

Stock code : : 4755



SAN FU CHEMICAL Co., Ltd.

2018 Annual Report



***Making the World Better
with Total Chemical Solutions***

Annual Report Inquiry Website: [http:// mops.twse.com.tw](http://mops.twse.com.tw)

Company Website: <http://www.sfchem.com.tw>

Published on May 10 , 2019



SAN FU

I. Company Spokesperson and Deputy Spokesperson:

Spokesperson	Deputy Spokesperson
Name: Xie Ming-Zhi	Name: Wang Yao-Ming
Position: Chief Financial Officer	Position: Vice President
Tel: (02)2542-6789	Tel: (02)2542-6789
E-mail address: mzxie@sfchem.com.tw	E-mail address: davidwang@sfchem.com.tw

II. Headquarters and Factory Information:

	Address	Tel
Headquarters	7F No. 21 Zhongshan N. Rd. Sec. 2, Taipei City	(02) 2542-6789
Tainan Factory	No. 340 Xiaoxinying, Xiaoxin Li, Shanhua Township, Tainan County	(06)583-7608
Kaohsiung Factory	No. 45 Zhongheng St., Xiaogang District, Kaohsiung City	(07)871-4233
Liaoying Factor	No. 1 Huanyuan E. Rd. Sec. 1, Liaoying District, Tainan	(06)623-1821

III. Name, Address and Phone of the Stock Transfer Agent:

Name: Stock Affairs Dept., First Securities Inc.	Website: http://www.ftsi.com.tw
Address: 5F, No. 22 Andong Rd. Sec. 1, Taipei City	Tel: (02) 2563-5711

IV. Name, Firm, Address and Phone of the CPAs

Names of CPAs: Xu Xiu-Ming, Wong Ya-Ling	CPA Firm: Deloitte Taiwan
Address: 20F, No. 100 Songren Rd., Xinyi District, Taipei	Website: http://www.deloitte.com.tw
Tel: (02)2725-9988	

V. Name of the Exchange Overseas Securities are Listed on and Inquiry Method for Overseas Securities Information: None

VI. Company website: <http://www.sfchem.com.tw>

Contents

I. LETTER TO SHAREHOLDERS	1
1. REVIEW OF BUSINESS OPERATIONS IN 2018	1
2. BUSINESS PLAN FOR 2019	3
3. FUTURE DEVELOPMENT STRATEGIES, IMPACT FROM EXTERNAL COMPETITION, RULES AND REGULATIONS AND THE OVERALL OPERATION ENVIRONMENT	4
II. COMPANY OVERVIEW	6
1. COMPANY PROFILE	6
2. COMPANY MILESTONES	6
III. CORPORATE GOVERNANCE REPORT	8
1. ORGANIZATION	8
2. DIRECTORS, SUPERVISORS AND MANAGEMENT TEAM INFORMATION	10
3. IMPLEMENTATION OF CORPORATE GOVERNANCE	24
4. INFORMATION ON EXTERNAL AUDITOR FEE	57
5. CHANGES OF EXTERNAL AUDITORS	58
6. RESPONSIBLE PERSONS OF THE COMPANY WHO HOLD A POSITION AT THE ACCOUNTING FIRM OR ITS AFFILIATED ENTERPRISES	60
7. CHANGES IN SHAREHOLDING	60
8. INFORMATION DISCLOSING THE RELATIONSHIP BETWEEN ANY OF THE COMPANY' S TOP TEN SHAREHOLDERS	62
9. THE SHAREHOLDING OF THE COMPANY AND THE COMPANY' S DIRECTORS, SUPERVISORS, MANAGEMENT AND THE ENTERPRISES DIRECTLY OR INDIRECTLY CONTROLLED BY THE COMPANY IN THE SAME INVESTED COMPANY AND THE CONSOLIDATED SHAREHOLDING RATIO	63
IV. CAPITAL OVERVIEW	64
1. CAPITAL AND SHARES	64
2. ISSUANCE OF CORPORATE BONDS	69
3. ISSUANCE OF PREFERRED STOCK	69
4. ISSUANCE OF DEPOSITARY RECEIPTS	69
5. ISSUANCE OF EMPLOYEE STOCK OPTIONS	69
6. ISSUANCE OF NEW RESTRICTED EMPLOYEE STOCK	69
7. NEW SHARES ISSUED FOR MERGERS WITH OR ACQUISITION OF SHARES OF OTHER COMPANIES	69
8. CAPITAL UTILIZATION PLAN EXECUTION STATUS	69
V. OPERATIONAL OVERVIEW	70
1. BUSINESS OVERVIEW	70
2. MARKET AND SALES OVERVIEW	81
3. HUMAN RESOURCES	89
4. ENVIRONMENT PROTECTION EXPENDITURE	89
5. LABOR RELATIONS	90
6. IMPORTANT CONTRACTS	92
VI. FINANCIAL INFORMATION	93

1. CONDENSED BALANCE SHEETS AND STATEMENTS OF COMPREHENSIVE INCOME FOR THE LAST FIVE FISCAL YEARS	9 3
2. FINANCIAL ANALYSIS	9 7
3. SUPERVISORS' REPORT.....	1 0 1
4. RECENT FINANCIAL STATEMENTS INCLUDING INDEPENDENT AUDITOR' S REPORT, TWO-YEAR COMPARISON OF BALANCE SHEETS, INCOME STATEMENT, CHANGES IN SHAREHOLDER EQUITY, CASH FLOW AND ATTACHMENTS OR ATTACHED TABLES	1 0 2
5. RECENT AUDITED PARENT COMPANY ONLY FINANCIAL STATEMENTS NOT INCLUDING STATEMENT OF MAJOR ACCOUNTING ITEMS.....	1 0 2
6. FINANCIAL DIFFICULTIES ENCOUNTERED BY THE COMPANY AND/OR ITS AFFILIATES IN THE RECENT YEAR AND AS OF THE PUBLICATION DATE OF THE ANNUAL REPORT	1 0 2
VII. REVIEW AND ANALYSIS OF FINANCIAL CONDITIONS AND PERFORMANCE AND RISK MANAGEMENT.....	1 0 2
1. FINANCIAL CONDITIONS	1 0 2
2. FINANCIAL PERFORMANCE	1 0 3
3. CASH FLOW.....	1 0 3
4. ANALYSIS OF MAJOR CAPITAL EXPENDITURES AND ITS IMPACT ON FINANCE AND OPERATIONS	1 0 4
5. INVESTMENT POLITIES, REASONS FOR PROFIT/LOSS, PLANS FOR IMPROVEMENT AND FUTIRE INVESTMENT PLAN	1 0 4
6. RISK ASSESSMENT	1 0 5
7. OTHER SIGNIFICANT MATTERS.....	1 0 9
VIII. SPECIAL NOTES.....	1 1 0
1. AFFILIATES	1 1 0
2. PRIVATE PLACEMENT OF COMPANY SHARES	1 1 3
3. COMPANY SHARES HELD OR SOLD BY SUBSIDIARIES	1 1 3
4. OTHER SUPPLEMENTARY INFORMATION.....	1 1 3
IX. OTHER SIGNIFICANT EVENTS AFFECTING SHAREHOLDERS' EQUITY OR STOCK PRICE	1 1 3

I. Letter to Shareholders

Looking back over 2018, the global economic environment was affected the China-U.S. trade war which slowed development and growth in various regions. Having gained the full trust and supplier of our customers and suppliers, the Company managed to grow slightly during the previous year. The operation results for 2018 and 2017 and the business plan for 2019 are described below:

1. Review of Business Operations in 2018

(1) Business Plan Implementation Results in 2018

A. Summary of new fine chemical customers and product expansion results:

Developer (TMAH) recovery division: In addition to the stable operation of the TMAH recovery systems for I panel company and T and M IC companies, the Company successfully won orders for TMAH recovery systems at T and M companies' new plant and plant expansion as well as the T company's China plant and F Group's China investment project. In addition, San Fu is actively seeking the business at M company's Singapore and Japan production sites to expand our market in a global direction.

Fine chemical division: Introduction evaluation for a number of chemicals such as TMAH, H₃PO₄, EBR, IPA and HMDS were completed in 2018. San Fu's new HMDS products was volume certified by all plants in the U Group in 2018. J Company in China which also belongs to the U Group began formal use of San Fu chemicals. The Company has also entered the gallium arsenide industry and is working together with a major Japanese company to supply formulation chemicals. As for the IC industry overseas, San Fu is actively promoting the use of our chemicals in Singapore and China. In 2018, the Company entered into strategic cooperation with a China invested electronic materials manufacturer and samples of the H₂SO₄ produced by the manufacturer have been formally sent to Singapore and the U.S. for certification.

With regard to semiconductor packaging, the Company has been receiving wafers from customer and test solution has been sent for testing to develop recyclable cleaners and solvents. In 2018, San Fu gained much from new chemicals planned for P customer's new panel plant and the Company continues to jointly develop new processes and products. San Fu also won an order from Korean A company because our newly developed cleaner complied with European regulatory specifications. In addition, an additional new cleaner was developed through cooperation with T company at the end of 2018.

With regard to the panel industry, products required for Cu and LTPS processes were developed in compliance with new customer technical requirements. I company certified the Cu stripper at its new plant and a customer waste solution recovery project was provided to them. Certification was received for the LTPS stripper at the new Luzhu plant in 2018. In addition, H company in the Southern Taiwan Science Park formally introduced Mo etchant. Through our global strategic positioning with F company, volumes have reached 100%

replacing existing competitors.

The Company's new basic chemical customer development and product line expansion accomplishments are as follows:

Domestic sales: A number of new products have been developed for sale using the Company's existing customer resources, such as sodium gluconic, baking soda, trehalose, anhydrous calcium chloride and oxalic acid to diversify our product line. In addition, a new food additive plant was planned for the Liuke plant zone in accordance with the government's food safety guidelines and small scale packaging was introduced for further market expansion.

Overseas sales: Market demand for pHBA rose sharply in 2018 and the Shanhua restarted full production. Site testing for the DCHA stage process at the Kaohsiung plant was successful. Since CHA and DCHA are in a seller's market, the Company is working at full hydrogenation capacity.

(2) Analysis of Financial Income and Expense and Profitability

Item		2018	2017
Financial Income and Expense	Net Sales	4,049,356	3,979,248
	Gross Profit	760,355	791,686
	Income from Operations	412,968	473,810
	Nonoperating Income and Expense	81,288	1,686
	Pre-tax Income	494,256	475,496
	Net Income	397,732	386,475
Profitability	Return on Assets (%)	9.65	10.23
	Return on Shareholder Equity (%)	13.06	13.54
	Pre-tax Income to Paid-in Capital Ratio	54.49	52.42
	Net Margin (%)	9.82	9.71
	Earnings per Share (NT\$)	4.38	4.26

Note: The above figures were obtained from the Company's consolidated financial statement

(3) R&D status

There are four areas of focus for the Company's R&D work. 1. Strengthen establishment of core technology platforms: hydrogenation, electrolysis, purification. Develop high value-added products on these technical foundations. 2. Develop electronic chemical formulations that meet LCD, IC packaging, IC manufacturing customer requirements. LCD copper process etchant has received certification and orders from customers. IC bumping stripper is at full capacity. 3. Leverage TMAH recovery advantage to develop IC grade purification technology to allow our recycled products to be used by IC customers and bring the cyclical economy into reality. 4. Continue to actively work on process improvements for existing PHBA, Paraben, CHA,

DCHA and TMAH products to make them even more energy efficient, reduce costs and create profits. With regard to R&D analysis equipment and analysis method purchasing and upgrading, the Company continues to add advanced equipment including ICP MS/MS(inductively coupled plasma mass spectrometer), GC-MS(gas chromatograph-mass spectrometer), GPC (gel permeation chromatography), SEM (scanning electron microscopy) to ppt level detection limit requirements of IC customers and develop analysis tools for new process chemical applications.

2. Business Plan for 2019

(1) Business direction

San Fu embraces the guiding principles of innovation, sincerity and simplicity in working to expand company business operations. By utilizing modern cutting-edge technology, drawing up the intelligence and creativity of all personnel and constantly seeking out new business opportunities to satisfy new demand, the Company is able to provide a diverse range of fine quality and reasonably priced chemicals to rapidly developing industries. This year, we will continue to pursue the following operation strategies:

- A. Continue to develop semiconductor customers, increase revenue earned from semiconductor customers.
- B. Expand TMAH recovery, increase recovery sources and raise load of recovery plant.
- C. Transform the Like fine chemical plant into an electronic chemical plant with the most comprehensive set of equipment in Taiwan.
- D. Expand the dedicated DCHA production line to satisfy the constantly increasing market demand.
- E. Integrate related products from the San Fu Biotech and San Fu Group to create a more professional and rigorous food associated industry.
- F. Invest in Vietnam gas product company and dispatch teams of personnel to serve in Vietnam to start development of gas products business.
- G. Continue to seek out international technical cooperation to raise our technical proficiency.

(2) Production and Marketing Policy

- A. Balanced production and sales, maintain a certain level of inventory, prepare more inventory when prices are low.
- B. First in, first out delivery to ensure freshness of products.
- C. Raise product quality and stability, implement good quality control to reach the zero customer complaint target.
- D. Continually improve processes and reduce costs to raise market competitiveness.
- E. Provide proactive service and pay visits to customers to earn the long-term trust of customers.

(3) Future Prospects

The Company's strategy is still developing individual business strategy maps for its different divisions, pooling together the intelligence and creativity of all employees and utilizing an effective corporate resource management system to jointly strive to raise overall company competitiveness and make San Fu into an outstanding model of sustainable operations.

Developer (TMAH) recovery division: The replacement of the old electrolysis tanks was smoothly completed in 2018. The equipment currently being used are all new electrolysis tanks. In addition to increasing production efficiency, production capacity has also been increased so more new customers are expected to be added in the next two years which should further increase revenues.

As for the China market, the Company is starting to reap benefits in 2018 from our years of endeavor. Besides winning orders from T company in Nanjing, San Fu got a new investment project from F Group in Guangzhou. As environmental protection requirements become more stringent in China, even more customers will show interest in TMAH recovery systems once these two groundbreaking projects are completed and start operation.

Fine chemicals division: Due to the limited number of new panel plants being constructed in Taiwan and increased offshoring, growth is expected to slow down in the future. The solar power industry has been impacted by the twin blows of the phasing out of government subsidiaries and an increase in supply from China. Taiwan customer production capacity and production lines have decreased sharply and inefficient factories are being shut down. In response to the above changes, the Company has started to concentrate more on the semiconductor industry so now the revenues for some chemicals exceed that of the solar power industry. In the future, San Fu will strengthen relationship building with customers and chemical certification.

With regard to internationalism, San Fu has followed our customers to the panel and semiconductor industry in China, the panel industry in Northeast Asia, the semiconductor industry in Southeast Asia and some U.S. semiconductor markets. Our strong efforts to promote our chemical business has started to bear fruit. In the future, the Company will lead a full scale charge into overseas markets once we have a full complement of staff and hardware to achieve significant future growth in both domestic and overseas markets.

Domestic sales for the basic chemical division: Extending upon our new products such as sodium gluconic, baking soda, trehalose, anhydrous calcium chloride and oxalic acid developed for market expansion in 2018, San Fu will continue to develop and introduce many new products such as all-natural materials and develop new suppliers, lactic acid series, stevia to diversify our company's product line.

A new food additive plant has been constructed in the Liuke plant zone in accordance with government food safety guidelines. In addition, the dedicated food plant established by San Fu Biotech shall give customers even greater confidence in our company's services, product quality control analysis and testing ability and

improve product quality control so that San Fu can satisfy customer requirements and improve our corporate image through our comprehensive quality assurance system.

International sales for the basic chemical division: Our Company has steadily worked to improve production equipment through application of our R&D results and our consultant team's guidance and assistance to maximize production capacity with minimal investment, raise and stabilize quality, increase sub-product recovery rate, reduce resource and material consumption in order to create more profit for the Company.

- (4) To summarize these overviews of the above business divisions, the Company shall not only continue to improve existing products, improve quality and reduce costs, resources shall also be invested in new products. New investments shall be made to expand into Southeast Asia and other markets. The San Fu Vietnam subsidiary has been established to develop the gas product business in emerging countries. The Company shall continue to develop in the direction of profitable and high added-value product applications.

Last, I would like to give my sincere thanks for the continued support and approval provided by our shareholders. We will continue to adhere to corporate governance best practice principles, fulfill our corporate social responsibilities, raise the professional level of employees and company operation performance to ensure the sustainable operation and continued growth of the Company in order to create fruitful and stable operation results for the Company to repay our customers, shareholders and employees for the generous support that they have provided over the years.

Chairman: :



Manager:



Accounting Supervisor:



II. Company Overview

1. Company Profile

(1) Founding date: May 17, 2003

(2) Headquarters, branch companies and factory information

Name	Address	Tel
Headquarters	7F No. 21 Zhongshan N. Rd. Sec. 2, Taipei City	(02) 2542-6789
Tainan Factory	No. 340 Xiaoxinying, Xiaoxin Li, Shanhua Township, Tainan County	(06)583-7608
Kaohsiung Factory	No. 45 Zhongheng St., Xiaogang District, Kaohsiung City	(07)871-4233
Liuying Factory	No. 1 Huanyuan E. Rd. Sec. 1, Liuying District, Tainan	(06)623-1821

2. Company Milestones

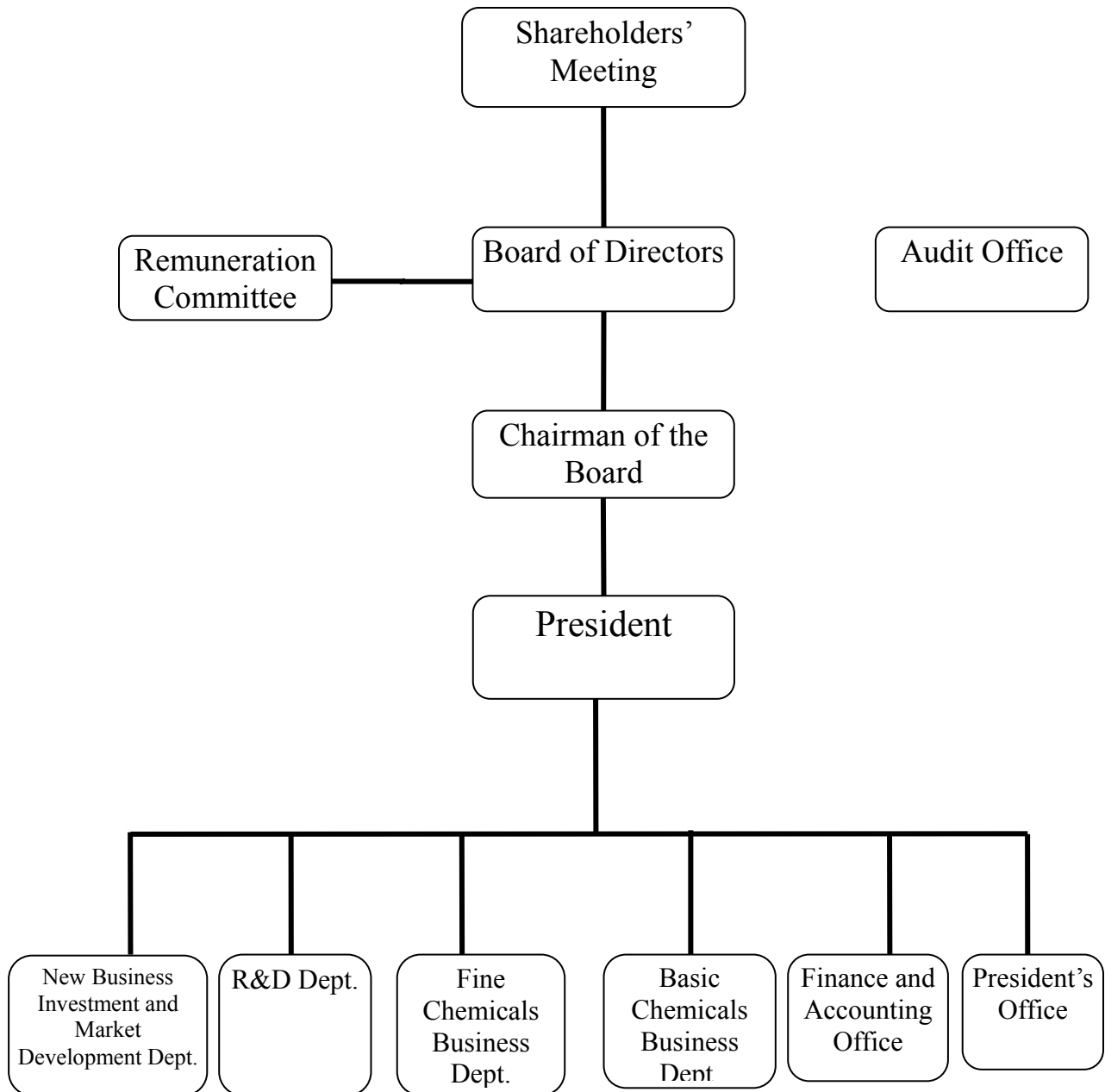
Year	Major Milestone
2003	Formally spun off from Air Products and Chemicals, Inc. to establish San Fu San Fu Chemical Co., Ltd.
	Capital increased by NT\$1,100 thousand in cash. Paid-in capital reaches NT\$201,100 thousand after receiving NT\$200,000 thousand transferred from the demerger.
2004	Capital increased by NT\$250,000 thousand in cash. Paid-in capital reaches NT\$451,000 thousand after capital increase.
2006	Established San Fu Ming (Shanghai) Trading Co., Ltd.
	Capital increase by NT\$200,000 thousand in cash. Paid-in capital reaches NT\$651,000 thousand after capital increase.
	Added P-hydroxybenzoic acid (PHBA)
2007	Established APAM OEM plant
2008	Added one PHBA production line (LCP-4)
	Implemented OHSAS 18001:2007 occupational safety and health management system
	Established San Fu Specialty Chemicals Investments Limited(Samoa) holding company
	Established San Fu Food Additives Investments Limited (Samoa) holding company
	Reinvestment in Hangzhou Gelinda Chemical Co., Ltd.
Reinvestment in Hubei Xingfu Electronics Material Co., Ltd.	
2010	Obtained toxic chemical manufacturing permit (aniline drumming and subpackaging)
	Reinvestment in International Nitto Technology Co., Ltd. in Southern Taiwan Science Park
	Capital increase by NT\$148,900 thousand in cash. Paid-in capital reaches NT\$800,000 thousand after capital increase.

Year	Major Milestone
2011	Built 3,000 ton capacity TMAH recycling plant.
2012	Hubei Xingfu Electronic Material Co., Ltd. purchases a stake in the joint venture San Fu Ming (Shanghai) Trading Co., Ltd.
	Construction of phase one of the Liuying specialty chemical plant
	Applies for public offering and registers to be listed on TPEx
	Reinvestment in Huizhou San Fu Ming Electronic Material Co., Ltd.
2013	San Fu Ming Electronic Material Co., Ltd. increases capital by US\$1,500 thousand in cash
	Reinvestment in Chongqing San Fu Ming Electronic Material Co., Ltd.
	Formally listed on the Taiwan Security Exchange (TWSE)
	Capital increase by NT\$80,000 thousand in cash. Paid-in capital reaches NT\$880,000 thousand after capital increase.
2014	Construction of phase 2 and 3 of the Liuying specialty chemical plant.
	Paid-in capital reached NT\$892,220 thousand due to exercise of NT\$12,220 thousand in employee stock options.
2015	NT\$5,970 thousand in employee stock options exercised raising paid-in capital to NT\$898,190 thousand.
	Established subsidiary San Fu Biotech Co., Ltd.
2016	NT\$7,580 thousand in employee stock options exercised raising paid-in capital to NT\$905,770 thousand.
	Reinvestment in Angstrom Energy Company
	Reinvestment in Vietnam Xiangyun Corp.
2017	NT\$1,290 thousand in employee stock options exercised raising paid-in capital to NT\$907,060 thousand.
	Received bronze medal in the traditional manufacturing category of the 2017 Taiwan Corporate Sustainability Awards (TCSA)
2018	Received bronze medal in the traditional manufacturing category of the 2018 TCSA Awards
	Received circular economy results award at the Taiwan Chemistry Technology Industry Youth and New Product Awards.
	Established and invested in Vietnam subsidiary
2019	Won third prize at the Taiwan Circular Economy Awards.

III. Corporate Governance

1. Organizational System

(1) Organizational Structure



(2) Major Corporate Functions

Major Departments	Major Duties and Responsibilities
President's Office	<ol style="list-style-type: none"> 1. Responsible for implementation and coordination of company business, human resource planning and electronic information security, planning, utilization, integration and implementation in conjunction with management. 2. Draft human resource policies. Establish and implement the various administrative and management systems 3. Responsible for procurement-related work 4. Responsible for Information Department-related work
Audit Office	<p>Assessment and auditing of the operation status and internal controls of each department, deficiency improvement suggestions and tracking, internal self-evaluation promotion to ensure secure company operations and reduce risk and abuse in order to guarantee the effective implementation of internal controls.</p>
New Business Investment and Market Development Dept.	<p>Responsible for new business development and investment planning for the company.</p>
R&D Dept.	<p>Responsible for researching and developing new products and improving production quality for the company.</p>
Fine Chemicals Division	<ol style="list-style-type: none"> 1. Responsible for the manufacture, marketing, sale and resale of specialty chemicals for the electronics industry. 2. Responsible for recycling waste developing agent. 3. Responsible for glass slimming etching and sales matters. 4. Responsible for VMT OEM business.
Basic Chemicals Division	<p>Responsible for the manufacture, marketing, sale and resale of chemicals.</p>
Finance and Accounting Division	<ol style="list-style-type: none"> 1. Responsible for financial planning, fund management and procurement. 2. Account settlement, tax reporting, stock affairs, analysis of management statement, notification and reporting to competent authorities and budget planning. 3. Board and shareholding convening and planning, keeping minutes of the proceedings.

2. Directors and Management Team

(1) Directors and Supervisors

A. Director and Supervisor Information

Apr 15, 2019

Title	Nationality or Place of Incorporation	Name	Gender	Date Elected	Term	Date First Elected	Shareholding When Elected		Current Shareholding		Spouse and Minor Children Shareholding		Shareholding by Nominee Arrangement		Experience and Education	Positions Concurrently Held at the Company or Other Companies	Executives, Directors or Supervisors who are Spouses or within Two Degrees of Kinship		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Chairman	Taiwan	Wu Xin-Hong	Male	06/14/2018	3 years	08/23/2006	3,421,750	3.77%	3,381,750	3.73%	—	—	—	—	B.S. Chemical Engineering, Tunghai University Manager and Director Formosa Chemicals & Fibre Corporation Vice President and Chairman, Air Products and Chemicals, Inc. Chairman, Industrial Gas Association of R.O.C.	Director International Nitto Technology Co., Ltd. Director, Hong Cheng Enterprise Corp. Director, Li Fu Carbonic Acid Corp. Director, San Fu Global Ltd. Director, Fangda Investment Corp. Director, Beimin Corp. Chairman, San Fu Biotech Co., Ltd.	—	—	—
Director	Taiwan	Tsai Jie-Rong	Male	06/14/2018	3 years	06/22/2017	—	—	—	—	26,000	0.03%	—	—	M.S. Georgia Institute of Technology President and Vice Chairman, Air Products and Chemicals, Inc.	Chairman, International Nitto Technology Co., Ltd. President, San Fu Biotech Co., Ltd. Director, San Fu Biotech Co., Ltd.	—	—	—
Juristic-p	Taiwan	San Fu Global Ltd.		06/14/2018	3 years	10/22/2012	22,116,689	24.38%	22,116,689	24.38%	—	—	—	—		—	—	—	

Title	Nationality or Place of Incorporation	Name	Gender	Date Elected	Term	Date First Elected	Shareholding When Elected		Current Shareholding		Spouse and Minor Children Shareholding		Shareholding by Nominee Arrangement		Experience and Education	Positions Concurrently Held at the Company or Other Companies	Executives, Supervisors who are Spouses or within Two Degrees of Kinship		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Person Director	Taiwan	Representative - Zhang Chun-Ming	Male	06/14/2018	3 years	03/17/2003	0	0%	0	0%	-	-	-	-	B.A. Chemical Engineering Tamkang University Chairman, Air Products and Chemicals, Inc.	Chairman, San Fu Global Ltd. Director, Air Products and Chemicals, Inc. Chairman, Fangda Corp.			
Director	Taiwan	Su Tian-Bao	Male	06/14/2018	3 years	10/22/2012	326,000	0.36%	326,000	0.36%	-	-	-	-	Ph.D. Chemical Engineering, National Taiwan University Asst. Vice President, San Fu Chemical Co., Ltd.	Director, International Nitro Technology Co., Ltd. Director, San Fu Biotech Co., Ltd. Director, Shanghai San Fu Ming Electronic Materials Co., Ltd.			
Director	Taiwan	Zhang Yi-Zong	Male	06/14/2018	3 years	04/18/2011	255,341	0.28%	255,341	0.28%	-	-	-	-	BA in Marketing & Economics, Babson College Marketing Manager at WOW Alimentos	Chairman, Real Green Foods Corporation Director, Fangda Corporation Director, Fangchun Trading Corporation Director, Xuanmen Corporation Director, Jinningcheng Corporation Director, Fulu Culture Foundation Director, San Fu Global Ltd.			
Director	Taiwan	Wang Yao-Ming	Male	06/14/2018	3 years	04/18/2011	348,000	0.38%	375,000	0.41%	-	-	-	-	M.S. Chemical Engineering, National Cheng Kung University Virginia Tech MBA. Passed Chemical Engineering Senior Qualification Examination Vice President, Air Products and Chemicals, Inc.	President, International Nitro Technology Co., Ltd. Director, International Nitro Technology Co., Ltd.			
Director	Taiwan	Liang Guo-Yuan	Male	06/14/2018	3 years	10/22/2012	0	0%	0	0%	-	-	-	-	Ph.D. Economics, Duke University	Chairman, Yuania-Polaris Research Institute Independent Director, Chang Hwa			

Title	Nationality or Place of Incorporation	Name	Gender	Date Elected	Term	Date First Elected	Shareholding When Elected		Current Shareholding		Spouse and Minor Children Shareholding		Shareholding by Nominee Arrangement		Experience and Education	Positions Concurrently Held at the Company or Other Companies	Executives, Directors or Supervisors who are Spouses or within Two Degrees of Kinship	
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name
															Commercial Bank Ltd.			
Independent Director	Taiwan	Li Zhong-Xi	Male	06/14/2018	3 years	10/22/2012	0	0%	0	0%	—	—	—	—	Chairman, Quark Biosciences, Inc. Independent Director, Far Eastern New Century Corporation Independent Director, Zhen Ding Tech. Inc. Chairman, Personal Genomics Taiwan Inc. Independent Director, Everlight Electronics Co., Ltd. Director, Taiwan Hopax Chemicals Mfg. Co., Ltd.			
Independent Director	Taiwan	Wu Dong-Ming	Male	06/14/2018	3 years	06/24/2013	0	0%	0	0%	—	—	—	—	Chairman, Taiwan Fuhbic Corporation Vice Chairman, Shinkong Synthetic Fibers Corporation Chairman, Xinning Enterprise Corporation Chairman, Xinli Enterprise Corporation Director, Shin Kong Life Insurance Co., Ltd. Independent Director, Tairoun Products Co., Ltd.			
Juristic-person	Malaysia	Pilot Keymark SDN. BHD.		06/14/2018		10/22/2012	19,929,000	21.97%	19,929,000	21.97%	—	—	—	—				
Supervisor	Taiwan	Representative - Zhong Su-Sheng	Male	06/14/2018	3 years	11/08/2013	0	0%	0	0%	—	—	—	—				

Title	Nationality or Place of Incorporation	Name	Gender	Date Elected	Term	Date First Elected	Shareholding When Elected		Current Shareholding		Spouse and Minor Children Shareholding		Shareholding by Nominee Arrangement		Experience and Education	Positions Concurrently Held at the Company or Other Companies	Executives, Directors or Supervisors who are Spouses or within Two Degrees of Kinship	
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name
Supervisor	Taiwan	You Sheng-Fu	Male	06/14/2018	3 years	04/18/2011	0	0%	0	0%	—	—	—	—	Independent Director, ASE Technology Holding Co., Ltd. Supervisor, Dynapack International Technology Corporation Director, Arima Lasers Corp. Director, Arima Communications Corp.	—	—	—
Supervisor	Taiwan	Huang Ming-Fu	Male	06/14/2018	3 years	04/18/2011	0	0%	0	0%	—	—	—	—	Independent Director, Alpha Networks Inc. Independent Director, Solartech Energy Corp. Independent Director, Yue Yuen (HK) Co.	—	—	—

2. Major Shareholders of Institutional Shareholders

April 15, 2019

Name of Institutional Shareholder	Major shareholders of Institutional Shareholders
San Fu Global Ltd.	Zhang Chun-Ming (20.68 %), Zhang Ya-Ping (3.9%), Fu Ah-Xi (0.387%), Zhang Yi-Zong (5.14%), Chen Yi-Hui (0.49%), Zhang Ya-Qing (3.68%), Zhang Dan-Liang (20%), Zhang Xi-Wen (19.91%), Fang Hong-Yuan (11.71%), Zhang Chen Shu-Li (11.27%)
Pilot Keymark SDN. BHD.	Malaysia Faith (L)BHD(50%) 、 Taifaith (L)BHD(50%)

3. Major Shareholders of the Above Institutional Shareholders who are Judicial Persons

April 15, 2019

Name of Judicial Person	Major Shareholder of the Judicial Persons
Malaysia Faith (L) BHD	SEBASTIAN HAYOZ
Taifaith (L) BHD	SEBASTIAN HAYOZ

4. Professional Qualifications and Independence Analysis of Directors

Criteria	Meet one of the following professional qualification requirements, together with at least five years work experience	Independence Criteria (note)	Number of other public companies in which the

Name	An instructor or higher position in a department of commerce, law, finance, accounting, or other academic department related to the business needs of the company in a public or private junior college, college or university	A judge, public prosecutor, attorney, certified public accountant, or other professional or technical specialists who has passed a national examination and been awarded a certificate in a profession necessary for the business of the company	Have work experience in the area of commerce, law, finance, or accounting, or otherwise necessary for the business of the company	1	2	3	4	5	6	7	8	9	10	Individual is concurrently serving as an Independent Director
Wu Xin-Hong	—	—	V	—	—	—	—	—	V	V	V	V	V	—
San Fu Global Ltd. company representative: Zhang Chun-Ming	—	—	V	V	—	—	—	—	V	V	V	V	—	—
Tsai Jie-Rong	—	—	V	—	—	V	V	V	V	V	V	V	V	—
Su Tian-Bao	—	—	V	—	—	V	V	V	V	V	V	V	V	—
Zhang Yi-Zong	—	—	V	V	—	V	—	V	V	V	—	V	V	—
Wang Yao-Ming	—	—	V	—	—	V	V	V	V	V	V	V	V	—
Liang Guo-Yuan	—	—	V	V	V	V	—	V	V	V	V	V	V	1
Li Zhong-Xi	V	—	V	V	V	V	V	V	V	V	V	V	V	3
Wu Dong-Ming	—	—	V	V	V	V	V	V	V	V	V	V	V	1
Pilot Keymark SDN. BHD Representative: Zhong Su-Sheng	—	—	V	V	—	V	V	V	V	V	V	V	—	—
You Sheng-Fu	—	V	V	V	—	V	V	V	V	V	V	V	V	1
Huang Ming-Fu	—	—	V	V	—	V	V	V	V	V	V	V	V	3

Note 1: Please tick the corresponding boxes if directors or supervisors have been any of the following during the two years prior to being elected or during the term of office:

- (1) Not an employee of the Company or any of its affiliates.
- (2) Not a director or supervisor of the Company's affiliates. The same does not apply, however, in cases where the person is an independent director of the company, its parent company, or any subsidiary, as appointed in accordance with the Securities and Exchange Act of Taiwan or with the laws of the country of the parent company or subsidiary.

- (3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.
- (4) Not a spouse, relative within the second degree of kinship, or direct blood relative within the fifth degree of kinship, of any of the persons in the preceding three subparagraphs.
- (5) Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of outstanding shares of the Company or that holds shares ranking in the top ten in holdings.
- (6) Not a director, supervisor, officer, or shareholder holding 5% or more of the share, of a specified company or institution that has a financial or business relationship with the Company.
- (7) Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof. However Remuneration Committee members who exercise their powers as defined in Article 7 of the "Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Exchange or Traded Over the Counter" are not limited therein.
- (8) Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.
- (9) Not been a person of any of the conditions defined in Article 30 of the Company Act.
- (10) Not a governmental, juridical person or its representative as defined in Article 27 of the Company Act.

(2) Management Team

April 15, 2019

Title	Nationality	Name	Gender	Date Appointed	Shareholding		Spouse and Minor Children Shareholding		Shares by Nominee Arrangement		Experience and Education	Positions Concurrently Held at the Company or Other Companies	Executives, Directors or Supervisors who are Spouses or within Two Degrees of Kinship	
					Shares	%	Shares	%	Shares	%			Title	Name
President	Taiwan	Tsai Jie-Rong	Male	05/01/2017	—	—	26,000	0.03%	—	—	Chairman, International Nitto Technology Co., Ltd. President, San Fu Biotech Co., Ltd. Director, San Fu Biotech Co., Ltd.	—	—	
Basic Chemical Division Vice President	Taiwan	Su Tian-Bao	Male	03/01/2017	326,000	0.36%	—	—	—	—	Director, International Nitto Technology Co., Ltd. Director, San Fu Biotech Co., Ltd. Director, Shanghai San Fu Ming Electronic Materials Co., Ltd.	—	—	
Vice President	Taiwan	Wang Yao-Ming	Male	01/01/2009	375,000	0.41%	—	—	—	—	President, International Nitto Technology Co., Ltd. Director, International Nitto Technology Co., Ltd.	—	—	
Equipment Materials Department Asst. Vice President	Taiwan	Huang Jun-Yin	Male	03/01/2007	435,665	0.48	—	—	—	—	—	—	—	
Fine Chemical Division Asst. Vice President	Taiwan	Zhuang Fu-Qin	Male	07/06/2017	2,000	0%	—	—	—	—	Director, Shanghai San Fu Ming Electronic Materials Co., Ltd.	—	—	
Financial and Accounting Office Asst. Vice President (note 1)	Taiwan	Xie Ming-Zhi	Male	03/01/2019	0	0%	—	—	—	—	Supervisor, Shanghai San Fu Ming Electronic Materials Co., Ltd. Supervisor, Hubei Xingfu Electronic Materials Co., Ltd. Director, International Nitto Technology Co., Ltd. Supervisor, San Fu Biotech Co., Ltd.	—	—	
President's Office Asst. Vice President (note 2)	Taiwan	Chen Jie-Yu	Male	03/01/2019	420,000	0.46%	—	—	—	—	Supervisor, Hong Cheng Enterprise Corp. Supervisor, Huizhou Sanfuming Electronic Materials Co., Ltd. Supervisor, International Nitto Technology Co., Ltd.	—	—	
Glass Slimming Plant Asst. Vice President (note 3)	Taiwan	Dai Qin-Yao	Male	01/18/2018	14,000	0.02%	—	—	—	—	—	—	—	

Note 1: Asst. Vice President Xie Ming-Zhi was appointed as Financial and Accounting Office Asst. Vice President on March 1, 2019.

