defined benefit liability	$ 432,050	$ 734,033

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

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
Year ended December 31, 2018			
Balance at January 1	$ 2,789,932	($ 2,055,899)	$ 734,033
Current service cost	29,226	-	29,226
Interest expense (income)	34,874	(26,293)	8,581
	2,854,032	(2,082,192)	771,840
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	(55,693)	(55,693)
Experience adjustments	(99,918)	-	(99,918)
	(99,918)	(55,693)	(155,611)
Pension fund contribution	-	(180,776)	(180,776)
Paid pension	(253,263)	249,860	(3,403)
Balance at December 31	$ 2,500,851	($ 2,068,801)	$ 432,050

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
Year ended December 31, 2017			
Balance at January 1	$ 2,635,292	($ 1,885,026)	$ 750,266
Current service cost	31,452	-	31,452
Interest expense (income)	32,941	(24,238)	8,703
	2,699,685	(1,909,264)	790,421
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	10,450	10,450
Experience adjustments	316,171	-	316,171
	316,171	10,450	326,621
Pension fund contribution	-	(373,420)	(373,420)
Paid pension	(225,924)	216,335	(9,589)
Balance at December 31	$ 2,789,932	($ 2,055,899)	$ 734,033

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

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

	Years ended December 31,	
	2018	2017
Discount rate	1.25%	1.25%
Future salary increases	1.00%	1.00%

Assumptions regarding future mortality experience are set based on the Taiwan Standard Ordinary Experience Mortality Table for the years ended December 31, 2018 and 2017, respectively.

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

	Discount rate		Future salary increases	
	Increase 0.25%	Decrease 0.25%	Increase 1.00%	Decrease 1.00%
December 31, 2018				
Effect on present value of defined benefit obligation	($ 31,086)	$ 32,308	$ 139,373	($ 122,059)
December 31, 2017				
Effect on present value of defined benefit obligation	($ 36,610)	$ 38,067	$ 167,805	($ 146,598)

The sensitivity analysis above was arrived at based on one assumption which changed while the other conditions remain unchanged. In practice more than one assumption may change all at once. The method of analysing sensitivity and the method of calculating net pension liability in the balance sheet are the same.

(f) For the aforementioned pension plan, the Group recognized pension costs of $37,807 and $40,155 for the years ended December 31, 2018 and 2017, respectively.

(g) Expected contributions to the defined benefit pension plan of the Company for the year ending December 31, 2019 are $83,938.

(h) As of December 31, 2018, the weighted average duration of that retirement plan is 8 years.

B. (a) Effective July 1, 2005, the Company has established a defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company contributes monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.

(b) The pension costs under the defined contribution pension plan of the Company for the years ended December 31, 2018 and 2017 were $74,523 and $72,370, respectively.

(13) Share capital

A. As of December 31, 2018, the Company's authorized and issued capital was $16,846,646, consisting of 1,684,665,000 shares of common stocks, with a par value of $10 per share.

B. For the years ended December 31, 2018 and 2017, changes in treasury stocks are as follows (in thousands of shares):

	2018				
Reason for reacquisition	Investee company	Beginning Shares	Additions	Disposal (Note)	Ending Shares
Long-term equity investment transferred to treasury stock for parent company's shares held by subsidiaries	Formosa Development Co., Ltd.	2,293	-	(50)	2,243

	2017				
Reason for reacquisition	Investee company	Beginning Shares	Additions	Disposal (Note)	Ending Shares
Long-term equity investment transferred to treasury stock for parent company's shares held by subsidiaries	Formosa Development Co., Ltd.	2,473	-	(180)	2,293

Note: For the years ended December 31, 2018 and 2017, the subsidiary company disposed its investment in the Company of 50,000 shares and 180,000 shares and generated capital surplus of $1,041 and $2,891, respectively.

C. The abovementioned treasury stocks were acquired by the subsidiary, Formosa Development Co., Ltd., for investment purposes.

(14) Capital surplus

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

	2018				
	Treasury share transactions	Difference between consideration and carrying amount of subsidiaries acquired or disposed	Donated assets received	Changes in net equity of associates and joint ventures accounted for under equity method	Other
At January 1	$ 19,899	$ 545	$ 2,032	$ 250,345	$ 1,502
Disposal of treasury shares	1,041	-	-		-
Adjustment of cash dividends paid to consolidated subsidiaries	4,357	-	-	-	-
Changes in the net interest of associates recognized under the equity method	-	-	-	5,264	-
Difference between consideration and carrying amount of subsidiaries acquired	-	1,105	-	980,948	-
Expired cash dividends transferred to capital surplus	-	-	-	-	1,822
At December 31	$ 25,297	$ 1,650	$ 2,032	$ 1,236,557	$ 3,324

	2017				
	Treasury share transactions	Difference between consideration and carrying amount of subsidiaries acquired or disposed	Donated assets received	Changes in net equity of associates and joint ventures accounted for under equity method	Other
At January 1	$ 13,569	$ 545	$ 2,032	$ 250,312	$ -
Disposal of treasury shares	2,891	-	-	-	-
Adjustment of cash dividends paid to consolidated subsidiaries	3,439	-	-	-	-
Changes in the net interest of associates recognized under the equity method	-	-	-	33	-
Expired cash dividends transferred to capital surplus	-	-	-	-	1,502
At December 31	$ 19,899	$ 545	$ 2,032	$ 250,345	$ 1,502

(15) Retained earnings

A. According to the R.O.C. Securities Exchange Law No. 41, a company should reserve the amount equal to any valuation or contra-account in the stockholders' equity in the fiscal year from the net income and prior unappropriated earnings as special reserve. If the valuation or contra-account in stockholders' equity belongs to prior periods, the same amount from prior period earnings should be considered special reserve and cannot be distributed. The special reserve includes: i) reserve for special purposes, ii) investment income recognized under the equity method, iii) net proceeds from the recognition of financial asset transactions; only when the accumulated value decreases should the special reserve be adjusted by the same amount, subject to the provisions in this section; and iv) other special reserves set out by legal provisions.

According to the R.O.C. Company Law and the Company's Articles of Incorporation, the annual net income should be used initially to cover any accumulated deficit; 10% of the annual net income should be set aside as legal reserve and special reserve. The remaining balance shall be distributed to shareholders according to their shareholding percentage.

B. The Company's dividend policy is summarized below:

As the Company operates in a volatile business environment and is in the stable growth stage, the dividend policy includes cash dividends, stock dividends and capital increase by earnings recapitalization. At least 50% of the Company's distributable earnings shall be appropriated as dividends after deducting the legal reserve and special reserves. The Company would prefer distributing cash dividends. However, if significant investment measures are taken or the Company's financial structure needs to be improved, part of the dividends would be in the form of stock dividends but not to exceed 50% of the total dividends.

C. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.

D. The appropriations of 2017 and 2016 earnings had been resolved at the stockholders' meeting on June 22, 2018 and June 23, 2017, respectively. Details are summarized below:

	2017		2016	
	Amount	Dividends per share (in dollars)	Amount	Dividends per share (in dollars)
Legal reserve	$ 427,987		$ 348,129	
Special reserve	-		506,036	
Cash dividends	3,200,863	$ 1.90	2,526,997	$ 1.50
	$ 3,628,850		$ 3,381,162	

E. As of December 31, 2018 and 2017, unpaid stock dividends amounted to $9,455 and $8,444, respectively.

F. The appropriations of 2018 earnings had been resolved by the Board of Directors on March 15,

2019. Details are summarized below:

	2018	
	Amount	Dividends per share (in dollars)
Legal reserve	$ 473,741	
Cash dividends	3,537,796	$ 2.10

As of March 15, 2019, the above appropriations of 2018 earnings have not yet been resolved by the shareholders.

G. For information relating to employees' compensation and directors' and supervisors' remuneration, please refer to Note 6(21).

(16) Other equity items

	Unrealized gains on valuation	Currency translation
January 1, 2018	$ 38,440,218	($ 914,267)
Retrospective adjustments	(4,760,072)	-
January 1, 2018 after adjustments	33,680,146	(914,267)
Revaluation		
– Parent company	(2,635,914)	-
– Associates	(693,862)	-
Revaluation transferred to retained earnings		
– Parent company	1,810,626	-
– Associates	(5,366)	-
Difference of currency translation		
– Parent company	-	154,507
– Associates	-	14,914
Difference between consideration and carrying amount of subsidiaries aquired or disposed	(118,806)	-
December 31, 2018	$ 32,036,824	($ 744,846)

	Hedging reserve	Currency translation
January 1, 2017	$ 36,313,040	$ 13,387
Change in unrealized gain or loss on available-for-sale financial assets		
— Parent company	1,922,389	-
— Subsidiaries and associates	204,789	-
Difference in long-term equity investment from financial statements translation differences of foreign operations		
— Parent company	-	(732,473)
— Associates	-	(195,181)
December 31, 2017	$ 38,440,218	($ 914,267)

(17) Operating revenue

	Year ended December 31, 2018
Sales revenue	$ 27,350,551
Service revenue	242,933
	$ 27,593,484

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

(18) Other income

	Years ended December 31, 2018	Years ended December 31, 2017
Interest income from bank deposits	$ 5,537	$ 1,883
Dividend income	2,531,826	2,310,238
Other income	283,367	351,893
	$ 2,820,730	$ 2,664,014

(19) Other gains and losses

	Years ended December 31,	
	2018	2017
Forward foreign exchange contracts		
Net gain on financial assets at fair value through profit or loss	($ 398)	$ 398
Net gain on financial liabilities at fair value through profit or loss	(774)	-
Net currency exchange loss	100,476	(120,816)
Gain on disposal of property, plant and equipment	914,767	45,615
Bank charges	(37,700)	(33,578)
Other losses	(51,573)	(60,170)
	$ 924,798	($ 168,551)

(20) Expenses by nature

	Years ended December 31,	
	2018	2017
Employee benefit expense	$ 2,785,539	$ 2,804,386
Depreciation charges on property, plant and equipment	715,861	779,922
	$ 3,501,400	$ 3,584,308

(21) Employee benefit expense

	Years ended December 31,	
	2018	2017
Wages and salaries	$ 2,346,420	$ 2,361,835
Labour and health insurance fees	235,499	234,761
Pension costs	112,330	112,525
Other personnel expenses	91,290	95,265
	$ 2,785,539	$ 2,804,386

A. According to the Articles of Incorporation, the Company distributed employees' compensation at a ratio of profit before income tax of the current year, after covering accumulated losses. The ratio shall not be lower than 0.05% and shall not be higher than 0.5% for employees' compensation.