Note 2: Asst. Vice President Chen Jie-Yu was dismissed as Financial and Accounting Office Asst. Vice President on March 1, 2019.

Note 3: Asst. Vice President Dai Qin-Yao was newly appointed to this position on January 18, 2018.

(3) Compensation and Remuneration of Directors, Supervisors, the President and Vice Presidents

1. Compensation and Remuneration of Directors, Supervisors, the President and Vice Presidents

(1) Director (including Independent Director) Compensation and Remuneration

Unit: Thousand NT\$/Thousand shares

Title	Name	Compensation						Relevant remuneration received by directors who are also employees						Percentage of total remuneration		Compen sation paid to director s from an investe d compan y other than a compan y subsidi ary		
		Base Compensation (A)	Severance and pension payments (B) (note 1)	Director' s remuneration(C)	Allowances (D)	Percentage of total remuneration A, B, C and D of net income (%)	Salary, bonuses and allowances (E)	Severance and pension payments (F)	Employee remuneration (G)	Exercisable employee stock options (H)	No. of restricted stock awards obtained	Percentage of total compensation A, B, C, D, E, F and G of net income (%)						
Chairman	Wu Xin-Hong	The compan y																
		All consoli dated entities																
Director	Zhang Chun-Ming	The compan y																
		All consoli dated entities																
Director	Tsai Jie-Rong	The compan y	11,185	—	7,604	480	4.84	12,509	324	—	—	—	—	—	—	8.07	—	
		All consoli dated entities																
Director	Su Tian-Bao	The compan y																
		All consoli dated entities																
Director	Zhang Yi-Zong	The compan y																
		All consoli dated entities																

Director Remuneration Brackets

Bracket	Names of Director			
	Total of A+B+C+D	All consolidated entities	The company	Total of A+B+C+D+E+F+G
Under NT\$2,000,000	The company Zhang Chun-Ming, Su Tian-Bao, Zhang Yi-Zong, Wang Yao-Ming, Liang Guo-Yuan, Tsai Jie-Rong, Li Zhong-Xi, Wu Dong-Ming	All consolidated entities Zhang Chun-Ming, Su Tian-Bao, Zhang Yi-Zong, Wang Yao-Ming, Liang Guo-Yuan, Tsai Jie-Rong, Li Zhong-Xi, Wu Dong-Ming	The company Zhang Chun-Ming, Zhang Yi-Zong, Liang Guo-Yuan, Li Zhong-Xi, Wu Dong-Ming	All consolidated entities Zhang Chun-Ming, Zhang Yi-Zong, Liang Guo-Yuan, Li Zhong-Xi, Wu Dong-Ming
NT\$2,000,000 ~ NT\$5,000,000	—	—	Wang Yao-Ming, Su Tian-Bao	Wang Yao-Ming, Su Tian-Bao
NT\$5,000,000 ~ NT\$10,000,000	—	—	Tsai Jie-Rong	Tsai Jie-Rong
NT\$10,000,000 ~ NT\$15,000,000	Wu Xin-Hong	Wu Xin-Hong	Wu Xin-Hong	Wu Xin-Hong
NT\$15,000,000 ~ NT\$30,000,000	—	—	—	—
NT\$30,000,000 ~ NT\$50,000,000	—	—	—	—
NT\$50,000,000 ~ NT\$100,000,000	—	—	—	—
Above NT\$100,000,000	—	—	—	—
Total	9 persons	9 persons	9 persons	9 persons

(2) Supervisor Remuneration

Unit: Thousand NT\$

Title	Name	Supervisor Remuneration						Percentage of total compensation A, B and C of net income (%)		Compensation paid to directors from an invested company other than a company subsidiary
		Compensation (A)		Compensation from Earnings Distribution (B)		Allowances (C)		The company	All consolidated entities	
		The company	All consolidated entities	The company	All consolidated entities	The company	All consolidated entities			
Supervisor	Pilot keymark SDN. BHD Representative: Zhong Shu-Shen	60	60	2,281	2,281	150	150	0.63	0.63	—
Supervisor	You Sheng-Fu									
Supervisor	Huang Ming-Fu									

Remuneration Brackets

Brackets	Names of Supervisors	
	Total of A+B+C	
	The company	All consolidated entities
Under NT\$2,000,000	Zhong Su-Sheng, You Sheng-Fu, Huang Ming-Fu	Zhong Su-Sheng, You Sheng-Fu, Huang Ming-Fu
NT\$2,000,000~NT\$5,000,000	—	—
NT\$5,000,000~NT\$10,000,000	—	—
NT\$10,000,000~NT\$15,000,000	—	—
NT\$15,000,000~NT\$30,000,000	—	—
NT\$30,000,000~NT\$50,000,000	—	—
NT\$50,000,000~NT\$100,000,000	—	—
Above NT\$100,000,000	—	—
Total	3 persons	3 persons

2. President and Vice President Remuneration in 2018

(1) President and Vice President Remuneration

Unit: Thousand NT\$ / Thousand shares

Title	Name	Salary (A)		Severance Pay (B) (Note 1)		Bonuses and Allowances (C)		Employee Remuneration (D)		Percentage of total compensation A, B, C and D of net income (%)	Exercisable employee stock options (H)		No. of restricted stock awards obtained	Compensation from an invested company other than a company subsidiary
		The company	All consolidated entities	The company	All consolidated entities	The company	All consolidated entities	The company	All consolidated entities		The company	All consolidated entities		
President	Tsai Jie-Rong	8,144	8,144	324	324	6,435	6,435			3.75	3.75	—	—	—
Vice President	Wang Yao-Ming													
Vice President	Su Tian-Bao													

Compensation Brackets

Brackets	Names of Presidents and Vice Presidents	
	The company	All consolidated entities
Under NT\$2,000,000	—	—
NT\$2,000,000 ~ NT\$5,000,000	Su Tian-Bao, Wang Yao-Ming	Su Tian-Bao, Wang Yao-Ming
NT\$5,000,000 ~ NT\$10,000,000	Tsai Jie-Rong	Tsai Jie-Rong
NT\$10,000,000 ~ NT\$15,000,000	—	—
NT\$15,000,000 ~ NT\$30,000,000	—	—
NT\$30,000,000 ~ NT\$50,000,000	—	—

NT\$50,000,000~NT\$100,000,000	—	—
Above NT\$100,000,000	—	—
Total	3 persons	3 persons

(2) Names of managers receiving employee bonuses and the allocation status: No employee bonuses were allocated by the Company to any managers this year.

(4) Analysis of the ratio of total remuneration paid by the Company and by all companies included in consolidated financial report to Directors, Supervisors, Presidents, and Vice Presidents / net income (%) for the most recent two years, and explanation of remuneration policy, standard, and combination, the procedure of remuneration determination, and the relation between business performance and future risk:

1. Total compensation to directors, supervisors and executive management as a percentage of net profit

Unit: Thousand NT\$

Director, supervisor and executive management compensation		2018	2017
The company	Compensation amount	34,593	25,881
	As a % of net profit	8.70%	6.70%
All consolidated entities	Compensation amount	34,593	25,881
	As a % of net profit	8.70%	6.70%

2. Explanation of remuneration policy, standard, and combination, the procedure of remuneration determination, and the relation between business performance and future risk:

Director and supervisor remuneration consists of director compensation which includes salary, transportation expenses and earnings distribution. For salary and transportation expenses, standards for the industry are taken as reference. Transportation expenses are paid based on the BOD meeting attendance. Earnings allocation for directors is done in accordance with Article 28 of the Company's Articles of Incorporation and director compensation for the year may not exceed 3% of the profit for that year. The company may consider awarding fair compensation based on operation results and contribution to company performance. The policy for remuneration paid to the President bases the bonus upon company performance evaluation targets and changes the bonus depending on the evaluation. In addition to awarding a fair bonus based on overall company operating performance, future operating risk for the industry, development trends and consulting personal performance achievement rates and contribution towards company performance, the fairness of related performance evaluations and salary must be reported to the Remuneration Committee and pass BOD review. The compensation system is discussed at appropriate times depending on the actual operation status and relevant laws to strike a balance between company sustainable development and risk control.

3. Corporate Governance

(1) Board of Directors Operation

1. The Company's Board of Directors met a total of five times in 2018 and there was at least

one independent director in attendance at each meeting. Director attendance was as follows:

Title	Name	Attendance in Person (B)	By Proxy (A)	Attendance Rate in Person (%) (B/A)	Note
Chairman	Wu Xin-Hong	5	—	100.00%	
Director	San Fu Global Ltd. Representative Li Chun-Ming	4	1	80.00%	
Director	Tsai Jie-Rong	5	—	100.00%	
Director	Su Tian-Bao	5	—	100.00%	
Director	Wang Yao-Ming	5	—	100.00%	
Director	Zhang Yi-Zong	4	1	80.00%	
Director	Liang Guo-Yuan	5	—	100.00%	
Independent	Li Zhong-Xi	5	—	100.00%	
Independent Director	Wu Dong-Ming	5	—	100.00%	

Independent Director Attendance in 2018 was as follows:

2018	First	Second	Third	Fourth	Fifth
Li Zhong-Xi	@	@	@	@	@
Wu Dong-Ming	@	@	@	@	@

@: Attendance in person * : By proxy #: Absent

2. Targets for Strengthening Board Functions and Implementation Assessment:

San Fu Chemical Company believes that a sound and effective board of directors serves as the foundation of excellent corporate governance. Based on this principle, the Company has established a Remuneration Committee to assist the board of directors in carrying out its responsibilities. Refer to item (3) p.29, Board of Directors composition and responsibilities.

3. Other Mentionable Items

(1) Securities and Exchange Act 14-3 resolutions: :

Meeting Dates	Resolutions	Any Independent Director Having a Dissenting

		Opinion or Qualified Opinion
02/25/2019 (4 th meeting of seventh term)	<p>▲ Ratification of the Company's 2018 parent company-only financial statement and consolidated financial statement of the parent company and subsidiaries.</p> <p>▲ The Company's statement of surplus allocation.</p> <p>▲ The Company's 2018 internal control system design and implementation effectiveness</p> <p>▲ The Company's 2018 employee remuneration and chairman and director remuneration allocation</p>	Approved and passed by all independent directors in attendance
05/02/2019 (5 th meeting of seventh term)	▲ Amend the Company's internal control system procedures	

(2) Refer to the following table for incidences of director recusal due to conflict of interests.

BOD Date	Name of Director	Proposal	Reason for Recusal
08/09/2018 (2 nd meeting of the second term)	President Tsai Jie-Rong and Chairman Wu Xin-Hong	Bonus allocation to the company president and chairman.	Chairman Wu Xin-Hong and President Cai Jie-Rong excluded themselves from the deliberations and the vote of the above proposal.
02/25/2019 (4 th meeting of the second term)	President Tsai Jie-Rong and Chairman Wu Xin-Hong	1. Performance evaluation targets and bonus changes for the company's president and chairman 2. Bonus allocation to the company president and chairman.	Chairman Wu Xin-Hong and President Cai Jie-Rong excluded themselves from the deliberations and the vote of the above proposal.

(3) Independent director recusal due to conflict of interest: None

(4) Summary of the communication between independent directors, internal audit supervisors and CPAs: Please refer to the following:

Meeting	Communication with the internal audit supervisor and CPAs
01/17/2019 Communication meeting	Communication of key audit items in the 2018 Independent Auditor's Report

(2) Information on the Function of the Audit Committee or Supervisor Participation in the Operation of the Board of Directors:

The Company's Board of Directors met a total of 5 times in 2018. Supervisor attendance was as follows:

Title	Name	Attendance in Person (B)	Attendance rate (%) (B/A)	Remarks
Supervisor	Pilot Keymark SDN.BHD. Representative - Zhong Su-Shen	5	100.00%	
Supervisor	You Sheng-Fu	3	60.00%	
Supervisor	Huang Ming-Fu	4	80.00%	

Other mentionable items:

1. Supervisor composition and duties: Responsible of implementation of those supervisor duties stipulated in relevant laws.
 - (1) Communication between supervisors, company employee and shareholders: Supervisors have e-mail addresses for communication to allow communication with company employees and shareholders.
 - (2) Communication between supervisors, internal audit supervisors and CPAs:
 - A. The audit unit submits the audit report to the supervisors and the audit supervisor attends the BOD meeting.
 - B. CPAs held a communication meeting with the supervisors during the annual financial report audit period and there were no differences of opinion.
2. If any opinions are stated by the supervisors attending the BOD meeting, the date, term, agenda, directors resolution result and how the company handled the opinions stated by the supervisors should be clearly stated: N/A

(3) Corporate Governance Implementation Status and Deviations from Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies

Assessment	Implementation Status		Deviations from Best Practice Principles and the reasons why
	Yes	No	
1. Has the Company developed and disclosed its corporate governance best practice principles based on the Corporate Governance Best Practice Principles for TSWE/GRSM Listed Companies?	✓		The Company has developed and disclosed its corporate governance best practice principles. No significant deviation
2. Company shareholding structure and shareholders' equity (1) Does the company have internal operation procedures for handling shareholders' suggestions, concerns, disputes and litigation matters? If so, have these procedures been implemented accordingly? (2) Does the company possess a list of major shareholders and beneficial owners of these major shareholders? (3) Does the company establish and implement a risk management system and "firewall" between the company and its affiliates? (4) Does the Company set up internal	✓ ✓ ✓ ✓		No significant deviation (1) The Company has assigned dedicated personnel to respond to shareholder suggestions, concerns and disputes. (2) The Company has commissioned a dedicated stock affairs agency and assigned dedicated personnel to handle these matters and keep track of the shareholdings of director, supervisor and major shareholders. (3) The Company and related enterprises has developed and implements internal control systems and related procedures in accordance with regulations. (4) Procedures have been developed and implemented by the Company and related enterprises for insider

Assessment	Implementation Status		Deviations from Best Practice Principles and the reasons why
	Yes	No	
procedures to prohibit company internal personnel from using undisclosed information from the market to buy or sell securities?			
3. Composition and responsibilities of the Board of Directors (1) Does the Board of Directors develop and implement a diversity policy for organization members?	✓		(1) Still no female directors. (2) Besides the Salary and Remuneration Committee, no other functional committees have been set up.
(2) Other than the Remuneration Committee and Audit Committee which are required by law, does the company plan to set up other board committees?		✓	(3) Board of directors performance evaluation procedure and other evaluation methods have not yet been developed.
(3) Does the Company develop a performance evaluation procedure and other evaluation methods for the board of directors? Are regular performance evaluations conducted?	✓		(4) No significant deviation
(4) Does the company regularly evaluate its			

Assessment	Implementation Status		Deviations from Best Practice Principles and the reasons why
	Yes	No	
external auditor's independence?		(4) No The Company conducts an evaluation of CPA independence at least once per year. The evaluation includes direct or significant indirect financial interest or relationship between the CPA and the Company, previously or currently serving as company director, supervisor, management, a position which has a major influence on the audit or a position with management duties involving corporate decision-making. The CPAs and CPA firm are asked to submit Independence Statements. The president decided to pass the CPA independence evaluation based on the evaluation results on February 25, 2019.	

Assessment	Implementation Status		Deviations from Best Practice Principles and the reasons why
	Yes	No	
<p>3. Does the company establish a full- (or part-) time corporate governance unit or personnel to be in charge of corporate governance affairs (including but not limited to furnishing information required for business execution by directors, handling matters relating to board meetings and shareholders' meetings according to laws, handling corporate registration and amendment registration, producing minutes of board meetings and shareholders meetings, etc.)</p>	✓		<p>The Company has already assigned the Financial and Accounting Office to be responsible for matters related to corporate governance, safeguarding shareholder rights and strengthening BOD functions. Their main responsibilities are providing the resources needed for the directors and supervisors to perform their duties and developing the latest regulations related to company operations to assist the directors, supervisors obey laws and regulations. The following duties are performed:</p> <ol style="list-style-type: none"> 1. Arrange at least 6 credit hour of home continuing education courses for board members. 2. Convene non-regular communication meetings with CPAs, independent directors, audit and financial supervisors to implement the internal audit system. 3. Draft BOD agenda and notify directors 7 days prior to the meeting, convene meeting and provide meeting information. Give advance reminder if it is recusal is necessary and complete BOD meeting minutes within 20 days after the meeting is convened. 4. Hold registration before the shareholders' meeting date in accordance with law, prepare the shareholders' meeting notice, meeting handbook and within the legally stipulated time limit and meeting minutes and change registrations after article amendments or director elections.

Assessment	Implementation Status		Deviations from Best Practice Principles and the reasons why
	Yes	No	
4. Does the company establish a means of communicating with its stakeholders (including but not limited to shareholders, employees, customers, etc.), set up a dedicated section in its website for stakeholders and properly responded to key corporate social responsibility matters that stakeholders are concerned about?	✓		A dedicated stakeholder section has been set up for the Company's website to provide a means of communication for stakeholders. Dedicated personal provide appropriate replies to major corporate social responsibility issues that stakeholders are most concerned about.
5. Does the Company commission a dedicated stock affairs agency to handle shareholder matters?	✓		The Company has commissioned the Stock Affairs Department at First Securities Inc. to handle shareholder matters.
7. Information disclosure (1) Does the company establish a company website to disclose information regarding its financials, business and corporate governance status? (2) Does the company use other information disclosure channels (e.g. maintaining an English language website, designating staff to handle information collection and disclosure, appointing spokespersons, webcasting investor conference etc.?)	✓ ✓		(1) The Company has established a website to disclose information regarding its financial, business and corporate governance status. Refer to www.sfchem.com.tw . (2) The Company has designated personnel to handle significant information disclosures, appointed a spokesperson in accordance with the law and posts information on the MOPS and the company website in accordance with regulations.
8. Does the company disclose other information to	✓		1. Employee rights and wellness: No significant deviation

Assessment	Implementation Status		Deviations from Best Practice Principles and the reasons why
	Yes	No	
<p>facilitate a better understanding of its corporate governance practices (e.g. including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, director and supervisor training records, the implementation of risk management policies and risk measurement criteria, the implementation of customer policy, and purchasing insurance policies for directors)?</p>		<p>The company has made a strong effort to create a healthy and safe work environment for its employees. Besides implementation of a pension system and providing year-end bonuses, the legal rights of employees are upheld in accordance with the Labor Standards Act and other relevant laws and regulations. Due care is taken when processing employee basic information. In addition to following the requirements under government law, the private personal information of employees may not be disclosed. Annual health exams for employees are arranged. Labor relations are emphasized to provide equal employment opportunities.</p> <p>2. Investor relations: The Company has set up a stock affairs office solely responsible for handling investor relations and shareholder recommendations and truthfully disclosing company information in accordance with the law to guarantee the basic interests of investors and fulfill its corporate responsibilities to its shareholders.</p> <p>3. Supplier relations: Smooth communication channels have been set up</p>	

Assessment	Implementation Status		Deviations from Best Practice Principles and the reasons why
	Yes	No	
			<p>between the Company and its suppliers and good relations have been maintained.</p> <p>4. Stakeholder rights: There are smooth communication channels between the Company and its correspondent banks and other creditors, employees, customers, suppliers and other related stakeholders and respect their due legal rights. The Stock Agency Department at the First Securities Inc. is the stock affairs agent for the Company and assists with handling questions and suggestions of shareholders and company stakeholders. If legal issues are involved, a dedicated lawyer or legal consultant will be appointed to handle the matter to uphold stakeholder interests.</p> <p>5. Director and supervisor continuing education: The Company's directors and supervisors possess professional expertise. Directors and supervisors complete continuing education courses in focus areas. In addition, the Company provides information about continuing education as needed and posts it on MOPS in accordance with regulations.</p> <p>6. Risk management policy and risk measurement standard implementation:</p>

Assessment	Implementation Status		Deviations from Best Practice Principles and the reasons why
	Yes	No	
		<p>As of now, the Company has not yet set up dedicated unit to perform risk management and measurement work. However, authority for review various forms has been determined and departments perform this work in accordance with procedures. An audit unit has been set up to conduct regular and non-regular audits of the Company's internal controls and submit reports to reduce operation risk to a minimum.</p> <p>7. Customer policy implementation: The Company has established a marketing department to provide customers with product service, answer questions and maintain smooth communication channels with customers. The requirements set down by the customer are strictly followed, customer rights are protected and excellent relations are maintained.</p> <p>8. Purchase of liability insurance for the Company chairman and president: The Company has purchased liability insurance for the chairman and president and the insured amount, coverage and insurance rate is reported to the board of directors.</p>	
9. State the improvements made as a result of the Corporate Governance Evaluation conducted	✓		No significant deviation

Assessment	Implementation Status		Deviations from Best Practice Principles and the reasons why
	Yes	No	
by the TSWE Corporate Governance Center and priority improvement items and measures submitted where improvements have yet to be made (unevaluated companies do not need to complete this section)		evaluation results: 1. Disclosure of the opinions of independent directors toward major resolutions of the board of directors. 2. Annual financial report is announced within two months following the end of the fiscal year. 3. 2018 annual report and financial report are disclosed in English seven days prior to the convening of the shareholders' meeting. 4. Post English version of the agenda handbook 30 days before the convening of the shareholders' meeting.	

Note 1: Requisite abilities of board members

Core diversity items of Director	Gender	1	2	3	4	5	6	7	8
		Operation judgment	Business Management	Financial /Accounting	Commerce economy	Crisis Handling	Industry Knowledge	International Market Outlook	Leadership Decision-making
Wu Xin-Hong	Male	V	V		V	V	V	V	V
Zhang Chun-Ming	Male	V	V		V	V	V	V	V
Trai	Male	V	V		V	V	V	V	V

Jie-Rong																					
Su Tian-Bao	Male	V	V	V	V	V	V	V	V	V	V	V	V	V	V	V	V	V	V	V	V
Wang	Male	V	V	V	V	V	V	V	V	V	V	V	V	V	V	V	V	V	V	V	V
Yao-Ming																					
Zhang	Male	V	V	V	V	V	V	V	V	V	V	V	V	V	V	V	V	V	V	V	V
Yi-Zong																					
Li Zhong-Xi	Male	V	V	V	V	V	V	V	V	V	V	V	V	V	V	V	V	V	V	V	V
Wu	Male	V	V	V	V	V	V	V	V	V	V	V	V	V	V	V	V	V	V	V	V
Dong-Ming																					
Liang																					
Guo-Yuan	Male	V	V	V	V	V	V	V	V	V	V	V	V	V	V	V	V	V	V	V	V

(四) Remuneration Committee Composition, Responsibilities and Operation:

(1) Information on remuneration committee members

Identity	Name	Meet one of the following professional qualification requirements, together with at least five years of work experience		Independent Criteria (Note 2)								Number of other public companies in which the Individual is concurrently serving as an Independent Director	Remark	
		An instructor or higher position in a department of commerce, law, finance, accounting, or other academic department related to the business needs of the company in a public or private junior college, college or university	A judge, public prosecutor, attorney, certified public accountant, or other professional or technical specialists who has passed a national examination and been awarded a certificate in a profession necessary for the business of the company	Have work experience in the area of commerce, law, finance, or accounting, or otherwise necessary for the business of the company	1	2	3	4	5	6	7			8
Independent Director	Li Zhong-Xi	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	3	
Independent Director	Wu Dong-Ming			✓	✓	✓	✓	✓	✓	✓	✓	✓	1	
Other	Yang Hong-Zhi			✓	✓	✓	✓	✓	✓	✓	✓	✓	0	

Note 1: For identity, fill in director, independent director or other.

Note 2: Please tick the corresponding boxes if members have been any of the following during the two years prior to being elected or during the term of office:

- (1) Not an employee of the Company or any of its affiliates.
- (2) Not a director or supervisor of the Company or any of its affiliates. The same does not apply, however, in cases where the person is an independent director of the company, its parent company, or any subsidiary, as appointed in accordance with the Securities and Exchange Act of Taiwan or with the laws of the country of the parent company or subsidiary.
- (3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.
- (4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.
- (5) Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of outstanding shares of the Company or that holds shares ranking in the top five in holdings.
- (6) Not a director, supervisor, officer, or shareholder holding 5% or more of the share, of a specified company or institution that has a financial or business relationship with the Company.
- (7) Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof.
- (8) Not a person meeting any of the conditions stipulated in Article 30 of the Company Act.

(2) Operation Status of the Remuneration Committee

1. The Company's Remuneration Committee has 3 members.
2. The term of office for the current committee is: June 14, 2018 to June 13, 2021. The Committee held two meetings in 2018 (A) with the following attendance:

Title	Name	Attendance in person (B)	By proxy	Attendance Rate (%) (B/A)	Remark
Convener	Li Zhong-Xi	2	0	100%	Re-elected on June 14, 2018
Committee member	Wu Dong-Ming	2	0	100%	Re-elected on June 14, 2018
Committee member	Yang Hong-Zhi	2	0	100%	Re-elected on June 14, 2018

Other mentionable items:

1. Any suggestion of the Remuneration Committee which was not adopted or modified by the Board of Directors: None
2. Any written or otherwise recorded resolution on which a member of the Remuneration Committee has a dissenting opinion or qualified opinion: None
3. The Remuneration Committee meeting resolutions are described below: :

Date	Proposal	Resolution
03/15/2018	1. Review the Company's 2017 employee remuneration, director and supervisor remuneration allocation amounts.	Passed
	2. Review the Company's president and chairman 2H 2017 variable bonus issuance amount.	Passed
08/09/2018	1. Review the Company's president and chairman 1H 2018 variable bonus issuance amount.	Passed

(5) Social Responsibility Fulfillment

Evaluation Items	Operation Status		Deviation with Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and the Reasons Why
	Y	N	
<p>1. Corporate governance implementation</p> <p>(1) Does the Company develop a corporate social responsibility policy or system and is implementation effectiveness reviewed?</p>	✓	N	<p>No significant deviation</p> <p>(1) Corporate Social Responsibility Best Practice Principles has been set up by the Company and passed by the Board of Directors. The implementation effectiveness of related corporate social responsibilities activities are as follows:</p> <ol style="list-style-type: none"> 1. With respect to corporate governance, a corporate social responsibility report was issued of June 2018. Ethical Corporate Management and guidelines for conduct training was completed in November 2018. New supplier corporate completion of social responsibility risk evaluation reached 100%. Current supplier completion of corporate social responsibility practices is estimated to reach 87%. 2. With respect to environmental protection and occupational safety, FSI is 0. As for circular economy, a total amount of developer solution recovered has been increased to 53,148 tons for the entire year. Resource recovery and reuse is promoted to reduce the amount of waste generated. The amount of annual waste has been reduced to 156.8kg /

Evaluation Items	Operation Status		Deviation with Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and the Reasons Why
	Y	N	
(2) Does the company routinely organize social responsibility education training?	✓		<p>person.</p> <p>3. With regard to product liability and customer satisfaction, customer satisfaction reached 93 points in 2018. Our products all meet with green regulations and customer requirements and inspection reports from an impartial third party are regularly attached.</p> <p>4. With regard to social concern, the company participates in good neighbor activities, offer school scholarships and donates to foundations.</p> <p>(2) The Company promotes its social responsibility policies during management meetings and supervisors promotes these policies at department meetings.</p>
(3) Does the Company establish a dedicated (or semi-dedicated) unit? Have executive officers been authorized by the board of directors to handle these affairs and report the handling status to the board of directors?	✓		<p>(3) The Company is currently organizing a CSR Promotion Committee to draft this report. The CSR Promotion Committee will be set up according to the company organization chart. The Chairman will head the committee and the Quality Assurance Section will be responsible for promotion and overall planning. Each major department will appoint one member each in charge of promotion and implementation. A total of 30 persons will serve on the committee.</p> <p>1. Information collection: The implementation</p>

Evaluation Items	Operation Status		Deviation with Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and the Reasons Why
	Y	N	
(4) Does the company adopt reasonable remuneration policies, incorporate CSR policies into the employee performance evaluation system and establish a clear and effective incentive and discipline system?	✓		<p>members are responsible for the promotion of related issues and organizing information. The promotion members assist with checking the correctness and integrity of the information on each issue. Last, the information is submitted to the Quality Assurance Section for analysis and compilation.</p> <p>2. Communication: Committee members are distributed at various work sites throughout the company. Communication is regularly done by telephone or email.</p> <p>3. Regular reporting: The CSR committee is represented by the unit supervisors. The San Fu Chemical CSR Promotion Committee Vice Convener Cai Jie-Rong reported the sustainability performance, strategy and targets to the Board of Directors in February 2019.</p> <p>(4) The Company has developed a reasonable remuneration policy that incorporated performance evaluation system and CSR policy targets. An incentive and disciplinary system has also been established.</p>
2. Sustainable environment development (1) Does the company endeavor to utilize all	✓		No significant deviation

Evaluation Items	Operation Status		Deviation with Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and the Reasons Why
	Y	N	
resources more efficiently and use renewable materials which have a low impact on the environment?			developing green technology products such as high-tech developing solution recover and reuse and technology for packaging recovery and reuse, but also strives to raise equipment efficiency and reduce resource consumption. A total of 53,148 tons of TMAH toxic solution has been recovered and reused by San Fu Chemical since 2011.
(2) Does the company establish proper environment management systems based on the characteristics of its industry?	✓		(2) In addition to obtaining ISO14001 environment management certificate and fulfilling our environment policy commitments, greenhouse gas inventories and work environment 6S have been conducted for many years to strengthen environment and resource management. Dedication units have been set up responsible for air, water, waste and toxin management.
(3) Does the company monitor the impact of climate change on their operations and establish company strategies for energy conservation and carbon and greenhouse gas reduction?	✓		(3) San Fu Chemical not only conducts greenhouse gas inventories at its manufacturing plants to keep track of greenhouse gas emission, the Company has also devised feasibility plans for

Evaluation Items	Operation Status		Deviation with Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and the Reasons Why
	Y	N	
		<p>the reduction of greenhouse gases such as full-use LED lighting and purchase electrically powered forklifts. The Company's greenhouse gas emissions have been verified by a third-party certification institution (SGS) in 2017 and 2018 to be 20,984 (tons CO₂-e/years) and 25,761 (tons CO₂-e/years).</p>	
<p>3. Upholding social welfare</p> <p>(1) Does the company comply with relevant laws and regulations, and the International Bill of Human Rights and adopt relevant management policies and procedures?</p>	✓	<p>(1) The Company uses the minimum period of advance notice for termination of labor contracts in accordance with law. Our labor right maintenance implementation results are disclosed through human rights GRI standards including (1) no incidents of discrimination have occurred (2) no violations of freedom of association or collective bargaining rights (3) no employment of child labor (4) no incidents of coerced or forced labor. 以 Below are the local labor regulations that are followed by the Company and the communication measures taken for legal employees:</p> <p>1. When there is a major change in operations and labor conditions at the Company which will affect the employment rights of personnel, Article 16 of the Labor Standards</p>	<p>The Company current contracts with major suppliers still do not address violations of CSR policies by suppliers but there are clauses for termination or cancellation of the contract in the event of significant environmental or social impact.</p>

Evaluation Items	Operation Status		Deviation with Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and the Reasons Why
	Y	N	
(2) Does the company provide an employee complaint mechanism and channels and respond to employee complaints in an appropriate	✓		<p>Act is 100% followed to provide the minimum period of advance notice for termination of labor contracts in accordance with law.</p> <p>2. The Labor Pension Reserve Fund Supervisory Committees meets on a non-regular basis in accordance with Article 56 of the Labor Standards Act and may convene special meetings when necessary. Meeting content is focused on checking labor pension reserve allocation amounts, fund saving and utilization status and labor pension payment amounts.</p> <p>3. The Company has not yet established a union organization but regular meetings are held between labor and management for two-way communication and collective bargaining in accordance with government labor laws.</p> <p>Labor – management meetings are held on a non-regular basis in accordance with Article 83 of the Labor Standards Act and special meetings are convened when necessary to conduct two-way communication on labor-management cooperation, improvement of labor conditions and labor welfare planning .</p> <p>(2) The Company has set up an employee complaint mechanism and channels and handles complaint cases by employee opinion box. There were no</p>

Evaluation Items	Operation Status		Deviation with Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and the Reasons Why
	Y	N	
<p>manner?</p> <p>(3) Does the company provide safe and healthy work environments for employees and offer regular training on safety and health for employees?</p>	✓		<p>labor or human right-related complaint cases reported.</p> <p>(3) The Company has obtained OHSAS18001 certification. Guidelines for the wearing and use of protective equipment have been set up. As for use and subpackaging of chemicals that could pollute the environment or cause injury when inhaled, isolation facilities have been established. Railings, enclosures and other fall prevention facilities have been installed at all high areas where there is a risk of falls. 6S activities are promoted. The continuous improvements made to work environments, personnel safety and health at each plant shows the importance that the Company places on environmental safety and the effort that has been made to provide a safe and health work environment to employees. Health exams are given to employees each year and health consulting and management is offered to employees with physical or mental health</p>

Evaluation Items	Operation Status		Deviation with Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and the Reasons Why
	Y	N	
(4) Does the company establish routine communication mechanism with employees and notify employees in an reasonable manner of those operational changes which could have a significant impact?	✓		issues. (4) The Company regularly convenes operation management meetings and employee welfare committee meetings. An internal corporate website has been set up to promote corporate policy, welfare measures and various activities to establish an internal communication mechanism for the Company.
(5) Does the company set up effective career competence development training programs for employees?	✓		(5) Performance evaluations are held by the Company every six months and training is provided in accordance with employee expectations and company requirements.
(6) Does the company develop consumer rights policies and complaint procedures to protect consumers based upon R&D, purchasing, production, operation, and service procedures?	✓		(6) The Company attaches much importance to customer post-sales service. There are many channels for reporting company complaint and customer complaint handling standards and procedures have been set up. A dedicated section in the company website has been set up for stakeholder relations to uphold consumer rights.
(7) Does the company comply with all relevant laws	✓		(7) Company product labels all comply with

Evaluation Items	Operation Status			Deviation with Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and the Reasons Why
	Y	N	Summary and Description	
<p>and regulations and international standards for the marketing and labeling of products and services?</p> <p>(8) Does the company evaluate the past records of suppliers regarding their impact on the environment and society before conducting business with them?</p> <p>(9) Do contracts signed between the company and the major suppliers include policy on suppliers involving the violation of corporate social responsibility with significant environmental or social impact and clauses that could terminate or cancel the contract at any time?</p>	✓		<p>relevant laws, regulations and guidelines.</p> <p>(8) The Company's new supplier completion of CSR risk evaluation reached 100% and current supplier completion of CSR practices is estimated to reach 87%.</p> <p>(9) The Company current contracts with major suppliers still do not address violations of CSR policies by suppliers but there are clauses for termination or cancellation of the contract in the event of significant environmental or social impact.</p>	
<p>4. Strengthen information disclosure</p> <p>(1) Does the company disclose relevant corporate social responsibility with respect to relevance and reliability on the company website and Market Observation Post System?</p>	✓		<p>(1) The Company discloses the system and measures adopted and fulfillment of corporate social responsibility in the Annual Report and prepares a CSR Report.</p>	No significant deviation
<p>5. For companies having developed independent corporate social responsibility practices in accordance with "Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies," please describe the discretion of operation with the independent practices developed.</p> <p>The Company has set up Corporate Social Responsibility Best Practice Principles. The current status of the Company, laws and regulations have been</p>				

Evaluation Items	Operation Status		Deviation with Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and the Reasons Why
	Y	N	
considered with respect to corporate social responsibility and implementation will be done in gradually manner so there is no significant deviation.			
6. Other critical information that helps understand the operation of corporate social responsibility: The Company continually promotes and implements environmental protection concepts, places importance on concern for society, assists disadvantaged groups in society, donates to foundations and provides scholarships for low-income and underprivileged Shan-Hua Elementary and Junior High School and college students.			
7. If the Company's corporate social responsibility report has been validated by the relevant certification institutions, it should be described in detail: None			

(6) Ethical Corporate Management Implementation

Assessment	Operation Status		Deviations with Ethical Corporate Management Best Practice Principles for TSE/GTSM Listed Companies and the Reasons Why
	Y	N	
<p>1. Develop ethical management policies and programs</p> <p>(1) Does the company specify the policy and approach regarding ethical management on articles and outbound documents as well as the commitment from Board of Directors and management to implement management policy?</p> <p>(2) Does the company enact any prevention programs for unethical conduct and clearly define the procedures, conduct guidelines and the violation disciplinary and complaint system for each program for implementation?</p> <p>(3) Does the Company take any prevention measures for the items of the Article 7.2 of “Ethical Corporate Management Best Practice Principles for TSE/GTSM Listed Companies” or higher potential unethical conduct within other business activities?</p>	✓	<p>(1) The Company has set up an internal control system and various procedures to uphold its ethical corporate management policy and promotes the company’s ethical management beliefs at company conferences.</p> <p>(2) The Company has already set up its Ethical Corporate Management Procedure and Guidelines for Conduct.</p> <p>(3) The Company utilizes excellent corporate governance, risk control mechanisms and comprehensive internal guidelines to prevent unethical conduct from occurring and create environment for sustainable development at the Company.</p>	No significant deviation.
<p>2. Implementation of ethical management</p> <p>(1) Does the company assess the ethics records of business</p>	✓	<p>(1) The Company reviews its transactions with</p>	The unit responsible for

Assessment	Operation Status		Deviations with Ethical Corporate Management Best Practice Principles for TSWE/GTSM Listed Companies and the Reasons Why
	Y	N	
<p>counterparties? Does the Company include business conduct and ethics related clauses in the business contracts?</p> <p>(2) Does the Company set up a dedicated unit under the board of directors in charge of promotion of the ethical corporate management and report the implementation status to the board of directors on a regular basis?</p> <p>(3) Does the Company establish policies to prevent conflicts of interest, provide appropriate communication channels and implement these policies?</p> <p>(4) Does the company establish effective accounting systems and internal control systems for the implementation of ethical management? Is compliance audited by an internal audit unit or entrusted CPA?</p> <p>(5) Does the Company regularly provide internal or external training courses on ethical corporate management?</p>	<p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p>	<p>customers and suppliers on a non-regular basis and will consider cancelling its transactions if there are any violations of ethical conduct.</p> <p>(2) The Company's Human Resource Team in the President's Office is the unit responsible for promotion of ethical corporate management, maintenance of the company's ethical management guidelines and reporting the implementation status once each year to the Board of Directors.</p> <p>(3) The Company has set up the Ethical Corporate Management Procedure and Guidelines for Conduct and employees may discuss any questions about their conduct and/or work with the Management Office at any time.</p> <p>(4) The Company's auditors schedule the items to be audited each year and report the results to the supervisors and independent directors.</p> <p>(5) The Company promotes its ethical management policy to all employees through the Training System</p>	<p>promotion of ethical corporate management is not directly responsible to the Board of Directors.</p>

Assessment	Operation Status		Deviations with Ethical Corporate Management Best Practice Principles for TSWE/GTSM Listed Companies and the Reasons Why
	Y	N	
3. Operations of company reporting system (1) Does the company establish a specific reporting and incentive system, set up convenient reporting channels and assigned suitable personnel responsible for handling the subject(s) being reported on?	✓		No standard operating procedure with investigation standards and related confidentiality mechanism has been set up reporting matters.
(2) Does the company establish a standard operation procedure containing investigation standards and a confidentiality mechanism for accepting reported matters?		✓	(1) The Company has set up the Ethical Corporate Management Procedure and Guidelines for Conduct and includes ethical management into employee performance evaluations and human resource policy and human resource policy. If there is a major violation of ethical management guidelines by a Company employee, that employee shall be dismissed or fired in accordance with relevant laws or the Company's human resource procedures. (2) The Company's President's Office accepts abuse reports and complaints at all times.
(3) Does the company adopt measures that protect the informer from receiving improper treatment due to reporting?	✓		(3) The Company keeps the informer information confidential and protects the informer from receiving improper treatment.

Assessment	Operation Status		Deviations with Ethical Corporate Management Best Practice Principles for TSE/GTSM Listed Companies and the Reasons Why
	Y	N	
4. Strengthen information disclosure (1) Does the company disclose the content of developed ethical management practices and promotion effectiveness on the company website and Market Observation Post System?	✓		No significant deviation
5. If the Company has instituted ethical corporate management best practice principles in accordance with the “Ethical Corporate Management Best Practice Principles for TSE/GTSM Listed Companies,” please describe its operation differing from the Principles: The Company has developed an Ethical Corporate Management Procedure and Conduct Handbook and there is no significant difference in its implementation or the content of the Best Practice Principles.			
6. Other helpful information for better understanding the Company’s operation of the Ethical Corporate Management Best Practice Principles (such as the Company reviewing and amending the Company’s Ethical Corporate Management Best Practice Principles): The Company has set up an internal control system and various guidelines to ethically manage the Company and provide guidance for the Company to follow in its dealings with suppliers and customers.			

(7) Disclosure of the inquiry method where corporate best-practice principles and related guidelines have been adopted by the Company:

The corporate governance best-practice principles set up by the Company including the Articles of Incorporation, Shareholders’ Meeting Rules, Director and Supervisor Election Procedure, Rules and Procedures of the Board of Directors Meeting, Procedure for

Special Company and Group Enterprise Transactions, Acquisition and Disposal of Assets Procedure, Procedures for Lending Funds to Other Parties, Procedures for Endorsement and Guarantee, Ethical Corporate Governance Procedures and Guidelines for Conduct have already been posted on the MOPS.

(8) Other major information that would provide a better understanding of the corporate governance operation status: None

(9) Internal Control System Implementation Status

1. 2018 Statement of Internal Control System

San Fu Chemical Co., Ltd.
Statement of Internal Control System

February 25, 2019

The Company has conducted a self-evaluation of its internal control system in 2018. The results were as follows:

1. The Company acknowledges that its Board of Directors and management are responsible for establishing, implementing and maintaining an internal control system. The said system has already been established at the Company. The purpose of the internal control system is to provide reasonable assurance of operation effectiveness and efficiency (including profit, performance, asset security), the reliability, timeliness, transparency of reports and compliance with applicable laws and regulations.
2. Any internal control system has inherent constraints. No matter how perfectly designed, an effective internal control system can only provide reasonable assurance of accomplishing the three above stated goals. Due to changes in the environment and circumstances, the effectiveness of the internal control system may vary considerably. Nevertheless, the Company's internal control system is equipped with self-monitoring mechanisms. Should any deficiencies be identified, the Company takes immediate corrective actions to address these deficiencies.
3. The Company evaluates the design and operating effectiveness of its internal control system in accordance with the Guidelines for the Establishment of Internal Control System by Public Companies (referred to as the Guidelines hereinafter). The evaluation items of the internal control system used by these Guidelines divide into the internal control system into five components based on management control procedures: (1) environment control (2) risk assessment (3) control process (4) information and communication (5) supervision. There are several items contained in each component. Refer to the Guidelines for the above items.
4. The Company has evaluated the design and operating effectiveness of internal control system using the above internal control system evaluation items.
5. Based on the results of such evaluation, the Company believes that as of December 31, 2018, it has maintained an effective internal control system (including supervision and management of subsidiaries), to provide reasonable assurance of understanding of operation results and efficiency target achievement, report reliability, timeliness and transparency, and compliance with applicable procedures, laws and regulations.
6. This Statement is an integral part of the Company's Annual Report and prospectus and will be publicly disclosed. Any falsehood, concealment or other illegality will incur legal liability under Articles 20, 32, 171 and 174 of the Securities and Exchange Act.
7. This statement has been passed the Company's Board of Directors on February 25, 2019 and all nine directors in attendance affirmed the content of this statement.

San Fu Chemical Co., Ltd.

Chairman: Wu Xin-Hong



President: Tsai Jie-Rong



2. Report of the independent auditor appointed to conduct an audit on the internal control system: None

(10) Penalties Imposed on the Company or Internal Personnel for Legal Violations, Fines for Violations of Internal Control Procedures Major Deficiencies and Remedial Measures: None

(11) Major Resolutions of Board Meetings and the Shareholders' Meeting:

Meeting Date (Term)	Major Resolutions of the Board of Directors	Remarks
107.06.14 (7 th meeting of the first term)	1. Chairman election 2. Hire remuneration committee member	Passed as proposed "
107.08.09 (7 th meeting of the second term)	1. Capital increase for subsidiary San Fu Biotech Co., Ltd 2. Increase in the subsidiary capital lending amount 3. Bank loan contract renewal application 4. Review the Company's President 2018 First Half Variable Bonus Issuance 5. Review the Company's Chairman 2018 First Half Variable Bonus Issuance	Passed as proposed " " "
107.11.08 (7 th meeting of the third term)	1. Increase investment in International Nitto Co., Ltd. 2. 2019 budget report 3. Company donation to public and private schools 4. 2019 audit plan 5. Bank loan contract renewal application	Passed as proposed " " " "
108.02.25 (7 th meeting of the fourth term)	1. Acknowledged the 2018 parent-only financial statement and consolidated financial statement and business report of the Company and its subsidiaries. 2. The Company's 2018 earning distribution statement 3. Determine 2019 shareholders' meeting date, place, agenda and shareholder proposal acceptance period and other related matters 4. Company disposal of assets to subsidiary 5. Company increase of subsidiary endorsement amount 6. Spokesperson, finance and accounting supervisor replacement 7. Financial report CPA independence assessment 8. The Company's 2018 internal control system design and implementation effectiveness statement 9. Bank loan contract renewal application 10. Foundation donation proposal 11. Company's 2018 Employee Remuneration and Director, Supervisor Remuneration Allocation 12. Review the Company's President and Chairman 2019 Performance Evaluation Targets and Variable Bonus Recommendation 13. Review the Company's President 2018 Second Half Variable Bonus Issuance 14. Review the Company's Chairman 2018 Second Half Variable Bonus Issuance	Passed as proposed " " " " " " " " " " " " " "
108.05.02 (7 th meeting of	1. Amendments to Articles of Incorporation Amendment 2. Amendments (Modifications) to Company's Internal Control	Passed as proposed

Meeting Date (Term)	Major Resolutions of the Board of Directors	Remarks
the fifth term)	Procedures 3. Bank loan contract renewal application	" "

Meeting Date	Major Resolutions of the Board of Directors	Remark
107.06.14	1. Adoption of 2018 Business Report and Financial Statements 2. Proposal for Distribution of 2018 Earnings. Execution status: Dividend record date set to July 09, 2018 and cash dividend payment date set to July 20, 2017 (NT\$2.6 cash dividend paid per share) 3. Full re-election of directors and supervisors Execution status: Company registration changed approved by MOEA on June 27, 2018. ° 4. Release prohibition on newly elected directors and their representatives from participation in competitive business.	Passed as proposed " " " "

(12) Records or written statements made by any directors or supervisors dissenting to major resolutions passed by the Board of Directors: None

(13) Resignation or dismissal of personnel (including chairman, president, accounting supervisor and internal audit supervisor) involved in the preparation of financial reports:

Title	Name	Date of Appointment	Date of Dismissal	Reasons for Resignation or Dismission
Accounting supervisor	Chen Jie-Yu	January 10, 2005	March 1, 2019	Department work transfer

4. External Auditor Fee Information

CPA Firm	Names of CPAs		Auditing period	Remark
Deloitte Taiwan	Xu Xiu-Ming	Wong Ya-Ling	2018	None

Amount bracket		Fee items	Auditing fees	Non-auditing fees	Total
1	Less than NT\$2,000,000		-	V	V
2	NT\$2,000,000 ~ NT\$4,000,000		V	-	V
3	NT\$4,000,000 ~ NT\$6,000,000		-	-	

4	NT\$6,000,000 ~ NT\$8,000,000	-	-	-
5	NT\$8,000,000 ~ NT\$10,000,000	-	-	-
6	Above NT\$10,000,000	-	-	-

- (1) When the non-auditing fee to independent auditors, the CPS firm or an affiliated company is more than one-fourth of the auditing fee, disclose the auditing fee, non-auditing fee and non-auditing services:

Unit: Thousand NT\$

CPA Firm	Names of CPAs	Audit Fee	Non-auditing fee					Auditing period	Remark
			System design	Industrial and commercial registration	Human resources	Other	Subtotal		
Deloitte Taiwan	Xu Xiu-Ming Wong Ya-Ling	3,310	—	156	—	—	3,466	2018	

- (2) If the auditing fee paid in the year which the CPA firm was replaced is less than the fee paid in the previous year, disclose the auditing fee amounts and reason for the reduction:
N/A
- (3) When the auditing fee decreases by 15% or more compared to the previous year, disclose auditing fee reduction amount, ratio and reasons: N/A

5. CPA Replacement Information:

1. Preceding CPA

Date of Change	Passed at BOD meeting on March 15, 2018		
Reason for the change and explanation	The previously assigned CPAs Xu Xiu-Ming and Lin Shu-Wan to the company were replaced by CPAs Xu Xiu-Ming and Wong Ya-Ling due to internal reassignment by the CPA firm.		
Was the commission terminated by the principal or CPA?	Client	CPA	Commissioner
	Status		
	Commission terminated voluntarily	N/A	N/A
	Commission rejected (not renewed)	N/A	N/A
Independent Auditor's Report with an opinion other than unqualified opinion within the last two years and the reasons	None		
An opinion different from the issuer	Yes		Accounting principle or practice
			Disclosure of financial report
			Auditing scope or procedures
			Other
	No	V	
Explanation			
Other disclosure matters (disclosures required by Article 10.6.1.4 - 10.6.1.7 of the Standards)	None		

2. Successor CPA

CPA Firm	Deloitte Taiwan
Name of CPAs	CPAs Xu Xiu-Ming and Wong Ya-Ling
Date of appointment	Passed at the BOD meeting on March 15, 2018
Accounting treatment or	N/A

accounting principles for specific transactions before the commission and inquiry on the possible opinions issued on the financial reports, and results	
Successor CPA's written opinion differing from the opinion of the predecessor CPA	N/A

2. Do Articles 10.6.1 and 10.6.2.3 of the Standards apply to the Preceding CPA: No

6. When the Company's chairman, president or financial / accounting manager employed by the underlying CPA firm or its affiliates within the recent year, the name, position, work period at the underlying CPA firm or its affiliates shall be disclosed: None

7. Equity transfer and equity change of the directors, supervisors, management and shareholders with over 10% shareholding

(1) Changes in Shareholding of the Directors, Supervisors, Management and Major Shareholders

Unit: Shares

Title	Name	2018		Up to April 15, 2019	
		Shareholding increase (decrease)	Pledged share increase (decrease)	Shareholding increase (decrease)	Pledged share increase (decrease)
Chairman	Wu Xin-Hong	(40,000)	0	0	0

Director	San Fu Global Ltd.	0	0	0	0
San Fu Global Ltd. representative	Zhang Chun-Ming	0	0	0	0
Director & President	Tsai Jie-Rong	0	0	0	0
Director	Zhang Yi-Zong	0	0	0	0
Director & Vice President	Wang Yao-Ming	18,000	0	0	0
Director & Vice President	Su Tian-Bao	0	0	0	0
Director	Liang Guo-Yuan	0	0	0	0
Independent Director	Li Zhong-Xi	0	0	0	0
Independent Director	Wu Dong-Ming	0	0	0	0
Supervisor	Pilot Keymark SDN.BHD.	0	0	0	0
Pilot Keymark representative	Zhong Su-Sheng	0	0	0	0
Supervisor	You Sheng-Fu	0	0	0	0
Supervisor	Huang Ming-Fu	0	0	0	0
Major shareholder	Pilot Keymark SDN.BHD.	0	0	0	0
Major shareholder	San Fu Global Ltd.	0	0	0	0
President	Tsai Jie-Rong	0	0	0	0
Vice President	Su Tian-Bao	0	0	0	0
Vice President	Wang Yao-Ming	18,000	0	0	0
Asst. VP	Huang Jun-Yin	(3,000)	0	0	0
Asst. VP	Zhuang Fu-Qin	0	0	0	0
Finance and Accounting Supervisor (note 1)	Xie Ming-Zhi	0	0	0	0
Asst. VP (note 2)	Chen Jie-Yu	0	0	0	0
Asst. VP (note 3)	Dai Qin-Yao	0	0	0	0

Note 1: Xie Ming-Zhi appointed Finance and Accounting Supervisor on March 1, 2019.

Note 2: Chen Jie-Yu dismissed as Finance and Accounting Supervisor on March 1, 2019.

Note 3: Dai Qin-Yao newly appointed as Asst. Vice President on January 18, 2018.

(2) Information on Equity Transfer Counterparts who are Interested Persons:

Equity Transfer Information

Name (note 1)	Reason for equity transfer (note 2)	Transaction date	Transaction counterpart	Transaction counterpart relationship with company director, supervisor or top 10 shareholder	Shares	Transaction price
Wu Xin-Hong	Gift transfer	107.08.15	Wu Mei-Jun	Father - daughter	40,000	-

Note 1: List names of company directors, supervisors, management or top 10 shareholders

Note 2: List acquisitions or disposals

(3) Information on Shares Pledged to Interested Parties: None

8. Information on the Top 10 Shareholdings and their Relationship:

April 15, 2019 / Unit: Shares

Name	Current Shareholding		Spouse, Minor Children Shareholding		Shareholding by Nominee Arrangement		Name and Relationship between the Company's Top 10 Shareholdings, or Spouses or Relatives within Two Degrees of Kinship		Remark
	Shares	%	Shares	%	Shares	%	Title (or name)	Relationship	
San Fu Global Ltd. Representative: Zhang	22,116,689	24.38%	—	—	—	—	—	—	—
Pilot Keymark SDN. BHD.	19,929,000	21.97%	—	—	—	—	—	—	—
Wu Xin-Hong	3,381,750	3.73%	—	—	—	—	Wu Dong-Boa	Father/son	—
Fang Hong-Yuan	3,349,934	3.69%	—	—	—	—	—	—	—
FORTUNE CONTIENT TRADE LIMITED	3,302,722	3.64%	—	—	—	—	—	—	—
Zhang Xi-Wen	3,280,000	3.62%	—	—	—	—	Zhang Chun-Ming Zhang Dan-Liang	Son/Father Brothers	—
Zhang Chen Shu-Li	3,177,627	3.50%	—	—	—	—	Zhang Chun-Ming	Sister-in-law / Brother	—

Chinatrust Commercial Bank trust account on behalf of Zhang Chun-Ming	3,111,845	3.43%	—	—	—	—			—
Wu Dong-Boa	2,710,000	2.99%	—	—	—	—	Wu Xin-Hong	Son/Father	
Zhang Dan-Liang	1,640,000	1.81%	—	—	—	—	Zhang Chun-Ming g Zhang	Son / Father Brother s	—

9. The Shareholdings of the Company and Company's Directors, Supervisor, Management and Enterprises Directly or Indirectly Controlled by the Company in the Same Invested Company and the Consolidated Shareholding Ratio:

December 31, 2018/Unit: Shares

Reinvested Companies	Investment by the Company		Investment by directors, supervisors, management or enterprises directly or indirectly controlled by the Company		Total Investment	
	Shares	%	Shares	%	Shares	%
San Fu Specialty Chemicals Investments Limited	4,750,840	100.00%	—	—	4,750,840	100.00%
San Fu Food Additives Investments Limited	552,198	100.00%	—	—	552,198	100.00%
VinaSanFu Industrial Gas Company Limited	—(Note)	100.00%	—	—	—(Note)	100.00%
VinaSanFu Material Company Limited	—(Note)	100.00%	—	—	—(Note)	100.00%
San Fu Biotech Co., Ltd.	2,500,000	100.00%	—	—	2,500,000	100.00%
International Nitto Technology Co., Ltd.	30,000,000	100.00%	—	—	30,000,000	100.00%
Hong Cheng Enterprise Co., Ltd.	1,200,000	50.00%	—	—	1,200,000	—
Li Fu Carbonic Acid Co., Ltd.	500	25.00%	—	—	500	—
Shian Yun Joint Stock Company	2,659,974	33.33%	—	—	2,659,974	33.33%
Shanghai San Fu Ming Electronic Materials Co., Ltd.	—(Note)	50.00%	—	—	—(Note)	50.00%
Lucky Star Holding Limited	1,324,539	100.00%	—	—	1,324,539	100.00%
Sino Star Holding Limited	1,867,838	100.00%	—	—	1,867,838	100.00%
Fanda International (Samoa) Ltd	1,300,000	41.94%	1,800,000	58.06%	1,300,000	100.00%

Note: The Chinese and Vietnamese companies that are indirectly invested in by the Company are limited liability companies and have no stock.

IV. Capital Overview

1. Capital and Shares

(1) Sources of Capital

1. Capital formation

April 15, 2019

Unit: Thousand Shares; Thousand NT\$

Year and Month	Par Value	Authorized Capital		Paid-In Capital		Remark		
		Shares	Amount	Shares	Amount	Source of Capital	Invested with Assets Other Than Cash	Other
03/2003	10	100	1,000	100	1,000	Company establishment (cash)	—	Note 1
11/2003	10	80,000	800,000	20,100	201,000	Issuance of NT\$200,000 thousand in new shares from split	—	Note 2
12/2003	10	80,000	800,000	20,110	201,100	Capital increased by NT\$100 thousand in cash	—	Note 3
04/2004	10	80,000	800,000	45,110	451,100	Capital increased by NT\$250,000 thousand in cash	—	Note 4
08/2006	10	80,000	800,000	65,110	651,100	Capital increased by NT\$200,000 thousand in cash	—	Note 5
11/2010	10	120,000	1,200,000	80,000	800,000	Capital increased by NT\$148,900 thousand in cash	—	Note 6
12/2013	10	120,000	1,200,000	88,000	880,000	Capital increased by NT\$80,000 thousand in cash	—	Note 7
11/2014	10	120,000	1,200,000	89,203	892,030	Stock options transferred into NT\$12,030 thousand in shares	—	Note 8
04/2015	10	120,000	1,200,000	89,222	892,220	Stock options transferred into NT\$190 thousand in shares	—	Note 9
05/2015	10	120,000	1,200,000	89,224	892,240	Stock options transferred into NT\$20 thousand in shares	—	Note 10
11/2015	10	120,000	1,200,000	89,791	897,910	Stock options transferred into NT\$5,670 thousand in shares	—	Note 11
03/2016	10	120,000	1,200,000	89,819	898,190	Stock options transferred into NT\$280 thousand in shares	—	Note 12
05/2016	10	120,000	1,200,000	89,835	898,350	Stock options transferred into NT\$160 thousand in shares	—	Note 13
08/2016	10	120,000	1,200,000	89,837	898,370	Stock options transferred into NT\$20 thousand in shares	—	Note 14
11/2016	10	120,000	1,200,000	90,483	904,830	Stock options transferred into NT\$6,460 thousand in shares	—	Note 15

						shares		
03/2017	10	120,000	1,200,000	90,577	905,770	Stock options transferred into NT\$940 thousand in shares	—	Note 16
05/2017	10	120,000	1,200,000	90,694	906,940	Stock options transferred into NT\$1,170 thousand in shares	—	Note 17
08/2017	10	120,000	1,200,000	90,706	907,060	Stock options transferred into NT\$120 thousand in shares	—	Note 18

Note 1: Fu-Jian-Shang no. 092063165

Note 2: Fu-Jian-Shang no. 09223597130

Note 3: Fu-Jian-Shang no. 09226739500

Note 4: Fu-Jian-Shang no. 093086689107

Note 5: Jing-Shou-Shang no. 09501187530 dated 08/23/2006

Note 6: Jing-Shou-Shang no. 09901246690 dated 11/05/2010

Note 7: Jing-Shou-Shang no. 10201248420 dated 12/09/2013

Note 8: Jing-Shou-Shang no. 10301238370 dated 11/19/2014

Note 9: Jing-Shou-Shang no. 10401055700 dated 04/01/2015

Note 10: Jing-Shou-Shang no. 10401095360 dated 05/25/2015

Note 11: Jing-Shou-Shang no. 10401240310 dated 11/13/2015

Note 12: Jing-Shou-Shang no. 10501060910 dated 03/31/2016

Note 13: Jing-Shou-Shang no. 10501094780 dated 05/11/2016

Note 14: Jing-Shou-Shang no. 10501205000 dated 08/23/2016

Note 15: Jing-Shou-Shang no. 10501262880 dated 11/09/2016

Note 16: Jing-Shou-Shang no. 10601038670 dated 03/29/2017

Note 17: Jing-Shou-Shang no. 10601064770 dated 05/22/2017

Note 18: Jing-Shou-Shang no.10601117000 dated 08/15/2017

2. Types of Issued Shares

April 15, 2019 /Unit: Shares

Type of Shares	Authorized Capital			Remark
	Issued (listed)	Unissued Capital	Total	
Registered common shares	90,706,000	29,294,000	120,000,000	

(2) Shareholder Composition

April 15, 2019 / Unit: Persons; Shares

Shareholder Composition	Government Institution	Financial Institution	Other Legal Person	Natural Person	Foreign Institutions and Individuals	Total
Quantity						
Number of persons	0	2	16	1,697	17	1,732
Shareholding	0	4,370,845	23,843,689	33,354,555	29,136,911	90,706,000

Shareholding %	0.00%	4.82%	26.29%	36.77%	32.12%	100%
----------------	-------	-------	--------	--------	--------	------

(3) Shareholder dispersion

April 15, 2019

Shareholding bracket	No. of Shareholders	Shares Held	%
1~999	144	7,468	0.01%
1,000~5,000	1,101	2,235,305	2.46%
5,001~10,000	195	1,548,430	1.71%
10,001~15,000	57	731,000	0.81%
15,001~20,000	52	954,000	1.05%
20,001~30,000	54	1,345,398	1.48%
30,001~50,000	36	1,462,810	1.61%
50,001~100,000	40	2,825,252	3.11%
100,001~200,000	20	2,978,406	3.28%
200,001~400,000	15	4,129,051	4.55%
400,001~600,000	3	1,327,665	1.47%
600,001~800,000	1	666,838	0.74%
800,001~1,000,000	1	813,810	0.90%
Over 1,000,001	13	69,680,567	76.82%
Total	1,732	90,706,000	100.00%

(4) List of Major Shareholders

April 15, 2019 /Unit: Shares

Name of Major Shareholder	Shares	Shareholding	%
San Fu Global Ltd.		22,116,689	24.38%
Pilot Keymark SDN.BHD.		19,929,000	21.97%
Wu Xin-Hong		3,381,750	3.73%
Fang Hong-Yuan		3,349,934	3.69%
FORTUNE CONTINENT		3,302,722	3.64%
Zhang Xi-Wen		3,280,000	3.62%
Zhang Chen Shu-Li		3,177,627	3.50%
Chinatrust Commercial Bank trust account on behalf of Zhang Chun-Ming		3,111,845	3.43%

Wu Dong-Bai	2,710,000	2.99%
Zhang Dan-Liang	1,640,000	1.81%

(5) Market Price, Net Value, Earnings and Dividend per Share and Other Related Information

Unit: NT\$; Thousand shares

Item		Year	2017	2018	As of March 31, 2019
Market price per share	Highest		66.70	62.40	48.80
	Lowest		29.00	36.75	38.60
	Average		38.12	48.90	44.16
Net value per share	Before distribution		32.72	34.44	35.48
	After distribution		30.12	N/A	N/A
Earnings per share (EPS)	Weighted average no. of shares		90,686	90,706	90,706
	EPS		4.26	4.38	0.88
Dividend per share	Cash dividend		2.60	(note 1)	N/A
	Stock dividend	From retained earnings	0	0	N/A
		From capital reserve	0	0	N/A
	Cumulative unpaid dividend		0	0	N/A
Return on Investment (ROI) Analysis	Price-Earnings Ratio		8.95	(note 1)	N/A
	Price-Dividend Ratio		14.66	(note 1)	N/A
	Dividend Yield		6.82%	(note 1)	N/A

Note 1: Determined after resolution by the June 13, 2019 Shareholders' Meeting

(6) Dividend Policy and Execution Status:

When there are earnings for the fiscal year, the Company shall first cover its accumulated losses of previous years (including adjusted undistributed earnings) and set aside 10% as a legal reserve in accordance with the law. However, it is not necessary to allocate earnings towards the legal reserve if the legal reserve has already reached the total paid-in capital of the Company. The Company may also need to set aside a special reserve in accordance with the law or competent authority regulations. The balance together with the remaining undistributed earnings at the beginning of the fiscal year (including adjusted undistributed earnings) is available for distribution as shareholder dividends as stipulated by the Board of Directors earnings distribution plan submitted for approval by the Shareholders' Meeting.

Distribution of Company's dividends depends on the earnings status for that year.

The Company tries to keep dividends stable. Except for special circumstances, the dividend will not exceed 70% of net income for that year. The Company is currently in its growth stage so future capital requirements and long-term financial planning of the Company must be taken into consideration. The cash dividend may not be less than 50% of the total dividend but the amount may be adjusted by resolution at the Shareholders' Meeting based on actual profitability and future capital planning.

At the February 25, 2019 Board of Directors meeting, the Company proposed to distribute a cash dividend of NT\$2.7 from its 2018 earnings. After the proposal passes resolution at the June 13, 2019 Shareholders' Meeting, the distribution shall be handled in accordance with relevant procedures.

(7) The effect of the stock dividend as proposed to the Shareholders' Meeting on operating performance and earning per share: There is no stock dividend proposal to the Shareholders' Meeting so it is not applicable.

(8) Employee, Director and Supervisor Remuneration:

1. Percentage or range of employee, director and supervisor remuneration

According to the Company's Articles of Incorporation, 1% -3% of the current year's earnings are allocated for employee remuneration and no more than 3% is allocated for director and supervisor remuneration.

2. Estimate foundation of employee, director and supervisor remuneration, stock dividend distribution and accounting treatment for differences in the actual amount distributed and the estimated amounts: When there is a difference in the employee, director and supervisor remuneration estimate foundation and actual distribution amounts for the period, the difference is entered as an adjustment in Q1 2019.

3. Information on the remuneration distribution approved by the Board of Directors:

(1) The Company's 2018 earnings distribution plan was approved at the February 25, 2019 meeting of the Board of Directors and the employee, director and supervisor remuneration distribution was as follows:

A. Employee cash remuneration amount: NT\$9,885,000 in employee bonuses were approved for distribution.

B. Employee stock option amount: There is no proposal to distribute shares for this Shareholders' Meeting so it is not applicable.

C. Director and supervisor remuneration: NT\$9,885,000 in director and supervisor remuneration was approved for distribution.

(2) Employee remuneration amount as stock dividend as a percentage of the period's individual financial statement's net income and total employee remuneration:

The Company has not proposed to distribute employee stock options so it is not applicable.

4. Actual Employee, Director and Supervisor Remuneration Distribution for the Previous Year:

The Company's 2017 earnings distribution plan was approved at the March 15, 2018 meeting of the Board of Directors and the employee, director and supervisor remuneration distribution was as follows:

- A. Employee cash remuneration amount: NT\$9,510,000 in employee bonuses were approved for distribution.
- B. Employee stock option amount: There is no proposal to distribute shares for this Shareholders' Meeting so it is not applicable.
- C. Director and supervisor remuneration: The Board of Directors approved to distribute NT\$9,510,000 in director and supervisor remuneration.

(9) Buyback of Company Shares: None

2. Issuance of Corporate Bonds: None

3. Issuance of Preferred Stock: None

4. Issuance of Overseas Depository Receipts: None

5. Issuance of Employee Stock Options: None

6. Issuance of New Restricted Employee Shares: None

7. New Shares Issued for Mergers with or Acquisition of Shares of Other Companies: None

8. Capital Utilization Plan Execution Status: None

V. Operation Highlights

1. Business Content

(1) Business Scope

1. Major businesses

1. F401010 International Trade
2. F207200 Retail Sale of Chemistry Raw Material
3. C801010 Basic Industrial Chemical Manufacturing
4. F107200 Wholesale of Chemistry Raw Material
5. C801020 Petrochemical Manufacturing
6. F107060 Wholesale of Virulence Chemical Substance
7. F107990 Wholesale of Other Chemical Products
8. C802200 Paints, Varnishes, Lacquers, Dyeing Mills and Dyestuff Manufacturing
9. F107020 Wholesale of Dyeing Mills and Dyestuff
10. F207020 Retail Sale of Dyeing Mills and Dyestuff
11. C802100 Cosmetics Manufacturing
12. F108040 Wholesale of Cosmetics
13. C109010 Seasoning Manufacturing
14. F102170 Wholesale of Food and Grocery
15. C801100 Synthetic Resin & Plastic Manufacturing
16. C901020 Glass and Glass Made Products Manufacturing
17. CA04010 Metal Surface Treatment °
18. C199990 Other Food Manufacturing Not Elsewhere Classified
19. C114010 Food Additives Manufacturing
20. F121010 Wholesale of Food Additives °
21. F221010 Retail of Food Additives
22. J101030 Waste Disposal
23. J101090 Waste Collecting and Disposing
24. F108031 Wholesale of Drugs, Medical Goods
25. F208031 Retail Sales of Medical Equipments
26. ZZ99999 All business items that are not prohibited or restricted by law, except those that are subject to special approval

2. Major business categories and their percentages:

Company revenues and product category percentages for the past two years are as follows:

Unit: Thousand NT\$

Item \ Year	2017		2018	
	Amount	%	Amount	%
Fine chemicals	3,066,867	77.07	2,963,602	73.18
Basic chemicals	912,381	22.93	1,085,754	26.82
Total	3,979,248	100	4,049,356	100

3. Current product (service) items:

Product type	Current products	Description
Fine chemicals	Developing solution, etching solution, stripping solution, solvents, cleaners	Main products include TMAH, KOH, NaOH, ITO etchant, aqua regia etchant, Al etchant (phosphoric acid, nitric acid, acetic acid), Cu etchant, HF (hydrofluoric acid), HCl (hydrochloric acid), BM-73 (BDG/MEA), MD-73 (MEA/DMSO), DMSO (Dimethyl sulfoxide), BDG (Diethylene glycol monobutyl ether), MEA (Monoethanolamine), HMDS (Hexamethyldisilazane), RGB rework, ITO rework, Cu stripper, seal stripper, benzyl alcohol, EBR (edge bead remover), etc.
	Glass slimming OEM (GSS)	Glass etching and grinding OEM
	VMT	Slurry OEM
	TMAH recovery	Waste developing solution recovery
Basic chemicals	Chemical raw materials	Benzoic acid (Na), sulfamic acid, cyclohexylamine, dicyclohexylamine, aniline, 4-Hydroxybenzoic acid, paraben, oxalic acid, sodium gluconate, sodium hexametaphosphate, isophthalic acid.
	Food additives	Sweeteners: Sorbitol, mannitol, sucralose, acesulfame-K, neotame, saccharin sodium, cyclamate, stevioside. Sour agent: citric acid (monohydrate/anhydrous), sodium citrate (potassium), lactic acid, sodium lactate (calcium). Preservatives: Benzoic acid (Na), potassium sorbate. Other: Calcium chloride, anhydrous, sodium bicarbonate (baking soda), phosphoric acid.
	Food materials raw	Glucose (monohydrate/anhydrous), maltodextrin, trehalous, high maltose powder, corn starch.

4. New products (services) planned for development

- A. Electronic chemicals for touch panels
- B. Specialty chemicals for high-end TFT-LCD panels (3D, OLED and AMOLED)
- C. Electronic chemicals for IC nanometer-processes (front-end foundry, memory and back-end packaging)
- D. Electronic chemicals for solar cells
- E. Electronic chemicals for the LED industry
- F. TMAH recovery and reuse technology and products
- G. Chemical (bumping stripper) recovery and reuse technology and products
- H. Electronics-grade chemicals for export (Singapore, U.S.A. and Korea)

(2) Current Industry Status and Development

1. Current Industry Status

(1) Fine chemicals

Petrochemical products are generally divided into commodity chemicals and fine chemicals. Commodity chemicals are also called bulk chemicals. Fine chemicals are often referred to as performance chemicals or specialty chemicals. Performance chemicals are mainly used in manufacturing processes or on final products to improve product characteristics. Most are high value-added products. The Company's products include a broad range of specialty chemicals including developers, etchants, strippers, solvents, cleaners and glass slimming OEM.

The specialty chemical field includes the 'two trillion and three star' industries. One of the key manufacturing processes of the wafer foundry and display panel industries is generating specific thin-film patterns on wafers or glass panels. The thin-film material can be insulating silicon dioxide or polysilicon. Regardless of what kind of material is used as the thin-film, a layer of photoresist must first be coated on the wafer or glass panel. After passing through curing, exposure, developing processes, the desired pattern is then etched on it. Last, the pattern is completed on the thin-film by photoresist removal. There are organic and non-organic base developing solutions combined with photoresist developing which provide excellent developing capabilities and high contract characteristics. Etchants are mainly used in ITO or metal layer etching processes for silicon wafers, LCD panels, touch panels and solar cells. Lithography is used in the etching process to define the pattern on the substrate and then chemical corrosion, physical impact or a combination of the two is used to remove a portion of the material and leave behind the electrical circuit pattern. Strippers are used after the etching process to strip away the photoresist from the TFT-LCD metal or semiconductor thin-film circuits. Solvents are mainly used to remove excess photoresist from the edges of the substrate after panel photoresist coating. Cleaners have these applications: 1. Glass

recovery after color filter process failure 2. Cleaning before substrate enters the machine 3. Cleaning of photoresist coating fixtures.

As the semiconductor and optoelectronic industries continue to develop in Taiwan, demand for electronic chemicals shall steadily increase and quality requirements for electronic chemicals shall become stricter. Therefore, process efficiency development and quality improvement are key aspects of future industry development. As the new generation of IoT, flexible displays and the new generation of technology and process refinements such as 1x nanometer, FinFET, 3D stacking, AMOLED, IGZO, LTPS and copper processes are developed, the production value and growth rate of the global specialty chemical industry will steadily rise year after year. Every process will use different types of chemicals so research and development of a new generation of chemicals will be the future development trend for the industry.

(2) Basic chemicals

Basic chemicals mainly consist of food additives. Food additives are a result of human technological process and a desire to have a higher quality of life. In the past, our ancestors only thought of food as a way to avoid hunger. Nowadays, people care about color, smell, taste and nutrition of food. Food is also considered to be a form of art. Simply put, food additives are ingredients other than seasonings like garlic, onions and ginger that are added to foods. Countries usually have lists of legal additives which can be used depending on the food laws and regulations enacted in each country. Foods that are manufactured with under the specified amount of additives will not harm the health of consumers. The Food and Agriculture Organization (FAO) and World Health Organization (WHO) have jointly established the Codex Alimentarius to draft food additive definitions, specifications and standards which may be followed internationally. Still, there are many inconsistencies in food additive definitions and management in countries around the world. For example, the U.S. does not recognize colorings as food additives. The Codex Alimentarius does not recognize pollutants and food additives added to food to improve their nutrition or quality. Article 3 of Taiwan's Act Governing Food Safety and Sanitation defines food additives as substances that are added to or brought into contact with foods for the purpose of coloring, seasoning, preserving, bleaching, emulsifying, flavoring, stabilizing quality, enhancing fermentation, increasing viscosity, enriching nutritional value, preventing oxidation or other necessary purpose in the manufacture, processing, preparation, packaging, transportation, storage of foods.

Cyclohexylamine (CHA) is a specialty chemical used in the production of sodium cyclamate. Sodium cyclamate is a type of artificial sweetener that provides the same sweetness as sugar but does not contain compounds with the same

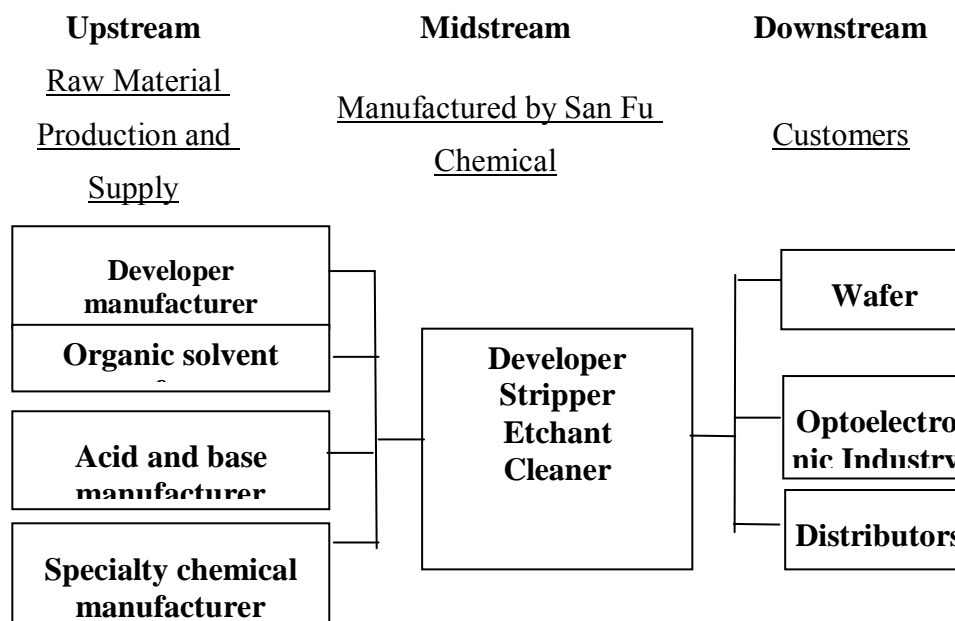
caloric value. It is 30 to 8000 times sweeter than sugar. As a result, products that are manufactured with it have much fewer calories than those products made with cane sugar. Commonly used as a substitute for corn syrup and cane sugar, it is added to many kinds of sodas and sweetened drinks. Artificial sweeteners can be used as a substitute for sugar in chocolate, jams, chewing gum, ice creams and beverages. Another use for CHA is as a corrosion inhibitor in water treatment agents. Dicyclohexylamine is mainly used as iron corrosion inhibitor. Citric acid monohydrate (CAM) is used as a sour agent and antistaling agent in the food and beverage industry. Sodium benzoate (BNA) is a type of preservative. Countries around the world including Taiwan allow its addition to food. It is commonly seen in carbonated beverages, candied fruit and snack foods. Paraben is a preservative that is widely used in drugs and cosmetics.

The public has developed a heightened awareness of food hygiene, safety and quality due to the series of food hygiene and safety incidents (melamine, plasticizer, ractopamine) that have occurred over the years. Due to rising health consciousness among consumers, hygiene, safety and quality control will become major factors in food market development.