B. For the years ended December 31, 2018 and 2017, employees' compensation was accrued at \$10,543 and \$8,994, respectively; while directors' and supervisors' remuneration was accrued at \$5,272 and \$4,497, respectively. The aforementioned amount was recognized in salary expenses. For the year ended December 31, 2018, the employees' compensation was estimated and accrued based on the Articles of Incorporation. The employees' compensation and directors' and supervisors' remuneration resolved by the Board of Directors totalled to \$10,543 and \$5,272, respectively, and the employees' compensation will be distributed in the form of cash.

Employees' compensation and directors' and supervisors' remuneration for 2017 as resolved by the Board of Directors were in agreement with those amounts recognized in the 2017 financial statements. For the year ended December 31, 2017, employees' compensation was $8,994 and distributed in cash.

Information about employees' compensation and directors' and supervisors' remuneration of the Company as resolved by the Board of Directors and shareholders will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(22) Finance costs

	Years ended December 31,	
	2018	2017
Interest expense:		
Bank borrowings	$ 106,091	$ 120,573
Less: Capitalization of qualifying assets	(2,733)	(3,485)
Finance costs	$ 103,358	$ 117,088

(23) Income tax

A. Income tax expense

	Years ended December 31,	
	2018	2017
Current tax:		
Current tax on profits for the year	$ 111,830	($ 24,998)
Additional 10% tax on undistributed earnings	32,440	76,622
Adjustments in respect of prior years	81,038	24,997
Prepayment of taxes	127,086	-
Total current tax	352,394	76,621
Deferred tax:		
Impact of change in tax rate	16,750	
Origination and reversal of temporary differences	149,212	126,928
Tax expense	$ 518,356	$ 203,549

B. Reconciliation between income tax expense and accounting profit

	Years ended December 31,	
	2018	2017
Tax calculated based on profit before tax and statutory tax rate (Note)	$ 1,051,152	$ 762,182
Tax effect of permanent differences	(654,125)	(558,800)
Tax effect of temporary differences	(84,813)	(122,472)
Tax exempt income by tax regulation	(173,443)	-
Land Value Increment Tax from selling land	127,086	-
Tax effect of investment tax credits	-	(24,998)
Under provision of prior year's income tax	81,038	24,997
Net change in deferred income tax assets and liabilities	149,212	126,928
Impact of change in tax rate	16,750	-
Suspension of securities trading income	(26,941)	-
Effect on income tax from loss carryforward	-	(80,910)
Additional 10% tax on undistributed earnings	32,440	76,622
Tax expense	$ 518,356	$ 203,549

Note: The basis for computing the applicable tax rate is the rate applicable in the respective countries where the Group entities operate.

C. Amounts of deferred tax assets or liabilities as a result of temporary differences and loss carryforward are as follows:

	Year ended December 31, 2018			
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Deferred tax assets:				
-Temporary differences				
Provision for inventory obsolescence	$ 21,049	$ 43,044	$ -	$ 64,093
Allowance for bad debts in excess of tax deductible limit	2,128	375	-	2,503
Accrued pension liabilities	31,776	(31,776)	-	-
Unrealized foreign exchange loss	2,576	(2,206)	-	370
Unrealized gain on disposal of equipment	17,711	(5,654)	-	12,057
-Loss carryforward	49,389	(49,389)	-	-
	124,629	(45,606)	-	79,023
Deferred tax liabilities:				
-Temporary differences				
Unrealized foreign exchange gain	-	(6,219)	-	(6,219)
Investment income accounted for under equity method	(170,157)	(114,137)	-	(284,294)
	(170,157)	(120,356)	-	(290,513)
	($ 45,528)	($ 165,962)	$ -	($ 211,490)

	Year ended December 31, 2017			
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Deferred tax assets:				
-Temporary differences				
Provision for inventory obsolescence	$ 16,874	$ 4,175	$ -	$ 21,049
Allowance for bad debts in excess of tax deductible limit	2,084	44	-	2,128
Accrued pension liabilities	88,432	(56,656)	-	31,776
Unrealized foreign exchange loss	-	2,576	-	2,576
Unrealized gain on disposal of equipment	17,506	205	-	17,711
-Loss carryforward	118,938	(69,549)	-	49,389
	243,834	(119,205)	-	124,629
Deferred tax liabilities:				
-Temporary differences				
Unrealized foreign exchange gain	(5,833)	5,833	-	-
Investment income accounted for under equity method	(156,601)	(13,556)	-	(170,157)
	(162,434)	(7,723)	-	(170,157)
	$ 81,400	($ 126,928)	$ -	($ 45,528)

D. The Company's income tax returns through 2016 have been assessed and approved by the Tax Authority.

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

(24) Earnings per share

A. Basic earnings per share

The calculation of basic earnings per share is profit or loss attributable to the common stockholders of the Company divided by weighted average amount of outstanding common stocks for the year.

	Year ended December 31, 2018				
	Amount		Weighted-average outstanding common shares	Earnings per share (in dollars)	
	Before tax	After tax	(in thousands)	Before tax	After tax
Net income	$ 5,255,762	$ 4,737,406	1,682,385	$ 3.12	$ 2.82

	Year ended December 31, 2017				
	Amount		Weighted-average outstanding common shares	Earnings per share (in dollars)	
	Before tax	After tax	(in thousands)	Before tax	After tax
Net income	$ 4,483,420	$ 4,279,871	1,682,339	$ 2.66	$ 2.54

The following is the earnings per share assuming the shares of the Company held by its subsidiary, Formosa Development Co., Ltd., are not deemed as treasury shares:

	Year ended December 31, 2018				
	Amount		Outstanding common shares	Earnings per share (in dollars)	
	Before tax	After tax	(in thousands)	Before tax	After tax
Net income	$ 5,255,762	$ 4,737,406	1,684,665	$ 3.12	$ 2.81

	Year ended December 31, 2017				
	Amount		Outstanding common shares	Earnings per share (in dollars)	
	Before tax	After tax	(in thousands)	Before tax	After tax
Net income	$ 4,483,420	$ 4,279,871	1,684,665	$ 2.66	$ 2.54

B. Employees' compensation could be distributed in the form of stock. It does not have significant effect on the financial statements for the years ended December 31, 2018 and 2017. It also had no significant effect on earnings per share.

(25) Non-cash transaction

Investing activities with partial cash payments:

	Years ended December 31,	
	2018	2017
Purchase of property, plant and equipment	$ 435,113	$ 574,174
Add: Opening balance of payable on equipment	13,354	10,096
Less: Ending balance of payable on equipment	(1,766)	(13,354)
Cash paid during the year	$ 446,701	$ 570,916

(26) Changes in liabilities from financing activities

For the year ended December 31, 2018, the change of short-term borrowings, short-term notes and bills payable and long-term borrowings are ($7,386), ($1,299,806) and ($2,900,000), respectively.

7. RELATED PARTY TRANSACTIONS

(1) Parent and ultimate controlling party

The Company is controlled by FORMOSA CHEMICALS & FIBRE CORPORATION (incorporated in R.O.C), which owns 37.4% of the Company's shares and is the Company's ultimate controlling party.

(2) Names of related parties and relationship

Names of related parties	Relationship with the Company
Formosa Chemicals & Fibre Corp.	Parent Company
Formosa Taffeta Dong Nai Co., Ltd.	Subsidiary
Formosa Advanced Technologies Co., Ltd.	Subsidiary
Formosa Taffeta Vietnam Co., Ltd.	Subsidiary
Schoeller F.T.C. (Hong Kong) Co., Ltd.	Subsidiary
Formosa Taffeta (Zhong Shan) Co., Ltd.	Subsidiary
Formosa Taffeta (Hong Kong) Co., Ltd.	Subsidiary
Formosa Taffeta (Changshu) Co., Ltd.	Subsidiary
Quang Viet Enterprise Corp.	Associate
Formosa Industries Corp.	Associate
Formosa Heavy Industries Corp.	Other Related Party
Formosa Biomedical Technology Corp.	Other Related Party
Formosa Petrochemical Corp.	Other Related Party
Formosa Asahi Spandex Corp.	Other Related Party
Formosa Technologies Corp.	Other Related Party
Formosa Plastics Corp.	Other Related Party
Chang Gung Biotechnology Corp.	Other Related Party
Nanya Technology Corp.	Other Related Party
Nan Ya Plastics Corp.	Other Related Party
Yugen Yueh Co., Ltd.	Other Related Party
Yumaowu Enterprise Co., Ltd.	Other Related Party
Yu Yuang Textile Co., Ltd.	Other Related Party
Yu Maowu Complex Co., Ltd.	Other Related Party
Great King Garment Co., Ltd.	Other Related Party
Kong You Industrial Co., Ltd.	Other Related Party
Bellmart Indurstrial Co., Ltd.	Other Related Party
TOA Resin Corp.	Other Related Party
Formosa HA TINH (CAYMAN) LIMITED	Other Related Party

(3) Significant related party transactions

A. Operating revenue

	Years ended December 31, 2018	Years ended December 31, 2017
Sales of goods:		
－Ultimate parent	$ 565	$ 17,705
－Subsidiaries	386,125	271,589
－Associates	393,650	372,384
－Other related parties	500,161	435,493
	$ 1,280,501	$ 1,097,171

Goods are sold based on the price lists in force and terms that would be available to third parties.

B. Purchases of goods

	Years ended December 31, 2018	Years ended December 31, 2017
Purchases of goods:		
－Ultimate parent	$ 1,978,969	$ 1,745,553
－Subsidiaries	622,950	883,791
－Other related parties		
Formosa Petrochemical Corp.	10,916,187	9,606,981
Others	1,187,012	1,178,958
	$ 14,705,118	$ 13,415,283

Goods and services are purchased from parent company, subsidiaries and associates on normal commercial terms and conditions.

C. Notes and accounts receivable

	December 31, 2018	December 31, 2017
Receivables from related parties:		
－Ultimate parent	$ 98	$ 75
－Subsidiaries	72,017	52,738
－Associates	41,091	50,477
－Other related parties	111,588	104,088
	$ 224,794	$ 207,378

The receivables from related parties arise mainly from sale transactions. The receivables are due 45~120 days after the date of sale. The receivables are unsecured in nature and bear no interest. There are no provisions held against receivables from related parties.

D. Notes and accounts payable

	December 31, 2018	December 31, 2017
Payables from related parties:		
－Ultimate parent	$ 644,076	$ 537,314
－Subsidiaries	159,888	125,659
－Other related parties		
Formosa Petrochemical Corp.	397,563	542,953
Others	95,126	96,509
	$ 1,296,653	$ 1,302,435

The payables to related parties arise mainly from purchase transactions and are due 15~60 days after the date of purchase. The payables bear no interest.