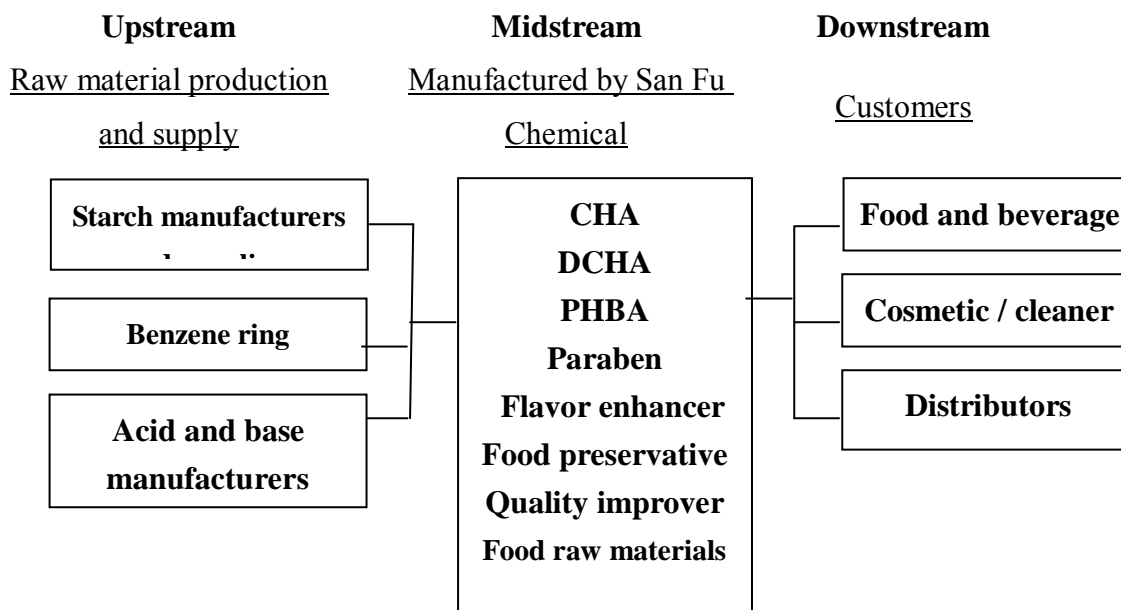
2. Industry upstream, midstream and downstream relationship

(1) Fine chemicals

The Company plays the role of a midstream manufacturer in the overall industry supply chain. Currently, the upstream part of the industry is primarily made up of raw material suppliers which supply developed, organic solvent, base and acid chemicals and specialty chemicals. Being in the midstream of the industry, San Fu manufactures chemical raw materials into the developers, strippers, etchants and cleaners required by downstream companies using formulation, purification, dilution and other processes. The downstream is made up of electronics industry including the wafer foundry and optoelectronic industries. The small packaging part of our business is handled by distributors to expand the range of industry categories. The relationship between the upstream, midstream and downstream parts of the industry is as follows:



(2) Basic chemicals



3. Product development trends and competitors:

(1) Product development trends

A. Development trends

The Company's products are currently used by the TFT-LCD display and semiconductor, LED, solar power, green energy and food & beverage industries. Most are key specialty chemicals and basic chemicals used in downstream company production processes. New products are developed by product adjustment, improvement and customization to respond to the ever-changing requirements of new processes developed with cutting-edge technology. Future industry development and downstream application industry are closely linked. The following is a description of the future development trends of downstream application industry for the Company's products.

(A)TFT-LCD industry

The production value of the panel industry in 2018 was US\$112.0 billion, increasing by 1.8% compared to 2017. As for 2019, survey institutes estimate that the global panel industry production value will increase by 2.68%. Positive factors include: stable economies in Europe and the U.S. in 2017-2018, increase China demand, growing end-consumer markets. These are all favorable to extended the panel industry growth trend. Large panels make up about 70% of Taiwan's panel industry production value and small panel comprise around 30%.

Large display panels

According to a 2018 large panel shipment survey report, annual shipments were adjusted upward to 804,060,000 panels 2.5% higher than the previous year. Looking forward to 2018, large panel shipments are estimated to grow 1% to 811,770,000 due to upgraded product specifications. Spurred by TV and display panel demand, regional shipments are expected to reach 197.9 million sq. meters increasing 10.6% over the previous year. Initial estimates of unit shipments of three major products, panel manufacturers will continue to focus on display and notebook computer panel businesses. Shipments of these two types of panels will increase by 5.3% and 6.6% respectively. In the same year, TV panel shipments are expected to only grow by 2.6%. Three new 10.5G plants of CSOT, BOE, Foxconn/Sharp Guangzhou are scheduled to come on line in 2019.

Small to medium display panels

Global small to medium AMOLED panel production capacity continued to expand in 2018. Small to medium AMOLED panel capacity area in 2018 is estimated to rise to 13,600,000 sq. meters increasing by 51.1% over 2017. As new production capacity from China panel manufacturers comes on line, AMOLED panel capacity is predicted to rise to 27,300,000 sq. meters in 2021 which is over double the capacity in 2018. Due to the brisk demand for AMOLED panels by Chinese brand manufacturers and stimulus provided by government rebate policies, overall small to medium AMOLED panel area capacity in China is expected to rise from 16% in 2018 to 37% of total capacity in 2021. At the same time, the percentage in Korea is predicted to drop from 81% to 53%.

(B) Semiconductor industry

Survey institutes estimate that the global semiconductor market will reach another new high of 476.7 billion in 2018, representing an increase of 13% over 2017. As for 2018, the China-U.S. trade war, the drop in memory chip prices and rising uncertainties about the global economy will cause the pace of market growth to slow down significantly. The growth rate in 2019 over 2018 is forecast to be just 2.6% mainly due a major drop in memory chip growth, weak smart phone demand, reduced automotive and industrial application demand and lower cryptocurrency prices.

Global semiconductor material market revenue is expected to reach over US\$50.0 billion in 2019, a 2% increase over the US\$49.0 billion in 2018. This is

due to the relatively weak performance of the memory chip industry (10% annual growth) in the second half of the year. Global semiconductor equipment market capex is forecast to fall by 4% in 2019.

(C) Food industry

Health, happiness, convenience and environmental protection & ethics are the four main components of demand for global consumers and the main drivers of food industry innovation and R&D. In order to respond to health demands of consumers, food companies need to strike a balance between texture, taste, healthiness and safety through technology, formulation and process improvements to lighten the burden on consumers by lowering calories, reducing allergens and downsizing packaging. Due to the series of food safety incidents such as melamine, plasticizer and tainted starch that have over recent years, consumers have a much higher awareness towards food safety so food companies are more highly concerned about raw material sources and quality.

(2) Product competition

Competition has been increasing in recent years due to factors such as aggressive moves by foreign suppliers to enter Taiwan's market due to greater information transparency and ease of obtaining raw materials. However, the Company has been able to maintain its competitive advantage. Compared to foreign suppliers, San Fu enjoys the advantages of proximity and price. As for local suppliers, the Company offers higher quality, customized services and close technical support. As a result, San Fu can steadily grow year after year.

(三) Technology and R&D

1. R&D Expenditures

Unit: Thousand NT\$

Year	2017	2018	Jan – Mar 2019
R&D expenditures	16,547	12,344	5,597
Revenue	3,979,248	4,049,356	960,308
R&D expenditures as a percentage of revenues	0.42%	0.30%	0.58%

2. Successfully Developed Technologies or Products:

Year	R&D Accomplishments
2011	1. Developed new distillation process for CHA

	2. Use of low permeability ion exchange membrane in manufacturing process
2012	Low temperature recovery of PHBA from wastewater
2013	1. Jointly developed copper process stripper with major LCD panel manufacturers 2. Raise yield with PMI polymerization inhibitor 3. Developed high quality new process for waste TMAH solution recovery
2014	1. Develop new process for DCHA 2. Developed hydrogenated benzoic acid product
2015	1. Trial production of new DCHA process 2. Increased TMAH electrolysis current efficiency
2016	1. Developed TMAH electrolysis method to recover TMAH 2. Developed high selectivity catalytic hydrogenation
2017	1. Optimized electrolysis method for recovery and remanufacture of TMAH to reach LCD grade 2. Developed high purity benzoic acid hydrogenation process
2018	1. Established paraben high recovery green esterification process 2. Developed use of liquid crystal polymer intermediates (LCP) in parabens process for 5G flexible panels

(4) Long-term and short-term business development plan

1. Short-term business development plan

(1) Fine chemicals

A. Marketing strategy

(A) Strengthen customer service quality, regularly visit customers, understand and quickly handle customer reactions, set up two-way communication channels between the Company and customers, resolve any difficulties, raise service quality and efficiency, strive to reach customer service system and customer satisfaction targets to establish customer reputation and build company image.

(B) Consolidate and expand customer base in market, link and extend upstream and downstream chemical applications for current customers, actively develop and search for new domestic and international customers, seek out cooperation opportunities with major international companies to expand business range, increase economic effectiveness of products and reduce risk.

(C) Strengthen professional training for employees and improve appearance of tanker trucks, product packaging and website design to raise San Fu's brand value and customer loyalty.

B. R&D Strategy

(A) Continue to raise process efficiency, production volume and product quality, reduce total wastewater and waste amounts.

(B) In addition to satisfying the chemical quality requirements of customers and providing stable supplies, the Company will work to adjust and improve its products and develop new customized products based on the differing requirements of customers to respond to ever-changing high-tech processes.

C. Production strategy

(A) Strengthen interactions with raw material suppliers, engage in supply chain deployment, diversify concentrated risks and continually raise technical capabilities.

(B) Establish a strict management system, implement stringent quality requirements and provide excellent quality products to customers.

D. Operation and management

(A) Establish a sound management system, strengthen management performance, put company business philosophy into practice and improve company image in line with company development.

(B) Strengthen employee education and training, make human resources the most important asset for corporate competitiveness. Combine company organization, business development requirements and employee career planning to arrange internal and external education and training programs for each department to improve employee occupational know-hoe and management skills and upgrade mid to long-term competitiveness of the Company.

(C) Strengthen financial structure and health, use sound financial planning and operation management to get maximum overall benefit from company resources.

(2) Basic chemicals

A. Actively consolidate current customers and gradually eliminate customers with poor credit. Then further leverage our quality and technical service advantages to win the trust of potential and current customers to increase company revenue and expand our niche businesses.

- B. Strengthen purchasing capability, keep track on the market conditions and currency rate changes to reduce product costs, increase company competitiveness and profit.
 - C. Focus on new product R&D, raising product quality and developing sales channels. Build up corporate image and recognition to gain advantages in marketing.
2. Long-term business development plan
- A. Marketing strategy
 - (A) Strategic alliance: Respond to rapidly changing market environment and competitor compression by linking up with upstream suppliers and downstream customers. Develop product strategies in tandem to increase competitiveness and achieve the goals of resource sharing, cost reductions and market expansion.
 - (B) Diversification of operation risk: Respond to market demand and industry development trends, diversify product line, avoid operation risk of overconcentration on a single product or a single product being affected by economic factors.
 - (C) Seek out international opportunities: Seek out more overseas customers, expand globally, develop emerging markets and achieve market diversification targets.
 - (D) Actively cultivate professional sales talent: Encourage identification with corporate culture throughout the organization to meet the future development requirements of the Company. Build common values and solidarity around the Company. Seek up cooperative opportunities with world-class corporations to raise our company profile and market share.
 - B. R&D strategy
 - (A) Continue to raise process efficiency, production volume and product quality, reduce total wastewater and waste amounts.
 - (B) In addition to satisfying the chemical quality requirements of customers and providing stable supplies, the Company will work to adjust and improve its products and develop new customized products based on the differing requirements of customers to respond to ever-changing high-tech processes.
 - C. Production strategy
 - (A) Continue to expand production scale and capacity, reduce production cost of products.
 - (B) Raise product quality and added value to expand market share.
 - (C) Keep track of market conditions, continually innovate, develop various new products, meet market requirements, create production scale for product lines and raise company competitiveness.
 - (D) Long-term backbone of business is health, safety and quality, fulfill mission

of offering people a healthy life and high standard of living.

D. Operation management

- (A) Execute investment plan in tandem with the growth of the Company's scale of operations in line with future company development and market requirements.
- (B) Create a sound and reasonable human resource and welfare system, improve employee cohesion, improve operation performance to raise overall employee efficiency and operating capacity.
- (C) Strengthen existing and potential customer management capabilities including use of financial status and payment surveys to serve as a basis for customer credit ratings in order to gain and keep excellent customers and prevent uncollectable accounts from occurring.

2. Market, Production and Sales Overview

(1) Market analysis

1. Sales regions for major products (services)

Unit: Thousand NT\$

Sales region \ Year	2017		2018	
	Net Sales	Percent of Net Sales	Net Sales	Percent of Net Sales
Asia	3,926,559	98.68%	3,982,120	98.34%
America	35,812	0.90%	41,572	1.03%
Other	16,877	0.42%	25,664	0.63%
Total	3,979,248	100.00%	4,049,356	100.00%

2. Market share, future supply and demand conditions and growth prospects

(1) Fine chemicals

Since the fine chemicals divisions was established in 2004, our efforts have been focused on R&D and sale of chemicals to high-tech industries which has brought steady business growth. Presently, our chemicals are sold to the IC, TFT-LCD, LED, solar and other optoelectronic industries and include many major companies in high-tech industries such as TSMC, UMC, VIS, PTI, AUO, Innolux (formerly Chi Mei Optoelectronics), HannStar, Epistar, Epitaxy, Gintech, NSP and Solartech. In recent years, the company has entered into the specialty chemical field for semiconductor wafers / packaging and testing and solar wafers and has become one of the major suppliers of electronic chemicals for the domestic TFT-LCD industry.

The company is primarily dedicated to the R&D, production and sales of fine and basic chemicals. After investing much effort, the company has become known for its professionalism in the industry. According to an IEK industry report, the domestic specialty chemical production value in 2018 is NT\$225.7 billion, an increase of 2.4% over 2017. The Company's fine chemical business is currently in an operation expansion stage. In response to continuing operation growth, the Company completed its phase 1 and 2 new plant construction in the Tainan Liuying Science Park and started to manufacture specialty chemicals. The entire phase 3 line was completed in 2018. In the future, the Company shall continue to focus on chemical R&D and production line expansion which is expected to further increase our market share. The application range for products is also gradually expanding. Besides specialty chemicals, circular economy has become a major development model worldwide and serves as a major development direction for San Fu. As this new concept is introduced into the production and manufacturing processes for basic necessities, it will bring a green transformation to specialty chemicals so San Fu will continue to make progress in our waste solution recovery and reuse project development.

The Company's fine chemical division offers a broad range of products. It includes developers, etchants, photoresist cleaner and RGB regenerants which can fulfill the total chemical requirements of customers.

(2) Basic chemicals

Over the years, the Company has insisted on providing the best products to our customers to develop a healthy and high quality image, earn customer trust and support and become a market leading brand.

The public has developed a heightened awareness of food hygiene, safety and quality due to the series of food hygiene and safety incidents that have occurred over the years and brand identity has increased as a result. So, the market for safe and high quality products should enjoy stable growth.

3. Competitive niche

A. Possess outstanding R&D capabilities

The Company has a professional R&D team and TAF laboratory. With regard to special customer requirements and development of total solutions, ideal customized products are formulated based on the customer's process conditions and using technical personnel that have process experience in downstream application industries. As for customer process requirement R&D, customer certification are effectively reduced which raises the market competitiveness of our customers.

B. Provide quality and value services

The company provides new quality and value products and services to our customers. Over the years, the company has continued incorporated the most advanced equipment into our production facilities including ICP Mass, cleanrooms and pilot plant to help customers with production process report data analysis, identify the material characteristics required for customer manufacturing processes and provide timely solutions so the Company can maintain excellent long-term cooperative relations with our customers.

C. Steady development of new products and technologies

The Company is always searching out related industry technology, keeps informed about market conditions, constantly innovates and develops a wide range of new products that meeting market requirements. In addition, the Company is actively engaged in the development specialty chemical recovery technology such as TMAH and etchant recovery. The Company is able to prosper alongside the flourishing TFT-LCD, semiconductor, LED and solar energy industries, satisfy green environmental protection requirements and strengthen its leadership position in its core competency.

4. Advantageous and disadvantageous factors for development prospects and countermeasures

A. Advantageous factors

(A) Growth in fine chemical downstream application industry

As global optoelectronics and green energy industries continue to grow, there is high development potential for the overall industry. TFT-LCD, semiconductor, green energy are the pillars supporting the Company's fine chemical growth. Survey institutions predict that oversupply in panel industry will continue through 2019. The reason is new capacity is continuing to be brought online. Strong growth in area demand can be expected. Therefore, how smoothly old panel plant restructuring and new plant ramp-up proceed will be key factors affecting supply and demand. In 2019, growth in panel demand is expected to exceed 2%. The annual oversupply rate will be higher than 2018. In addition, mass production at 10.5G and 11G plant could lead to further oversupply. How smoothly the continued retooling and restructuring of older plants and ramp up of new plants proceed will have a critical impact on supply and demand.

The global semiconductor market is divided up based on product applications. Spurred along by growth in IoT, 5G, automotive electronics, AR / VR and AI applications, semiconductor market growth may extend until 2025. Though the China – U.S. trade tensions may affect the international situation,

survey institutes estimate that the industry will grow slightly or remain flat in 2019.

(B) Taiwan is a key production site for downstream application industries

Taiwan is one of the top five manufacturers of TFT-LCD panels in terms of production volume. As for semiconductors, the country has one of the top five chip foundries and a number of memory chip manufacturers. Since Taiwan is a major producer of electronic parts and components, it has become a major market for the global electronic specialty chemicals. Due to the high technical threshold, supply of major electronic specialty chemicals has been controlled by Japanese companies. However, as the technical capabilities of Taiwan companies has improved, local electronic specialty chemical suppliers have gradually gained a footing in the supply chains of electronic component manufacturers.

B. Disadvantageous factors

(A) Competition between international and Chinese manufacturers

Most electronic specialty chemicals are supplied by foreign companies. Japanese manufacturers still lead the industry in their technical capabilities. In response to Taiwan companies breaking into supply chain, Japanese companies are working harder to hold on to their existing customers. In addition, Chinese electronic specialty chemical manufacturers have started to emerge grabbing market share with lower prices. This will intensify competition between companies.

Countermeasure:

The Company continually develops new technology and processes for chemical products to maintain our distinctness and reduce the chance of being replaced by other competitors.

(B) Price reduction pressure from customer-end

The Company's major customers are bellwethers in the market. In order to win customers, other competitors may adopt a low price strategy to raise customer purchasing intent. In addition, current major customers are facing a certain amount of pressure to trim overall product costs. So, these customers will ask their suppliers to cooperate by lower prices. Lower sales will decrease company profitability.

Countermeasure:

Through development of new chemical technologies and processes, the

Company can offer new products in conjunction with customer process changes to increase differentiation with competitors and maintain product unit prices and profits. The purchasing end determines supply and price negotiation strategy based on the product category to reduce the pressure of raw material price hikes and customer price reduction requests in recent years.

(C) Environmental protection pressure

There is a waste solution problem with the chemicals used by our customers. As environmental awareness has risen in Taiwan in recent years, customers are not only facing protests over odors but there have been reexamination of many existing chemicals as waste reduction, discharge and transportation costs increase greatly.

Countermeasure:

San Fu has shifted its thinking from viewpoint of the cyclical economy. Chemical development is done from perspective of recycle, reuse and green. The Company has confidence that this will increase the willingness of customers to cooperate with San Fu and extract us from the swamp of price reduction and red water. The Company develops odorless chemicals and chemicals that allow reuse of waste solution. In the last two years, San Fu has won over customers with IC formulated chemicals and TMAH-R that were developed using this thinking.

(2) Uses of major products and production processes:

1. Primary uses of major products:

(1) Fine chemicals

- A. Developer: Base developing solution is used to neutralize and strip away the organic acid formed after exposure of the photoresist (PR) in the semiconductor or panel process leaving the unreacted PR behind.
- B. Etchant: Acidic etchant is used to etch away the metal not protected by PR in the semiconductor or panel process leaving behind the metal circuit pattern protected by the PR.
- C. Stripper: Remove the etched away PR to expose the metal circuit pattern protected by the PR.
- D. Solvent: Use to dilute or clean the PR before PR unpolymerization.
- E. Cleaner: Restore defective glass from the panel manufacturing process to blank glass substrate.

(2) Basic chemicals:

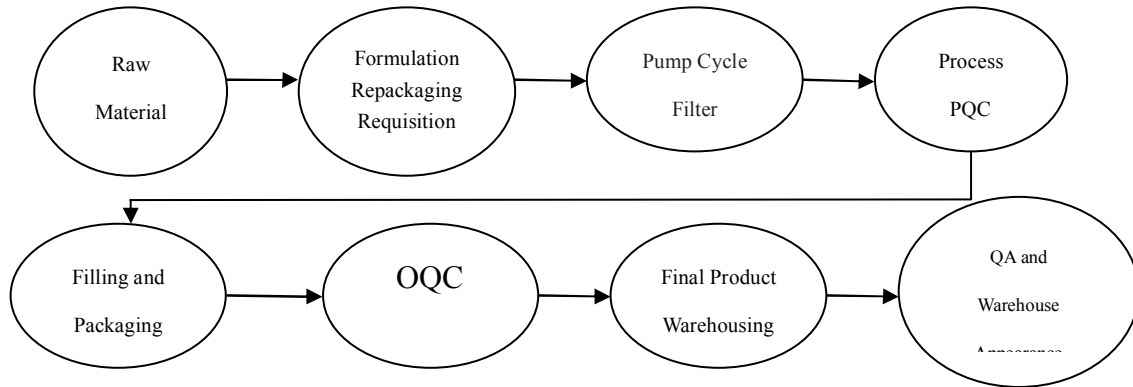
- A. Food additives: Necessary for food manufacturing and processing

B. Paraben, sorbitol: Personal care products and cosmetics.

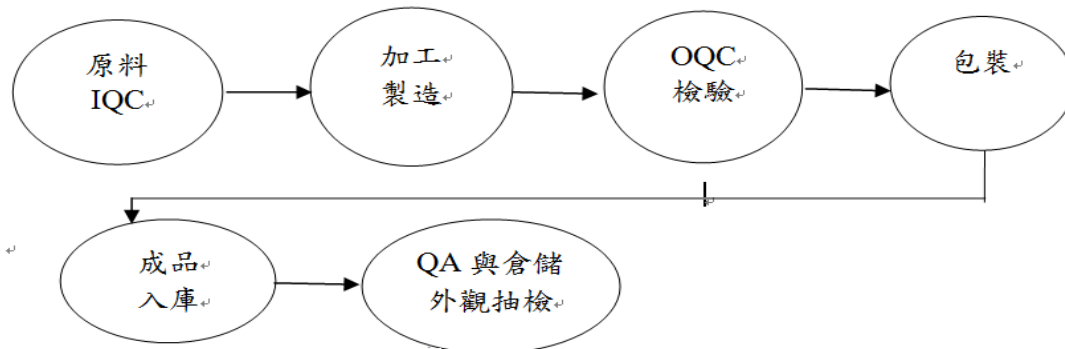
C. Food raw materials: Used in the production process for processed foods.

2. Production process of major products:

(1) Fine chemicals



(2) Basic chemicals



Raw material IQC Processing Manufacture OQC Inspection Packaging

Finished Product Warehousing QA and Warehouse Appearance Sample Inspection

(3) Major raw material suppliers:

The Company has stable supply channels to acquire raw materials. With regard to special raw materials, San Fu has adopted cooperation through shareholding approach to gain control over raw material provision. If there is a shortage of raw materials in the market, the Company is given priority. For other raw materials, two or more suppliers are kept to maintain stable delivery. Excellent relations are maintained between the Company and suppliers and a risk diversification strategy has been adopted.

Type	Major raw materials	Major supplier	Supply conditions
Fine chemicals	Phosphoric acid / sulfuric acid	Hubei Xingfu Electronic Material	Excellent
	TMAH	Runjing High Purity Chemicals	Excellent
Basic chemicals	Industrial grade benzoic acid	KALAMA	Excellent
	Glucose	ROQUETTE	Excellent

(4) The name, purchase (sale) amount and ratio of the customers that accounted for over 10% of total purchases (sales) in one of two recent years and the reason for the changes:

1. Major customers

Unit: Thousand NT\$

Item	2018				2017				2019Q1			
	Name	Amount	%	Relation with issuer	Name	Amount	%	Relation with issuer	Name	Amount	%	Relation with issuer
1	Company A	1,267,711	31.31	None	Company A	1,392,295	34.99	None	Company A	292,806	30.49	None
2	Company B	607,536	15.00	None	Company B	614,504	15.44	None	Company B	142,764	14.87	None
3	Other	2,174,109	53.69		Other	1,972,449	49.57		Other	524,738	54.64	
—	Net sale amount	4,049,356	100		Net sale amount	3,979,248	100		Net sale amount	960,308	100	

There was no significant change in major sales customers in 2018 and 2017.

2. Major suppliers

Unit: Thousand NT\$

Item	2018				2017				2019Q1			
	Name	Amount	%	Relation with issuer	Name	Amount	%	Relation with issuer	Name	Amount	%	Relation with issuer
1	Other	2,799,995	100.00	—	Net	2,618,063	100.00	—	Other	609,754	100.00	—
—	Net purchase amount	2,799,995	100.00	—	Net purchase amount	2,618,063	100.00	—	Net purchase amount	609,754	100.00	—

(5) Production Value over Recent Two Years

Unit: Tons / Thousand NT\$

Major product (or by department)	2018			2017		
	Capacity	Production amount	Production value	Capacity	Production amount	Production value
Fine chemicals	38,840	34,007	1,101,470	38,259	35,234	1,063,689
Basic chemicals	9,743	6,462	497,987	10,535	4,566	289,273
Total	48,583	40,469	1,599,457	48,794	39,800	1,352,962

(6) Sales Volume and Value over Recent Two Years

Unit: Tons / Thousand NT\$

Major product (or by department)	2018				2017			
	Domestic		Export		Domestic		Export	
	Amount	Value	Amount	Value	Amount	Value	Amount	Value
Fine chemicals	71,375	2,840,321	4,120	123,282	80,558	3,066,867	0	0
Basic chemicals	20,594	612,956	5,393	472,797	19,411	563,363	4,526	349,018
Total	91,969	3,453,277	9,513	596,079	99,969	3,630,230	4,526	349,018

3. Employees

Unit: Persons; Year

Year		2017	2018	As of Mar 31, 2019
Number of Employees	Management	66	62	61
	Support staff	268	313	314
	Total	334	375	375
Average Age		39	38.8	39.1
Average Years of Service		9.5	9.1	9.2
E D U C A T I O N	Doctorate	0.6%	0.3%	0.3%
	Masters	15%	17.9%	17.9%
	University	55.1%	53.5%	53.3%
	High School (Vocational)	26.9%	25.9%	26.1%
	Below high school (vocational)	2.4%	2.4%	2.4%

4. Environmental Protection Expenditures

(1) Total damages (including compensation) and disposal caused by environmental pollution:

Year Item	Dec 31, 2018	Dec 31, 2017	As of Mar 31, 2019
Date	None	None	None
Pollution condition	None	None	None
Compensation counterpart or disposal unit	None	None	None
Compensation amount or disposal status	None	None	None
Other damages	None	None	None

(2) Future countermeasure policies (including corrective actions) and possible expenditures (including damages, disposal and compensation estimates that could result from not adopting countermeasures): By promoting the writing of CSR reports, the Company

believes there will be stricter controls of environment protection requirements (such as air pollution, wastewater treatment, waste sorting and reduction) and corporate social responsibility. In the future, San Fu will work harder to implement energy conservation, carbon reduction, green and environmental protection work to reduce pollution risk.

5. Labor-Management Relations

(1) List the employee welfare, continuing education, training, pension system and other measures adopted by the Company, labor-management negotiations and measures taken to uphold employee rights:

1. Employee welfare measures, continuing education, training and implementation status

Employee welfare items fully promoted and implemented by the Company. The employee welfare measures being currently implemented are as follows:

(1) Two day weekend (2) Competitive salary levels (3) Employee education and training (4) Cash gifts for weddings and funerals (5) Employee health exams (6) Cash gifts for birthday and annual festivals (7) Employee trip (8) Hospitalization consolation gift (9) Employee proposal bonus (10) Childrearing allowance.

2. Continuing education and training

With regard to operations staff and management, San Fu introduced a balanced scorecard as a strategy performance management tool to demonstrate our commitment to execution and sustainable operations. The human resource office continued to refine supervisor management duties in 2018 by planning three courses. At the beginning, the program started out with a Talent Development Canvas course which introduced the talent canvas development tool used by General Electric for many years to assist executive management understand the importance of cultivating diversity and high potential talent among their staff. In the third quarter before planning the annual budget, the human resource office extended the depth of the balanced scorecard as a management tool by planning the 2019 Strategic Goals and Execution Direction course to assist supervisors expand use of the balanced scorecard to plan the annual budget and connect mid to long-term strategy in order to further enhance the strength of management tools. At the end of the year, the Further Performance Management Enhancement training course was planned to help all levels of management renew and enhance performance management spirit and techniques so that their work targets and personnel management for the next year incorporates the latest management methods.

The Company pays special attention to personal planning and talent cultivation, and actively encourages employees to participate in various training courses including company internal and external training courses. The Company's 2018 training hour statistics are shown in the table below:

			Male	Female	Total
Management	Actual number of people during reporting period		58	7	65
	Hours of training received during the reporting period		1,143.5	203	1,346.5
	Average hours of training received during the reporting period		19.72	29	20.72
Non-management	Actual number of people during reporting period		233	81	314
	Hours of training received during reporting period		1,759.2	609	2,368.2
	Average hours of training received during the reporting period		7.55	7.52	7.54
Total		No.	291	88	379
		Hrs	2,902.7	812	3,714.7
Total number of employees at the end of the reporting period		No.	291	88	379
Average hours of training received by each employee		Hrs	9.97	9.23	9.8

In the second quarter of 2018, the Human Resource Office finished installation of a digital learning platform and introduced employee learning behavior to it. As of the end of 2018, new employee education and training programs are now completed online. Three tiers totaling 24 hours were set up to reduce internal instructor face-to-face instruction time and costs. In addition, the ethical management instruction needed to comply with TWSE/GTSM regulations has been transferred online and a total of 147 employees have passed training. This has eliminated the transportation costs and time required to send employees to other plants and providing training to employees stationed abroad.

3. Pension system and implementation status

The pension system under the Labor Pension Statutes was implemented on July 1, 1995. The Company inquires whether its workers wish to join the old or new pension system, processes the years of service from the old system, performs new system reporting and pension contribution work in accordance with regulations. Each month, 6% of each worker's wages is contributed in accordance with Labor Pension Statutes regulations. The Company's pension payment standard is handled in accordance with Article 55 of the Labor Standards Act and Labor Pension Statutes. The Company has drafted employee pension procedures in accordance with law.

Employee years of service and pensions are calculated in accordance with Article 55 of the Labor Standards Act.

4. Personnel System and Labor -Management Relations

(1) Personnel system

The Company has a comprehensive human resource management system that includes employee recruitment, dismissal, promotion, transfer, education, training, attendance, salary and pensions. Its content covers selection, training, fostering, use and retainment of talent and complies with company internal controls and ISO requirements.

(2) Labor – management relations

The Company cares about promoting employee welfare and wellness as well as harmonious relations between management and labor and values employee opinions. Labor and management can communicate their ideas by email, opinion boxes or labor-management meetings to maintain excellent relations between both sides.

(2) Estimated Losses for Labor Disputes During the Recent Year and As of the Date of Publication, Disclose Current and Future Estimates of Potential Losses and Countermeasures: None

6. Major Contracts:

Nature of Contract	Counterparty	Contract Start Date	Major Contents	Restrictions
Construction project	Cheng Chieh Construction Co., Ltd.	11/2013 ~ Expiration of warranty period	Phases 1, 2 and 3 of the Liuke Plant new construction project	The construction company issued a note equivalent to 10% of the contract price as a warranty bond
Lease	San Fu Global Ltd.	04/01/2012 ~ 03/31/2032	Land for Liuke Plant	The company has preemptive right for the land

VI. Financial Highlights

1. Condensed Balance Sheet and Condensed Statement of Income over the past 5 years

(1) Condensed Balance Sheet and Condensed Statement of Income

(1) Condensed Balance Sheet - Consolidated

Unit: Thousand NT\$

Year		Financial information for most recent five years (Note 1)					As of March 31, 2019
		2018	2017	2016	2015	2014	
Item		2018	2017	2016	2015	2014	As of March 31, 2019
Current Assets		2,075,407	1,881,026	1,864,406	1,837,366	1,763,214	2,014,381
Financial assets carried at cost, available for sale financial assets and investments accounted for using the equity method		530,155	577,191	522,977	573,577	532,010	554,992
Property, Plant and Equipment		1,659,639	1,386,159	1,190,219	733,251	859,637	1,633,877
Intangible Assets		0	0	0	0	40	0
Other Assets		112,821	76,137	101,797	363,229	93,626	225,949
Total Assets		4,378,022	3,920,513	3,679,399	3,507,423	3,248,527	4,429,199
Current Liabilities	Before distribution	1,194,983	872,282	830,877	821,769	716,111	1,076,894
	After distribution	Note 2	1,108,118	976,007	911,089	778,568	Note 2
Noncurrent Liabilities		59,520	80,068	106,513	117,882	135,737	134,276
Total Liabilities	Before distribution	1,254,503	952,350	937,390	939,651	851,848	907,060
	After distribution	Note 2	1,188,186	1,082,520	1,028,971	914,305	Note 2
Equity Attributable to Shareholders of the Parent Company		3,123,519	2,968,163	2,742,009	2,567,772	2,396,679	3,218,029
Capital Stock		907,060	907,060	905,770	898,190	892,230	907,060
Capital Surplus		662,323	654,332	649,453	648,305	643,331	662,323
Retained Earnings	Before distribution	1,560,578	1,397,087	1,157,258	965,578	831,964	1,640,843
	After distribution	Note 2	1,161,251	1,012,128	876,258	769,507	Note 2
Exchange Differences on Translation of Financial Statements		-28,476	-15,942	4,580	29,190	29,154	-21,219
Unrealized Gain or Loss on Financial Instrument		0	25,626	24,948	26,509	-	0
Measured at fair value through other comprehensive income		22,034	0	0	-	-	29,022
Noncontrolling Interests		0	0	0	-	-	-
Total Equity	Before distribution	3,123,519	2,968,163	2,742,009	2,567,772	2,396,679	3,218,029
	After distribution	Note 2	2,732,327	2,596,879	2,478,452	2,334,222	Note 2

Note 1: The financial information for the above listed years has been verified by independent auditors.

Note 2: NT\$244,906 thousand in earnings in the 2018 earnings distribution plan is scheduled for Board of Directors resolution on February 25, 2019.

(2) Condensed Statement of Comprehensive Income - Consolidated

Unit: Thousand NT\$

Item \ Year	Financial information for most recent five years (Note 1)					As of March 31, 2019
	2018	2017	2016	2015	2014	
Net Revenue	4,049,356	3,979,248	3,816,849	3,507,392	3,483,929	960,308
Gross Profit (Loss)	760,355	791,686	679,282	445,603	320,155	152,053
Income (Loss) from Operations	412,968	473,810	378,600	167,890	56,205	74,378
Non-operating Income and Expense	81,288	1,686	-16,946	78,050	115,768	22,615
Income before Income Tax	494,256	475,496	361,654	245,940	171,973	96,993
Income from Continuing Operation	397,732	386,475	286,198	203,212	144,613	80,265
Loss from Discontinued Operation	0	-	-	-	-	0
Net Income	397,732	386,475	286,198	203,212	144,613	80,265
Other Comprehensive Income	-27,410	-21,360	-30,857	19,404	18,680	14,245
Total Comprehensive Income for the Year	370,322	365,115	255,341	222,616	163,293	94,510
Net Income Attributable to Shareholders of the Parent Company	397,732	386,475	286,198	203,212	144,613	80,265
Net Income Attributable to Noncontrolling Interests	-	-	-	-	-	0
Total Comprehensive Income Attributable to Shareholders of the Parent Company	370,322	365,115	255,341	222,616	163,293	94,510
Total Comprehensive Income Attributable to Noncontrolling Interests	-	-	-	-	-	0
Earnings per Share	4.38	4.26	3.18	2.27	1.63	0.88

Note 1: The financial information for the above listed years has been verified by independent auditors.

(3) Condensed Balance Sheet - Unconsolidated

Unit: Thousand NT\$

Year		Financial information for most recent five years (Note 1)				
Item		2018	2017	2016	2015	2014
Current Assets		1,854,822	1,788,551	1,765,734	1,736,406	1,689,618
Financial assets carried at cost, available for sale financial assets and investments accounted for using the equity method		898,077	669,396	620,263	674,073	605,606
Property, Plant and Equipment		1,497,215	1,385,988	1,189,993	733,200	859,637
Intangible Assets		0	0	0	0	40
Other Assets		42,597	75,987	101,561	363,214	93,626
Total Assets		4,292,711	3,919,922	3,677,551	3,506,893	3,248,527
Current Liabilities	Before distribution	1,109,672	871,691	829,029	821,239	716,111
	After distribution	Note 2	1,107,527	974,159	910,559	778,568
Noncurrent Liabilities		59,520	80,068	106,513	117,882	135,737
Total Liabilities	Before distribution	1,169,192	951,759	935,542	939,121	851,848
	After distribution	Note 2	1,187,595	1,080,672	1,028,441	914,305
Equity Attributable to the Shareholders of the Parent		3,123,519	2,968,163	2,742,009	2,567,772	2,396,679
Capital Stock		907,060	907,060	905,770	898,190	892,230
Capital Surplus		662,323	654,332	649,453	648,305	643,331
Retained Earnings	Before distribution	1,560,578	1,397,087	1,157,258	965,578	831,964
	After distribution	Note 2	1,161,251	1,012,128	876,258	769,507
Exchange Differences on Translation of Financial Statements		-28,476	-15,942	4,580	29,190	29,154
Unrealized gain or loss on financial instrument		0	25,626	24,948	26,509	-
Treasury Stock		22,034	-	-	-	-
Noncontrolling Interests		0	-	-	-	-
Total Equity	Before distribution	3,123,519	2,968,163	2,742,009	2,567,772	2,396,679
	After distribution	Note 2	2,732,327	2,596,879	2,478,452	2,334,222

Note 1: The financial information for the above listed years has been verified by independent auditors.

Note 2: NT\$244,906 thousand in earnings in the 2018 earnings distribution plan is scheduled for Board of Directors resolution on February 25, 2019.

(4) Condensed Statement of Comprehensive Income - Unconsolidated

Unit: Thousand NT\$

Item \ Year	Financial information for most recent five years (Note 1)				
	2018	2017	2016	2015	2014
Net Revenue	4,028,591	3,963,856	3,812,866	3,507,389	3,483,929
Gross Profit (Loss)	752,896	785,289	677,269	445,600	320,155
Income (Loss) from Operations	411,143	474,161	380,712	168,957	56,205
Nonoperating Income and Expenses	83,113	1,335	-19,058	76,983	115,768
Income before Income Tax	494,256	475,496	361,654	245,940	171,973
Income from Continuing Operation	494,256	386,475	286,198	203,212	144,613
Loss from Discontinued Operation	-	-	-	-	-
Net Income	397,732	386,475	286,198	203,212	144,613
Other comprehensive income	-27,410	-21,360	-30,857	19,404	18,680
Total comprehensive income for the period	370,322	365,115	255,341	222,616	163,293
Basic earnings per share	4.38	4.26	3.18	2.27	1.63

Note 1: The financial information for the above listed years has been verified by independent auditors.

(2) Names of CPAs and their Audit Opinions

1. Names of CPAs and Audit Opinions for the Past Five Years

Year	CPA Firm	Names of CPAs	Audit Opinion
2014	Deloitte Taiwan	Xu Xiu-Ming, Lin Shu-Wan	Unqualified opinion
2015	Deloitte Taiwan	Lin Shu-Wan, Chen Jie-Zhong	Modified unqualified opinion
2016	Deloitte Taiwan	Lin Shu-Wan, Wong Ya-Lin	Unqualified opinion
2017	Deloitte Taiwan	Xu Xiu-Ming, Lin Shu-Wan	Unqualified opinion
2018	Deloitte Taiwan	Xu Xiu-Ming, Wong Ya-Lin	Unqualified conclusion / opinion (significant events or other events)

2. Five-Year Financial Analysis:

(1) Financial Analysis

(1) Consolidated statement

Year		Financial information for most recent five years (Note 1)					As of March 31, 2019
		2018	2017	2016	2015	2014	
Financial Structure (%)	Debt to assets ratio	28.65	24.29	25.48	26.79	26.22	27.35
	Long-term capital to property, plant and equipment ratio	191.79	219.9	239.33	366.27	294.59	205.17
Liquidity Analysis (%)	Current ratio	173.68	215.64	224.39	223.59	246.22	187.05
	Quick ratio	116.42	163.96	165.80	161.14	160.44	130.19
	Interest coverage ratio (times)	140.94	179.02	123.35	135.17	42.15	51.46
Operating Performance	Receivables (times)	3.67	3.63	3.66	3.61	3.92	3.61
	Accounts receivable collecting days	99.45	100.55	99.72	101	93	101.1
	Inventory turnover (times)	6.92	7.80	7.24	6.11	5.65	6.19
	Average inventory turnover days	53	46.79	50.41	60	65	58.96
	Payables turnover (times)	8.96	8.41	9.04	10.45	12.10	10.09
	Property, plant and equipment turnover (times)	2.66	3.09	4.39	4.40	3.96	2.33
	Total assets turnover (times)	0.98	1.05	1.06	1.04	1.08	0.87
Profitability	Return on assets (%)	9.65	10.23	7.98	6.06	4.59	1.86
	Return on equity (%)	13.06	13.54	10.78	8.19	6.20	2.53
	Pre-tax profit to paid-in capital ratio (%)	54.49	52.42	39.93	27.38	19.27	10.69
	Net margin (%)	9.82	9.71	7.50	5.79	4.15	8.36
	Earnings per share	4.38	4.26	3.18	2.27	1.63	0.88
Cash Flow	Cash flow ratio (%)	32.26	53.19	78.46	53.76	26.86	30.94
	Cash flow adequacy (%)	96.9	103.56	136.03	125.85	73.34	98.43
	Cash flow reinvestment ratio (%)	2.89	6.34	12.01	8.68	3.27	6.15
Leverage	Operating leverage	2.77	2.43	2.63	4.51	11.15	3.38
	Financial leverage	1.01	1.01	1.01	1.01	1.08	1.03
Explain the reasons for 20% changes in the financial ratios in 2018 and 2017:							
1. Quick ratio		The decrease was mainly attributable to an increase in short-term loans.					
2. Interest coverage ratio		The decrease was mainly attributable to an increase in interest expenses.					
3. Cash flow ratio		The decrease in the ratio was mainly attributable to a decrease in cash flow from business activities caused by an increase in inventory during the period.					
4. Cash flow reinvestment ratio		The decrease in the ratio was mainly attributable to decrease in cash from business activities during the period and increase in stock dividend issuance.					

Note 1: The financial information for the above listed years has been verified by independent auditors.

(2) Unconsolidated statement

Item \ Year		Financial information for most recent five years (Note 1)						
		2018	2017	2016	2015	2014		
Capital Structure Analysis (%)	Debts Ratio	27.24	24.28	25.44	26.78	26.22		
	Long-Term Fund to Property, Plant and Equipment	212.6	219.93	239.37	366.29	294.59		
Liquidity Analysis (%)	Current Ratio	167.15	205.18	212.99	211.44	235.94		
	Quick Ratio	109.41	154.39	155.29	149.02	150.17		
	Times Interest Earned (Times)	140.94	179.02	123.35	135.17	42.15		
Operating Performance Analysis	Receivables turnover (times)	3.66	3.62	3.65	3.61	3.92		
	Accounts receivable collecting days	100	101.00	100.00	101	93		
	Inventory turnover (times)	7.05	7.91	7.28	6.11	5.65		
	Average inventory turnover days	52	46	50	60	65		
	Payables turnover (times)	8.92	8.40	9.05	10.46	12.10		
	Property, plant and equipment turnover (times)	2.79	3.08	4.38	4.40	3.96		
	Total assets turnover (times)	0.98	1.04	1.06	1.04	1.08		
Profitability Analysis	Return on Assets (%)	9.75	10.23	7.98	6.06	4.59		
	Return on Equity (%)	13.06	13.54	10.78	8.19	6.20		
	Pre-tax Income to Paid-in Capital Ratio (%)	54.49	52.42	39.93	27.38	19.27		
	Net margin (%)	9.87	9.75	7.51	5.79	4.15		
	Earnings per Share	4.38	4.26	3.18	2.27	1.63		
Cash Flow	Cash Flow Ratio (%)	38.23	53.25	79.81	53.91	26.76		
	Cash Flow Adequacy Ratio (%)	99.42	98.70	129.36	118.14	70.79		
	Cash Flow Reinvestment Ratio (%)	3.64	6.35	12.22	8.7	3.25		
Leverage	Operating Leverage	2.77	2.41	2.61	4.48	11.15		
	Financial Leverage	1.01	1.01	1.01	1.01	1.08		

Explain the reasons for 20% changes in the financial ratios in 2018 and 2017:

1. Quick ratio	The decrease was mainly attributable to an increase in short-term loans.
2. Interest coverage ratio	The decrease was mainly attributable to an increase in interest expenses.
3. Cash flow ratio	The decrease in the ratio was mainly attributable to a decrease in cash flow from business activities caused by an increase in inventory during the period.
4. Cash flow reinvestment ratio	The decrease in the ratio was mainly attributable to decrease in cash from business activities during the period and increase in stock dividend issuance.

Note 1: The financial information for the above listed years has been verified by independent auditors.

Note 2: Cash flows from operating activities was outflowing so it was not calculated.

Note 3: Calculation formulas for financial analysis are as follows:

1. Capital structure analysis

(1) Debt ratio = Total liabilities / total assets

(2) Long-term fund to property, plant and equipment ratio = (shareholders' equity + noncurrent liabilities) / Net property, plant and equipment

2. Liquidity analysis

(1) Current ratio = Current assets / current liabilities

(2) Quick ratio = (current assets - inventories - prepaid expenses) / current liabilities

(3) Times interest earned = Earnings before interest and taxes / interest expenses

3. Operating performance analysis

(1) Receivables (includes accounts receivable and notes receivables generated from operations) turnover = Net sales / average account receivables (includes accounts receivable and notes receivables generated from operations) balance.

(2) Days sales outstanding = 365 / average collection turnover

(3) Inventory turnover = Cost of sales / average inventory

(4) Payables (includes accounts payables and notes payables generated from operations) turnover = Cost of goods sold / average accounts payable (includes accounts payables and notes payables generated from operations) balance.

(5) Average industry turnover days = 365 / inventory turnover

(6) Property, plant and equipment turnover = Net sales / average net property, plant and equipment

(7) Total assets turnover = New sales / average total assets

4. Profitability Analysis

(1) Return on assets = [Net income + interest expense × (1 - tax rate)] / average total assets

(2) Return on equity = Net income / average net equity

(3) Net margin = Net income / net sales

(4) Earnings per share = (net income attributable to shareholders of the parent company - preferred stock dividend) / weighted average number of shares outstanding (note 4)

5. Cash flow

(1) Cash flow ratio = net cash provided by operating activities / current liabilities.

(2) Cash flow adequacy ratio = Five-year sum of cash from operations / five-year sum (capital expenditures + inventory additions + cash dividend) °

(3) Cash flow reinvestment ratio = (cash provided by operating activities - cash dividend) / (gross property, plant and equipment + long-term investment + other noncurrent assets + working capital)(note 5)

6. Leverage:

(1) Operating leverage = (net sales - variable operating costs and expenses) / income from operations (note 6).

(2) Financial leverage = Income from operations / (income from operations - interest expense).

Note 4: The following items should be given special attention with regard to the formula used for the above earnings per share calculation:

1. It is based on the weighted average number of common stock and not the outstanding shares at year end.
2. Where there is a capital increase by cash or treasury stock transaction, the circulation period should be considered when calculating the weighted average number of shares.
3. Where there is a capital increase from earnings or capital surplus, the calculation of earnings per share for the past fiscal year and the fiscal half-year shall be retrospectively adjusted based on the capital increase ratio, without the need to consider the issuance period for the capital increase.
4. If the preferred shares are non-convertible cumulative preferred shares, the dividend of the current year (whether issued or not) shall be subtracted from the net profit after tax, or added to the net loss after tax. In the case of non-cumulative preferred shares, if there is net profit after tax, the dividend on preferred shares shall be subtracted from the net profit after tax; if there is loss, then no adjustment need be made.

Note 5: The following items should be given special attention with regard to cash flow analysis:

1. Net cash flow from operating activities is net cash inflow amounts from operating activities listed in the statement of cash flows.
2. Capital expenditures is the amount of cash outflows for annual capital investment.
3. Inventory increase will only be entered when the ending balance is larger than the beginning balance. An inventory decrease at year end will be deemed zero for calculation.
4. Cash dividend includes cash dividends from both common shares and preferred shares.
5. Gross property, plant and equipment value means the total value of property, plant and equipment prior to the subtraction of accumulated depreciation.

Note 6: Issuers shall separate operating costs and operating expenses by their nature into fixed and variable categories. When estimations or subjective judgments are involved, give special attention to their reasonableness and to maintaining consistency.

3. Supervisors' report for recent financial report

San Fu Chemical Co., Ltd.
Supervisors' Report

The Board of Directors has prepared the Company's 2018 Business Report, Financial Statement and proposal for earnings distribution. Of these, the financial statement was audited by the CPAs Xu Xiu-Ming and Wong Ya-Ling of Deloitte Taiwan and an audit report has been presented.

The above Business Report, Financial Statement and proposal for earning distribution were reviewed and determined to be correct and accurate by the supervisors in accordance with relevant company regulations and Article 219 of the Company Act. We hereby submit this report.

2019 Shareholders' Meeting of San Fu Chemical Co., Ltd.

Supervisor: Pilot Keymark SDN.BHD 
Legal representative: Zhong Su-Sheng 

Supervisor: You Sheng-Fu 

Supervisor: Huang Ming-Fu 

February 25, 2019

4. Financial statements for the most recent fiscal year, including an auditor's report prepared by a CPA, a two-year comparative balance sheet and income statement, statement of changes in shareholders' equity, cash flow statement, and any attached notes or appendices: Refer to pgs. 114-185
5. Financial statement for the parent company and its subsidiaries for the most recent fiscal year, certified by a CPA: Refer to pgs. 186-261
6. Financial turnover difficulties of the Company and its affiliates: None

VII. Review and Analysis of Financial Conditions and Financial Performance and Risk Items

1. Financial Status

Unit: Thousand NT\$

Item \ Year	2018	2017	Difference	
			Amount	%
Current assets	2,075,407	1,881,026	194,381	10.33
Financial assets carried at cost, available for sale financial assets and investments accounted for using the equity method	530,155	577,191	-47,036	-8.15
Property, Plant and Equipment	1,659,639	1,386,159	273,480	19.73
Intangible Assets	0	0	0	
Other Assets	112,821	76,137	36,684	48.18
Total Assets	4,378,022	3,920,513	457,509	11.67
Current Liabilities	1,194,983	872,282	322,701	37
Noncurrent Liabilities	59,520	80,068	-20,548	-25.66
Total Liabilities	1,254,503	952,350	302,153	31.73
Capital Stock	907,060	907,060	0	0
Capital Surplus	662,323	654,332	7,991	1.22
Retained Earnings	1,560,578	1,397,087	163,491	11.7
Others	-6,442	9,684	-16,126	-166.52
Total Shareholder Equity	3,123,519	2,968,163	155,356	5.23

Explanation of major changes:

1. The increase in other assets was mainly due to an increase in prepaid rent in the period.
2. The increase in current liabilities was mainly due to an increase in short-term liabilities in the period.
3. The decrease in noncurrent liabilities was mainly due to a reduction in the defined benefit obligation in the period.
4. The increase in total liability was mainly due to an increase in short-term liabilities in the period.
5. The decrease in other equity was mainly due to exchange differences on translation of foreign operations.

2. Financial Performance

(1) Financial Performance Comparison and Analysis

Unit: Thousand NT\$

Item \ Year	2018	2017	Difference	(%)
Total Revenue	4,049,356	3,979,248	70,108	1.76%
Less: Cost of Revenue	3,289,001	3,187,562	101,439	3.18%
Gross Profit	760,355	791,686	-31,331	-3.96%
Income from Operations	412,968	473,810	-60,842	-12.84%
Non-operating Income and Expenses	81,288	1,686	79,602	4721.35%
Income before Income Tax	494,256	475,496	18,760	3.95%
Less: Income Tax Expenses	-96,524	-89,021	-7,503	8.43%
Net Income	397,732	386,475	11,257	2.91%
Other Comprehensive Income	-27,410	-21,360	-6,050	28.32%
Total Comprehensive Income for the Year	370,322	365,115	5,207	1.43%

Analysis of ratio increases or decreases;

1. The increase in non-operating income and expenses is mainly attributable to an increase of recognition of investment income.
2. The decrease in other comprehensive income is mainly attributable to an increase in unrealized loss on valuation measured at fair value.

3. Cash Flow

(1) Cash Flow Analysis for the Recent Year

Unit: Thousand NT\$

Cash Balance at Start of Period	Net Cash Provided by Operating Activities	Net Cash Used for Investment Activities	Net Cash Used for Financing Activities	Effect of Exchange Rate Changes	Cash Balance at End of Period
204,111	385,475	(284,357)	(27,845)	(11,280)	266,104

1. Operating activities: The increase in the cash inflow is mainly attributable to net income.
2. Investment activities: Mainly attributable to increases in the purchase of fixed assets and long-term prepayment of capital expenditures.
3. Financing activities: Mainly attributable to payment of dividends and repayment of debt.

(2) Cash Flow Analysis for the Coming Year

Unit: Thousand NT\$

Cash Balance at Start of Period	Net Cash Provided by Operating Activities in the Year	Cash Outflow in the Year	Cash Balance (Shortfall)	Remedy for Liquidity Shortfall	
				Investment Plan	Financing Plan
266,104	550,570	(692,109)	124,565	-	-

Cash inflow analysis: Mainly attributable to net income, depreciation and amortization.

Cash outflow analysis: The increase in cash outflow is mainly attributable to capital expenditures, increase in Vietnam investment and shareholders' dividends.

4. Effect of major capital expenditures on finance and business in the recent year:
5. Reinvestment policy in the recent year, major causes of profits and losses, improvement plan and investment plan for the coming year

(1) Reinvestment policy

The Company's management conduct reinvestment based on company operation or strategy goals. Related units submit professional information which is compiled and submitted to responsible supervisor for evaluation and recommendations. After the investment proposal is written up, an evaluation of the invested companies past and future prospects, market status and health of operations is performed and the proposal is implemented after being passed by the Board of Directors.

- (2) Major cause of reinvested enterprise profits or losses and improvement plan 12/31/2018

Unit: Thousand NT\$

Item	Description	2018 profit or (loss) of invested company	Shareholding (%)	Major reason for profit or loss	Improvement plan	Other future investment plans
	San Fu Specialty Chemicals Investments Limited (SAMOA)	24,238	100.00	This company's profits are considered normal	—	None
	San Fu Food Additives Investments Limited	1	100.00	—	—	None
	VinaSanFu Industrial Gas Company Limited	(193)	100.00	—	—	None
	VinaSanFu Material Company Limited	(188)	100.00	—	—	None
	San Fu Biotech Co., Ltd.	2,369	100.00	This company's operations are considered normal	—	None

Item	Description	2018 profit or (loss) of invested company	Shareholding (%)	Major reason for profit or loss	Improvement plan	Other future investment plans
	International Nitto Technology Co., Ltd.	(46,116)	100.00	Large loss of orders due to integration of customer business strategy	Improve financial structure, downsize personnel	None
	Horng Cherng Enterprise Co., Ltd.	4,026	50.00	This company's profits are considered normal	—	None
	Li Fu Carbonic Acid Co., Ltd.	2,789	25.00	This company's profits are considered normal	—	None
	Shian Yun Joint Stock Company	3,158	33.33	This company's profits are considered normal	—	None
	Shanghai San Fu Ming Electronic Materials Co., Ltd.	45,844	50	This company's profits are considered normal	—	None
	Lucky Star Holding Limited	912	100.00	—	—	None
	Sino Star Holding Limited	3	100.00	—	—	None
	Fanda International (Samoa) Ltd	1	41.94	—	—	None

(3) Investment plan for the coming year: Increase plant construction capital expenditures for Vietnam subsidiary to operate industrial gas product and service business.

6. Risk items and assessment for the recent year and up to the annual report publication date

(1) The effect on company profit or loss of interest and exchange rate fluctuations and changes in the inflation rate and countermeasures:

1. The effect on company profit or loss of interest rate fluctuations in recent years and future countermeasures:

(1) Effect on profit or loss

Interest income in 2018 and 2017 was NT\$1,826 thousand and NT\$1,110 thousand respectively which consisted 0.36% and 0.23% of the net income for these years. Net interest expenses in 2018 and 2017 were NT\$3,532 thousand and NT\$2,671 thousand respectively which made up 0.71% and 0.56% of net income. The risk of interest income and expenses on company profit or loss is still controllable.

(2) Future countermeasures

The Company's interest rate risk is mainly from long and short-term bank loans and short-term funds used for operating capital requirements. For significant long-term investments, the planning will include long-term loan interest rates. As for bank loan interest rates, San Fu will stay in close communication with banks to understand interest rate trends in order to receive the most preferential interest rates for our loans.

2. The effect on company profit or loss of exchange rate fluctuations in recent years and future countermeasures:

(1) Effect on profit or loss

The Company's exchange gains or losses in 2018 and 2017 were NT\$19,459 thousand and NT\$(23,037) thousand respectively comprising 3.93% and (4.84%) of net income. Most of San Fu's products are sold domestically and most of our exported products are priced in US dollars. Some foreign purchases are also priced in US dollars. The offset of account receivables has a certain level of natural hedging effect. So, any significant disadvantageous international exchange rate change may still have a disadvantageous effect on currency exchange.

(2) Future countermeasures:

A. Collect market information to determine trends and evaluate risks. Stay in close communication with banks to keep informed about exchange rate trends. Adjust foreign currency positions at appropriate times to avoid current exchange risks.

B. Consider exchange rate factors in price quotations to maintain company profits.

3. The effect of inflation rates on company profit and loss in recent years and future countermeasures:

The Company keeps track of fluctuations in market prices and maintains excellent relations with suppliers and customers. If inflation results in rising purchasing costs, the Company will adjust sales and purchase prices to reduce the effect of inflation on operations.

(2) Company policy regarding high-risk investments, highly leveraged investments, loans to other parties, endorsements, guarantees, and derivatives transactions, main reasons for the profits or losses and future countermeasures:

1. The Company focuses on our core business in line with our guiding principles of stable and practical business operation and has never engaged in high risk / high leverage investment.

2. The Company has set up Loan of Funds to Other Parties procedures to serve as basis for loaning funds to other parties. As of the publication of this report, the Company has not made any loans to other parties.

3. The Company has set up Endorsement and Guarantee procedures to serve as a basis for endorsement and guarantee work. As of March 31, 2019, the Company has not used its endorsement and guarantee balance of NT\$250,000,000 so the balance is still NT\$250,000,000.

4. The Company's financial risk avoidance strategy is based upon avoiding exchange rate fluctuation risks. Related derivative product transactions are conducted in accordance with the Company's Acquisition or Disposal of Assets procedure and are fully disclosed in our financial statements.

(3) Future R&D projects and expected investment of R&D funds

There are four areas of focus for the Company's R&D work. 1. Strengthen establishment of core technology platforms: hydrogenation, electrolysis, purification. Develop high value-added products on these technical foundations. 2. Develop electronic chemical formulations that meet LCD, IC packaging, IC manufacturing customer requirements. LCD copper process etchant has received certification and orders from customers. IC bumping stripper is at full capacity. 3. Leverage TMAH recovery advantage to develop IC grade purification technology to allow our recycled products to be used by IC customers and bring the cyclical economy into reality. 4. Continue to actively work on process improvements for existing PHBA, Paraben, CHA, DCHA and TMAH products to make them even more energy efficient, reduce costs and create profits. With regard to R&D analysis equipment and analysis method purchasing and upgrading, the Company continues to add advanced equipment including ICP MS/MS (inductively coupled plasma mass spectrometer), GC-MS (gas chromatograph-mass spectrometer), GPC (gel permeation chromatography), SEM (scanning electron microscopy) to reach ppt level detection limit requirements of IC customers and develop analysis tools for new process chemical applications. NT\$30,000 thousand in R&D funds were invested in 2019. The R&D items and projects are described in the table below.

Recent Annual Plan	Current Progress	Reinvested R&D Funds (Thousand NT\$)	Mass Production Completion Date	Major Factors Affecting Success of Future R&D
Develop paraben high yield green esterification process	Testing of on-site trial production completed	5,000	End of 2019	Modify plant production equipment and change processes
Develop LCP intermediate 4-hydroxybenzoic acid process for 5G flexible panel applications	Metal ions meet customer requirements	3,000	End of 2019	Design control conditions and establish inspection and testing methods
Recycled TMAH solution purity reaches IC grade	Pilot line installation design	15,000	End of 2020	Purified resin and equipment stability
LCD copper process etchant performance improvement	Customer on-line testing completed	3,000	End of 2019	Inhibit or synergize various function additives
IC bumping process stripper development	Certified by customer, developed based on different customer requirements	4,000	End of 2019	Collect customer certification data

- (4) Effect of domestic and international policy and legal changes on company finances and countermeasures:

Company finances and business has not been recently affected by domestic or international policy and legal changes. Appropriate measures are taken when there are domestic or international policy and legal changes so they will not have an effect on the Company finances or business.

- (5) Effect of technology and industry changes on company finances and countermeasures:

The Company keeps informed of industry technology, developments and changes, closely monitors industry activity and constantly improves its R&D capabilities. In the future, San Fu will actively develop application fields in related markets. Therefore, technology and industry changes will not have a significant effect on company finances and business.

- (6) Effect of changes in the corporate image on company crisis management and countermeasures:

The Company does not seek illicit profit. The business operation model of our professional R&D team is to establish a fresh image in the industry, promote socio-economic development, improve the environment and guarantee employee rights. San Fu strictly follows the laws and regulations of competent authorities. As of now, the Company has maintained an excellent corporate image and no major changes has caused a crisis in corporate management.

- (7) Expected benefits and possible risks of mergers and acquisitions: Not applicable

- (8) Expected benefits and possible risks of plant expansions:

Construction of the Company' s Liuke plant has been completed which will solve our land shortage problem at the Shanhua plant. In order to respond to the growing demand each year, San Fu will use the top-to-bottom integration of R&D, production, sales, QC and QA at the Liuke plant to establish a high-quality production line. With the basic quality and quantity growth and comprehensive system integration, the Company will have the ability to further expand future market share and raise the profile of our electronic chemicals.

Regarding possible poor economic conditions, market contraction and increasing competition, the Company is actively developing our business in the wafer foundry, display, solar energy and LED industries to avoid overconcentration on a single industry. San Fu has also focused on development of new chemical technologies and processes to maintain our distinctiveness and prevent replacement by competitors.

- (9) Risks associated with business concentration:

1. Purchase: The Company has stable supply channels to acquire raw materials. The supplier that San Fu cooperates with maintain high standards with regard to quality and quantity. In addition to supplying San Fu, our suppliers supply different customers at various locations. With regard to special raw materials, San Fu has adopted cooperation through shareholding approach to gain control over raw material

provision. If there is a shortage of raw materials in the market, the Company is given priority.

For other raw materials, two or more suppliers are kept to maintain stable delivery. Excellent relations are maintained between the Company and suppliers and a risk diversification strategy has been adopted. Due to this strategy, the Company has not yet experienced raw material shortages or supply disruption.

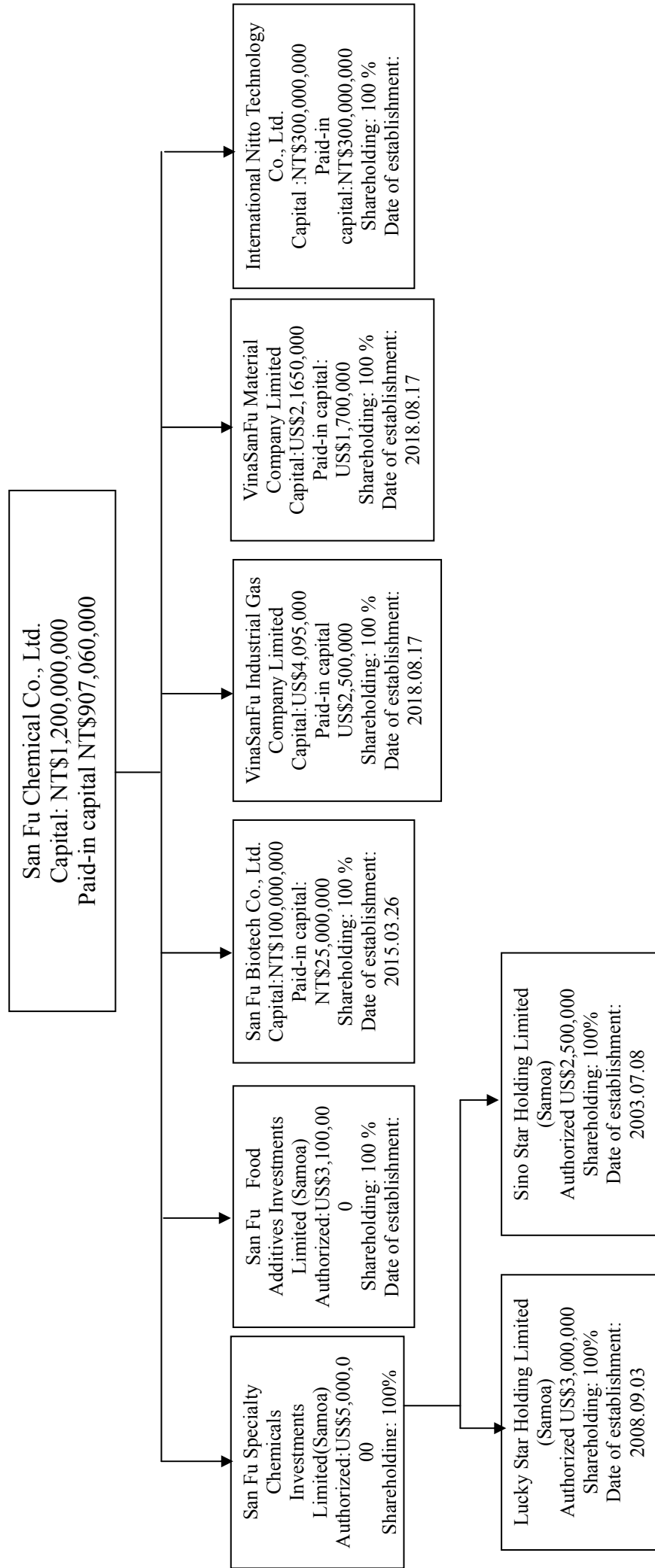
2. Sale: The Company mainly supplies its fine chemicals to the display industry. In order to avoid overconcentration on display industry customers and bearing its greater effects and risk, San Fu has steadily increased its percentage of sales to the solar industry and is actively crossing over into the wafer foundry and LED industries. In the futures, our sales will be spread across the wafer foundry, display, solar energy and LED industries. With respect to export sales, the Company has sales customers in China, India and Singapore. As demand for chemicals rise sharply in China and other regions, this business will make up an increasingly higher percentage of total sales. In the future, San Fu will greatly increase our business to other industries and countries to effectively diversify sales risk.
- (10) Impact or risk associated with large transfers or changes in shareholdings by directors or major shareholders with holdings over 10%: There has been no large transfer of shareholdings by the Company's directors, supervisors or major shareholders with holdings over 10% so there has been no major impact on operations due to large transfers or changes in shareholdings.
- (11) The effect of ownership change on the Company and its risk: The Company has not passed through any ownership change.
- (12) Litigious and non-litigious matters that could have a major effect on shareholder equity or security prices: No such events have occurred at the Company in 2018 and as of the publication date.
- (13) Other important risks: Besides the related information security risk evaluation performed by the Company's Information Department, there were no other significant risks in 2018 and up to the date of annual report publication.

7. Other significant events: None

VII. Special Disclosures

1. Affiliated company information

(1) Affiliated company organization chart



(2) Summary of Affiliated Companies

Company	Date of Establishment	Address		Paid-in Capital	Main Business or Items Produced	Shareholder percentage	報表日兌換率
San Fu Specialty Chemicals Investments Limited	2008	Portcullis TrustNet Chambers, P.O.Box 1225, Apia, SAMOA	USD	4,750,840	General investment	100%	30.715
San Fu Food Additives Investments Limited	2008	Portcullis TrustNet Chambers, P.O.Box 1225, Apia, SAMOA	USD	552,198	General investment	100%	30.715
Lucky Star Holding Limited	2008	Portcullis TrustNet Chambers, P.O.Box 1225, Apia, SAMOA	USD	1,324,539	General investment	100%	30.715
Sino Star Holding Limited	2003	Portcullis TrustNet Chambers, P.O.Box 1225, Apia, SAMOA	USD	1,867,838	General investment	100%	30.715
San Fu Biotech Co., Ltd.	2015	7F, No. 21 Zhongshan N. Rd. Sec. 2, Taipei City	NTD	25,000,000	General investment	100%	1
VinaSanFu Industrial Gas Company Limited	2018	609 Room, 6F, DMC tower, No 535, Kim Ma street, Ba Dinh district, Ha noi city, Viet nam	USD	2,500,000	General investment	100%	0.0012
VinaSanFu Material Company Limited	2018	609 Room, 6F, DMC tower, No 535, Kim Ma street, Ba Dinh district, Ha noi city, Viet nam	USD	1,700,000	General investment	100%	0.0012
International Nitto Technology Co., Ltd.	2002	No. 26 Huandong Rd. Sec. 2 Sanhua District, Tainan City Southern Taiwan Science Park	NTD	300,000,000	General investment	100%	1

Note 1: All affiliated companies regardless of their size have been disclosed.

Note 2: The factory name, establishment date, address and major product items manufactured by the company should be listed if the affiliated company has factories and the sales value of the products manufactured by the factories exceeds 10% of company revenues.

Note 3: If the affiliated company is a foreign company, the company name and address should be stated in English, the Western calendar should be used for the establishment date and paid-in capital should be listed in the foreign currency (but the exchange rate on the reporting date should be included).

(3) Companies presumed to have a relationship of control and subordination under Article 369-3 of the Company Act: There are no affiliated companies that the Company has a presumed relationship of control and subordination.

(4) If affiliated companies have interlocking businesses, describe their division of work: None

(5) Name of the directors, supervisors, presidents at each affiliated enterprise, their shareholding and investment:

Company	Title	Name or Representative	Shareholding	
			Shares	%
San Fu Specialty Chemicals Investments Limited	Director	San Fu Chemical Co., Ltd. Representative – Wu Xin-Hong	4,750,840	100%
San Fu Food Additives Investments Limited	Director	San Fu Chemical Co., Ltd. Representative – Wu Xin-Hong	552,198	100%
Lucky Star Holding Limited	Director	San Fu Specialty Chemicals Investments Limited Representative – Wu Xin-Hong	1,324,539	100%

Sino Star Holding Limited	Director	San Fu Specialty Chemicals Investments Limited Representative – Wu Xin-Hong	1,867,838	100%
San Fu Biotech Co., Ltd.	Director	San Fu Chemical Co., Ltd. Representative – Wu Xin-Hong	2,500,000	100%
VinaSanFu Industrial Gas Company Limited	President	San Fu Chemical Co., Ltd. Representative – Chen Jie-Yu	– (note)	100%
VinaSanFu Material Company Limited	President	San Fu Chemical Co., Ltd. Representative – Chen Jie-Yu	– (note)	100%
International Nitto Technology Co., Ltd.	Director	San Fu Chemical Co., Ltd. Representative- Cai Jie-Rong	30,000,000	100%

Note: Indirect investment by the company in Vietnamese companies is by limited liability company so there are no shares.

(6) Operational Highlights of Affiliated Companies

Company	San Fu Specialty Chemicals Investments Limited	San Fu Food Additives Investments Limited	Lucky Star Holding Limited	Sino Star Holding Limited	San Fu Biotech Co., Ltd.	VinaSanFu Industrial Gas Company Limited	VinaSanFu Material Company Limited	International Nitto Technology Co., Ltd.
Currency	USD	USD	USD	USD	NTD	VND	VND	NTD
Paid-in Capital	4,750,840	552,198	1,324,539	1,867,838	25,000,000	58,199,500,000	39,546,500,000	300,000,000
Total Assets	15,126,954	12,000	1,671,612	1,946,219	29,979,480	58,037,290,450	39,387,934,673	241,381,401
Total Liabilities	0	0	0	0	6,197,589	0	0	
Operating Revenue	0	0	0	0	37,129,744	0	0	385,272
Operating Income	803,951	42	30,248	105	2,304,672	0	0	(40,133,560)
Net Income (after tax)	803,951	42	30,248	105	2,368,832	(162,209,550)	(158,565,327)	(46,116,073)
Earnings per share (after tax)	0.17	0.00	0.02	0.00	0.95	—(Note)	—(Note)	(1.54)

Note: Indirect investment by the company in Chinese companies is by limited liability company so there are no shares.

(7) Consolidated income statements of affiliated companies

The list of companies required to be included in the consolidated financial statements of affiliated enterprises under "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises" by the Company in 2018 (January 1, 2018 to December 31, 2018) is identical to the list of companies already included in the consolidated financial statements, prepared in accordance with IFRS 27. Since all information required above has already been disclosed in the consolidated financial statements, the Company would not prepare separate consolidated financial statements for affiliated enterprises.

(8) Affiliated company reports: Not applicable

- Private placement of securities in the most recent year and current year up until the publication date of this annual report: None
- Holdings or disposal of company shares by subsidiaries in the most recent year and current year up until the publication date of this annual report: None.
- Other necessary supplementary matters: None

IX. Other significant events affecting shareholders' equity or stock price as defined in Article 36-2 of the Securities and Exchange Act: None

DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES

The companies required to be included in the consolidated financial statements of affiliates in accordance with the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” for the year ended December 31, 2018 are all the same as the companies required to be included in the consolidated financial statements of parent and subsidiary companies as provided in International Financial Reporting Standard 10 “Consolidated Financial Statements”. Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies. Hence, we have not prepared a separate set of consolidated financial statements of affiliates.

Very truly yours,

SAN FU CHEMICAL CO., LTD.

By:



SIMON WU
Chairman

February 26, 2019

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
San Fu Chemical Co., Ltd.

Opinion

We have audited the accompanying consolidated financial statements of San Fu Chemical Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "consolidated financial statements").

In our opinion, based on our audits and the report of other auditors (please refer to the Other Matter paragraph), the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion based on our audits and the report of other auditors.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Group's consolidated financial statements for the year ended December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The English financial report does not audited by the engagement partners.

The key audit matter of the Group's consolidated financial statements for the year ended December 31, 2018 is as follow:

Measurement of Inventories

Inventories amounted to 13% (NT\$543,832 thousand) of the Group's consolidated total assets as of December 31, 2019. Please refer to Notes 4 and 12 for the accounting policies and the related disclosures of inventories. The inventories could be slow-moving or outdated due to the fluctuation in the demand market and the advancement in technology, which may result in impairment loss on inventories. The Group estimated the impairment loss of inventories based on the assessed net realized value and the evaluated aging of inventories quarterly. The estimation of net realized value and inventories aging assessment mainly depended on subjective management judgments and may affect the amount of impairment loss. As a result, the evaluation of inventories for impairment loss is determined to be a key audit matter.

We performed the following audit procedures to evaluate the key audit matter:

1. We obtained an understanding of the accounting policies related to inventories, the report of the inventories aging for slow-moving and the statement of net realized value of inventories.
2. We recalculated and checked the accuracy of the recognition of inventory losses for slow-moving. We also selected samples to verify the net realizable value of inventory by comparing the latest market selling price and carry value.
3. We participated in the physical inventory count at the year-end and assessed the reasonableness of the loss of expire and failure inventories.

Other Matter

In 2018, we did not audit the financial statements of International Nitto Technology Co., Ltd., a subsidiary included in the consolidated financial statements of the Group, but such statements were audited by other auditors. Our opinion, insofar as it relates to the amounts included for International Nitto Technology Co., Ltd., is based solely on the report of other auditors. The total assets of International Nitto Technology Co., Ltd. constituted 3% of consolidated total assets as of December 31, 2018, and total revenues of International Nitto Technology Co., Ltd., from December 28, 2018 to December 31, 2018 constituted 0% of consolidated total revenues.

In 2017, we did not audit the financial statements of International Nitto Technology Co., Ltd., an investment accounted for using the equity method included in the consolidated financial statements of the Group, but such statements were audited by other auditors. Our opinion, insofar as it relates to the amounts included for International Nitto Technology Co., Ltd., is based solely on the report of other auditors. The investment accounted for using the equity method of International Nitto Technology Co., Ltd. amounted to NT\$69,800 thousand which amounted to 2% of the Group's total assets as of December 31, 2017. Share of loss of International Nitto Technology Co., Ltd. amounted to NT\$23,520 thousand and NT\$16,727 thousand for the year ended December 27, 2018 and the year ended December 31, 2017, respectively, constituted (6%) and (5%) of the Group's total comprehensive income.

We have also audited the standalone financial statements of San Fu Chemical Co., Ltd. as of and for the years ended December 31, 2018 and 2017 on which we have issued an unmodified opinion with other matters section.

The English financial report does not audited by the engagement partners.

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

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

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

Those charged with governance, including supervisors, are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

The English financial report does not audited by the engagement partners.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2018 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Shio-Ming Shue and Ya-Ling Wong.

Deloitte & Touche
Taipei, Taiwan
Republic of China

February 26, 2019

Notice to Readers

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

For the convenience of readers, 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. The English financial report does not audited by the engagement partners. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

The English financial report does not audited by the engagement partners.