E. Property transactions, investment property and other receivables

(a)The Company sold fixed assets to related parties at cost plus any necessary expense. Gain or loss is recorded as gain or loss on disposal of property, plant and equipment. Details are as follows:

	Years ended December 31,			
	2018		2017	
	Disposal proceeds	Gain (loss) on disposal	Disposal proceeds	Gain (loss) on disposal
Sale of property, plant and equipment:				
－Subsidiaries	$ 35,777	$ 17,560	$ 92,305	$ 53,807

The unrealized gain on disposal of property, plant and equipment from the transactions above amounted to $11,117 and $32,816 for the years ended December 31, 2018 and 2017, respectively.

(b) Rental income (shown as other income)

The Company rent out buildings on No. 319 and 329, Henan St., Douliu City, Yunlin County, and land on No. 497-1 Neilin Section and employees' dormitory to Formosa Advanced Technologies Co., Ltd. The lessee pays the Company at the beginning of every month. For the years ended December 31, 2018 and 2017, rental income amounted to $36,883 and $36,883, respectively.

Investment property leased to Formosa Advanced Technologies Co., Ltd. are as follows:

	Land		Building and structures		Total
At January 1, 2018					
Cost	$	6,833	$ 764,479	$	771,312
Accumulated depreciation		-	(272,813)	(	272,813)
	$	6,833	$ 491,666	$	498,499
Year ended December 31, 2018					
Opening net book amount	$	6,833	$ 491,666	$	498,499
Depreciation charge		-	(24,841)	(	24,841)
Closing net book amount	$	6,833	$ 466,825	$	473,658
At December 31, 2018					
Cost	$	6,833	$ 764,479	$	771,312
Accumulated depreciation		-	(297,654)	(	297,654)
	$	6,833	$ 466,825	$	473,658

	Land		Building and structures		Total
At January 1, 2017					
Cost	$	6,833	$ 764,479	$	771,312
Accumulated depreciation		-	(247,972)	(	247,972)
	$	6,833	$ 516,507	$	523,340
Year ended December 31, 2017					
Opening net book amount	$	6,833	$ 516,507	$	523,340
Depreciation charge		-	(24,841)	(	24,841)
Closing net book amount	$	6,833	$ 491,666	$	498,499
At December 31, 2017					
Cost	$	6,833	$ 764,479	$	771,312
Accumulated depreciation		-	(272,813)	(	272,813)
	$	6,833	$ 491,666	$	498,499

The fair value of the Company's investment property was based on the selling price of similar property in neighbouring areas. As of December 31, 2018 and 2017, the fair value was $520,354 and $524,963, respectively.

(c) Other income

Other income pertains to the Company's collections and payment transfer of utilities and disposal fee, etc. for Formosa Advanced Technologies Co., Ltd. For the years ended December 31, 2018 and 2017, other income amounted to $16,068 and $13,710, respectively.

(d) Other receivables

	Items	December 31, 2018	December 31, 2017
Subsidiaries			
-Formosa Taffeta Dong Nai Co., Ltd.	Purchase of raw materials and supplies and disposal of equipment, payments made by the Company on behalf of related party	$ 42,469	$ 39,699
-Formosa Taffeta Vietnam Co., Ltd.		43,168	41,891
-Other		4,514	4,883
Associates			
-Formosa Industries Corp.	Dividends receivable	-	90,347
Other related party			
-Formosa HA TINH (CAYMAN) LIMITED	Payments of guarantee commission	9,409	3,686
-Other	Payments made by the Company on behalf of related party	2	2
		$ 99,562	$ 180,508

(e) Acquisition of financial assets:

	Account	No. of shares	Object	Year ended December 31, 2017 Consideration
Other related parties	Non-current financial assets carried at cost	600	FG INC	$ 198,066

(f) Disposal of financial assets:

	Accounts	No. of shares (in thousands)	Objects	Year ended December 31, 2018 Proceeds	Gain/(loss)
Other related party	Investments accounted for under equity method	84,022	Formosa Advanced Technologies Co., Ltd.	$ 3,039,857	Note

Note: The gain on disposal of $980,948 was reclassified to capital surplus.

(g) Other payables

	December 31, 2018	December 31, 2017
Subsidiaries	$ 8,167	$ 2,848
Associates	930	677
Other related parties	27,880	3,918
	$ 36,977	$ 7,443

F. Commission expenses and commissions payable

(a) The Company paid commissions for sales rendered to Formosa Taffeta (Hong Kong) Co., Ltd. equivalent to 2.5%. Details are as follows (shown as sales and marketing expenses):

	Years ended December 31,	
	2018	2017
Subsidiaries	$ 3,272	$ 4,084

(b) The balances of commission payable (shown as other payables) consisted of the following:

	December 31, 2018	December 31, 2017
Subsidiaries	$ 788	$ 1,943

G. Endorsements and guarantees provided to related parties:

	December 31, 2018	December 31, 2017
Formosa Taffeta (Zhong Shan) Co., Ltd.	$ 1,013,595	$ 982,080
Formosa Taffeta Vietnam Co., Ltd.	1,535,750	1,488,000
Formosa Taffeta (Changshu) Co., Ltd.	1,689,325	1,636,800
Formosa Taffeta Dong Nai Co., Ltd.	4,668,680	4,523,520
Formosa HA TINH (CAYMAN) Ltd.	7,125,084	5,186,248
	$ 16,032,434	$ 13,816,648

(4) Key management compensation

	Years ended December 31,	
	2018	2017
Salaries and other short-term employee benefits	$ 33,399	$ 27,909

8. PLEDGED ASSETS

None.

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

(1) The Company leases factory and land of gas station. The lease expense estimated to be incurred is as follows:

	December 31, 2018	December 31, 2017
Less than 1 year	$ 129,761	$ 120,690
Between 1 and 5 years	382,264	336,082
More than 5 years	242,499	191,640
	$ 754,524	$ 648,412

(2) As of December 31, 2018, the significant commitments and contingent liabilities are the outstanding letters of credit for materials and equipment purchases with various companies listed as follows:

Currency	Amount
USD	$ 1,171
JPY	105,462
EUR	904

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

(1) Refer to Note 6(15) F for the distribution of 2018 earnings which was proposed by the Board of Directors on March 15, 2019.

(2) Owing to the capital increase of FG INC. the Board of Directors during its meeting on March 15, 2019 resolved to increase its investment in FG INC. in the amount of USD 4,500 thousand, in proportion to the original shareholding ratio of 3% in FG INC. Consequently, the total investment in FG INC. will be USD 11 million.

12. OTHERS

(1) Capital management

The Company’s objectives when managing capital are to safeguard the Company’s ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including ‘current, non-current borrowings and short-term notes and bills payable’ as shown in the parent company only balance sheet) less cash and cash equivalents. Total capital is calculated as ‘equity’ as shown in the consolidated balance sheet plus net debt.

At December 31, 2018, the Company’s strategy, was unchanged from December 31, 2017. The gearing ratios at December 31, 2018 and 2017 were as follows:

	December 31, 2018	December 31, 2017
Total borrowings	$ 7,900,000	$ 12,107,192
Less: Cash and cash equivalents	(1,447,966)	(851,569)
Net debt	6,452,034	11,255,623
Total equity	68,913,204	69,379,395
Total capital	$ 75,365,238	$ 80,635,018
Gearing ratio	9%	14%

(2) Financial instruments

A. Financial instruments by category

	December 31, 2018	December 31, 2017
Financial assets		
Financial assets measured at fair value through profit or loss	$ -	$ 398
Financial assets measured at fair value through other comprehensive profit or loss	42,274,430	-
Available-for-sale financial assets	-	45,274,982
Financial assets at cost	-	266,009
Financial assets at amortized cost	4,201,275	3,537,223
	$ 46,475,705	$ 49,078,612
Financial liabilities		
Financial liabilities measured at fair value through profit or loss	$ 774	$ -
Financial liabilities at amortized cost	10,663,274	15,067,004
	$ 10,664,048	$ 15,067,004

Note: Financial assets at amortized cost includes cash, notes and accounts receivable and other receivables; financial liabilities at amortized cost includes short-term borrowings, short-term notes and bills payable, notes and accounts payable, other payables and long-term borrowings.

B. Financial risk management policies

(a) The Company's activities expose it to a variety of financial risk: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The financial risk management policies of the Company are focus upon unpredictable factors in financial market, and aim to reduce unfavorable impact on financial position and financial performance.

(b) Risk management is carried out by a central treasury department under policies approved by the Board of Directors. Company treasury identifies, evaluates and hedges financial risks in close co-operation with the Company's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas and matters, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

C. Significant financial risks and degrees of financial risks

(a) Market risk

i. Foreign exchange risk

Some of the Company's transactions are conducted in foreign currencies, which are subject to exchange rate fluctuation. The information on foreign currency denominated assets and liabilities are as follows:

	December 31, 2018		
	Foreign Currency Amount (In Thousands)	Exchange Rate	Book Value (NTD)
Financial assets			
Monetary items			
USD:NTD	$ 60,910	30.73	$ 1,871,764
Non-monetary items			
VND:NTD	4,723,641,239	0.0013	6,140,734
HKD:NTD	289,967	3.93	1,139,570
RMB:NTD	439,198	4.48	1,967,607
USD:NTD	179,768	30.73	5,524,271

	December 31, 2017		
	Foreign Currency Amount (In Thousands)	Exchange Rate	Book Value (NTD)
Financial assets			
Monetary items			
USD:NTD	$ 57,288	29.85	$ 1,710,047
Non-monetary items			
VND:NTD	4,545,840,640	0.0013	5,909,593
HKD:NTD	287,387	3.82	1,097,818
RMB:NTD	406,178	4.57	1,856,233
USD:NTD	183,934	29.85	5,490,430

The total exchange income (loss), including realized and unrealized arising from significant foreign exchange variation on the monetary items held by the Company for the years ended December 31, 2018 and 2017, amounted to $100,476 and ($120,816), respectively.

Analysis of foreign currency market risk arising from significant foreign exchange variation:

	Year ended December 31, 2018		
	Sensitivity analysis		
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
Financial assets			
Monetary items			
USD:NTD	1%	$ 18,718	$ -
Non-monetary items			
VND:NTD	1%	-	61,407
HKD:NTD	1%	-	11,396
RMB:NTD	1%	-	19,676
USD:NTD	1%	-	55,243

	Year ended December 31, 2017		
	Sensitivity analysis		
Financial assets	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
Monetary items			
USD:NTD	1%	$ 17,100	$ -
Non-monetary items			
VND:NTD	1%	-	59,096
HKD:NTD	1%	-	10,978
RMB:NTD	1%	-	18,562
USD:NTD	1%	-	54,904

ii. Price risk

(i) The Company's equity securities, which are exposed to price risk, are the held financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and available-for-sale financial assets. To manage its price risk arising from investments in equity securities, the Company diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Company.

(ii) The Company's investments in equity securities comprise shares. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities had increased/decreased by 1% with all other variables held constant, post-tax profit for the years ended December 31, 2018 and 2017 would have increased/decreased by $6 and $3, respectively, as a result of gains/losses on equity securities classified as at fair value through profit or loss. Other components of equity would have increased/decreased by $422,724 and $452,750, respectively, as a result of other comprehensive income classified as equity investment at fair value through other comprehensive income and available-for sale equity investment.

iii. Cash flow and fair value interest rate risk

(i) The Company's main interest rate risk arises from long-term borrowings with variable rates, which expose the Company to cash flow interest rate risk. During the years ended December 31, 2018 and 2017, the Company's borrowings at variable rate were denominated in the NTD and USD.

(ii) The Company's borrowings are measured at amortized cost. The borrowings are periodically contractually repriced and to that extent are also exposed to the risk of future changes in market interest rates.

(iii) At December 31, 2018 and 2017, if interest rates on NTD-denominated borrowings had been 1% higher with all other variables held constant, post-tax profit for the years ended December 31, 2018 and 2017 would have been $63,200 and $89,640 lower, respectively, mainly as a result of higher interest expense on floating rate borrowings.

(b) Credit risk

i. Credit risk refers to the risk of financial loss to the Company arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms.

ii. The Company manages their credit risk taking into consideration the entire company's concern. For banks and financial institutions, only independently rated parties with good rating are accepted. According to the Company's credit policy, each local entity in the Company is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilisation of credit limits is regularly monitored.

iii. The Company adopts the following assumption under IFRS 9 to assess whether there has been a significant increase in credit risk on that instrument since initial recognition:
If the contract payments were past due over 30 days based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition.

iv. The Company adopts the assumption under IFRS 9, that is, the default occurs when the contract payments are past due over 90 days.

v. The Company classifies customer's accounts receivable and contract assets in accordance with product types and customer types. The Company applies the simplified approach using provision matrix to estimate expected credit loss under the provision matrix basis.

vi. The Company wrote-off the financial assets, which cannot be reasonably expected to be recovered, after initiating recourse procedures. However, the Company will continue executing the recourse procedures to secure their rights.

vii. The Company uses the forecastability of National Development Council Business Cycle Indicator to adjust historical and timely information to assess the default possibility of notes receivable, accounts receivable and contract assets. On December 31, 2018, the provision matrix is as follows:

	Not past due	Up to 30 days past due	31 to 90 days past due	Over 90 days past due	Total
At December 31, 2018					
Expected loss rate	0%	30%	78%	82%	
Total book value	$ 2,222,050	$ 28,939	$ 17,818	$ 730	$ 2,269,537
Loss allowance	8,498	8,729	13,852	599	31,678

viii. Movements in relation to the Company applying the simplified approach to provide loss allowance for notes receivable, accounts receivable and contract assets are as follows:

	Year ended December 31, 2018	
	Notes receivable	Accounts receivable
At January 1	$ -	($ 37,064)
Reversal of impairment loss	-	5,386
At December 31	$ -	($ 31,678)

(c) Liquidity risk

i. The Company's investments in equity financial instruments which have active markets are expected to be sold easily and quickly in the market at the price close to fair value. The Company's investments in equity financial instruments without active markets are exposed to liquidity risk.

ii. Due to well-managed operations, the Company has an excellent credit in financial institutions and the money market, and has adequate working capital to meet commitments associated with receivables and payables. Therefore, no liquidity risk is expected to arise.

iii. The table below analyses the Company's non-derivative financial liabilities and net-settled or gross-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities and to the expected maturity date for derivative financial liabilities.

Non-derivative financial liabilities:

December 31, 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
Notes payable (including related parties)	459,428	-	-
Accounts payable (including related parties)	1,449,570	-	-
Other payables	854,276	-	-
Long-term borrowings	-	7,000,000	200,000
Financial guarantee contracts	16,032,434	-	-

Derivative financial liabilities

December 31, 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
Forward exchange contracts	$ 774	-	-

Non-derivative financial liabilities:

December 31, 2017	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
Short-term borrowings	$ 7,412	-	-
Short-term bills payable	13,000,000	-	-
Notes payable (including related parties)	375,008	-	-
Accounts payable (including related parties)	1,746,931	-	-
Other payables	837,873	-	-
Long-term borrowings	-	7,509,683	3,436,380
Financial guarantee contracts	13,816,648	-	-

(d) The Company does not expect the timing of occurrence of the cash flows estimated through the maturity date analysis will be significantly earlier, nor expect the actual cash flow amount will be significantly different.

(3) Fair value information

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of the Company’s investment in listed stocks and beneficiary certificates with quoted market prices is included in Level 1.

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

Level 3: Unobservable inputs for the asset or liability. The fair value of the Company's investment in equity investment without active market is included in Level 3.

B. Financial instruments not measured at fair value

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

C. The related information of financial and non-financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets and liabilities are as follows:

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

December 31, 2018	Level 1	Level 2	Level 3	Total
Financial assets:				
Recurring fair value measurements				
Financial assets at fair value through other comprehensive income				
Equity securities	41,552,550	403,500	318,380	42,274,430
	$ 41,552,550	$ 403,500	$ 318,380	$ 42,274,430
Financial liabilities:				
Recurring fair value measurements				
Financial liabilities at fair value through profit or loss				
Forward exchange contracts	$ -	$ 774	$ -	$ 774

December 31, 2017	Level 1	Level 2	Level 3	Total
Financial assets:				
Recurring fair value measurements				
Financial assets at fair value through profit or loss				
Forward exchange contracts	$ -	$ 398	$ -	$ 398
Available-for-sale financial assets				
Equity securities	44,654,582	620,400	-	45,274,982
	$ 44,654,582	$ 620,798	$ -	$ 45,275,380

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

i. The instruments the Company used market quoted prices as their fair values (that is, Level 1) are listed below by characteristics:

	Listed shares
Market quoted price	Closing price

ii. Except for financial instruments with active markets, the fair value of other financial instruments is measured by using valuation techniques or by reference to counterparty quotes. The fair value of financial instruments measured by using valuation techniques such as current fair value of instruments with similar terms and characteristics in substance, discounted cash flow method or other valuation methods, including applying a model using market information available at the balance sheet date.

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

iv. The Company takes into account adjustments for credit risks to measure the fair value of financial and non-financial instruments to reflect credit risk of the counterparty and the Company's credit quality.

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

E. The following chart is the movement of Level 3 for the year ended December 31, 2018:

	Year ended December 31, 2018
	Non-derivative equity instruments
At January 1	$ -
Retrospective adjustments	331,904
At January 1 after adjustments	331,904
Gains and losses recognized in other comprehensive income	
Recorded as unrealized losses on valuation of investments in equity instruments measured at fair value through other comprehensive income	(13,524)
At December 31	$ 318,380

For the year ended December 31, 2017, there was no movement of Level 3.

F. For the years ended December 31, 2018 and 2017, there was no transfer into or out from Level 3.

G. The accounting segment is in charge of valuation procedures for fair value measurements being categorized within Level 3, which is to verify independent fair value of financial instruments. Such assessment is to ensure the valuation results are reasonable by applying independent information to make results close to current market conditions, confirming the resource of information is independent, reliable and in line with other resources and represented as the exercisable price, and frequently calibrating valuation model, updating inputs used to the valuation model and making any other necessary adjustments to the fair value.

The accounting segment set up valuation policies, valuation processes and rules for measuring fair value of financial instruments and ensure compliance with the related requirements in IFRS. The related valuation results are reported to the supervisor of accounting segment monthly. The supervisor is responsible for managing and reviewing valuation processes.

H. The following is the qualitative information of significant unobservable inputs and sensitivity analysis of changes in significant unobservable inputs to valuation model used in Level 3 fair value measurement:

	Fair value at December 31, 2018	Valuation technique	Significant unobservable input	Relationship of inputs to fair value
Non-derivative equity instrument:				
Unlisted shares	$ 318,380	Market comparable companies	Price to earnings ratio multiple, price to book ratio multiple, enterprise value to EBITA multiple, discount for lack of marketability	The higher the multiple, the higher the fair value the higher the discount for lack of marketability, the lower the fair value

There are no financial instruments within Level 3 for the year ended December 31, 2017.

I. The Company has carefully assessed the valuation models and assumptions used to measure fair value. However, use of different valuation models or assumptions may result in different measurement. The following is the effect of other comprehensive income from financial assets and liabilities categorized within Level 3 if the inputs used to valuation models have changed:

			December 31, 2018	
			Recognized in other comprehensive income	
	Input	Change	Favourable change	Unfavourable change
Financial assets				
Equity instrument	Price to earnings ratio multiple, price to book ratio multiple, enterprise value to EBITA multiple, discount for lack of marketability	±1%	$ 3,184	$ 3,184

There is no effect of other comprehensive income from financial assets and liabilities categorized within Level 3 for the year ended December 31, 2017.

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

A. Summary of significant accounting policies adopted for the year ended December 31, 2017:

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

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

ii. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognized and derecognized using settlement date accounting.

iii. They are initially recognized at fair value. Related transaction costs are expensed in profit or loss. They are subsequently remeasured and stated at fair value, and any changes in the fair value are recognized in profit or loss.

(b) Available for sale financial assets

i. They are non-derivatives that are either designated in this category or not classified in any of the other categories.

ii. On a regular way purchase or sale basis, available-for-sale financial assets are recognized and derecognized using trade date accounting.

iii. They are initially recognized at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognized in other comprehensive income. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured or derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are presented in ‘financial assets measured at cost’.