SAN FU CHEMICAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)



ASSETS	2018		2017	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	\$ 266,104	6	\$ 204,111	5
Contract asset - current (Notes 3, 4 and 23)	15,669	-	-	-
Notes receivable (Notes 4 and 10)	43,268	1	54,689	1
Accounts receivable, net (Notes 4 and 10)	1,010,072	23	1,077,692	28
Accounts receivable - related parties (Notes 4 and 33)	12,550	-	1,891	-
Amounts due from customers for construction contracts - current (Notes 4 and 11)	-	-	17,418	1
Inventories (Notes 4 and 12)	543,832	13	406,831	10
Prepayments (Note 17)	140,332	3	44,010	1
Other current assets	43,580	1	74,384	2
Total current assets	<u>2,075,407</u>	<u>47</u>	<u>1,881,026</u>	<u>48</u>
NON-CURRENT ASSETS				
Financial asset at fair value through other comprehensive income - non-current (Notes 3, 4 and 7)	134,318	3	-	-
Available-for-sale financial assets - non-current (Notes 4 and 8)	-	-	37,995	1
Financial assets measured at cost - non-current (Notes 4 and 9)	-	-	95,154	3
Investments accounted for using the equity method (Notes 4 and 14)	395,837	9	444,042	11
Contract asset - non-current (Notes 3, 4 and 23)	11,695	-	-	-
Property, plant and equipment (Notes 4 and 15)	1,659,639	38	1,386,159	35
Deferred tax assets (Notes 4 and 25)	25,873	1	27,660	1
Long-term prepayments (Note 16)	3,724	-	9,027	-
Refundable deposits	1,511	-	12,395	-
Long-term prepayments for leases (Note 17)	70,018	2	-	-
Amounts due from customers for construction contracts - non-current (Notes 4 and 11)	-	-	27,055	1
Total non-current assets	<u>2,302,615</u>	<u>53</u>	<u>2,039,487</u>	<u>52</u>
TOTAL	<u>\$ 4,378,022</u>	<u>100</u>	<u>\$ 3,920,513</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Note 18)	\$ 480,000	11	\$ 200,000	5
Contract liabilities - current (Notes 3, 4 and 23)	3,647	-	-	-
Accounts and notes payable (Note 19)	344,498	8	370,616	10
Accounts payable - related parties (Note 33)	10,251	-	9,142	-
Other payables (Note 20)	295,320	7	226,900	6
Current tax liabilities (Notes 4 and 25)	56,896	1	55,140	1
Other current liabilities	4,371	-	10,484	-
Total current liabilities	<u>1,194,983</u>	<u>27</u>	<u>872,282</u>	<u>22</u>
NON-CURRENT LIABILITIES				
Deferred tax liabilities (Notes 4 and 25)	3,021	-	-	-
Net defined benefit liabilities - non-current (Notes 4 and 21)	54,341	2	74,382	2
Other non-current liabilities	2,158	-	5,686	-
Total non-current liabilities	<u>59,520</u>	<u>2</u>	<u>80,068</u>	<u>2</u>
Total liabilities	<u>1,254,503</u>	<u>29</u>	<u>952,350</u>	<u>24</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 4 and 22)				
Share capital				
Ordinary shares	907,060	21	907,060	23
Capital surplus	662,323	15	654,332	17
Retain earnings				
Legal reserve	178,076	4	139,429	4
Unappropriated earnings	1,382,502	31	1,257,658	32
Total retain earnings	1,560,578	35	1,397,087	36
Other equity				
Exchange differences on translating foreign operations	(28,476)	(1)	(15,942)	(1)
Unrealized gain on financial asset at fair value through other comprehensive income	22,034	1	-	-
Unrealized gain on available-for-sale financial asset	-	-	25,626	1
Total other equity	(6,442)	-	9,684	-
Total equity	<u>3,123,519</u>	<u>71</u>	<u>2,968,163</u>	<u>76</u>
TOTAL	<u>\$ 4,378,022</u>	<u>100</u>	<u>\$ 3,920,513</u>	<u>100</u>

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

(With Deloitte & Touche audit report dated February 26, 2019)

SAN FU CHEMICAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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

	2018		2017	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4, 23 and 33)	\$ 4,049,356	100	\$ 3,979,248	100
OPERATING COSTS (Notes 12, 24 and 33)	<u>3,289,001</u>	<u>81</u>	<u>3,187,562</u>	<u>80</u>
GROSS PROFIT	<u>760,355</u>	<u>19</u>	<u>791,686</u>	<u>20</u>
OPERATING EXPENSES				
Selling and marketing expenses (Notes 24 and 33)	216,051	6	188,551	5
General and administrative expenses	118,502	3	112,778	3
Research and development expenses	12,344	-	16,547	-
Expected credit loss	<u>490</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>347,387</u>	<u>9</u>	<u>317,876</u>	<u>8</u>
PROFIT FROM OPERATIONS	<u>412,968</u>	<u>10</u>	<u>473,810</u>	<u>12</u>
NON-OPERATING INCOME AND EXPENSES				
Other income (Notes 24 and 33)	29,903	1	31,143	1
Other gains and losses (Notes 13 and 24)	51,751	1	(40,741)	(1)
Finance costs (Note 24)	(3,532)	-	(2,671)	-
Share of profit or loss of associates and joint ventures (Notes 4 and 14)	<u>3,166</u>	<u>-</u>	<u>13,955</u>	<u>-</u>
Total non-operating income and expenses	<u>81,288</u>	<u>2</u>	<u>1,686</u>	<u>-</u>
PROFIT BEFORE INCOME TAX	494,256	12	475,496	12
INCOME TAX EXPENSE (Notes 4 and 25)	<u>(96,524)</u>	<u>(2)</u>	<u>(89,021)</u>	<u>(2)</u>
NET PROFIT FOR THE YEAR	<u>397,732</u>	<u>10</u>	<u>386,475</u>	<u>10</u>
OTHER COMPREHENSIVE LOSS				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	1,030	-	(1,827)	-
Unrealized loss on financial assets at fair value through other comprehensive income	(16,757)	(1)	-	-
Income tax relating to items that will not be reclassified subsequently to profit or loss	<u>851</u>	<u>-</u>	<u>311</u>	<u>-</u>
	<u>(14,876)</u>	<u>(1)</u>	<u>(1,516)</u>	<u>-</u>

(Continued)

SAN FU CHEMICAL CO., LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

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

	2018		2017	
	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating the financial statements of foreign operations	\$ (8,319)	-	\$ (12,796)	(1)
Unrealized gain on available-for-sale financial assets	-	-	678	-
Share of the other comprehensive loss of associates and joint ventures accounted for using the equity method	(4,215)	-	(7,726)	-
	<u>(12,534)</u>	<u>-</u>	<u>(19,844)</u>	<u>(1)</u>
Other comprehensive loss for the year, net of income tax	<u>(27,410)</u>	<u>(1)</u>	<u>(21,360)</u>	<u>(1)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 370,322</u>	<u>9</u>	<u>\$ 365,115</u>	<u>9</u>
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Company	<u>\$ 397,732</u>	<u>10</u>	<u>\$ 386,475</u>	<u>10</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Company	<u>\$ 370,322</u>	<u>9</u>	<u>\$ 365,115</u>	<u>9</u>
EARNINGS PER SHARE (Note 26)				
Basic	<u>\$4.38</u>		<u>\$4.26</u>	
Diluted	<u>\$4.37</u>		<u>\$4.25</u>	

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

(With Deloitte & Touche audit report dated February 26, 2019)

(Concluded)

SAN FU CHEMICAL CO., LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)**

	Share Capital (Note 22)		Capital Surplus (Note 22)		Retained Earnings (Note 22)		Exchange Differences on Translating Foreign Operations	Other Equity		Total Equity
	Number of Shares Authorized (In Thousand)	Amount	Amount	Legal Reserve	Unappropriated Earnings	Unrealized Gain on Financial Asset at Fair Value through Other Comprehensive Income		Unrealized Gain on Available-for-sale Financial Assets		
BALANCE AT JANUARY 1, 2017	90,577	\$ 905,770	\$ 649,453	\$ 110,809	\$ 1,046,449	\$ 4,580	\$ -	\$ 24,948	\$ 2,742,009	
Appropriation of 2016 earnings	-	-	-	28,620	(28,620)	-	-	-	-	
Legal reserve	-	-	-	-	(145,130)	-	-	-	(145,130)	
Cash dividends distributed by the Company	-	-	-	-	-	-	-	-	-	
Other changes in capital surplus	-	-	4,879	-	-	-	-	-	4,879	
Donations from shareholders	-	-	-	-	-	-	-	-	-	
Net profit for the year ended December 31, 2017	-	-	-	-	386,475	-	-	-	386,475	
Other comprehensive loss for the year ended December 31, 2017, net of income tax	-	-	-	-	(1,516)	(20,522)	-	678	(21,360)	
Total comprehensive income for the year ended December 31, 2017	-	-	-	-	384,959	(20,522)	-	678	365,115	
Issue of ordinary shares under employee share options	129	1,290	-	-	-	-	-	-	1,290	
BALANCE AT DECEMBER 31, 2017	90,706	907,060	654,332	139,429	1,257,658	(15,942)	-	25,626	2,968,163	
Effect of retrospective application	-	-	-	-	-	-	38,505	(25,626)	12,879	
BALANCE AT JANUARY 1, 2018 AS RESTATED	90,706	907,060	654,332	139,429	1,257,658	(15,942)	38,505	-	2,981,042	
Appropriation of 2017 earnings	-	-	-	38,647	(38,647)	-	-	-	-	
Legal reserve	-	-	-	-	(235,836)	-	-	-	(235,836)	
Cash dividends distributed by the Company	-	-	-	-	-	-	-	-	-	
Other changes in capital surplus	-	-	7,991	-	-	-	-	-	7,991	
Donations from shareholders	-	-	-	-	-	-	-	-	-	
Net profit for the year ended December 31, 2018	-	-	-	-	397,732	-	-	-	397,732	
Other comprehensive loss for the year ended December 31, 2018, net of income tax	-	-	-	-	1,595	(12,534)	-	(16,471)	(27,410)	
Total comprehensive income for the year ended December 31, 2018	-	-	-	-	399,327	(12,534)	-	-	370,322	
BALANCE AT DECEMBER 31, 2018	90,706	\$ 907,060	\$ 662,323	\$ 178,076	\$ 1,382,502	\$ (28,476)	\$ 22,034	\$ -	\$ 3,123,519	

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

(With Deloitte & Touche audit report dated February 26, 2019)

SAN HUI CHEMICAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 494,256	\$ 475,496
Adjustments for:		
Depreciation expenses	200,313	193,121
Impairment loss recognized on accounts receivable	-	81
Expected credit loss recognized on accounts receivables	490	-
Finance costs	3,532	2,671
Interest income	(1,826)	(1,110)
Dividend income	(963)	(1,413)
Share of profit of associates and joint ventures	(3,166)	(13,955)
(Gain) loss on disposal of property, plant and equipment	(920)	12,068
Gain on disposal of joint ventures	(31,681)	-
Impairment loss recognized on non-financial assets	40	-
Write-downs of inventories	4,018	-
Reversal of write-downs of inventories	-	(714)
Impairment loss recognized on property, plant and equipment	-	5,454
Unrealized foreign currency exchange (gain) loss	(4,177)	3,982
Changes in operating assets and liabilities		
Contract asset - current	1,749	-
Notes receivable	11,421	(7,995)
Accounts receivable	72,006	(91,336)
Accounts receivable - related parties	(10,670)	6,449
Amounts due from customers for construction contracts - current	-	16,611
Inventories	(140,778)	4,255
Prepayments	(95,615)	883
Other current assets	31,952	(48,232)
Contract asset - non-current	15,360	-
Amounts due from customers for construction contracts - non-current	-	13,452
Contract liability	3,647	-
Notes and accounts payable	(26,623)	2,759
Accounts payable - related parties	1,110	87
Other payables	(17,516)	7,295
Other current liabilities	(6,116)	(4,100)
Net defined benefit liabilities - non-current	(19,011)	(24,994)
Other non-current liabilities	(3,528)	(3,122)
Cash generated from operations	477,304	547,693
Interest received	1,826	1,110
Dividend received	2,088	3,413
Interest paid	(3,414)	(2,669)
Income tax paid	(92,329)	(85,577)
Net cash generated from operating activities	<u>385,475</u>	<u>463,970</u>

(Continued)

SAN FU CHEMICAL CO., LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)**

	2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in debt investments with no active market	\$ -	\$ 41,836
Acquisition of associates	-	(24,691)
Net cash inflow on acquisition of subsidiaries	72,701	-
Payments for property, plant and equipment	(310,750)	(380,722)
Proceeds from disposal of property, plant and equipment	4,910	501
Decrease (increase) in refundable deposits	10,914	(8,892)
Decrease (increase) in long-term prepayment	7,303	(11,776)
Increase in prepayments for leases	<u>(69,435)</u>	<u>-</u>
Net cash used in investing activities	<u>(284,357)</u>	<u>(383,744)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term borrowings	200,000	70,000
Decrease in short-term bills payable	-	(29,969)
Dividends paid to owners of the Company	(235,836)	(145,130)
Proceeds from issuance of ordinary shares under employee share options	-	1,290
Proceeds of donations from shareholders	<u>7,991</u>	<u>4,879</u>
Net cash used in financing activities	<u>(27,845)</u>	<u>(98,930)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES		
	<u>(11,280)</u>	<u>(3,329)</u>
NET INCREASE (DECREASE) IN CASH	61,993	(22,033)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>204,111</u>	<u>226,144</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 266,104</u>	<u>\$ 204,111</u>

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

(With Deloitte & Touche audit report dated February 26, 2019)

(Concluded)

SAN FU CHEMICAL CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

San Fu Chemical Corporation (the “Company”) was incorporated in the Republic of China (“ROC”) in March 2003. The Company is engaged mainly manufactures and sales of various chemical products. The major shareholders as follow: San Fu Global Co., Ltd.(owned 24.38%), Pilot Keymark SDN. BHD. (owned 21.97%), and other individual shareholders.

San Fu Specialty Chemicals Investments Limited (incorporated in Samoa) and San Fu Food Additives Investments Limited (incorporated in Samoa) were 100% owned subsidiaries of the Company. Lucky Star Holding Limited (incorporated in Samoa) and Sino Star Holding Limited (incorporated in Samoa) were 100% owned subsidiaries of San Fu Specialty Chemicals Investments Limited. The main activity for above subsidiaries were investing.

San Fu Biotech Co., Ltd. set up in March, 2015, was 100% owned by the Company, with a paid-up capital of NT\$25,000 thousand, and was engaged in the manufacture and sales of food additives. In addition, the Company also completed to acquire 49% of International Nitto Technology Co., Ltd. on December 28, 2018 which become 100% shareholding. As the result, the International Nitto Technology Co., Ltd. was included in the consolidated financial report after the acquisition date. Please refer to Note 28 for the information on the acquisition of equity transactions by the combined company.

The Company’s shares started to be traded on the Taiwan Stock Exchange (“TWSE”) on November 27, 2013.

The consolidated financial statements are presented in the New Taiwan dollar.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company’s board of directors on February 25, 2019.

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

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

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

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

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

Classification, measurement and impairment of financial assets

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

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

Financial Assets	Measurement Category		Carrying Amount		Remark
	IAS 39	IFRS 9	IAS 39	IFRS 9	
Cash and cash equivalents	Loans and receivables	Amortized cost	\$ 204,111	\$ 204,111	b)
Equity securities	Available-for-sale	Fair value through other comprehensive income (i.e. FVTOCI) - equity instruments	133,149	149,248	a)
Notes and accounts receivable, accounts receivable- related parties, and amounts due from customers for construction contracts	Loans and receivables	Amortized cost	1,178,745	1,178,745	b)

Financial Assets	IAS 39 Carrying Amount as of January 1, 2018	Reclassifications	Remeasurements	IFRS 9 Carrying Amount as of January 1, 2018	Retained Earnings Effect on January 1, 2018	Other Equity Effect on January 1, 2018	Remark
	FVTOCI - equity instruments	\$ -	\$ 133,149	\$ 16,099			
Add: Reclassification from available-for-sale (IAS 39)	133,149	(133,149)	-				a)
	<u>133,149</u>	<u>-</u>	<u>16,099</u>	\$ 149,248	\$ -	\$ 12,879	
Amortized cost	-	1,382,856	-				
Add: Reclassification from loans and receivables (IAS 39)	1,382,856	(1,382,856)	-				b)
	<u>1,382,856</u>	<u>-</u>	<u>-</u>	<u>1,382,856</u>	<u>-</u>	<u>-</u>	
	<u>\$ 1,516,005</u>	<u>\$ -</u>	<u>\$ 16,099</u>	<u>\$ 1,532,104</u>	<u>\$ -</u>	<u>\$ 12,879</u>	

- a) The Group elected to designate all its investments in equity securities previously classified as available-for-sale under IAS 39 as at FVTOCI under IFRS 9, because these investments are not held for trading. As a result, the related other equity - unrealized gain (loss) on available-for-sale financial assets of \$25,626 thousand was reclassified to other equity - unrealized gain (loss) on financial assets at FVTOCI.

Investments in unlisted shares previously measured at cost under IAS 39 have been designated as at FVTOCI under IFRS 9 and were remeasured at fair value. Consequently, the Group recognized an increase in financial assets at FVTOCI of \$16,099 thousand, an increase in deferred tax liabilities of 3,220 thousand, and an increase in other equity - unrealized gain (loss) on financial assets at FVTOCI of \$12,879 thousand on January 1, 2018.

- b) Cash and cash equivalents, notes and accounts receivable, accounts receivable- related parties, and amounts due from customers for construction contracts that were previously classified as loans and receivables under IAS 39 were classified as at amortized cost with an assessment of expected credit losses under IFRS 9.

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

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

Under IFRS 15, the net effect of revenue recognized and consideration received and receivable is recognized as a contract asset or a contract liability. Prior to the application of IFRS 15, the net effect of the progress billings, the costs incurred and the recognized profit (loss) of construction contracts were recognized as amounts due from (to) customers for construction contracts under IAS 11.

The Group elected only to retrospectively apply IFRS 15 to contracts that were not complete as of January 1, 2018 and recognize the cumulative effect of the change in retained earnings on January 1, 2018.

The impact on assets, liabilities and equity as of January 1, 2018 from the initial application of IFRS 15 is set out below:

	As Originally Stated	Adjustments Arising from Initial Application	Restated
Amounts due from customers for construction contracts - current	\$ 17,418	\$ (17,418)	\$ -
Contract assets - current	-	17,418	17,418
Amounts due from customers for construction contracts - non-current	27,055	(27,055)	-
Contract assets - non-current	<u>-</u>	<u>27,055</u>	<u>27,055</u>
Total effect on assets	<u>\$ 44,473</u>	<u>\$ -</u>	<u>\$ 44,473</u>

The following table show the increase (decrease) in assets and liabilities resulting from the application of IFRS 15 on the balance sheet date.

	December 31, 2018
Decrease in amounts due from customers for construction contracts - current	\$ (15,669)
Increase in contract assets - current	15,669
Decrease in amounts due from customers for construction contracts - non-current	(11,695)
Increase in contract assets - non-current	<u>11,695</u>
Total effect on assets	<u>\$ -</u>
Increase in contract liability - current	\$ 3,647
Decrease in deferred revenue	<u>(3,647)</u>
Total effect on liabilities	<u>\$ -</u>

There is no significant impact on total comprehensive income and cash flows for current year.

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

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

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

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

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

- IFRS 16 “Leases”

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 “Lease”, IFRIC 4 “Determining whether and Arrangement contains a Lease”, and a number of related interpretations.

Definition of a lease

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

The Group as lessee

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

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

Lease liabilities will be recognized on January 1, 2019 for leases currently classified as operating leases with the application of IAS 17. Lease liabilities will be measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets will be measured at their carrying amount as if IFRS 16 had been applied since the commencement date, the Group will apply IAS 36 to all right-of-use assets.

The Group expects to apply the following practical expedients:

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

The Group as lessor

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

Anticipated impact on assets, liabilities and equity

	Carrying Amount as of December 31, 2018	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2019
Prepayments	\$ 1,819	\$ (1,819)	\$ -
Long-term prepayments for leases	70,018	(70,018)	-
Right-of-use assets	<u>-</u>	<u>189,677</u>	<u>189,677</u>
Total effect on assets	<u>\$ 71,837</u>	<u>\$ 117,840</u>	<u>\$ 189,677</u>
Lease liabilities - current	\$ -	\$ 22,117	\$ 22,117
Lease liabilities - non-current	<u>-</u>	<u>95,723</u>	<u>95,723</u>
Total effect on liabilities	<u>\$ -</u>	<u>\$ 117,840</u>	<u>\$ 117,840</u>

Except for the above impacts, as of the date the consolidated financial statements were authorized for issue, the Group continues assessing other possible impacts that the application of the aforementioned amendments and the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers will have on the Group's financial position and financial performance and will disclose these other impacts when the assessment is completed.

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

<u>New IFRSs</u>	<u>Effective Date Announced by IASB (Note 1)</u>
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020 (Note 2)
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture"	To be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020 (Note 3)

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

Note 2: The Group shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

Note 3: The Group shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs as endorsed and issued into effect by the FSC.

b. Basis of preparation

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

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

- 1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- 3) Level 3 inputs are unobservable inputs for an asset or liability.

c. Classification of current and non-current assets and liabilities

Current assets include:

- 1) Assets expected to be realized within 12 months after the reporting period; and
- 2) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

- 1) Liabilities due to be settled within 12 months after the reporting period; and
- 2) Liabilities for which the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting period.

Assets and liabilities that are not classified as current are classified as non-current.

d. Basis of consolidation

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

Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of profit or loss and other comprehensive income from the effective dates of acquisitions up to the effective dates of disposals, as appropriate.

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

All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the interests of the Group and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Company.

See Note 13 and Table 4 for detailed information on subsidiaries (including percentages of ownership and main businesses).

e. Business combinations

Acquisitions of businesses are accounted for using the acquisition method. Acquisition-related costs are generally recognized in profit or loss as they are incurred.

Goodwill is measured as the excess of the sum of the consideration transferred and the fair value of the acquirer's previously held equity interests in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

When a business combination is achieved in stages, the Group's previously held equity interest in an acquiree is remeasured to fair value at the acquisition date, and the resulting gain or loss is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are recognized on the same basis as would be required if those interests were directly disposed of by the Group.

f. Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (i.e. foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising from the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income; in which cases, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

For the purpose of presenting consolidated financial statements, the functional currencies of the Company and the group entities (including subsidiaries, associates, joint ventures and branches in other countries that use currencies which are different from the currency of the Company) are translated into the presentation currency, the New Taiwan dollar, as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; and income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income.

On the disposal of a foreign operation (i.e. a disposal of the Company's entire interest in a foreign operation, or a disposal involving the loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation are reclassified to profit or loss.

In relation to a partial disposal of a subsidiary that does not result in the Company losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to the non-controlling interests of the subsidiary and is not recognized in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences recognized in other comprehensive income is reclassified to profit or loss.

g. Inventories

Inventories consist of raw materials, supplies, semi-finished goods, work-in-process, finished goods and merchandise and are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. The net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at the weighted-average cost on the balance sheet date.

h. Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence and which is neither a subsidiary nor an interest in a joint venture. A joint venture is a joint arrangement whereby the Group and other parties that have joint control of the arrangement have rights to the net assets of the arrangement. The Group uses the equity method to account for its investments in associates and joint ventures.

Under the equity method, investments in an associate and a joint venture are initially recognized at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate and joint venture. The Group also recognizes the changes in the Group's share of the equity of associates and joint ventures attributable to the Group.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of an associate or a joint venture at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

When the Company subscribes for additional new shares of an associate and joint venture at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Group's proportionate interest in the associate and joint venture. The Group records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in capital surplus from investments in associates and joint ventures accounted for using the equity method. If the Group's ownership interest is reduced due to its additional subscription of the new shares of the associate and joint venture, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate and joint venture is reclassified to profit or loss on the same basis as would be required had the investee directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for using the equity method is insufficient, the shortage is debited to retained earnings.

When the Group's share of losses of an associate and a joint venture equals or exceeds its interest in that associate and joint venture (which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Group's net investment in the associate and joint venture), the Group discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Group has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate and joint venture.

The entire carrying amount of an investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date on which its investment ceases to be an associate and a joint venture. Any retained investment is measured at fair value at that date, and the fair value is regarded as the investment's fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate and the joint venture attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate and the joint venture. The Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate and joint venture on the same basis as would be required had that associate directly disposed of the related assets or liabilities. If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the Group continues to apply the equity method and does not remeasure the retained interest.

When a group entity transacts with its associate and joint venture, profits and losses resulting from the transactions with the associate and joint venture are recognized in the Group's consolidated financial statements only to the extent that interests in the associate and the joint venture are not related to the Group.

i. Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment loss.

Property, plant and equipment in the course of construction are measured at cost less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Such assets are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for their intended use.

Depreciation of property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. If a lease term is shorter than the assets' useful lives, such assets are depreciated over the lease term. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effects of any changes in the estimates accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

j. Goodwill

Goodwill arising from the acquisition of a business is measured at cost as established at the date of acquisition of the business less accumulated impairment loss.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units or groups of cash-generating units (referred to as "cash-generating units") that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is an indication that the unit may be impaired, by comparing its carrying amount, including the attributed goodwill, with its recoverable amount. However, if the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then pro rata to the other assets of the unit based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. Any impairment loss recognized for goodwill is not reversed in subsequent periods.

If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation which is disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal and is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

k. Impairment of tangible and assets related to contract costs

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered any impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the individual cash-generating units/the smallest group of cash-generating units on a reasonable and consistent basis of allocation.

The recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

Before the Group recognizes an impairment loss from assets related to contract costs, any impairment loss on inventories, property, plant and equipment and intangible assets related to the contract applicable under IFRS 15 shall be recognized in accordance with applicable standards. Then, impairment loss from the assets related to the contract costs is recognized to the extent that the carrying amount of the assets exceeds the remaining amount of consideration that the Group expects to receive in exchange for related goods or services less the costs which relate directly to providing those goods or services and which have not been recognized as expenses. The assets related to the contract costs are then included in the carrying amount of the cash-generating unit to which they belong for the purpose of evaluating impairment of that cash-generating unit.

When an impairment loss is subsequently reversed, the carrying amount of the corresponding asset, cash-generating unit or assets related to contract costs is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset, cash-generating unit or assets related to contract costs in prior years. A reversal of an impairment loss is recognized in profit or loss.

l. Financial instruments

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

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

1) Financial assets

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

a) Measurement categories

2018

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

i. Financial assets at amortized cost

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

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

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

Interest income is calculated by applying the effective interest rate to the gross carrying amount of such a financial asset, except for:

- i) Purchased or originated credit-impaired financial assets, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of such financial assets; and
- ii) Financial assets that are not credit-impaired on purchase or origination but have subsequently become credit-impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of such financial assets in subsequent reporting periods.

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

ii. Investments in equity instruments at FVTOCI

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

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

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

2017

Financial assets are classified into the following categories: Available-for-sale financial assets and loans and receivables.

i. Available-for-sale financial assets

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

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

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

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

ii. Loans and receivables

Loans and receivables (including cash and cash equivalents, notes and accounts receivable, accounts receivable-related parties, and amounts due from customers for construction contracts) are measured using the effective interest method at amortized cost less any impairment, except for short-term receivables when the effect of discounting is immaterial.

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

b) Impairment of financial assets and contract assets

2018

The Group recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including accounts receivable), as well as contract assets.

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

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

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

2017

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

For financial assets carried at amortized cost, such as notes and accounts receivable, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. The Company assesses the collectability of receivables by performing the account aging analysis and examining current trends in the credit quality of its customers.

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

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

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

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

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

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

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

c) Derecognition of financial assets

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

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

2) Financial liabilities

a) Subsequent measurement

Financial liabilities are measured at amortized cost, except the trade payables and other payables when the effect of discounting is immaterial.

b) Derecognition of financial liabilities

The difference between the carrying amount of a financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

m. Revenue recognition

2018

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

1) Revenue from the sale of goods

Revenue from the sale of goods comes from sales of fine chemicals and basic chemicals. Sales of fine chemicals and basic chemicals are recognized as revenue when the goods are delivered to the customer's specific location or the goods are shipped because it is the time when the customer [has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility for sales to future customers. Accounts receivable are recognized concurrently.

The Group does not recognize revenue on materials delivered to subcontractors because this delivery does not involve a transfer of control.

2) Revenue from the rendering of services

Revenue from the rendering of services comes from the operating management consulting services and is recognized when services are complete.

3) Construction contract revenue

Customers control properties while they are construction in progress, and thus, the Group recognizes revenue over time. The Group measures the progress on the basis of costs incurred relative to the total expected costs as there is a direct relationship between the costs incurred and the progress of satisfying the performance obligations. Contract assets are recognized during the construction and are reclassified to accounts receivable at the point at which the customer is invoiced. If the milestone payments exceed the revenue recognized to date, then the Group recognizes contract liabilities for the difference. Certain payments, which are retained by the customer as specified in the contract, are intended to ensure that the Group adequately completes all of its contractual obligations. Such retention receivables are recognized as contract assets until the Group satisfies its performance obligations.

When it is not able to reasonably measure the Group's progress toward satisfaction of the performance obligation but expects to recover costs, the Group recognizes revenue only to the extent of costs incurred.

2017

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

1) Revenue from the sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- a) The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- b) The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- c) The amount of revenue can be measured reliably;
- d) It is probable that the economic benefits associated with the transaction will flow to the Group;
and
- e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Group does not recognize sales revenue on materials delivered to subcontractors because this delivery does not involve a transfer of risks and rewards of the materials' ownership.

2) Revenue from the rendering of services

Revenue from the rendering of services comes from the operating management consulting services and is recognized when services are provided.

3) Dividend and interest income

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

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

4) Construction contract revenue

When the outcome of a construction contract can be estimated reliably, revenue and costs are recognized with reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred to date relative to the estimated total contract costs. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred for which recovery is probable. Contract costs are recognized as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed the total contract revenue, the expected loss is recognized as an expense immediately.

When contract costs incurred to date plus the recognized profit less the recognized deficits exceed progress billings, the surplus is shown as the gross amount due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus the recognized profit less the recognized deficits, the surplus is shown as the gross amount due to customers for contract work. Amounts received before the related work is performed are included in the consolidated balance sheets as a liability under advance payment. Amounts billed for work performed but not yet paid by customers are included in the consolidated balance sheets under accounts receivable.

n. Leasing

Leases are classified as finance leases whenever the terms of a lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group's leases only contain operating leases.

1) The Group as lessor

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

2) The Group as lessee

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

3) Leasehold land for own use

When a lease includes both land and building elements, the Group assesses the classification of each element separately as a finance or an operating lease based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. The minimum lease payments are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

If the allocation of the lease payments can be made reliably, each element is accounted for separately in accordance with its lease classification. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease unless it is clear that both elements are operating leases; in which case, the entire lease is classified as an operating lease.

o. Borrowing costs

Borrowing costs directly attributable to an acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other than that which is stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

p. Employee benefits

1) Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related services.

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as expenses when employees have rendered services entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost, as well as past service cost) and net interest on the net defined benefit liabilities (assets) are recognized as employee benefits expense in the period in which they occur. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which it occurs. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liabilities represent the actual deficit in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

q. Share-based payment arrangements

1) Employee share options granted to employees and others providing similar services

The fair value at the grant date of the employee share options is expensed on a straight-line basis over the vesting period, based on the Group's best estimates of the number of shares or options that are expected to ultimately vest, with a corresponding increase in capital surplus - employee share options. It is recognized as an expense in full at the grant date if vested immediately. The grant date of issued ordinary shares for cash which are reserved for employees is the date on which the board of directors approves the transaction.

At the end of each reporting period, the Group revises its estimate of the number of employee share options expected to vest. The impact of the revision of the original estimates is recognized in profit or loss such that the cumulative expenses reflect the revised estimate, with a corresponding adjustment to capital surplus - employee share options.

2) Issuance ordinary shares for cash which retains portion for employee share options

The fair value of the stock option is calculated on the date of the grant, and is recognized as an increase in salary expenses and capital surplus. If the employee share options do not reach the original share reserved for employee to subscribe, the Company will only makes adjustment to the capital surplus since the share option has been vested.

r. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

1) Current tax

According to the Income Tax Law, an additional tax of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liabilities are settled or the assets are realized, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3) Current and deferred taxes for the year

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity; in which case, the current and deferred taxes are also recognized in other comprehensive income or directly in equity, respectively.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Write-down of inventories

The net realizable value of inventories is the estimated selling price in the ordinary course of business less the estimated costs of completion and disposal. The estimation of net realizable value is based on current market conditions and historical experience with product sales of a similar nature. Changes in market conditions may have a material impact on the estimation of the net realizable value.

6. CASH AND CASH EQUIVALENTS

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Cash on hand	\$ 637	\$ 519
Demand deposits	192,437	134,035
Cash equivalents		
Time deposits	<u>73,030</u>	<u>69,557</u>
	<u>\$ 266,104</u>	<u>\$ 204,111</u>

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

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Demand deposits	0.001%-0.50%	0.001%-0.30%
Time deposits	2.55%-3.15%	1.38%-3.25%

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - NON-CURRENT - 2018

	<u>December 31,</u> <u>2018</u>
Domestic investments	
Listed shares	\$ 22,662
Unlisted shares	<u>6,698</u>
	<u>29,360</u>
Foreign investments	
Unlisted shares	<u>104,958</u>
	<u>\$ 134,318</u>

These investments in equity instruments are not held for trading. Instead, they are held for medium to long-term strategic purposes. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes. These investments in equity instruments were classified as available-for-sale under IAS 39. Refer to Note 3, Note 8 "available-for-sale" and Note 9 "financial assets measured at cost" for information relating to their reclassification and comparative information in 2017.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS - 2017

	December 31, 2017
<u>Non-current</u>	
Domestic investments	
Listed shares	\$ <u>37,995</u>

9. FINANCIAL ASSETS MEASURED AT COST - 2017

	December 31, 2017
<u>Non-current</u>	
Domestic unlisted ordinary shares	\$ 6,698
Overseas unlisted ordinary shares	<u>88,456</u>
	<u>\$ 95,154</u>

Management believed that the above unlisted equity investments held by the Group had fair values which cannot be reliably measured, because the range of reasonable fair value estimates was so significant. Therefore, they were measured at cost less impairment at the end of the reporting period.

10. NOTES AND ACCOUNTS RECEIVABLE

	<u>December 31</u>	
	2018	2017
<u>Notes receivable</u>		
Notes receivable - operating	\$ <u>43,268</u>	\$ <u>54,689</u>
<u>accounts receivable</u>		
At amortized cost		
Gross carrying amount	\$ 1,010,643	\$ 1,083,956
Less: Allowance for impairment loss	<u>(571)</u>	<u>(6,264)</u>
	<u>\$ 1,010,072</u>	<u>\$ 1,077,692</u>

In 2018

The average credit period of sales of goods was 30 to 120 days. The Group adopted a policy of only dealing with entities that are higher credit rating. Credit rating information is assessed internally or, if not available, the Group uses other publicly available financial information or its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored.

In order to minimize credit risk, the management of the Company has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowance is made for possible irrecoverable amounts. In this regard, the management believes the Group's credit risk was significantly reduced.

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

The Group writes off a accounts receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has declared bankruptcy and also reported to the court. For accounts receivable that have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

The following table details the loss allowance of accounts receivable based on the Group's provision matrix.

December 31, 2018

	Not Past Due	1 to 90 Days	90 to 180 Days	181 to 365 Days	Over 365 Days	Indication of default	Total
Expected credit loss rate	-	-	-	50%	100%	100%	-
Gross carrying amount	\$ 996,926	\$ 13,043	\$ 103	\$ -	\$ 81	\$ 490	\$ 1,010,643
Loss allowance (Lifetime ECL)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(81)</u>	<u>(490)</u>	<u>(571)</u>
Amortized cost	<u>\$ 996,926</u>	<u>\$ 13,043</u>	<u>\$ 103</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,010,072</u>

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

	2018
Balance at January 1, 2018 per IAS 39	\$ 6,264
Adjustment on initial application of IFRS 9	<u>-</u>
Balance at January 1, 2018 per IFRS 9	6,264
Add: Net remeasurement of loss allowance	490
Less: Amounts written off	<u>(6,183)</u>
Balance at December 31, 2018	<u>\$ 571</u>

The Group wrote off accounts receivable and related loss allowance of \$6,183 thousand due to the liquidation of one customer.

In 2017

The average credit period of sales of goods was 30 to 120 days. The Group considered the recoverable of notes and accounts receivable based on credit rating of counterparties from original credit day to the balance sheet date. There was no significant irrecoverable risk relate to the notes and accounts receivable due to the past experiences, the allowance of bad debt was determined by the counterparties past default records and current financial condition.

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

The aging of receivables was as follows:

	December 31, 2017
0-60 days	\$ 619,824
61-90 days	249,908
91-180 days	207,808
181-365 days	152
Over 365 days	<u>6,264</u>
	<u>\$ 1,083,956</u>

The above aging schedule was based on the invoice date.

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

	December 31, 2017
Up to 60 days	\$ 2,405
61-90 days	105
91-120 days	128
121-180 days	<u>98</u>
	<u>\$ 2,736</u>

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

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

	For the Year Ended December 31, 2017
Balance at January 1, 2017	\$ 6,472
Add: Impairment losses recognized on receivables	81
Less: Amounts written off during the year as uncollectible	<u>(289)</u>
Balance at December 31, 2017	<u>\$ 6,264</u>

As of December 31, 2017, the amount of individually impaired accounts receivable was \$6,183 thousand. These amounts mainly related to customers that were in severe financial difficulties. The Group did not hold any collateral over these balances.

11. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONSTRUCTION CONTRACTS - 2017

	December 31, 2017
<u>Amount due from customers for construction contracts</u>	
Construction costs incurred plus recognized profits less recognized losses to date	\$ 72,389
Less: Progress billings	<u>(27,916)</u>
Amount due from customers for construction contracts	44,473
Less: Amount due from customers for construction contracts - non-current	<u>(27,055)</u>
Amount due from customers for construction contracts - current	<u>\$ 17,418</u>

12. INVENTORIES

	<u>December 31</u>	
	2018	2017
Merchandise	\$ 3,620	\$ 390
Finished goods	217,975	152,394
Work in progress	19,890	18,632
Semi-finished goods	5,771	591
Raw materials	273,629	221,351
Supplies	<u>22,947</u>	<u>13,473</u>
	<u>\$ 543,832</u>	<u>\$ 406,831</u>

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2018 and 2017 was \$3,289,001 thousand and \$3,187,562 thousand, respectively. The cost of goods sold included inventory write-downs of \$4,018 thousand and reversals of inventory write-downs of \$(714) thousand. The reversals of previous write-downs for the year ended December 31, 2017 resulted from increased selling prices in certain markets.

13. SUBSIDIARIES

Subsidiaries included in the consolidated financial statements

Investor	Investee	Nature of Activities	<u>Proportion of Ownership (%)</u>	
			<u>2018</u>	<u>2017</u>
San Fu Chemical Co., Ltd.	San Fu Specialty Chemicals Investments Limited	Investment	100	100
	San Fu Food Additives Investments Limited	Investment	100	100
	VinaSanFu Industrial Gas Company Limited	Production of industrial gases	100	-
	VinaSanFu Material Company Limited	Production of industrial materials	100	-
	San Fu Biotech Co., Ltd.	Sales and production of food additives	100	100
	International Nitto Technology Co., Ltd.	Sales and production of electronic components	100	-
San Fu Specialty Chemicals Investments Limited	Lucky Star Holding Limited	Investment	100	100
	Sino Star Holding Limited	Investment	100	100

On December 28, 2018, the Group completed the acquisition 49% of International Nitto Technology Co., Ltd.; and the ownership of International Nitto Technology Co., Ltd become 100%. As a result, the Group reclassified the investment of International Nitto Technology Co., Ltd. which was originally booked as investment in joint ventures to the investment in subsidiaries and recognized a gains on disposal with amount \$31,681 thousand.

14. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	<u>December 31</u>	
	2018	2017
Investments in associates	\$ 64,336	\$ 61,436
Investments in joint ventures	<u>331,501</u>	<u>382,606</u>
	<u>\$ 395,837</u>	<u>\$ 444,042</u>

The share of total comprehensive income for the years ended December 31, 2018 and 2017 was \$3,166 thousand and \$13,955 thousand, respectively.

a. Investments in associates

	<u>December 31</u>	
	2018	2017
Associates that are not individually material	<u>\$ 64,336</u>	<u>\$ 61,436</u>

Aggregate information of associates that are not individually material

	<u>For the Year Ended December 31</u>	
	2018	2017
The Group's share of:		
Net profit for the year	\$ 3,764	\$ 3,248
Other comprehensive income (loss)	<u>261</u>	<u>(2,216)</u>
Total comprehensive income (loss) for the year	<u>\$ 4,025</u>	<u>\$ 1,032</u>

Except for one associate that are not individually material, other investments of associates that are not individually material accounted for using equity method and the Company's share of profit or loss and other comprehensive income of those investments were calculated based on financial statements which have not been audited. The Group's management believes there will be no material impact on the equity method accounting or the calculation of the share of profit or loss and other comprehensive income from the financial statements of those investments which have not been audited.

b. Investments in joint ventures

	<u>December 31</u>	
	2018	2017
Material joint ventures		
San Fu Ming Electronic Materials Co., Ltd.	\$ 331,501	\$ 312,806
International Nitto Technology Co., Ltd.	<u>-</u>	<u>69,800</u>
	<u>\$ 331,501</u>	<u>\$ 382,606</u>

Name of Associate	Nature of Activities	Principal Place of Business	Proportion of Ownership and Voting Rights	
			December 31 2018	December 31 2017
San Fu Ming Electronic Materials Co., Ltd.	International trading	Shanghai, China	50%	50%
International Nitto Technology Co., Ltd.	Sales and production of electronic components	Taiwan	-	51%

All the joint ventures are accounted for using the equity method.

Summarized financial information in respect of each of the Group's material joint ventures is set out below. The summarized financial information below represents the amounts shown in the joint ventures' financial statements prepared in accordance with IFRSs adjusted by the Group for equity accounting purposes.

San Fu Ming Electronic Materials Co., Ltd.

	December 31	
	2018	2017
Cash and cash equivalents	\$ 42,661	\$ 27,579
Current assets	\$ 481,364	\$ 372,616
Non-current assets	239,423	235,914
Current liabilities	(126,061)	(49,070)
Equity	\$ 594,726	\$ 559,460
Proportion of the Group's ownership	50%	50%
Equity attributable to the Group	\$ 297,363	\$ 279,730
Other adjustments (gain of losing control in subsidiaries)	32,643	32,643
Other adjustments (exchange rate affect)	1,495	433
Carrying amount	\$ 331,501	\$ 312,806
	For the Year Ended December 31	
	2018	2017
Operating revenue	\$ 1,320,639	\$ 928,946
Depreciation expenses and amortization expenses	\$ 18,084	\$ 17,483
Interest income	\$ 180	\$ 576
Income tax expenses	\$ 14,073	\$ 21,765
Net profit for the year	\$ 45,844	\$ 54,868
Other comprehensive income (loss)	(8,454)	(15,392)
Total comprehensive income (loss) for the year	\$ 37,390	\$ 39,476

International Nitto Technology Co., Ltd.

	December 31, 2017
Cash and cash equivalents	\$ <u>81,900</u>
Current assets	\$ 94,479
Non-current assets	122,457
Current liabilities	<u>(80,074)</u>
Equity	136,862
Proportion of the Group's ownership	<u>51%</u>
Equity attributable to the Group	\$ <u>69,800</u>

	For the Period Ended December 27, 2018	For the Year Ended December 31, 2017
Operating revenue	\$ <u>385</u>	\$ <u>14,037</u>
Depreciation expenses and amortization expenses	\$ <u>7,670</u>	\$ <u>7,341</u>
Interest income	\$ <u>62</u>	\$ <u>67</u>
Interest expenses	\$ <u>2,000</u>	\$ <u>2,000</u>
Income tax expenses	\$ <u>-</u>	\$ <u>7,027</u>
Net loss for the year	\$ <u>(46,116)</u>	\$ <u>(32,798)</u>
Total comprehensive income (loss) for the year	\$ <u>(46,116)</u>	\$ <u>(32,798)</u>

For the period ended December 27, 2018 and for the year ended December 31, 2017, the investments in joint ventures accounted for using the equity method and the share of income (loss) and other comprehensive income (loss) were recognized based on the joint ventures' audited financial statements for the same year.

On May 3, 2010, the Company signed a tripartite agreement of credit right transferring assignment with the International Nitto Co., Ltd. and The Nitto Group ("Nitto Company"), which also holds 49% of the International Nitto Co., Ltd. The agreement is as follows:

- 1) Nitto Company transfers International Nitto Co., Ltd.'s credit right of NT\$96,429 thousand (51% of total receivables) to the Company at NT\$1.
- 2) From the date of signing the agreement, the amount of the transferred credits that International Nitto Company shall repay each year is "half of the annual depreciation expense of fixed assets." The actual payment period and amount shall be negotiated considering the operating condition and cash flow of the International Nitto Co., Ltd.

Considering the financial condition of the International Nitto Co., Ltd. and the economic environment at the time, the Company estimated the fair value of the accounts receivable as zero. Therefore, if the Company receives payment from International Nitto Co., Ltd., the repayment will be recognized in other income.

The Group increased its ownership in International Nitto Company and gained control in December, 2018. As a result, the Company included the International Nitto Company in the consolidated financial statements. Please refer to Note 28 for the business combination.

15. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Equipment	Transportation	Other Equipment	Property under Construction	Total
<u>Cost</u>							
Balance at January 1, 2017	\$ 63,707	\$ 651,043	\$ 1,602,338	\$ 269,541	\$ 252,172	\$ 183,707	\$ 3,022,508
Reclassifications	-	16,911	148,921	3,262	4,684	(141,331)	32,447
Additions	-	15,028	29,752	13,066	15,278	301,513	374,637
Disposals	-	(6,967)	(48,693)	(420)	(8,680)	-	(64,760)
Balance at December 31, 2017	<u>\$ 63,707</u>	<u>\$ 676,015</u>	<u>\$ 1,732,318</u>	<u>\$ 285,449</u>	<u>\$ 263,454</u>	<u>\$ 343,889</u>	<u>\$ 3,364,832</u>
<u>Accumulated depreciation and impairment</u>							
Balance at January 1, 2017	\$ -	\$ 229,270	\$ 1,203,686	\$ 209,410	\$ 189,923	\$ -	\$ 1,832,289
Depreciation expenses	-	34,785	111,682	24,141	22,513	-	193,121
Impairment loss recognized	-	-	5,454	-	-	-	5,454
Disposals	-	(6,967)	(36,124)	(420)	(8,680)	-	(52,191)
Balance at December 31, 2017	<u>\$ -</u>	<u>\$ 257,088</u>	<u>\$ 1,284,698</u>	<u>\$ 233,131</u>	<u>\$ 203,756</u>	<u>\$ -</u>	<u>\$ 1,978,673</u>
Carrying amounts at December 31, 2017	<u>\$ 63,707</u>	<u>\$ 418,927</u>	<u>\$ 447,620</u>	<u>\$ 52,318</u>	<u>\$ 59,698</u>	<u>\$ 343,889</u>	<u>\$ 1,386,159</u>
<u>Cost</u>							
Balance at January 1, 2018	\$ 63,707	\$ 676,015	\$ 1,732,318	\$ 285,449	\$ 263,454	\$ 343,889	\$ 3,364,832
Reclassifications	-	86,979	203,481	1,450	8,361	(302,271)	(2,000)
Additions	-	17,232	108,404	22,547	13,859	156,188	318,230
Disposals	-	-	(167,930)	(2,217)	(9,491)	-	(179,638)
Acquisitions through business combinations	-	155,451	5,745	-	351	-	161,547
Effect of foreign currency exchange differences	-	-	-	-	-	6	6
Balance at December 31, 2018	<u>\$ 63,707</u>	<u>\$ 935,677</u>	<u>\$ 1,882,018</u>	<u>\$ 307,229</u>	<u>\$ 276,534</u>	<u>\$ 197,812</u>	<u>\$ 3,662,977</u>
<u>Accumulated depreciation and impairment</u>							
Balance at January 1, 2018	\$ -	\$ 257,088	\$ 1,284,698	\$ 233,131	\$ 203,756	\$ -	\$ 1,978,673
Depreciation expenses	-	39,056	119,054	20,049	22,154	-	200,313
Disposals	-	-	(163,940)	(2,217)	(9,491)	-	(175,648)
Balance at December 31, 2018	<u>\$ -</u>	<u>\$ 296,144</u>	<u>\$ 1,239,812</u>	<u>\$ 250,963</u>	<u>\$ 216,419</u>	<u>\$ -</u>	<u>\$ 2,003,338</u>
Carrying amounts at December 31, 2018	<u>\$ 63,707</u>	<u>\$ 639,533</u>	<u>\$ 642,206</u>	<u>\$ 56,266</u>	<u>\$ 60,115</u>	<u>\$ 197,812</u>	<u>\$ 1,659,639</u>

The recoverable amount of idle equipment is determined on the basis of the fair value less the disposal costs. The management assessed the recoverable amount of idle equipment at \$0 thousand, which was lower than the carrying amount of \$5,454 thousand. As a result, an impairment loss of \$5,454 thousand was recognized in 2017. The impairment loss was recognized in other gains and losses.

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

Buildings	
Main building	3-38 years
Employee dormitory	25-50 years
Firefighting, air-conditioning and other systems	1-8 years
Engineering system	3-38 years
Transportation	1-7 years
Equipment	1-27 years
Other equipment	1-25 years

Property, plant and equipment pledged as collateral for bank borrowings is set out in Note 34.

16. LONG-TERM PREPAYMENT

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Prepayments for purchases of equipment	<u>\$ 3,724</u>	<u>\$ 9,027</u>

17. REPAYMENTS FOR LEASES

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Current assets (included in prepaid expense)	\$ 1,819	\$ -
Non-current assets	<u>70,018</u>	<u>-</u>
	<u>\$ 71,837</u>	<u>\$ -</u>

The prepayments for leases are for the use right of VinaSanFu Industrial Gas Company Limited's and VinaSanFu Material Company Limited's land in Vietnam. As of December 31, 2018 and 2017, the carrying amount of the use right is \$71,837 thousand and \$0 respectively.

18. BORROWINGS

Short-term Borrowings

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
<u>Secured borrowings (Note 34)</u>		
Bank loans	\$ 310,000	\$ 60,000
<u>Unsecured borrowings</u>		
Bank loans	<u>170,000</u>	<u>140,000</u>
	<u>\$ 480,000</u>	<u>\$ 200,000</u>

The range of weighted average effective interest rates on bank loans was 1.00%-2.50% and 1.00%-1.18% per annum as of December 31, 2018 and 2017, respectively.

19. NOTES PAYABLE AND ACCOUNTS PAYABLE

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Notes payable	\$ 171	\$ -
Accounts payable	<u>344,327</u>	<u>370,616</u>
	<u>\$ 344,498</u>	<u>\$ 370,616</u>

The average payment period of purchasing raw materials and supplies was two months. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

20. OTHER PAYABLES

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Other payables		
Payable for accrued expenses	\$ 154,702	\$ 144,548
Payable for investments	74,904	-
Payable for constructions	32,634	56,142
Payable for purchases of equipment	32,370	24,890
Others	<u>710</u>	<u>1,320</u>
	<u>\$ 295,320</u>	<u>\$ 226,900</u>

21. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Company, San Fu Biotech Co., Ltd., and International Nitto Technology Co., Ltd. of the Group adopted a pension plan under the Labor Pension Act (the "LPA"), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

b. Defined benefit plans

The defined benefit plans adopted by the Company of the Group in accordance with the Labor Standards Law is operated by the government of the ROC. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the 6 months before retirement. The Company contribute amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Group assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Group is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); the Group has no right to influence the investment policy and strategy.

The amounts included in the consolidated balance sheets in respect of the Group's defined benefit plans were as follows:

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Present value of defined benefit obligation	\$ 122,538	\$ 124,178
Fair value of plan assets	<u>(68,197)</u>	<u>(49,796)</u>
Net defined benefit liabilities	<u>\$ 54,341</u>	<u>\$ 74,382</u>

Movements in net defined benefit liabilities were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities
Balance at January 1, 2017	\$ 130,431	\$ (32,882)	\$ 97,549
Service cost			
Current service cost	1,717	-	1,717
Net interest expense (income)	<u>1,456</u>	<u>(452)</u>	<u>1,004</u>
Recognized in profit or loss	<u>3,173</u>	<u>(452)</u>	<u>2,721</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	79	79
Actuarial (gain) loss			
Changes in demographic assumptions	1,893	-	1,893
Experience adjustments	<u>(145)</u>	<u>-</u>	<u>(145)</u>
Recognized in other comprehensive income	<u>1,748</u>	<u>79</u>	<u>1,827</u>
Contributions from the employer	-	(16,541)	(16,541)
Benefits paid	<u>(11,174)</u>	<u>-</u>	<u>(11,174)</u>
Balance at December 31, 2017	<u>\$ 124,178</u>	<u>\$ (49,796)</u>	<u>\$ 74,382</u>
Balance at January 1, 2018	\$ 124,178	\$ (49,796)	\$ 74,382
Service cost			
Current service cost	1,318	-	1,318
Net interest expense (income)	<u>1,397</u>	<u>(653)</u>	<u>744</u>
Recognized in profit or loss	<u>2,715</u>	<u>(653)</u>	<u>2,062</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(1,235)	(1,235)
Actuarial (gain) loss			
Changes in demographic assumptions	634	-	634
Changes in financial assumptions	1,367	-	1,367
Experience adjustments	<u>(1,796)</u>	<u>-</u>	<u>(1,796)</u>
Recognized in other comprehensive income	<u>205</u>	<u>(1,235)</u>	<u>(1,030)</u>
Contributions from the employer	-	(16,513)	(16,513)
Benefits paid	<u>(4,560)</u>	<u>-</u>	<u>(4,560)</u>
Balance at December 31, 2018	<u>\$ 122,538</u>	<u>\$ (68,197)</u>	<u>\$ 54,341</u>

An analysis by function of the amounts recognized in profit or loss in respect of the defined benefit plans is as follows:

	For the Year Ended December 31	
	2018	2017
Operating costs	\$ 1,293	\$ 1,818
Selling and marketing expenses	297	353
General and administrative expenses	472	528
Research and development expenses	<u>-</u>	<u>22</u>
	<u>\$ 2,062</u>	<u>\$ 2,721</u>

Through the defined benefit plans under the Labor Standards Law, the Group is exposed to the following risks:

- 1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- 2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plans' debt investments.
- 3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	
	2018	2017
Discount rates	1.000%	1.125%
Long-term averaged pay rates	2.000%	2.000%

If possible reasonable changes in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

	December 31	
	2018	2017
Discount rate(s)		
0.25% increase	<u>\$ (2,721)</u>	<u>\$ (2,955)</u>
0.25% decrease	<u>\$ 2,813</u>	<u>\$ 3,059</u>
Expected rate(s) of salary increase		
0.25% increase	<u>\$ 2,737</u>	<u>\$ 2,980</u>
0.25% decrease	<u>\$ (2,660)</u>	<u>\$ (2,893)</u>

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

	December 31	
	2018	2017
Expected contributions to the plans for the next year	<u>\$ 16,000</u>	<u>\$ 16,536</u>
Average duration of the defined benefit obligation	9 years	9.7 years

22. EQUITY

a. Share capital

Ordinary shares

	December 31	
	2018	2017
Number of shares authorized (in thousands)	<u>120,000</u>	<u>120,000</u>
Shares authorized	<u>\$ 1,200,000</u>	<u>\$ 1,200,000</u>
Number of shares issued and fully paid (in thousands)	<u>90,706</u>	<u>90,706</u>
Shares issued	<u>\$ 907,060</u>	<u>\$ 907,060</u>

For the year ended December 31, 2017, the shares increased by 129 thousand shares due to the employees' exercise of their employee share options with average \$10 per share.

b. Capital surplus

	December 31	
	2018	2017
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital</u>		
Issuance of ordinary shares	\$ 611,529	\$ 611,529
Donations (Note 33)	12,870	4,879
<u>May be used to offset a deficit only</u>		
Exercised employee share options	35,773	35,773
Expire employee share options	<u>2,151</u>	<u>2,151</u>
	<u>\$ 662,323</u>	<u>\$ 654,332</u>

Capital surplus in excess of par or from donations may be used to offset a deficit. When the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred once a year to share capital within a certain percentage of the Company's paid-in capital.

The capital surplus resulting from exercised or expired employee share options shall only be used to offset a deficit.

c. Retained earnings and dividends policy

Under the dividends policy as set forth in the amended Articles, where the Company made a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as a legal reserve of 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders. For the policies on the distribution of employees' compensation and remuneration of directors and supervisors after the amendment, refer to employees' compensation and remuneration of directors and supervisors in Note 24-e.

The distribution of the Company's dividends depends on the current year's surplus and the principle of distribution is to keep dividends stable. As the Company is currently growing, the Company takes into consideration of the its future capital demand and long-term financial planning while allocating dividends. In principle, cash dividends should be no less than 5% of the total dividends distributed. However, shareholders may adjust the percentage of appropriation depending on the Company's actual profit and capital situation.

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

Items referred to under Rule No. 1010012865, Rule No. 1010047490 and Rule No. 1030006415 issued by the FSC and in the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs" should be appropriated to or reversed from a special reserve by the Company. For the subsequent reversal of the other shareholders' equity deductions, the Company may distribute the surplus limited to the reversal.

The appropriations of earnings for 2017 and 2016 were approved in the shareholders' meetings on June 14, 2018 and June 22, 2017, respectively, were as follows:

	<u>Appropriation of Earnings</u>		<u>Dividends Per Share (NT\$)</u>	
	<u>For the Year Ended</u>		<u>For the Year Ended</u>	
	<u>December 31</u>		<u>December 31</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Legal reserve	\$ 38,647	\$ 28,620		
Cash dividends	235,836	145,130	\$ 2.6	\$ 1.6

The appropriation of earnings for 2018 had been proposed by the Company's board of directors on February 25, 2019. The appropriation and dividends per share were as follows:

	<u>Appropriation of Earnings</u>	<u>Dividends Per Share (NT\$)</u>
Legal reserve	\$ 39,773	
Special reserve	6,442	
Cash dividends	244,906	\$2.7

The appropriation of earnings for 2018 are subject to the resolution of the shareholders' meeting to be held on June 13, 2019.

23. REVENUE

	<u>For the Year Ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Revenue from contracts with customers		
Revenue from sale of goods	\$ 4,008,923	\$ 3,979,248
Construction contract revenue	<u>40,433</u>	<u>-</u>
	<u>\$ 4,049,356</u>	<u>\$ 3,979,248</u>

Contact Balances

	December 31, 2018
Contract assets	
Properties construction - current	\$ 15,669
Properties construction - non-current	<u>11,695</u>
	<u>\$ 27,364</u>
Contract liabilities	
Properties construction - current	<u>\$ 3,647</u>

24. NET PROFIT

a. Other income

	For the Year Ended December 31	
	2018	2017
Interest income	\$ 1,826	\$ 1,110
Dividends	963	1,413
Others	<u>27,114</u>	<u>28,620</u>
	<u>\$ 29,903</u>	<u>\$ 31,143</u>

b. Other gains and losses

	For the Year Ended December 31	
	2018	2017
Gain on disposal of investments (Note 14)	\$ 31,681	\$ -
Net foreign exchange gains (losses)	19,190	(23,037)
Gain (losses) on disposal of equipment	920	(12,068)
Impairment loss of property, plant and equipment	-	(5,454)
Impairment loss of nonfinancial assets	(40)	-
Others	<u>-</u>	<u>(182)</u>
	<u>\$ 51,751</u>	<u>\$ (40,741)</u>

c. Depreciation and amortization

	For the Year Ended December 31	
	2018	2017
Properties, plants and equipment	<u>\$ 200,313</u>	<u>\$ 193,121</u>
An analysis of depreciation by function		
Operating costs	\$ 189,402	\$ 181,054
Operating expenses	<u>10,911</u>	<u>12,067</u>
	<u>\$ 200,313</u>	<u>\$ 193,121</u>

d. Employee benefits expense

	For the Year Ended December 31	
	2018	2017
Post-employment benefits		
Defined contribution plans	\$ 10,840	\$ 9,524
Defined benefit plans (see Note 21)	2,062	2,721
Short-term benefits		
Salaries	204,158	187,585
Labor and health insurance	23,792	21,458
Others	<u>137,296</u>	<u>120,528</u>
Total employee benefits expense	<u>\$ 378,148</u>	<u>\$ 341,816</u>
An analysis of employee benefits expense by function		
Operating costs	\$ 213,034	\$ 192,928
Operating expenses	<u>165,114</u>	<u>148,888</u>
	<u>\$ 378,148</u>	<u>\$ 341,816</u>

e. Employees' compensation and remuneration of directors and supervisors

The Company accrued employees' compensation and remuneration of directors and supervisors at rates of 1%-3% and no higher than 3%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors. The employees' compensation and the remuneration of directors and supervisors for the years ended December 31, 2018 and 2017, which were approved by the Company's board of directors on February 25, 2019 and March 15, 2018, respectively, are as follows:

Accrual rate

	For the Year Ended December 31	
	2018	2017
Employees' compensation	1.93%	1.95%
Remuneration of directors and supervisors	1.93%	1.95%

Amount

	For the Year Ended December 31	
	2018	2017
	Cash	Cash
Employees' compensation	\$ 9,945	\$ 9,630
Remuneration of directors and supervisors	9,945	9,630

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

The Company held board of directors' meetings on March 15, 2018 and March 22, 2017, and those meetings resulted in the actual amounts of the employees' compensation and remuneration of directors and supervisors paid for 2017 and 2016 to differ from the amounts recognized in the consolidated financial statements for the years ended December 31, 2017 and 2016, respectively. The differences were adjusted to profit and loss for the years ended December 31, 2018 and 2017, respectively.

	For the Year Ended December 31			
	2017		2016	
	Employees' Compensation	Remuneration of Directors and Supervisors	Employees' Compensation	Remuneration of Directors and Supervisors
Amounts approved in the board of directors' meeting	<u>\$ 9,510</u>	<u>\$ 9,510</u>	<u>\$ 7,250</u>	<u>\$ 7,250</u>
Amounts recognized in the annual consolidated financial statements	<u>\$ 9,630</u>	<u>\$ 9,630</u>	<u>\$ 7,200</u>	<u>\$ 7,200</u>

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

f. Finance costs

	For the Year Ended December 31	
	2018	2017
Interest on bank loans	<u>\$ 3,532</u>	<u>\$ 2,671</u>

g. Gains or losses on foreign current exchange

	For the Year Ended December 31	
	2018	2017
Foreign exchange gains	\$ 36,068	\$ 18,127
Foreign exchange losses	<u>(16,878)</u>	<u>(41,164)</u>
Net gain (losses)	<u>\$ 19,190</u>	<u>\$ (23,037)</u>

25. INCOME TAXES

a. Income tax recognized in profit or loss

Major components of income tax expense are as follows:

	For the Year Ended December 31	
	2018	2017
Current tax		
In respect of the current period	\$ 84,485	\$ 76,992
Income tax on unappropriated earnings	11,047	10,776
Adjustments for prior periods	<u>(1,447)</u>	<u>669</u>
	<u>94,085</u>	<u>88,437</u>

(Continued)

	For the Year Ended December 31	
	2018	2017
Deferred tax		
In respect of the current period	\$ 6,548	\$ 1,969
Adjustments to deferred tax attributable to changes in tax rates and laws	(4,109)	-
Adjustments for prior periods	<u>-</u>	<u>(1,385)</u>
	<u>2,439</u>	<u>584</u>
Income tax expense recognized in profit or loss	<u>\$ 96,524</u>	<u>\$ 89,021</u> (Concluded)

A reconciliation of accounting profit and income tax expense is as follows:

	For the Year Ended December 31	
	2018	2017
Profit before tax	<u>\$ 494,256</u>	<u>\$ 475,496</u>
Income tax expense calculated at the statutory rate	\$ 98,851	\$ 80,834
Nondeductible expenses in determining taxable income	3,696	2,312
Tax-exempt income	(6,529)	(240)
Additional income for tax purpose	-	829
Effect of tax rate changes	(4,109)	-
Unrecognized deductible temporary differences	11,047	10,776
Income tax on unappropriated earnings	(4,985)	(4,774)
Adjustments for prior years' tax	<u>(1,447)</u>	<u>(716)</u>
Income tax expense recognized in profit or loss	<u>\$ 96,524</u>	<u>\$ 89,021</u>

In 2017, the applicable corporate income tax rate used by the group entities in the ROC is 17%. However, the Income Tax Act in the ROC was amended in 2018, and the corporate income tax rate was adjusted from 17% to 20%, effective in 2018. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings will be reduced from 10% to 5%.

As the status of the 2019 appropriation of earnings is uncertain, the potential income tax consequences of the 2018 unappropriated earnings are not reliably determinable.

b. Current tax liabilities

	December 31	
	2018	2017
Current tax liabilities		
Income tax payable	<u>\$ 56,896</u>	<u>\$ 55,140</u>

Prepaid income tax of \$38,637 thousand and \$32,629 thousand has been deducted from the income tax payable for 2018 and 2017 respectively.

c. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities are as follows:

For the year ended December 31, 2018

	Opening Balance	Recognized in Profit or Loss	Recognized Directly in Equity	Recognized in Other Comprehensive Income	Closing Balance
<u>Deferred tax assets</u>					
Temporary differences					
Defined benefit obligations	\$ 12,645	\$ (2,343)	\$ -	\$ 566	\$ 10,868
Payables for annual leave	1,384	290	-	-	1,674
Allowance for impairment loss	3,072	(433)	-	-	2,639
Unrealized exchange loss	636	(636)	-	-	-
Others	9,923	769	-	-	10,692
	<u>\$ 27,660</u>	<u>\$ (2,353)</u>	<u>\$ -</u>	<u>\$ 566</u>	<u>\$ 25,873</u>
<u>Deferred tax liabilities</u>					
Temporary differences					
Unrealized exchange gain	\$ -	\$ 86	\$ -	\$ -	\$ 86
FVOCI financial assets	-	-	3,220	(285)	2,935
	<u>\$ -</u>	<u>\$ 86</u>	<u>\$ 3,220</u>	<u>\$ (285)</u>	<u>\$ 3,021</u>

For the year ended December 31, 2017

	Opening Balance	Recognized in Profit or Loss	Recognized Directly in Equity	Recognized in Other Comprehensive Income	Closing Balance
<u>Deferred tax assets</u>					
Temporary differences					
Defined benefit obligations	\$ 16,583	\$ (4,249)	\$ -	\$ 311	\$ 12,645
Payables for annual leave	1,004	380	-	-	1,384
Allowance for impairment loss	3,204	(132)	-	-	3,072
Unrealized exchange loss	-	636	-	-	636
Others	7,298	2,625	-	-	9,923
	<u>\$ 28,089</u>	<u>\$ (740)</u>	<u>\$ -</u>	<u>\$ 311</u>	<u>\$ 27,660</u>
<u>Deferred tax liabilities</u>					
Temporary differences					
Unrealized exchange gain	\$ 40	\$ (40)	\$ -	\$ -	\$ -
Others	116	(116)	-	-	-
	<u>\$ 156</u>	<u>\$ (156)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

As of December 31, 2018 and 2017, the taxable temporary differences associated with investments in subsidiaries and branches for which no deferred tax liabilities have been recognized were \$48,387 thousand and \$36,894 thousand, respectively.

- e. Income tax assessments

The income tax returns through 2016, have been assessed by the tax authorities.

26. EARNINGS PER SHARE

Unit: NT\$ Per Share

	<u>For the Year Ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Basic earnings per share		
Basic earnings per share	<u>\$ 4.38</u>	<u>\$ 4.26</u>
Diluted earnings per share		
Diluted earnings per share	<u>\$ 4.37</u>	<u>\$ 4.25</u>

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

Net Profit for the Year

	<u>For the Year Ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Profit for the year	<u>\$ 397,732</u>	<u>\$ 386,475</u>

The weighted average number of ordinary shares outstanding (in thousand shares) is as follows:

	<u>For the Year Ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Weighted average number of ordinary shares used in the computation of basic earnings per share	90,706	90,686
Effect of potentially dilutive ordinary shares		
Employees' compensation	290	227
Employee share options	<u>-</u>	<u>15</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>90,996</u>	<u>90,928</u>

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

27. SHARE-BASED PAYMENT ARRANGEMENTS

Employee Share Option Plan of the Company

Qualified employees of the Company were granted 3,200 options in June 2012. Each option entitles the holder to subscribe for one thousand ordinary shares of the Company. The granted options are valid for 5 years and the employee's vesting period is as follows: (1) 50% of granted options can be exercised two years after the grant date. Thereafter, 25% of granted options can be exercised each year. There is a total of four years in the vesting period. (2) The board of directors may adjust the period to exercise the options and the proportion of exercisable options. The options were granted at an exercise price of NT\$10, and the subscription price will not be adjusted after the share options are issued. The expiration date of exercising employee share options was June 30, 2017.

The Company has not granted new share options in 2017. Information of granted employee share options is as follows:

	For the Year Ended December 31, 2017	
	Number of Options (In Thousands)	Weighted- average Exercise Price (NT\$)
Balance at January 1	131	\$10
Options forfeited	(2)	10
Options exercised	<u>(129)</u>	10
Balance at December 31	<u>-----</u> -	
Options exercisable, end of period	<u>-----</u> -	
Weighted-average fair value of options granted (NT\$)		<u>\$ 13.36</u>

28. BUSINESS COMBINATIONS

a. Subsidiaries acquired

Subsidiary	Main Business	Date of Acquisition	Proportion of Voting Equity Interests Acquired (%)	Consideration Transferred
International Nitto Technology Company Limited	Thin film transistor liquid crystal display glass polishing and cutting	December 28, 2018	49	<u>\$ 74,904</u>

International Nitto Technology Company Limited were acquired to continue the expansion of the Group's operations in specialty chemical products.

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

	International Nitto Technology Company Limited
Current assets	
Cash and cash equivalents	\$ 72,701
Accounts and others receivable	196
Others	1,788
Non-current assets	
Property, plant and equipment	161,547
Others	30
Current liabilities	
Short-term loan	(80,000)
Other payable	(3,434)
Others	(3)
	<u>\$ 152,825</u>

c. Goodwill recognized on acquisitions

	International Nitto Technology Company Limited
Consideration transferred	\$ 74,904
Plus: Fair value of the held Nitto at the acquisition date	77,961
Less: Fair value of identifiable net assets acquired	<u>(152,825)</u>
	<u>\$ 40</u>

The goodwill recognized on acquisitions mainly results from control premium. In addition, the consideration transferred for the acquisitions reflects benefits such as expected synergy, revenue growth and future market development. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria of identifiable intangible assets.

d. Net cash inflow from the acquisition of subsidiaries

	International Nitto Technology Company Limited
Consideration transferred	\$ 74,904
Less: Other payable	<u>(74,904)</u>
Consideration paid in cash	<u>\$ -</u>
Cash and cash equivalent balance acquired	<u>\$ 72,201</u>

29. NON-CASH TRANSACTION

For the years ended December 31, 2018 and 2017, the Group entered into the following non-cash investing activities which were not reflected in the consolidated statements of cash flows:

The Group reclassified and paid for property, plant and equipment partly during 2018 and 2017 (see Notes 15 and 20).

	For the Year Ended December 31	
	2018	2017
Long-term prepaid transferred (classification)	\$ <u>-</u>	\$ <u>32,985</u>
Increase in property, plant and equipment (Increase) decrease in payable of purchases of equipment	\$ 318,230 <u>(7,480)</u>	\$ 374,637 <u>6,085</u>
Paid in cash by acquiring property, plant and equipment	\$ <u>310,750</u>	\$ <u>380,722</u>

30. OPERATING LEASE ARRANGEMENTS

The Group as Lessee

Operating leases relate to leases of land, office; plants and vehicles with lease terms between 1 and 20 years.

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

	December 31	
	2018	2017
Not later than 1 year	\$ 26,187	\$ 20,062
Later than 1 year and not later than 5 years	52,595	35,572
Later than 5 years	<u>52,651</u>	<u>55,471</u>
	\$ <u>131,433</u>	\$ <u>111,105</u>

The lease payments and sublease payments recognized in profit or loss for the current period were as follows:

	For the Year Ended December 31	
	2018	2017
Minimum lease payments	\$ <u>23,469</u>	\$ <u>22,664</u>

The Group signed a twenty-year lease agreement with San Fu Global Co., Ltd. For the land in Liuying Technology Industrial Park in April 2012. San Fu Global Co., Ltd. agrees that the Group has the preferential right to purchase the land. The Group promises to purchase the leased object at an appropriate time, and the two parties will entrust an appraisal agency to issue the appraisal report as the basis for the transaction price.

31. CAPITAL MANAGEMENT

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

As for the strategy of the Group's capital structure management, the Group sets its suitable market share according to its industry scale, the growth of the industry and the blueprint of the product development. The Group estimates the required capacity, the equipment and related capital expenditure to be used. Then the Group calculates working capitals and cash on the basis of the industry character to support a complete plan for its long-term development. Finally, the Group estimates not only the possible contribution margin, operating profit ratio and cash flows according to the product competitiveness but also risk factors such as the fluctuation of the business circle and the life circle of the product to decide the suitable capital structure. The management inspects capital structures periodically and considers the possible costs and risks taken by different capital structures. In general, the Group adopts a prudent risk management strategy.

32. FINANCIAL INSTRUMENTS

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

The Group considers that the carrying amounts of financial assets and liabilities not measured at fair value approximate their fair values or the fair values cannot be reliable estimated.

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

1) Fair value hierarchy

	Level 1	Level 2	Level 3	Total
<u>December 31, 2018</u>				
Financial assets at FVTOCI				
Investments in equity instruments at FVTOCI				
Domestic listed shares	\$ 22,662	\$ -	\$ -	\$ 22,662
Domestic unlisted shares	-	-	6,698	6,698
Foreign unlisted shares	-	-	104,958	104,958
	<u>\$ 22,662</u>	<u>\$ -</u>	<u>\$ 111,656</u>	<u>\$ 134,318</u>
<u>December 31, 2017</u>				
Available-for-sale financial assets				
Equity securities				
Listed shares	<u>\$ 37,995</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 37,995</u>

There were no transfers between Levels 1 and 2 for the years ended December 31, 2018 and 2017.

2) Valuation techniques and assumptions used in fair value measurement

- a) The fair values of financial assets and financial liabilities with standard terms and conditions and traded in active markets are determined with reference to quoted market prices.

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

- i. The fair values of unlisted equity securities - ROC were determined using the income approach. Under this approach, the discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of these investees. The significant unobservable inputs are listed in the table below. Decrease in discount for the lack of marketability or non-controlling interests discount would result in increase in the fair value.

	December 31, 2018
Discount for lack of marketability	25%
Non-controlling interests discount	20%

If the inputs to the valuation model were changed to reflect reasonably possible alternative assumptions while all the other variables were held constant, the fair value of the shares would increase (decrease) as follows:

	December 31, 2018
Discount for lack of marketability 1% decrease	<u>\$ 88</u>
Non-controlling interests discount 1% decrease	<u>\$ 83</u>

- ii. The fair values of non-listed domestic and foreign equity investments were Level 3 fair value assets, and determined using the market approach by reference the Price-to-Book ratios (P/B ratios) of peer companies that traded in active market or using assets approach. The significant unobservable inputs used were listed in the table below. A decrease in discount for the lack of marketability would result in increases in the fair values.

	December 31, 2018
Discount for lack of marketability	14.6%-25%

If the inputs to the valuation model were changed to reflect reasonably possible alternative assumptions while all the other variables were held constant, the fair value of the shares would increase (decrease) as follows:

	December 31, 2018
Discount for lack of marketability 1% decrease	<u>\$ 1,638</u>

c. Categories of financial instruments

	December 31	
	2018	2017
<u>Financial assets</u>		
Loans and receivables (1)	\$ -	\$ 1,382,856
Available-for-sale financial assets	-	37,995
Financial assets measure at cost	-	95,154
Financial assets at amortized cost (2)	1,331,994	-
Financial assets at FVTOCI	134,318	-

Financial liabilities

Financial liabilities at amortized cost (3)	1,130,069	806,658
---	-----------	---------

- 1) The balances include loans and receivables measured at amortized cost, which comprise cash, account and notes receivables, account receivables - related parties and amounts due from customers for construction contracts.
- 2) The balances include financial assets at amortized cost, which comprise cash, account and notes receivables and account receivables - related parties.
- 3) The balances include financial liabilities at amortized cost, which comprise short-term loans, notes payables, account payables - related parties and others payable.

d. Financial risk management objectives and policies

The Group's major financial instruments include financial assets at amortized cost, equity investments, short-term loans, notes and account payables, account payables - related parties and others payable. The Group's Corporate Treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

The board of directors is solely responsible for established and monitored the framework of risk management of the Group, the board of directors authorized the chairman develop and monitored the risk management policy of the Company with the operation center of the Group, and regularly reported the situation to the board of directors.

The Group's financial risk management policies are developed for identifying and analyzing the financial risks to the Group, evaluating the impacts of the financial risks, and executing the financial-risk aversion policies. The financial risk management are periodically reviewed to reflect changes to the market and the operations. Through the internal controls, such as training and setting up managing requirements and procedures, the Group is engaged in developing a disciplined and constructive control environment, in order to have all employees understand own responsibilities.

The Group's board of directors monitors the management on managing the compliance to the financial risk management policies and procedures and reviews the appropriateness of risk management structure.

1) Market risk

The Group's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates (see (a) below), interest rates (see (b) below), and other price risk (see (c) below).

a) Foreign currency risk

The Group has assets and liabilities not recorded in the same functional currency as that of the Company; thus, it is exposed to risks due to exchange rate fluctuation.

To manage risks within an acceptable level, the Group uses natural hedge against its currency risk. The Group monitors and evaluates the movements of exchange rates and the weakness or strength of a currency's performance in line with natural hedging.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities which were not in the same functional currency as the Group entity at the end of the reporting period are shown in Note 35.

Sensitivity analysis

The Group was mainly exposed to the U.S. dollar.

The following table shows the Group's sensitivity to a 5% increase and decrease in New Taiwan dollars (the functional currency of the Company) against the relevant foreign currencies. A 5% sensitivity rate is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and was adjusted at the end of the reporting period for a 5% change in foreign currency rates. The number in the table indicates the change in pretax profit associated with the 5% appreciation of the New Taiwan dollar against the relevant currency. For a 5% weakening of the New Taiwan dollar against the relevant currency, there would be an equal and opposite impact on pre-tax profit and other equity, and the balances below would be positive.