(c) Loans and receivables

Loans and receivables receivable are originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. They are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(d) Impairment of financial assets

i. The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

ii. The criteria that the Company uses to determine whether there is objective evidence of an impairment loss is as follows:

(i) Significant financial difficulty of the issuer or debtor;

(ii) A breach of contract, such as a default or delinquency in interest or principal payments;

(iii) The Company, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that a lender would not otherwise consider;

(iv) It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;

(v) The disappearance of an active market for that financial asset because of financial difficulties;

(vi) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group;

(vii) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered;

(viii) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

iii. When the Company assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows according to the category of financial assets:

(i) Financial assets at amortized cost

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

(ii) Financial assets at cost

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

(iii) Available-for-sale financial assets

The amount of the impairment loss is measured as the difference between the asset's acquisition cost (less any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, and is reclassified from 'other comprehensive income' to 'profit or loss'. Impairment loss of an investment in an equity instrument recognized in profit or loss shall not be reversed through profit or loss. Impairment loss is recognized and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(e) Financial guarantee contracts

A. A financial guarantee contract is a contract that requires the Company to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract is initially recognized at its fair value adjusted for transaction costs on the trade date. After initial recognition, the financial guarantee is measured at the higher of the initial fair value less cumulative amortization and the best estimate of the amount required to settle the present obligation on each balance sheet date.

B. The reconciliations of carrying amount of financial assets transferred from December 31, 2017, IAS 39, to January 1, 2018, IFRS 9, were as follows:

	Available-for-sale-current	Available-for-sale-non-current			Effects		
	Measured at fair value through other comprehensive income-current	Measured at fair value through other comprehensive income-non-current	Measured at cost	Total	Investments accounted for under equity method	Retained earnings	Other equity
IAS 39	$ 1,911,496	$ 43,363,486	$ 266,009	$45,540,991	$ -	$ -	$ -
Transferred into and measured at fair value through other comprehensive income-non-current	-	266,009	(266,009)	-	-		-
Fair value adjustment	-	65,895	-	65,895	64,950	4,890,917	(4,760,072)
IFRS 9	$ 1,911,496	$ 43,695,390	$ -	$45,606,886	$ 64,950	$ 4,890,917	($ 4,760,072)

Under IAS 39, because the equity instruments, which were classified as available-for-sale financial assets and financial assets at cost, amounting to $45,274,982 and $266,009, respectively, were not held for the purpose of trading, they were reclassified as "financial assets at fair value through other comprehensive income (equity instruments)" amounting to $45,606,886, increasing investments accounted for under equity method in the amount of $64,950, which resulted to an increase in retained earnings in the amount of $4,890,917, and decrease in other equity interest in the amount of $4,760,072, on initial application of IFRS 9.

C. The significant accounts as of December 31, 2017 and for the year ended December 31, 2017 are as follows:

(a)Available-for-sale financial assets

Items	December 31, 2017
Current items:	
Listed stocks	$ 900,285
Unlisted stocks	100,000
Valuation adjustment	911,211
	$ 1,911,496
Non-current items:	
Listed stocks	$ 10,670,029
Valuation adjustment	37,110,306
	47,780,335
Accumulated impairment	(4,416,849)
	$ 43,363,486

i. The Company recognized $2,127,178 in other comprehensive income for fair value change for the year ended December 31, 2017.

ii. As of December 31, 2017, no available-for-sale financial assets held by the Company were pledged as collateral.

(b) Financial assets at cost

Items	December 31, 2017
Unlisted stocks	$ 266,009

i. According to the Company's intention, its investment should be classified as 'available-for-sale financial assets'. However, as the stocks are not traded in active market, and no sufficient industry information of companies similar to the corporations or the corporation's financial information cannot be obtained, the fair value of the investment in the stocks cannot be measured reliably. Accordingly, the Company classified those stocks as 'financial assets measured at cost'.

ii. As of December 31, 2017, no financial assets measured at cost held by the Company were pledged to others.

D. Credit risk information for the year ended December 31, 2017 is as follows:

(a) Credit risk refers to the risk of financial loss to the Company arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Company's credit policy, each local entity in the Company is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilisation of credit limits is regularly monitored. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables. For banks and financial institutions, only independently rated parties with good rating are accepted.

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

(c) The credit quality of accounts receivable that were neither past due nor impaired was in the following categories based on the Company's Credit Quality Control Policy:

	December 31, 2017
Group 1	$ 1,669,468
Group 2	221,529
Group 3	41,028
	$ 1,932,025

Note:

Group 1: Transnational customers, brand customers or credit customers that have applied for collateralised mortgage.

Group 2: Non-transnational customers, non-brand customers or credit customers that have not applied for collateralised mortgage with 2 or more years of transaction history with the Company.

Group 3: Non-transnational customers, non-brand customers or credit customers that have not applied for collateralised mortgage with less than 2 years of transaction history with the Company.

(f) The ageing analysis of accounts receivable that were past due but not impaired is as follows:

	December 31, 2017
Up to 30 days	$ 42,773
31 to 90 days	6,944
91 to 180 days	32
Over 180 days	3,636
	$ 53,385

(g) Movement analysis of financial assets that were impaired - allowance for bad debts is as follows:

i. As of December 31, 2017, the Company's accounts receivable that were impaired were $0.

ii. Movements on the Company's provision for impairment of accounts receivable are as follows:

		Year ended December 31, 2017
At January 1	$	35,059
Reversal of provision for impairment	(	1,995)
At December 31	$	33,064

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

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

The Company manufactures and sells various fabrics and renders services as an oil distributor. Revenue is measured at the fair value of the consideration received or receivable taking into account business tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Company's activities. Revenue arising from the sales of goods is recognized when the Company has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity. The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.

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

		Year ended December 31, 2017
Sales revenue	$	25,453,390
Service revenue		260,449
	$	25,713,839

C. There is no impact on line item of current balance sheet and comprehensive income statement if the Company continues adopting above accounting policies.

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

In accordance with "Rules Governing the Preparation of Financial Statements by Securities Issuers", significant transactions for the year ended December 31, 2018 are stated as follows. Furthermore, the inter-company transactions were eliminated when preparing financial statements of investees which were audited by other independent accountants. The following disclosures are for reference only.

A. Loans to others: None.

B. Provision of endorsements and guarantees to others: Please refer to table 1.

C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to table 2.

D. Acquisition or sale of the same security with the accumulated cost exceeding $300 million or 20% of the Company’s paid-in capital: Please refer to table 3.

E. Acquisition of real estate reaching $300 million or 20% of paid-in capital or more: None.

F. Disposal of real estate reaching $300 million or 20% of paid-in capital or more: Please refer to table 4.

G. Purchases or sales of goods from or to related parties reaching $100 million or 20% of paid-in capital or more: Please refer to table 5.

H. Receivables from related parties reaching $100 million or 20% of paid-in capital or more: Please refer to table 6.

I. Trading in derivative instruments undertaken during the reporting periods: Please refer to Notes 6(2), (10) and 12(2).

J. Significant inter-company transactions during the reporting periods: Please refer to table 7.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China): Please refer to table 8.

(3) Information on investments in Mainland China

A. Basic information: Please refer to table 9.

B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: Please refer to table 10.

14. SEGMENT INFORMATION

None.

FORMOSA TAFFETA CO., LTD.

Provision of endorsements and guarantees to others

For the year ended December 31, 2018

Table 1

Expressed in thousands of NTD

(Except as otherwise indicated)

Number (Note 1)	Endorser/ guarantor	Party being endorsed/guaranteed: Company name	Party being endorsed/guaranteed: Relationship with the endorser/ guarantor (Note 2)	Limit on endorsements/ guarantees provided for a single party (Note 3,8)	Maximum outstanding endorsement/ guarantee amount as of December 31, 2018 (Note 4)	Outstanding endorsement/ guarantee amount at December 31, 2018 (Note 5)	Actual amount drawn down (Note 6)	Amount of endorsements/ guarantees secured with collateral	Ratio of accumulated endorsement/ guarantee amount to net asset value of the endorser/ guarantor company	Ceiling on total amount of endorsements/ guarantees provided (Note 3,8)	Provision of endorsements/ guarantees by parent company to subsidiary (Note 7)	Provision of endorsements/ guarantees by subsidiary to parent company (Note 7)	Provision of endorsements/ guarantees to the party in Mainland China (Note 7)	Footnote
0	FORMOSA TAFFETA CO., LTD.	FORMOSA TAFFETA (ZHONG SHAN) CO., LTD.	2	$ 44,793,582	$ 1,410,525	$ 1,013,595	$ 230,363	$ -	1.47	$ 89,587,165	Y	N	Y	
0	FORMOSA TAFFETA CO., LTD.	FORMOSA TAFFETA VIETNAM CO., LTD.	2	44,793,582	1,567,250	1,535,750	307,028	-	2.23	89,587,165	Y	N	N	
0	FORMOSA TAFFETA CO., LTD.	FORMOSA TAFFETA (CHANGSHU) CO., LTD.	2	44,793,582	2,037,425	1,689,325	272,011	-	2.45	89,587,165	Y	N	Y	
0	FORMOSA TAFFETA CO., LTD.	FORMOSA TAFFETA DONG NAI CO., LTD.	2	44,793,582	4,705,160	4,668,680	3,080,801	-	6.77	89,587,165	Y	N	N	
0	FORMOSA TAFFETA CO., LTD.	FORMOSA HA TINH (CAYMAN) LIMITED	6	44,793,582	7,125,084	7,125,084	5,352,675	-	10.34	89,587,165	N	N	N	
1	FORMOSA DEVELOPMENT CO., LTD.	PUBLIC MORE INTERNATION COMPANY LTD.	2	188,563	3,000	3,000	3,000	-	1.03	377,127	Y	N	N	

Note 1: The numbers filled in for the endorsements/guarantees provided by the Company or subsidiaries are as follows:

(1)The Company is '0'.

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

Note 2: Relationship between the endorser/guarantor and the party being endorsed/guaranteed is classified into the following seven categories.

(1)Having business relationship.

(2)The endorser/guarantor parent company owns directly and indirectly more than 50% voting shares of the endorsed/guaranteed subsidiary.

(3)The endorsed/guaranteed company owns directly and indirectly more than 50% voting shares of the endorser/guarantor parent company.

(4)The endorser/guarantor parent company owns directly and indirectly more than 90% voting shares of the endorsed/guaranteed company.

(5)Mutual guarantee of the trade made by the endorsed/guaranteed company or joint contractor as required under the construction contract.

(6)Due to joint venture, all shareholders provide endorsements/guarantees to the endorsed/guaranteed company in proportion to its ownership.

(7)Joint guarantee of the performance guarantee for pre-sold home sales contract as required under the Consumer Protection Act.

Note 3: Fill in limit on endorsements/guarantees provided for a single party and ceiling on total amount of endorsements/guarantees provided as prescribed in the endorser/guarantor company's "Procedures for Provision of Endorsements and Guarantees", and state each individual party to which the endorsements/guarantees have been provided and the calculation for ceiling on total amount of endorsements/guarantees provided in the footnote.

Note 4: Fill in the year-to-date maximum outstanding balance of endorsements/guarantees provided as of the reporting period.

Note 5: Fill in the amount approved by the Board of Directors or the chariman if the chairman has been authorised by the Board of Directors based on subparagraph 8, Article 12 of the Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies.

Note 6: Fill in the actual amount of endorsements/guarantees used by the endorsed/guaranteed company.

Note 7: Fill in 'Y' for those cases of provision of endorsements/guarantees by listed parent company to subsidiary and provision by subsidiary to listed parent company, and provision to the party in Mainland China.

Note 8: In accordance with the Company's procedures of endorsements and guarantees, limit on the Company's total guarantee amount is 1.3 times of the Company's net assets, and limit on endorsement/guarantee to a single party is 50% of the aforementioned total amount.

FORMOSA TAFFETA CO., LTD.

Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)

For the year ended December 31, 2018

Table 2

Expressed in thousands of NTD

(Except as otherwise indicated)

Securities held by	Marketable securities (Note 1)	Relationship with the securities issuer (Note 2)	General ledger account	As of December 31, 2018				Footnote (Note 4)
				Number of shares	Book value (Note 3)	Ownership (%)	Fair value	
FORMOSA TAFFETA CO., LTD.	FORMOSA CHEMICALS & FIBRE CORPORATION	Ultimate parent company	Current financial assets at fair value through other comprehensive income	12,169,610	$ 1,277,809	0.21	$ 1,277,809	
FORMOSA TAFFETA CO., LTD.	PACIFIC ELECTRIC WIRE AND CABLE CO., LTD.	-	Current financial assets at fair value through other comprehensive income	32	-	-	-	
FORMOSA TAFFETA CO., LTD.	FORMOSA PLASTICS CORPORATION	Other related party	Current financial assets at fair value through other comprehensive income	640	64	-	64	
FORMOSA TAFFETA CO., LTD.	NAN YA PLASTICS CORPORATION	Other related party	Current financial assets at fair value through other comprehensive income	482,194	36,406	0.01	36,406	
FORMOSA TAFFETA CO., LTD.	ASIA PACIFIC INVESTMENT CO. (APIC)	Other related party	Current financial assets at fair value through other comprehensive income	10,000,000	403,500	2.35	403,500	
FORMOSA TAFFETA CO., LTD.	NAN YA TECHNOLOGY CORPORATION	Other related party	Non-current financial assets at fair value through other comprehensive income	7,711,010	424,106	0.25	424,106	
FORMOSA TAFFETA CO., LTD.	FORMOSA PETROCHEMICAL CORP.	Other related party	Non-current financial assets at fair value through other comprehensive income	365,267,576	39,814,166	3.83	39,814,166	
FORMOSA TAFFETA CO., LTD.	SYNTRONIX CORPORATION	-	Non-current financial assets at fair value through other comprehensive income	174,441	3,224	0.45	3,224	
FORMOSA TAFFETA CO., LTD.	TOA RESIN CORPORATION LIMITED	Other related party	Non-current financial assets at fair value through other comprehensive income	14,400	37,437	10.00	37,437	
FORMOSA TAFFETA CO., LTD.	SHIN YUN GAS CO., LTD.	-	Non-current financial assets at fair value through other comprehensive income	676,441	16,309	1.20	16,309	

FORMOSA TAFFETA CO., LTD.

Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)

For the year ended December 31, 2018

Table 2

Expressed in thousands of NTD

(Except as otherwise indicated)

Securities held by	Marketable securities (Note 1)	Relationship with the securities issuer (Note 2)	General ledger account	As of December 31, 2018 Number of shares	Book value (Note 3)	Ownership (%)	Fair value	Footnote (Note 4)
FORMOSA TAFFETA CO., LTD.	WK TECHNOLOGY FUND IV LIMITED	-	Non-current financial assets at fair value through other comprehensive income	1,348,731	$ 8,874	3.17	$ 8,874	
FORMOSA TAFFETA CO., LTD.	NAN YA PHOTONICS INC.	Other related party	Non-current financial assets at fair value through other comprehensive income	4,261,443	49,816	9.53	49,816	
FORMOSA TAFFETA CO., LTD.	FG INC	Other related party	Non-current financial assets at fair value through other comprehensive income	600	202,719	3.00	202,719	
FORMOSA TAFFETA (CAYMAN) LIMITED	FORMOSA HA TINH (CAYMAN) LIMITED	Other related party	Non-current financial assets at fair value through other comprehensive income	209,010,676	5,524,232	3.85	5,524,232	
FORMOSA DEVELOPMENT CO., LTD.	FORMOSA TAFFETA CO., LTD.	Parent company	Non-current financial assets at fair value through other comprehensive income	2,243,228	77,504	0.13	77,504	
XIAMEN XIANGYU FORMOSA IMPORT & EXPORT TRADING CO., LTD.	Association of R.O.C.	-	Non-current financial assets at fair value through other comprehensive income	-	134	0.11	134	
FORMOSA ADVANCED TECHNOLOGIES CO., LTD.	FORMOSA PLASTICS CORPORATION	Other related party	Current financial assets at fair value through other comprehensive income	146,388	14,785	-	14,785	
FORMOSA ADVANCED TECHNOLOGIES CO., LTD.	NAN YA PLASTICS CORPORATION	Other related party	Current financial assets at fair value through other comprehensive income	2,907,512	219,517	0.04	219,517	
FORMOSA ADVANCED TECHNOLOGIES CO., LTD.	FORMOSA CHEMICALS & FIBRE CORPORATION	Utimate parent company	Current financial assets at fair value through other comprehensive income	15,249,000	1,601,145	0.26	1,601,145	
FORMOSA ADVANCED TECHNOLOGIES CO., LTD.	FORMOSA PETROCHEMICAL CORP.	Other related party	Current financial assets at fair value through other comprehensive income	1,110,000	120,990	0.01	120,990	

FORMOSA TAFFETA CO., LTD.

Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)

For the year ended December 31, 2018

Table 2

Expressed in thousands of NTD

(Except as otherwise indicated)

Securities held by	Marketable securities (Note 1)	Relationship with the securities issuer (Note 2)	General ledger account	As of December 31, 2018 Number of shares		Book value (Note 3)	Ownership (%)		Fair value	Footnote (Note 4)
FORMOSA ADVANCED TECHNOLOGIES CO., LTD.	NAN YA TECHNOLOGY CORPORATION	Other related party	Non-current financial assets at fair value through other comprehensive income	7,376,215	$	405,692	0.24	$	405,692	
FORMOSA ADVANCED TECHNOLOGIES CO., LTD.	NAN YA PHOTONICS INC.	Other related party	Non-current financial assets at fair value through other comprehensive income	2,130,721		24,917	4.77		24,917	
FORMOSA ADVANCED TECHNOLOGIES CO., LTD.	SYNTRONIX CORPORATION	-	Non-current financial assets at fair value through other comprehensive income	59,945		1,075	0.15		1,075	
FORMOSA ADVANCED TECHNOLOGIES CO., LTD.	JIH SUN MONEY MARKET FUND	-	Financial assets at fair value through profit or loss - current	15,147,454		224,084	-		224,084	
FORMOSA ADVANCED TECHNOLOGIES CO., LTD.	MEGA DIAMOND MONEY MARKET FUND	-	Financial assets at fair value through profit or loss - current	20,396,748		255,406	-		255,406	

Note 1: Marketable securities in the table refer to stocks, bonds, beneficiary certificates and other related derivative securities.

Note 2: Leave the column blank if the issuer of marketable securities is non-related party.

Note 3: Fill in the amount after adjusted at fair value and deducted by accumulated impairment for the marketable securities measured at fair value; fill in the acquisition cost or amortised cost deducted by accumulated impairment for the marketable securities not measured at fair value.

Note 4: The number of shares of securities and their amounts pledged as security or pledged for loans and their restrictions on use under some agreements should be stated in the footnote if the securities presented herein have such conditions.

FORMOSA TAFFETA CO., LTD.

Acquisition or sale of the same security with the accumulated cost exceeding $300 million or 20% of the Company's paid-in capital

For the year ended December 31, 2018

Table 3

Expressed in thousands of NTD
(Except as otherwise indicated)

Investor	Marketable securities (Note 1)	General ledger account	Counterparty (Note 2)	Relationship with the investor (Note 2)	Balance as at January 1, 2018		Addition (Note 3)(Note 4)		Disposal (Note 3)				Balance as at December 31, 2018	
					Number of shares	Amount	Number of shares	Amount	Number of shares	Selling price	Book value	Gain (loss) on disposal	Number of shares	Amount
FORMOSA TAFFETA CO., LTD.	NAN YA TECHNOLOGY CORPORATION	Non-current financial assets at fair value through other comprehensive income	-	-	15,421,010	$ 1,175,081	-	$ -	7,710,000	$ 693,199	$ 696,277	note 5	7,711,010	$ 424,106
FORMOSA TAFFETA CO., LTD.	FORMOSA ADVANCED TECHNOLOGIES CO., LTD.	Investments accounted for under equity method	NAN YA TECHNOLOGY CORPORATION	Other related party	290,464,472	7,412,797	-	-	84,022,000	3,039,857	2,177,715	note 6	206,442,472	5,350,424
FORMOSA TAFFETA (CAYMAN) LIMITED	FORMOSA HA TINH (CAYMAN) LIMITED	Non-current financial assets at fair value through other comprehensive income	-	-	190,009,706	5,490,371	19,000,970	566,417	-	-	-	-	209,010,676	5,524,232

Note 1: Marketable securities in the table refer to stocks, bonds, beneficiary certificates and other related derivative securities.

Note 2: Fill in the columns the counterparty and relationship if securities are accounted for under the equity method; otherwise leave the columns blank.

Note 3: Aggregate purchases and sales amounts should be calculated separately at their market values to verify whether they individually reach NT$300 million or 20% of paid-in capital or more.

Note 4: Paid-in capital referred to herein is the paid-in capital of parent company. In the case that shares were issued with no par value or a par value other than NT$10 per share, the 20 % of paid-in capital shall be replaced by 10% of equity attributable to owners of the parent in the calculation.

Note 4: Beginning balance plus addition amount is not equal to balance at December 31, 2018 because of valuation in exchange rate.

Note 5: The loss on disposal (including the portion attributable to non-controlling interests) of ($1,804,708) was reclassified to retained earnings.

Note 6: The gain on disposal (including the portion attributable to non-controlling interests) of $980,948 was reclassified to capital surplus.

FORMOSA TAFFETA CO., LTD.

Disposal of real estate reaching NT$300 million or 20% of paid-in capital or more

For the year ended December 31, 2018

Table 4

Expressed in thousands of NTD

(Except as otherwise indicated)

Real estate disposed by	Real estate	Transaction date or date of the event	Date of acquisition	Book value	Disposal amount	Status of collection of proceeds	Gain (loss) on disposal (Note 4)	Counterparty	Relationship with the seller	Reason for disposal	Basis or reference used in setting the price	Other commitments
FORMOSA TAFFETA CO.,LTD.	No.540、543、543-1,Beiming section,Dounan Township, Yunlin County	2018/3/16	1991/10/30	$ 124,320	$ 401,841	$ 401,841	$ 275,299	HOME MARK CO., LTD.	-	Disposal of idle land	Valuation amount of $331,160 by Euro-Asia Real Estate Appraisers Firm	NA
FORMOSA TAFFETA CO.,LTD.	No514、514-1、536、537、538、539、540-2、543-6,Beiming section,Dounan Township, Yunlin County	2018/5/4	1991/10/30 2004/3/31 2011/5/27	218,350	810,514	810,514	591,918	SHIH HSIANG AUTO PARTS CO., LTD.	-	Disposal of idle land	Valuation amount of $672,437 by Euro-Asia Real Estate Appraisers Firm	NA

Note 1: The appraisal result should be presented in the 'Basis or reference used in setting the price' column if the real estate disposed of should be appraised pursuant to the regulations.

Note 2: Paid-in capital referred to herein is the paid-in capital of parent company. In the case that shares were issued with no par value or a par value other than NT$10 per share, the 20 % of paid-in capital shall be replaced by 10% of equity attributable to owners of the parent in the calculation.

Note 3: Date of the event referred to herein is the date of contract signing, date of payment, date of execution of a trading order, date of title transfer, date of board resolution, or other date that can confirm the counterparty and the monetary amount of the transaction, whichever is earlier.

Note 4:Including expense for transaction.

FORMOSA TAFFETA CO., LTD.

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

For the year ended December 31, 2018

Table 5

Expressed in thousands of NTD

(Except as otherwise indicated)

			Transaction				Differences in transaction terms compared to third party transactions (Note 1)		Notes/accounts receivable (payable)			
Purchaser/seller	Counterparty	Relationship with the counterparty	Purchases (sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term		Balance	Percentage of total notes/accounts receivable (payable)	Footnote (Note 2)
FORMOSA TAFFETA CO., LTD.	QUANG VIET ENTERPRISE CO., LTD.	Associate	Sales	($ 393,650)	(1.44)	Pay by mail transfer 60 days after delivery	$ -	-	Accounts receivable	$ 41,091	1.75	
FORMOSA TAFFETA CO., LTD.	YUGEN YUEH CO., LTD.	Other related party	Sales	(340,846)	(1.24)	Pay 120 days after delivery	-	-	Accounts receivable	84,289	3.59	
FORMOSA TAFFETA CO., LTD.	FORMOSA TAFFETA DONG NAI CO., LTD.	Associate	Sales	(158,160)	(0.57)	60 days after monthly billings	-	-	Accounts receivable	47,640	2.03	
FORMOSA TAFFETA CO., LTD.	SCHOELLER FTC (HONG KONG) CO., LTD.	Associate	Sales	(101,998)	(0.37)	Pay 120 days after delivery	-	-	Accounts receivable	5,829	0.25	
FORMOSA TAFFETA CO., LTD.	FORMOSA PETROCHEMICAL CORP. (FPCC)	Other related party	Purchases	10,916,187	47.21	Pay every 15 days by mail transfer	-	-	Accounts payable	(397,563)	(27.43)	
FORMOSA TAFFETA CO., LTD.	FORMOSA CHEMICALS & FIBRE CORPORATION	Ultimate parent company	Purchases	1,978,969	8.56	Draw promissory notes due in 2 months after inspection	-	-	Notes payable	(331,826)	(72.23)	
									Accounts payable	(312,250)	(21.54)	
FORMOSA TAFFETA CO., LTD.	NAN YA PLASTICS CORPORATION	Other related party	Purchases	793,906	3.43	Pay every 15 days by mail transfer	-	-	Accounts payable	(72,264)	(4.99)	
FORMOSA TAFFETA CO., LTD.	FORMOSA PLASTICS CORP.	Other related party	Purchases	339,048	1.47	Pay every 15 days by mail transfer	-	-	Accounts payable	(19,816)	(1.37)	
FORMOSA ADVANCED TECHNOLOGIES CO., LTD.	NAN YA TECHNOLOGY CORPORATION	Other related party	Sales	(6,161,227)	(70.13)	60 days after monthly billings	-	-	Accounts receivable	1,006,359	63.09	
FORMOSA ADVANCED TECHNOLOGIES CO., LTD.	NAN YA POLYESTER FIBER (KUNSHAN) CORP.	Other related party	Purchases	152,357	2.00	45 days after inspection	-	-	Accounts payable	(22,116)	(5.00)	

FORMOSA TAFFETA CO., LTD.

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

For the year ended December 31, 2018

Table 5

Expressed in thousands of NTD

(Except as otherwise indicated)

			Transaction				Differences in transaction terms compared to third party transactions (Note 1)		Notes/accounts receivable (payable)		
Purchaser/seller	Counterparty	Relationship with the counterparty	Purchases (sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	Footnote (Note 2)
FORMOSA TAFFETA (ZHONG SHAN) CO., LTD.	FORMOSA TAFFETA (CHANGSHU) CO., LTD.	Associate	Sales	($ 416,462)	(25.18)	60 days after monthly billings	-	-	Accounts receivable $ 210,492	69.43	
FORMOSA TAFFETA VIETNAM CO., LTD.	FORMOSA INDUSTRY CO., LTD	Associate	Purchases	229,715	11.26	60 days after monthly billings	-	-	Accounts payable (13,943)	(11.52)	
FORMOSA TAFFETA DONG NAI CO., LTD.	FORMOSA TAFFETA VIETNAM CO., LTD.	Associate	Sales	(295,886)	(6.74)	60 days after monthly billings	-	-	Accounts receivable 58,448	5.37	
FORMOSA TAFFETA DONG NAI CO., LTD.	FORMOSA TAFFETA CO., LTD.	Parent company	Sales	(442,296)	(9.62)	60 days after monthly billings	-	-	Accounts receivable 112,770	10.36	
FORMOSA TAFFETA DONG NAI CO., LTD.	KWANG VIET GARMENT CO., LTD.	Associate	Sales	(146,486)	(3.34)	60 days after monthly billings	$ -	-	Accounts receivable 23,855	2.19	
FORMOSA TAFFETA DONG NAI CO., LTD.	FORMOSA INDUSTRY CO., LTD.	Associate	Purchases	635,272	15.28	60 days after monthly billings	-	-	Accounts payable (32,911)	(7.08)	
FORMOSA TAFFETA DONG NAI CO., LTD.	FORMOSA CHEMICALS & FIBRE CORPORATION	Ultimate parent company	Purchases	437,120	10.52	60 days after monthly billings	-	-	Accounts payable (49,532)	(10.65)	
FORMOSA TAFFETA DONG NAI CO., LTD.	NAN YA PLASTICS CORPORATION	Other related party	Purchases	171,232	4.12	60 days after monthly billings	-	-	Accounts payable (20,741)	(4.46)	
FORMOSA TAFFETA (CHANGSHU) CO., LTD.	JIAXING QUANG VIET GARMENT CO., LTD.	Associate	Sales	(152,808)	(11.56)	Pay by mail transfer 60 days after delivery	-	-	Accounts receivable 19,878	10.91	

Note 1: If terms of related party transactions are different from third party transactions, explain the differences and reasons in the ‘Unit price’ and ‘Credit term’ columns.

Note 2: In case related-party transaction terms involve advance receipts (prepayments) transactions, explain in the footnote the reasons, contractual provisions, related amounts, and differences in types of transactions compared to third-party transactions.

Note 3: Paid-in capital referred to herein is the paid-in capital of parent company. In the case that shares were issued with no par value or a par value other than NT$10 per share, the 20 % of paid-in capital shall be replaced by 10% of equity attributable to owners of the parent in the calculation.

Note 4:The transactions are disclosed by presenting revenues. The related transactions are not disclosed.

FORMOSA TAFFETA CO., LTD.

Receivables from related parties reaching $100 million or 20% of paid-in capital or more

For the year ended December 31, 2018

Table 6

Expressed in thousands of NTD

(Except as otherwise indicated)

Creditor	Counterparty	Relationship with the counterparty	Balance as at December 31, 2018 (Note 1)	Turnover rate	Overdue receivables		Amount collected subsequent to the balance sheet date	Allowance for doubtful accounts
					Amount	Action taken		
FORMOSA ADVANCED TECHNOLOGIES CO., LTD.	NAN YA TECHNOLOGY CORPORATION	Other related party	$ 1,006,359	6.29	$ –	–	$ 553,008	$ -
FORMOSA TAFFETA (ZHONG SHAN) CO., LTD.	FORMOSA TAFFETA (CHANG SHU) CO., LTD.	Associate	210,492	2.52	–	–	85,779	–
FORMOSA TAFFETA DONG NAI CO., LTD.	FORMOSA TAFFETA CO., LTD.	Parent company	112,770	1.93	–	–	81,544	–

Note 1: Fill in separately the balances of accounts receivable–related parties, notes receivable–related parties, other receivables–related parties.

Note 2: Paid-in capital referred to herein is the paid-in capital of parent company. In the case that shares were issued with no par value or a par value other than NT$10 per share, the 20 % of paid-in capital shall be replaced by 10% of equity attributable to owners of the parent in the calculation.

FORMOSA TAFFETA CO., LTD.

Significant inter-company transactions during the reporting period

For the year ended December 31, 2018

Table 7

Expressed in thousands of NTD

(Except as otherwise indicated)

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction				
				General ledger account		Amount	Transaction terms	Percentage of consolidated total operating revenues or total assets (Note 3)
0	FORMOSA TAFFETA CO., LTD.	FORMOSA CHEMICALS & FIBRE CORPORATION	1	Purchases	$	1,978,969	Draw promissory notes due in 2 months after inspection	4.44
0	FORMOSA TAFFETA CO., LTD.	FORMOSA CHEMICALS & FIBRE CORPORATION	1	Notes payable		312,250	Draw promissory notes due in 2 months after inspection	0.34
0	FORMOSA TAFFETA CO., LTD.	FORMOSA CHEMICALS & FIBRE CORPORATION	1	Accounts payable		331,826	Draw promissory notes due in 2 months after inspection	0.36

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

(1) Parent company is ‘0’.

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

Note 2: Relationship between transaction company and counterparty is classified into the following three categories:

(1) Parent company to subsidiary.

(2) Subsidiary to parent company.

(3) Subsidiary to subsidiary.

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

Note 4: The amount of transactions which is listed in the table is determined by its material.

FORMOSA TAFFETA CO., LTD.

Information on investees

For the year ended December 31, 2018

Table 8

Expressed in thousands of NTD

(Except as otherwise indicated)

Investor	Investee (Notes 1 and 2)	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2018			Net profit (loss) of the investee for the year ended December 31, 2018 (Note 2(2))	Investment income (loss) recognized by the company for the year ended December 31, 2018 （Note 2(3)）	Footnote
				Balance as at December 31, 2018	Balance as at December 31, 2017	Number of shares	Ownership (%)	Book value			
FORMOSA TAFFETA CO., LTD.	FORMOSA DEVELOPMENT CO., LTD.	Taiwan	Handling urban land consolidation, development, rent and sale of industrial plants, residences and building	$ 114,912	$ 114,912	16,100,000	100.00	$ 217,235	$ 18,065	$ 13,708	
FORMOSA TAFFETA CO., LTD.	FORMOSA ADVANCED TECHNOLOGIES CO., LTD.	Taiwan	IC assembly, testing and modules	2,681,906	3,773,440	206,442,472	46.68	5,350,424	1,420,293	838,593	
FORMOSA TAFFETA CO., LTD.	FORMOSA TAFFETA (HONG KONG) CO., LTD.	Hong Kong	Sale of spun fabrics and filament textile	1,356,862	1,356,862	-	100.00	1,133,880	60,477	60,477	
FORMOSA TAFFETA CO., LTD.	FORMOSA TAFFETA VIETNAM CO., LTD.	Vietnam	Production, processing, further processing various yam and cotton cloth, and dyeing and finishing clothes, curtains, towels, bed covers and carpets	1,709,221	1,709,221	-	100.00	1,963,366	139,974	139,974	
FORMOSA TAFFETA CO., LTD.	QUANG VIET ENTERPRISE CO., LTD.	Taiwan	Processing and producion of ready-to-wear, processing and trading of cotton cloth, and import and export of the aforementioned products	213,771	213,771	18,595,352	17.99	1,191,261	768,584	116,954	

FORMOSA TAFFETA CO., LTD.
Information on investees
For the year ended December 31, 2018

Table 8

Expressed in thousands of NTD
(Except as otherwise indicated)

Investor	Investee (Notes 1 and 2)	Location	Main business activities	Initial investment amount: Balance as at December 31, 2018	Initial investment amount: Balance as at December 31, 2017	Shares held as at December 31, 2018: Number of shares	Shares held as at December 31, 2018: Ownership (%)	Shares held as at December 31, 2018: Book value	Net profit (loss) of the investee for the year ended December 31, 2018 (Note 2(2))	Investment income (loss) recognized by the company for the year ended December 31, 2018 (Note 2(3))	Footnote
FORMOSA TAFFETA CO., LTD.	SCHOELLER FTC (HONG KONG) CO., LTD.	Hong Kong	Trading of textiles	$ 2,958	$ 2,958	-	50.00	$ 5,663	$ 6,206	$ 3,103	
FORMOSA TAFFETA CO., LTD.	FORMOSA TAFFETA DONG NAI CO., LTD.	Vietnam	Production, processing and sale of various dyeing and finishing textiles and yarn	2,590,434	2,590,434	-	100.00	2,281,893	(5,943)	(5,943)	
FORMOSA TAFFETA CO., LTD.	FORMOSA INDUSTRIES CORPORATION	Vietnam	Synthetic fiber, spinning, weaving, dyeing and finishing and electricity generation	1,987,122	1,987,122	-	10.00	2,008,842	1,181,028	121,457	
FORMOSA TAFFETA CO., LTD.	FORMOSA TAFFETA (CAYMAN) LIMITED	Cayman Islands	Investments	6,241,670	5,675,253	171,028,736	100.00	5,524,284	-	-	
FORMOSA DEVELOPMENT CO., LTD.	FORMOSA ADVANCED TECHNOLOGIES CO., LTD.	Taiwan	IC assembly, testing and modules	21,119	21,119	469,500	0.11	23,914	1,420,293	1,508	
FORMOSA DEVELOPMENT CO., LTD.	PUBLIC MORE INTERNATION COMPANY LTD.	Taiwan	Employment service, manpower allocation and agency service etc	5,000	5,000	-	100.00	9,994	4,834	4,834	

Note 1: If a public company is equipped with an overseas holding company and takes consolidated financial report as the main financial report according to the local law rules, it can only disclose the information of the overseas holding company about the disclosure of related overseas investee information.

Note 2: If situation does not belong to Note 1, fill in the columns according to the following regulations:

(1)The columns of 'Investee', 'Location', 'Main business activities', Initial investment amount' and 'Shares held as at December 31, 2018' should fill orderly in the Company's (public company's) information on investees and every directly or indirectly controlled investee's investment information, and note the relationship between the Company (public company) and its investee each (ex. direct subsidiary or indirect subsidiary) in the 'footnote' column.

(2)The 'Net profit (loss) of the investee for the year ended December 31, 2018' column should fill in amount of net profit (loss) of the investee for this period.

(3)The 'Investment income (loss) recognised by the Company for the year ended December 31, 2018' column should fill in the Company (public company) recognised investment income (loss) of its direct subsidiary and recognised investment income (loss) of its investee accounted for under the equity method for this period. When filling in recognised investment income (loss) of its direct subsidiary, the Company (public company) should confirm that direct subsidiary's net profit (loss) for this period has included its investment income (loss) which shall be recognised by regulations.

FORMOSA TAFFETA CO., LTD.

Information on investments in Mainland China

For the year ended December 31, 2018

Table 9

Expressed in thousands of NTD

(Except as otherwise indicated)

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018	Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2018		Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Net income of investee for the year ended December 31, 2018	Ownership held by the Company (direct or indirect)	Investment income (loss) recognized by the Company for the year ended December 31, 2018 (Note 2)	Book value of investments in Mainland China as of December 31, 2018	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018	Footnote
					Remitted to Mainland China	Remitted back to Taiwan							
FORMOSA TAFFETA (ZHONG SHAN) CO., LTD.	Production and sale of polyester and polyamide fabrics	$ 1,402,085	(1)	$ 1,402,085	$ -	$ -	$ 1,402,085	$ 94,273	100.00	$ 94,273	$ 1,695,852	$ -	Note 3
XIAMEN XIANGYU FORMOSA IMPORT & EXPORT TRADING CO., LTD.	Import and export, entrepot trade, merchandise export processing, warehousing and design and drawing of black and white and colour graphs	15,273	(1)	15,273	-	-	15,273	7,203	100.00	7,203	13,154	-	Note 4
FORMOSA TAFFETA (CHANGSHU) CO., LTD.	Weaving and dyeing as well as post dressing of high-grade loomage face fabric	1,302,019	(2)	1,334,739	-	-	1,334,739	60,688	100.00	60,688	1,016,281	-	Note 5
CHANG SHU YU YUAN DEVELOPMENT. CO., LTD.	Building and selling real estate	70,788	(2)	-	-	-	-	(240)	40.78	(98)	16,403	-	Note 6

Note 1: Investment methods are classified into the following three categories:

(1) Directly invest in a company in Mainland China.

(2) Through investing in an existing company in the third area, which then invested in the investee in Mainland China.

(3) Others

Note 2: The amount of 'Investment income (loss) recognized by the Company for the year ended December 31, 2018 were derived from financial statements which were reviewed by independent accountants.

Note 3: The Company's paid-in capital and accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018 and December 31, 2018 are both US$46,400,000 (remitted out US$46,388,800 and equipment amounted to US$11,200).

Note 4: The Company’s paid-in capital and accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018 and December 31, 2018 are both US$570,000.

Note 5: The Company’s paid-in capital and accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018 is US$42,000,000. Formosa Taffeta (Changshu) Co., Ltd. reduced its capital amounting to US$900,000 and divided the housing land to establish a new company named Changshu Fushun Enterprise Management Co., Ltd. in March 2015. Thus, the original currency of paid-in capital and accumulated amount of remittance from Taiwan as of December 31, 2018 was US$41,100,000.

Note 6: The Company was the surviving company after the consolidation of Changshu Yu Yuan Development.Co.,Ltd. and Changshu Fushun Enterprise Management Co., Ltd. Its paid-in capital is RMB$13,592,920.

Company name	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)	Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA
FORMOSA TAFFETA (ZHONG SHAN) CO., LTD.	$ 1,402,085	$ 1,425,872	$ 44,981,214
XIAMEN XIANGYU FORMOSA IMPORT & EXPORT TRADING CO., LTD.	15,273	17,516	44,981,214
FORMOSA TAFFETA (CHANGSHU) CO., LTD.	1,334,739	1,290,660	44,981,214

Note：

(1)The investment in FORMOSA TAFFETA (ZHONG SHAN) CO., LTD. approved by the Investment Commission of MOEA is US$46,400,000.

(2)The investment in XIAMEN XIANGYU FORMOSA IMPORT & EXPORT TRADING CO., LTD. approved by the Investment Commission of MOEA is US$570,000.

(3)The investment in FORMOSA TAFFETA (CHANG SHU) CO., LTD. approved by the Investment Commission of MOEA is US$42,000,000, while the company reduced its capital and divided some part of housing land to Changshu Fushun Enterprise Management Co.,Ltd. Such investment is still awaiting approval by MOEA.

(4)The original currency of paid-in capital was translated at USD:TWD = 1:30.73

FORMOSA TAFFETA CO., LTD.

Significant transactions conducted with investees in Mainland China directly or indirectly through other companies in the third areas

For the year ended December 31, 2018

Table 10

Expressed in thousands of NTD

(Except as otherwise indicated)

Investee in Mainland China	Sale (purchase)		Property transaction		Accounts receivable (payable)		Provision of endorsements/guarantees or collaterals		Financing				Others
	Amount	%	Amount	%	Balance at December 31, 2018	%	Balance at December 31, 2018	Purpose	Maximum balance during the year ended December 31, 2018	Balance at December 31, 2018	Interest rate	Interest during the year ended December 31, 2018	
FORMOSA TAFFETA (ZHONG SHAN) CO., LTD.	$ 33,068	0.12	$ -	-	$ 3,305	0.14	$ 1,013,595	For short-tem loans from financial institutions	$ -	$ -	-	$ -	
FORMOSA TAFFETA (CHANGSHU) CO., LTD.	63,966	0.23	-	-	12,463	0.53	1,689,325	For short-tem loans from financial institutions	-	-	-	-	