	Currency USD Impact	
	For the Year Ended December 31	
	2018	2017
Profit or loss	\$ <u>10,778</u> *	\$ <u>10,227</u> *

* This was mainly attributable to the exposure on outstanding receivables and payables in Currency USD which were not hedged at the end of the reporting period.

b) Interest rate risk

The Group is exposed to interest rate risk because entities in the Group borrow funds at both fixed and floating interest rates. The financial costs for 2018 and 2017 are \$3,532 thousand and \$2,671 thousand respectively, which only constitute 0.09% and 0.07% of consolidated net sales revenue. Therefore, interest rate risk has no significant impact on the Group.

The carrying amounts of the Group's financial liabilities with exposure to interest rates at the end of the reporting period were as follows:

	Unit: Thousand Dollars	
	December 31	
	2018	2017
Fair value interest rate risk		
Financial liabilities	\$ 100,000	\$ 160,000
Cash flow interest rate risk		
Financial liabilities	380,000	40,000

Sensitivity analysis

The sensitivity analyses were determined on the basis of the Group's exposure to interest rate changes for non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of the liability outstanding at the end of the reporting period had been outstanding for the whole year.

Had interest rates been five basis points higher/lower and all other variables were held constant, the Group's pretax profits would have decreased/increased by \$190 thousand in 2018 and \$20 thousand in 2017.

c) Other price risk

The Group is exposed to price risk due to the investment in the financial assets of domestic listed companies. The Group has established an immediate control mechanism and is therefore not expected to have significant price risk.

Sensitivity analysis

If equity prices had been 5% higher/lower, pre-tax other comprehensive income for the year ended December 31, 2018 would have increased/decreased by \$6,716 thousand, as a result of the changes in fair value of financial assets at FVTOCI.

If equity prices had been 5% higher/lower, pre-tax profit for the year ended December 31, 2017 would have increased/decreased by \$1,900 thousand, as a result of the changes in fair value of available-for-sale shares.

2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in financial loss to the Group. As of the end of the reporting period, the Group's maximum exposure to credit risk, which will cause a financial loss to the Group because of the counterparties' failure to discharge their obligations, could arise from the carrying amount of the financial assets recognized in the balance sheets.

Apart from Company A, B and C, the Company did not have significant credit risk exposure from any single counterparty or any group of counterparties with similar characteristics. Apart from Company A, B and C, the concentration of credit risk to other clients did not exceed 10% of total accounts receivable. The credit risk is expected to be immaterial as Company A, B and C are all trustworthy counterparties.

3) Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the Group's short-, medium- and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, and continuously monitoring forecasted and actual cash flows as well as matching the maturity profiles of financial assets and liabilities. As of December 31, 2018 and 2017, the Group had available unutilized short-term bank loan facilities 712,213 thousand and 1,051,652 thousand, respectively.

The following table shows the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed-upon repayment periods. The tables had been drawn up on the basis of the undiscounted cash flows of financial liabilities from the earliest date on which the Group can be required to pay.

December 31, 2018

	On Demand or Less than 1 Month	1-3 Months	3 Months to 1 Year
<u>Non-derivative financial instruments</u>			
Variable interest rate liabilities	\$ 270,000	\$ 30,000	\$ 80,000
Fixed interest rate liabilities	<u>40,000</u>	<u>60,000</u>	<u>-</u>
	<u>\$ 310,000</u>	<u>\$ 90,000</u>	<u>\$ 80,000</u>

December 31, 2017

	On Demand or Less than 1 Month	1-3 Months	3 Months to 1 Year
<u>Non-derivative financial instruments</u>			
Variable interest rate liabilities	\$ 40,000	\$ -	\$ -
Fixed interest rate liabilities	<u>160,000</u>	<u>-</u>	<u>-</u>
	<u>\$ 200,000</u>	<u>\$ -</u>	<u>\$ -</u>

33. TRANSACTIONS WITH RELATED PARTIES

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Besides information disclosed elsewhere in the other notes, details of transactions between the Group and other related parties are disclosed below.

a. Related party name and category

<u>Related Party Name</u>	<u>Related Party Category</u>
San Fu Global Ltd.	Investors with significant influence over the Group
Zhang Chun Ming	Investors with significant influence over the Group
Shian Yun Joint Stock Company	Associate
Lifu Carbonate Co., Ltd.	Associate
Hongchong Enterprise Co., Ltd.	Associate
China Fangda (International) Investment Development Corporation	Associate
International Nitto Technology Co., Ltd.	Joint venture (subsidiary starting from December 28, 2018)
San Fu Ming Electronic Materials Co., Ltd.	Joint venture

b. Sales of goods

	<u>For the Year Ended December 31</u>	
	<u>2018</u>	<u>2017</u>
<u>Sales</u>		
Joint ventures	\$ <u>5,772</u>	\$ <u>2,178</u>
<u>Purchase</u>		
Associates	\$ 27,420	\$ 24,103
Joint ventures	<u>91,031</u>	<u>1,616</u>
	<u>\$ 118,451</u>	<u>\$ 25,719</u>
<u>Service revenue (recognized as other income)</u>		
Investors with significant influence over the Group		
Sanfu Global Co., Ltd.	\$ 1,600	\$ 710
Associates	955	-
Joint ventures		
San Fu Ming Electronic Materials Co., Ltd.	<u>6,930</u>	<u>6,919</u>
	<u>\$ 9,485</u>	<u>\$ 7,629</u>
<u>Rental expense (recognized as cost of goods sold and operating expenses)</u>		
Investors with significant influence over the Group		
Sanfu Global Co., Ltd.	\$ 6,434	\$ 6,434
Other	<u>969</u>	<u>353</u>
	<u>7,403</u>	<u>6,787</u>
Joint ventures	<u>138</u>	<u>139</u>
	<u>\$ 7,541</u>	<u>\$ 6,926</u>

Transactions with related parties were not materially different from those with third parties unless otherwise agreed.

	December 31	
	2018	2017
<u>Accounts receivable - related party</u>		
Joint ventures	\$ 5,217	\$ 1,142
<u>Other receivable - related party</u>		
Investors with significant influence over the Group	-	745
Associates	955	-
Joint ventures	<u>6,378</u>	<u>4</u>
	<u>\$ 12,550</u>	<u>\$ 1,891</u>
<u>Accounts payable - related party</u>		
Associates	\$ 10,251	\$ 8,272
Joint ventures	<u>-</u>	<u>870</u>
	<u>\$ 10,251</u>	<u>\$ 9,142</u>

The outstanding accounts payable from related parties are unsecured and the outstanding accounts receivable from related parties are unsecured. For the years ended December 31, 2018 and 2017, no impairment loss was recognized for accounts receivable from related parties.

	For the Year Ended December 31	
	2018	2017
<u>Acquisitions of property, plant and equipment</u>		
Joint ventures	<u>\$ -</u>	<u>\$ 861</u>

c. Others

Investors with significant influence signed a trust agreement of marketable securities with CTBC Bank on September 29, 2016. The Company is a beneficiary of interest. The trust interest revenue was \$7,991 and \$4,879 in 2018 and 2017 respectively, and the revenue was credited in capital surplus-donated assets received.

d. Compensation of key management personnel

	For the Year Ended December 31	
	2018	2017
Short-term employee benefits	\$ 41,630	\$ 38,157
Post-employment benefits	<u>1,253</u>	<u>1,143</u>
	<u>\$ 42,883</u>	<u>\$ 39,300</u>

The remuneration of directors and key executives was determined by the remuneration committee based on the performance of individuals and market trends.

34. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for bank borrowings:

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Land	\$ 40,349	\$ 40,349
Buildings, net	<u>175,912</u>	<u>59,373</u>
	<u>\$ 216,261</u>	<u>\$ 99,722</u>

35. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Group's group entities' significant financial assets and liabilities denominated in foreign currencies aggregated by the foreign currencies other than functional currencies and the related exchange rates between foreign currencies and respective functional currencies were as follows:

December 31, 2018

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 9,119	30.665 (USD:NTD)	\$ 279,634
JPY	195,205	0.276 (JPY:NTD)	53,916
Non-monetary items			
Investments accounted for using the equity method			
CNY	74,073	0.146 (CNY:USD)	331,501
VND	31,264,167	0.0012 (VND:NTD)	37,517
<u>Financial liabilities</u>			
Monetary items			
USD	2,083	30.765 (USD:NTD)	64,083

December 31, 2017

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 9,378	29.71 (USD:NTD)	\$ 278,620
Non-monetary items			
Investments accounted for using the equity method			
CNY	68,681	0.153 (CNY:USD)	312,806
VND	30,433,613	0.0012 (VND:NTD)	36,216
<u>Financial liabilities</u>			
Monetary items			
USD	2,485	29.81 (USD:NTD)	74,078

The significant unrealized foreign exchange gains (losses) were as follows:

	For the Year Ended December 31			
	2018		2017	
	Exchange Rate	Net Foreign Exchange Gains (Losses)	Exchange Rate	Net Foreign Exchange Gains (Losses)
Foreign Currencies				
USD	30.665 (USD:NTD)	\$ 4,177	29.71 (USD:NTD)	\$ (3,982)

36. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

- 1) Financing provided to others (Table 1)
- 2) Endorsements/guarantees provided (No)
- 3) Marketable securities held (excluding investments in subsidiaries, associates and joint ventures) (Table 2)
- 4) Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital (No)
- 5) Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital (No)
- 6) Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital (No)
- 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital (No)
- 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital (No)

- 9) Trading in derivative instruments (No)
 - 10) Intercompany relationships and significant intercompany transactions (Table 3)
 - 11) Information on investees (Table 4)
- b. Information on investments in mainland China
- 1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area (Table 5)
 - 2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses (No):
 - a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period
 - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period
 - c) The amount of property transactions and the amount of the resultant gains or losses
 - d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes
 - e) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds
 - f) Other transactions that have a material effect on the profit or loss for the year or on the financial position, such as the rendering or receipt of services

37. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. Specifically, the Group's reportable segments were as follows:

- Fine chemicals
- Basic chemicals

a. Segment revenue and results

The following was an analysis of the Group's revenue and results from continuing operations by reportable segments:

	<u>Segment Revenue</u>		<u>Segment Gain (Loss)</u>	
	<u>For the Year Ended December 31</u>		<u>For the Year Ended December 31</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Fine chemicals	\$ 2,963,602	\$ 3,066,867	\$ 387,901	\$ 471,898
Basic chemicals	<u>1,085,754</u>	<u>912,381</u>	<u>25,067</u>	<u>1,912</u>
	<u>\$ 4,049,356</u>	<u>\$ 3,979,248</u>	412,968	473,810
Other income			29,903	31,143
Other gain and losses			51,751	(40,741)
Financial cost			(3,532)	(2,671)
Investments accounted for using equity method			<u>3,166</u>	<u>13,955</u>
Income before income tax			<u>\$ 494,256</u>	<u>\$ 475,496</u>

The segment revenue listed above were generated from transactions with external parties. There is no intersegment sales in 2018 and 2017.

Segment profit refers to the profit before tax earned by each segment, excluding other income, other gains and losses, financial costs, share of profit or loss of investments accounted for using equity method, and income tax expense. The measured amount serves as a basis for the chief operating decision maker to allocate resources and assess segment performance.

b. Segment total assets and liabilities

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
<u>Segment assets</u>		
Continuing operations		
Fine chemicals	\$ 2,637,569	\$ 2,412,604
Basic chemicals	1,210,298	930,717
Investment	<u>530,155</u>	<u>577,192</u>
Consolidated total assets	<u>\$ 4,378,022</u>	<u>\$ 3,920,513</u>

SAN FU CHEMICAL CO., LTD. AND SUBSIDIARIES

FINANCING PROVIDED TO OTHERS
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No.	Lender	Borrower	Financial Statement Account	Related Party	Highest Balance for the Period	Ending Balance	Actual Borrowing Amount	Interest Rate (%)	Nature of Financing	Business Transaction Amount	Reasons for Short-term Financing	Allowance for Impairment Loss	Collateral		Financing Limit for Each Borrower	Aggregate Financing Limit	Note
													Item	Value			
0	Sanfu Chemical Corporation	Sanfu Biotech Company Limited	Other receivable	Y	\$ 250,000	\$ 250,000	\$ -	-		\$ -		\$ -	-	\$ -	\$ 312,352	\$ 1,249,407	Note 3

Note 1: The items are numbered as follows:

- a. Issuer is numbered as "0".
- b. Investee companies are numbered from "1".

Note 2: The maximum amount for financing provided to others:

- a. The maximum amount of financing provided by the Company shall not exceed 40% of the Company's net worth.
- b. The maximum amount of financing provided by the Company and its subsidiaries to each individuals is as follows:
 - i. The maximum amount of financing provided to all businesses shall not exceed 10% of the Company's net worth. The maximum amount of financing provided to an individual shall not exceed 10% of the Company's net worth, and the gross transaction amount (the higher of purchase amount or sales amount between the two parties) for the past year.
 - ii. In the case of financing companies with short-term financing needs, the maximum amount of financing provided to such companies shall not exceed 30% of their net worth; the maximum amount of financing provided to an individual shall not exceed 10% of the Company's net worth.

Note 3: Other receivables has been eliminated when preparing the consolidated financial statements.

SAN FU CHEMICAL CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD

DECEMBER 31, 2018

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

Holding Company Name	Type and Name of Marketable Securities	Relationship with the Holding Company	Financial Statement Account	December 31, 2018			Note
				Number of Shares	Carrying Amount	Percentage of Ownership (%)	
San Fu Chemical Corporation	E'Date Technology Co., Ltd.	-	Financial assets at fair value through other comprehensive income	642	\$ 6,698	3.45	\$ 6,698
	Savior Lifetec Corporation	-	Financial assets at fair value through other comprehensive income	1,357	22,662	0.55	22,662
	Angstrom Energy Company	-	Financial assets at fair value through other comprehensive income	1	46,239	2.35	46,239
Sion Star Holding Limited	Hubei Sinophorus Electronic Materials Co., Ltd.	-	Financial assets at fair value through other comprehensive income	-	58,719	9.06	58,719

Note 1: The information for investments in subsidiaries, associates and joint venture is included in Tables 4 and 5.

Note 2: The fair value is calculated based on closing prices on December 31, 2018.

SAN FU CHEMICAL CO., LTD. AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS

FOR THE YEAR ENDED DECEMBER 31, 2018

(Amounts in Thousands of New Taiwan Dollars)

No.	Investee Company	Counterparty	Relationship	Transaction Details			% of Total Sales or Assets
				Financial Statement Accounts	Amount	Payment Terms	
0	Sanfu Chemical Corporation	Sanfu Biotech Company Limited	1	Accounts receivable - parties, net	\$ 2,948	90 days of the month	0.07
				Other receivable - parties, net	94	90 days of the month	-
				Sales revenue	14,024	90 days of the month	0.35
				Accounts payable - parties, net	1,106	90 days of the month	0.03
				Purchase	1,945	90 days of the month	0.05
				Social expense	376	90 days of the month	0.01
		International Nitto Technology Co., Ltd.	1	Accounts receivable - parties, net	175	90 days of the month	-

Note 1: "1" represents the transactions between the parent company and subsidiaries.

Note 2: When the consolidated financial statements are prepared, they were all written off.

SAN FU CHEMICAL CO., LTD. AND SUBSIDIARIES

INFORMATION ON INVESTEES
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		As of [Month] [Day], 20XX		Net Income (Loss) of the Investee	Share of Profit (Loss)	Note
				December 31, 2018	December 31, 2017	Number of Shares (Thousands)	%			
San Fu Chemical Corporation	San Fu Specialty Chemicals Investments Limited	Samoa	Investment activities	US\$ 4,751	US\$ 4,751	4,751	100.00	\$ 24,238	\$ 24,238	Note 1
	San Fu Food Additives Investments Limited	Samoa	Investment activities	US\$ 552	US\$ 552	552	100.00	1	1	"
	VinaSanFu Industrial Gas Company Limited	Vietnam	Engaged in industrial gas production	US\$ 2,500	-	-	100.00	(193)	(193)	"
	VinaSanFu Material Company Limited	Vietnam	Engaged in the production of chemical materials	US\$ 1,700	-	-	100.00	(188)	(188)	"
	Sanfu Biotech Company Limited	Taiwan	Engaged in the manufacture and sale of food additives	25,000	25,000	2,500	100.00	2,369	2,369	"
	International Nitro Technology Co., Ltd	Taiwan	Engaged in electronic component manufacturing business	227,904	153,000	30,000	100.00	(46,116)	(23,560)	Note 3
	Hongchong Enterprise Co., Ltd.	Taiwan	Liquid oxygen, oxygen, liquid nitrogen and other gas trading business	10,527	10,527	1,200	50.00	4,026	2,013	
	Lifu Carbonate Co., Ltd.	Taiwan	Engaged in carbon dioxide gas, carbonic acid fire extinguisher, dry ice manufacturing and its sales and marketing	7,193	7,193	1	25.00	2,789	698	
	Shian Yun Joint Stock Company	Vietnam	Engaged in industrial gas production	US\$ 1,232	US\$ 1,232	2,660	33.33	3,158	1,052	
	San Fu Specialty Chemicals Investments Limited	San Fu Ming Electronic Materials Co., Ltd.	Shanghai, China	Engaged in the operation of international trade business	US\$ 2,151	US\$ 2,151	-	50.00	45,844	22,922
San Fu Specialty Chemicals Investments Limited	Lucky Star Holding Limited	Samoa	Investment activities	US\$ 1,325	US\$ 1,325	1,325	100.00	912	912	Note 1
	Sino Star Holding Limited	Samoa	Investment activities	US\$ 1,868	US\$ 1,868	1,868	100.00	3	3	"
San Fu Food Additives Investments Limited	Fangda International (SAMOA) Ltd.	Samoa	Investment activities	US\$ 1,300	US\$ 1,300	1,300	41.94	1	1	"

Note 1: When the consolidated financial statements are prepared, they were all written off.

Note 2: Information of investments in mainland China is included in Table 5.

Note 3: International Nitro Technology Co., Ltd. has been included in consolidated statements since acquisition date December 28, 2018. The information about International Nitro Technology Co., Ltd. in this table is share of profit (loss) based on percentage of ownership before the acquisition date.

SAN FU CHEMICAL CO., LTD. AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investee Company	Main Businesses and Products	Paid-in Capital	Method of Investment	Accumulated Outward Remittance from Investment from Taiwan as of January 1, 2018	Remittance of Funds		Accumulated Outward Remittance from Investment from Taiwan as of December 31, 2018	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Amount as of December 31, 2018	Accumulated Repatriation of Investment Income as of December 31, 2018
					Outward	Inward						
San Fu Ming Electronic Materials Co., Ltd.	Engaged in the operation of international trade business	\$ 276,435 (US\$ 9,000) (Notes 1, 4)	Through the third company reinvest in mainland companies	\$ 19,995 (US\$ 651)	\$ -	\$ -	\$ 19,995 (US\$ 651)	\$ 45,844	50	\$ 22,922	\$ 331,501 (US\$ 10,793)	\$ -
Hubei Sinophorus Electronic Materials Co., Ltd.	Engaged in chemical products production and sales	614,928 (CNY138,000) (Note 2)	Through the third company reinvest in mainland companies	57,314 (US\$ 1,866)	-	-	57,314 (US\$ 1,866)	28,982	9.06	-	58,719 (US\$ 1,912)	-
Hangzhou Greenda Chemical Co., Ltd.				69,907 (US\$ 2,276) (Note 5)	-	-	69,907 (US\$ 2,276)	-	-	-	-	-

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2018	Investment Amount Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
\$249,099 (US\$8,110) (Notes 5, 6 and 7)	\$321,248 (US\$10,459)	\$1,874,111

Note 1: The exchange rate is US\$1=NT\$30.715 on December 31, 2018.

Note 2: The exchange rate is RMB1=NT\$4.456 on December 31, 2018.

Note 3: The average exchange rate is US\$1=NT\$30.149 for the year ended December 31, 2018.

Note 4: In April, the company raised US\$651 thousand of capital (all new shares were subscribed by Hubei Sinophorus Electronic Materials Co., Ltd.). In October 2012, the Company converted US\$1,698 thousand of retained earnings into capital stock. In April 2013, the Company increased its capital by US\$3,000 thousand, and in July 2018, the Company transferred US\$3,000 thousand of retained earnings into capital.

Note 5: Accumulated outward remittance for investment from Taiwan includes shares of Hangzhou Greenda Chemical Co., Ltd. (US\$2,276 thousand). All of the shares has been sold in December 2012, and Lucky Star Holding Limited, a shareholder of Hangzhou Greenda Chemical Co., Ltd., has received the consideration.

Note 6: This includes accumulated outward remittance for investments in Keyron Top Chemical (Shanghai) Co., Ltd. (US\$2,017 thousand). The company was liquidated in August 1995.

Note 7: The investment in Shandong Fangda Jinke Additive Co., Ltd. was remitted from Taiwan (US\$1,300 thousand). The company was liquidated in January 2017.

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
San Fu Chemical Co., Ltd.

Opinion

We have audited the accompanying financial statements of San Fu Chemical Co., Ltd. (the "Company"), which comprise the balance sheets as of December 31, 2018 and 2017, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, based on our audits and the report of other auditors (please refer to the Other Matter paragraph), the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of 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 auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion based on our audits and the report of other auditors.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Company's financial statements for the year ended December 31, 2018. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The English financial report does not audited by the engagement partners.

The key audit matters of the Company's financial statements for the year ended December 31, 2018 are as follows:

Measurement of Inventories

Inventories amounted to 12% (NT\$530,413 thousand) of the Company's total assets as of December 31, 2019. Please refer to Notes 4 and 12 for the accounting policies and the related disclosures of inventories. The inventories could be slow-moving or outdated due to the fluctuation in the demand market and the advancement in technology, which may result in impairment loss on inventories. The Company estimated the impairment loss of inventories based on the assessed net realized value and the evaluated aging of inventories quarterly. The estimation of net realized value and inventories aging assessment mainly depended on subjective management judgments and may affect the amount of impairment loss. As a result, the evaluation of inventories for impairment loss is determined to be a key audit matter.

We performed the following audit procedures to evaluate the key audit matter:

1. We obtained an understanding of the accounting policies related to inventories, the report of the inventories aging for slow-moving and the statement of net realized value of inventories.
2. We recalculated and checked the accuracy of the recognition of inventory losses for slow-moving. We also selected samples to verify the net realizable value of inventory by comparing the latest market selling price and carry value.
3. We participated in the physical inventory count at the year-end and assessed the reasonableness of the loss of expire and failure inventories.

Other Matter

We did not audit the financial statements of International Nitto Technology Co., Ltd., an investment accounted for using the equity method included in the financial statements of the Company, but such statements were audited by other auditors. Our opinion, insofar as it relates to the amounts included for International Nitto Technology Co., Ltd., is based solely on the report of other auditors. The investment accounted for using the equity method of International Nitto Technology Co., Ltd. amounted to NT\$152,825 thousand and NT\$69,800 thousand as of December 31, 2018 and 2017, respectively, constituted 4% and 2% of total assets. Share of loss of International Nitto Technology Co., Ltd. amounted to NT\$23,560 thousand and NT\$16,727 thousand for the years ended December 31, 2018 and 2017, respectively, constituted (6%) and (5%) of total comprehensive income.

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.

The English financial report does not audited by the engagement partners.

Those charged with governance, including supervisors, are responsible for overseeing the Company's financial reporting process.

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

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

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 auditors' 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. 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.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of 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 Company 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.

The English financial report does not audited by the engagement partners.

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 for the year ended December 31, 2018 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Shio-Ming Shue and Ya-Ling Wong.

Deloitte & Touche
Taipei, Taiwan
Republic of China

February 26, 2019

Notice to Readers

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

For the convenience of readers, 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. The English financial report does not audited by the engagement partners. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

The English financial report does not audited by the engagement partners.

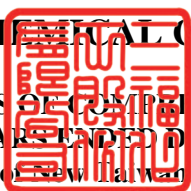

SAN FU CHEMICAL CO., LTD.
BALANCE SHEETS
DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

ASSETS	2018		2017	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash (Notes 4 and 6)	\$ 100,857	2	\$ 121,333	3
Contract asset - current (Notes 3, 4 and 21)	15,669	-	-	-
Notes receivable (Notes 4 and 10)	41,737	1	54,017	1
Accounts receivable, net (Notes 4 and 10)	1,006,266	24	1,074,199	28
Accounts receivable - related parties (Notes 4 and 31)	15,767	-	4,819	-
Amounts due from customers for construction contracts - current (Notes 4 and 11)	-	-	17,418	1
Inventories (Notes 4 and 12)	530,413	12	399,398	10
Prepayments	110,321	3	43,362	1
Other current assets	<u>33,792</u>	<u>1</u>	<u>74,005</u>	<u>2</u>
Total current assets	<u>1,854,822</u>	<u>43</u>	<u>1,788,551</u>	<u>46</u>
NON-CURRENT ASSETS				
Financial asset at fair value through other comprehensive income - non-current (Notes 3, 4 and 7)	75,599	2	-	-
Available-for-sale financial assets - non-current (Notes 4 and 8)	-	-	37,995	1
Financial assets measured at cost - non-current (Notes 4 and 9)	-	-	38,261	1
Investments accounted for using the equity method (Notes 4 and 13)	822,478	19	593,140	15
Contract asset - non-current (Notes 3, 4 and 21)	11,695	-	-	-
Property, plant and equipment (Notes 4 and 14)	1,497,215	35	1,385,988	35
Deferred tax assets (Notes 4 and 23)	25,873	1	27,660	1
Long-term prepayments (Note 15)	3,724	-	9,027	-
Refundable deposits	1,305	-	12,245	-
Amounts due from customers for construction contracts - non-current (Notes 4 and 11)	<u>-</u>	<u>-</u>	<u>27,055</u>	<u>1</u>
Total non-current assets	<u>2,437,889</u>	<u>57</u>	<u>2,131,371</u>	<u>54</u>
TOTAL	<u>\$ 4,292,711</u>	<u>100</u>	<u>\$ 3,919,922</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Note 16)	\$ 400,000	9	\$ 200,000	5
Contract liabilities - current (Notes 3, 4 and 21)	3,647	-	-	-
Accounts and notes payable (Note 17)	342,969	8	370,390	10
Accounts payable - related parties (Note 31)	11,357	-	9,539	-
Other payables (Note 18)	291,441	7	226,507	6
Current tax liabilities (Notes 4 and 23)	56,896	2	55,140	1
Other current liabilities	<u>3,362</u>	<u>-</u>	<u>10,115</u>	<u>-</u>
Total current liabilities	<u>1,109,672</u>	<u>26</u>	<u>871,691</u>	<u>22</u>
NON-CURRENT LIABILITIES				
Deferred tax liabilities (Notes 4 and 23)	3,021	-	-	-
Net defined benefit liabilities - non-current (Notes 4 and 19)	54,341	1	74,382	2
Other non-current liabilities	<u>2,158</u>	<u>-</u>	<u>5,686</u>	<u>-</u>
Total non-current liabilities	<u>59,520</u>	<u>1</u>	<u>80,068</u>	<u>2</u>
Total liabilities	<u>1,169,192</u>	<u>27</u>	<u>951,759</u>	<u>24</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 4 and 20)				
Share capital				
Ordinary shares	<u>907,060</u>	<u>21</u>	<u>907,060</u>	<u>23</u>
Capital surplus	<u>662,323</u>	<u>16</u>	<u>654,332</u>	<u>17</u>
Retain earnings				
Legal reserve	178,076	4	139,429	4
Unappropriated earnings	<u>1,382,502</u>	<u>32</u>	<u>1,257,658</u>	<u>32</u>
Total retain earnings	<u>1,560,578</u>	<u>36</u>	<u>1,397,087</u>	<u>36</u>
Other equity				
Exchange differences on translating foreign operations	(28,476)	(1)	(15,942)	(1)
Unrealized gain on financial asset at fair value through other comprehensive income	22,034	1	-	-
Unrealized gain on available-for-sale financial asset	<u>-</u>	<u>-</u>	<u>25,626</u>	<u>1</u>
Total other equity	<u>(6,442)</u>	<u>-</u>	<u>9,684</u>	<u>-</u>
Total equity	<u>3,123,519</u>	<u>73</u>	<u>2,968,163</u>	<u>76</u>
TOTAL	<u>\$ 4,292,711</u>	<u>100</u>	<u>\$ 3,919,922</u>	<u>100</u>

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

(With Deloitte & Touche audit report dated February 26, 2019)

SAN FU CHEMICAL CO., LTD.



**STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of Renminbi Dollars, Except Earnings Per Share)**

	2018		2017	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4, 21 and 31)	\$ 4,028,591	100	\$ 3,963,856	100
OPERATING COSTS (Notes 12, 22 and 31)	<u>3,275,695</u>	<u>81</u>	<u>3,178,567</u>	<u>80</u>
GROSS PROFIT	<u>752,896</u>	<u>19</u>	<u>785,289</u>	<u>20</u>
OPERATING EXPENSES (Notes 22 and 31)				
Selling and marketing expenses	211,004	5	181,959	5
General and administrative expenses	117,915	3	112,622	3
Research and development expenses	12,344	1	16,547	-
Expected credit loss	<u>490</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>341,753</u>	<u>9</u>	<u>311,128</u>	<u>8</u>
PROFIT FROM OPERATIONS	<u>411,143</u>	<u>10</u>	<u>474,161</u>	<u>12</u>
NON-OPERATING INCOME AND EXPENSES				
Other income (Notes 22 and 31)	28,155	1	30,163	1
Other gains and losses (Notes 13 and 22)	52,060	1	(40,880)	(1)
Finance costs (Note 22)	(3,532)	-	(2,671)	-
Share of profit or loss of subsidiaries, associates and joint ventures (Notes 4 and 13)	<u>6,430</u>	<u>-</u>	<u>14,723</u>	<u>-</u>
Total non-operating income and expenses	<u>83,113</u>	<u>2</u>	<u>1,335</u>	<u>-</u>
PROFIT BEFORE INCOME TAX	494,256	12	475,496	12
INCOME TAX EXPENSE (Notes 4 and 23)	<u>(96,524)</u>	<u>(2)</u>	<u>(89,021)</u>	<u>(2)</u>
NET PROFIT FOR THE YEAR	<u>397,732</u>	<u>10</u>	<u>386,475</u>	<u>10</u>
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	1,030	-	(1,827)	-
Unrealized loss on financial asset at fair value through other comprehensive income	(16,757)	(1)	-	-
Income tax relating to items that will not be reclassified subsequently to profit or loss	<u>851</u>	<u>-</u>	<u>311</u>	<u>-</u>
	<u>(14,876)</u>	<u>(1)</u>	<u>(1,516)</u>	<u>-</u>

(Continued)

SAN FU CHEMICAL CO., LTD.

**STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

	2018		2017	
	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss:				
Share of other comprehensive loss of subsidiaries, associates and joint ventures accounted for using the equity method	\$ (12,534)	-	\$ (20,522)	(1)
Unrealized gain on available-for-sale financial assets	<u>-</u>	<u>-</u>	<u>678</u>	<u>-</u>
	<u>(12,534)</u>	<u>-</u>	<u>(19,844)</u>	<u>(1)</u>
Other comprehensive loss for the year, net of income tax	<u>(27,410)</u>	<u>(1)</u>	<u>(21,360)</u>	<u>(1)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 370,322</u>	<u>9</u>	<u>\$ 365,115</u>	<u>9</u>
EARNINGS PER SHARE (Note 24)				
Basic	<u>\$4.38</u>		<u>\$4.26</u>	
Diluted	<u>\$4.37</u>		<u>\$4.25</u>	

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

(With Deloitte & Touche audit report dated February 26, 2019)

(Concluded)

SAN FU CHEMICAL CO., LTD.

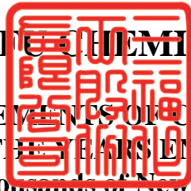
**STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)**

	Share Capital		Capital Surplus (Note 20)	Retained Earnings(Note 20)		Exchange Differences on Translating Foreign Operations	Other Equity		
	Number of Shares Authorized (In Thousand)	Amount		Legal Reserve	Unappropriated Earnings		Unrealized Gain on Financial Asset at Fair Value through Other Comprehensive Income	Unrealized Gain on Available-for-sale Financial Assets	Total Equity
BALANCE AT JANUARY 1, 2017	90,577	\$ 905,770	\$ 649,453	\$ 110,809	\$ 1,046,449	\$ 4,580	\$ -	\$ 24,948	\$ 2,742,009
Appropriation of 2016 earnings	-	-	-	28,620	(28,620)	-	-	-	-
Legal reserve	-	-	-	-	(145,130)	-	-	-	(145,130)
Cash dividends distributed by the Company	-	-	-	-	-	-	-	-	-
Other changes in capital surplus	-	-	4,879	-	-	-	-	-	4,879
Donations from shareholders	-	-	-	-	-	-	-	-	-
Net profit for the year ended December 31, 2017	-	-	-	-	386,475	-	-	-	386,475
Other comprehensive loss for the year ended December 31, 2017, net of income tax	-	-	-	-	(1,516)	(20,522)	-	678	(21,360)
Total comprehensive income for the year ended December 31, 2017	-	-	-	-	384,959	(20,522)	-	678	365,115
Issue of ordinary shares under employee share options	129	1,290	-	-	-	-	-	-	1,290
BALANCE AT DECEMBER 31, 2017	90,706	907,060	654,332	139,429	1,257,658	(15,942)	-	25,626	2,968,163
Effect of retrospective application	-	-	-	-	-	-	38,505	(25,626)	12,879
BALANCE AT JANUARY 1, 2018 AS ADJUSTED	90,706	907,060	654,332	139,429	1,257,658	(15,942)	38,505	-	2,981,042
Appropriation of 2017 earnings	-	-	-	38,647	(38,647)	-	-	-	-
Legal reserve	-	-	-	-	(235,836)	-	-	-	(235,836)
Cash dividends distributed by the Company	-	-	-	-	-	-	-	-	-
Other changes in capital surplus	-	-	7,991	-	-	-	-	-	7,991
Donations from shareholders	-	-	-	-	-	-	-	-	-
Net profit for the year ended December 31, 2018	-	-	-	-	397,732	-	-	-	397,732
Other comprehensive loss for the year ended December 31, 2018, net of income tax	-	-	-	-	1,595	(12,534)	(16,471)	-	(27,410)
Total comprehensive income for the year ended December 31, 2018	-	-	-	-	399,327	(12,534)	(16,471)	-	370,322
BALANCE AT DECEMBER 31, 2018	90,706	\$ 907,060	\$ 662,323	\$ 178,076	\$ 1,382,502	\$ (28,476)	\$ 22,034	\$ -	\$ 3,123,519

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

(With Deloitte & Touche audit report dated February 26, 2019)

SAN HO CHEMICAL CO., LTD.



STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 494,256	\$ 475,496
Adjustments for:		
Depreciation expenses	200,257	193,066
Impairment loss recognized on accounts receivable	-	81
Expected credit loss recognized on accounts receivables	490	-
write-down of inventories	4,018	-
Reversal of write-downs of inventories	-	(714)
Interest income	(124)	(144)
Dividend income	(963)	(1,413)
Finance costs	3,532	2,671
Share of profit of subsidiaries, associates and joint ventures	(6,430)	(14,723)
(Gain) loss on disposal of property, plant and equipment	(920)	12,068
Gain on disposal of joint ventures	(31,681)	-
Impairment loss recognized on property, plant and equipment	-	5,454
Unrealized foreign currency exchange (gain) loss	(4,177)	3,982
Changes in operating assets and liabilities		
Contract asset - current	1,749	-
Notes receivable	12,280	(7,559)
Accounts receivable	72,123	(90,672)
Accounts receivable - related parties	(10,959)	5,890
Amounts due from customers for construction contracts - current	-	16,611
Inventories	(135,033)	6,037
Prepayments	(66,959)	(1,324)
Other current assets	40,213	(48,585)
Contract asset - non-current	15,359	-
Amounts due from customers for construction contracts - non-current	-	13,452
Contract liabilities - current	3,647	-
Accounts and notes payable	(27,926)	4,013
Accounts payable - related parties	1,819	213
Other payables	(17,569)	7,372
Other current liabilities	(6,753)	(4,297)
Net defined benefit liabilities - non-current	(19,011)	(24,994)
Other non-current liabilities	<u>(3,528)</u>	<u>(3,122)</u>
Cash generated from operations	517,710	548,859
Interest received	124	144
Dividend received	2,088	3,413
Interest paid	(3,414)	(2,669)
Income tax paid	<u>(92,329)</u>	<u>(85,577)</u>
Net cash generated from operating activities	<u>424,179</u>	<u>464,170</u>

(Continued)

SAN FU CHEMICAL CO., LTD.

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)**

	2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of associates	\$ -	\$ (24,691)
Increase in investment in subsidiaries	(129,982)	-
Payments for property, plant and equipment	(309,994)	(380,722)
Proceeds from disposal of property, plant and equipment	4,910	501
Decrease (increase) in refundable deposits	10,941	(8,742)
Decrease (increase) in long-term prepayment	<u>7,303</u>	<u>(12,012)</u>
Net cash used in investing activities	<u>(416,822)</u>	<u>(425,666)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term borrowings	200,000	70,000
Decrease in short-term bills payable	-	(29,969)
Dividends paid to owners of the Company	(235,836)	(145,130)
Proceeds from issuance of ordinary shares under employee share options	-	1,290
Proceeds of donations from shareholders	<u>7,991</u>	<u>4,879</u>
Net cash used in financing activities	<u>(27,845)</u>	<u>(98,930)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>12</u>	<u>6</u>
NET DECREASE IN CASH	(20,476)	(60,420)
CASH AT THE BEGINNING OF THE YEAR	<u>121,333</u>	<u>181,753</u>
CASH AT THE END OF THE YEAR	<u>\$ 100,857</u>	<u>\$ 121,333</u>

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

(With Deloitte & Touche audit report dated February 26, 2019)

(Concluded)

SAN FU CHEMICAL CO., LTD.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

San Fu Chemical Co., Ltd. (the “Company”) was incorporated in the Republic of China (“ROC”) on March 17, 2003. The Company mainly manufactures and sales of various chemical products. The major shareholders are as follows: San Fu Global Co., Ltd. (owned 24.38%), Pilot Keymark SDN. BHD. (owned 21.97%), and other domestic individual shareholders.

The Company’s shares have been listed on the Taiwan Stock Exchange (“TWSE”) since November 27, 2013.

The financial statements are presented in the New Taiwan dollar.

2. APPROVAL OF FINANCIAL STATEMENTS

The accompany financial statements were approved by the Company’s board of directors on February 25, 2019.

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

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

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

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

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

Classification, measurement and impairment of financial assets

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

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

Financial Assets	Measurement Category		Carrying Amount		Remark
	IAS 39	IFRS 9	IAS 39	IFRS 9	
Cash	Loans and receivables	Amortized cost	\$ 121,333	\$ 121,333	b)
Equity securities	Available-for-sale	Fair value through other comprehensive income (i.e. FVTOCI) - equity instruments	76,256	92,355	a)
Notes and accounts receivable, accounts receivable - related parties and amounts due from customers for construction contracts	Loans and receivables	Amortized cost	1,177,508	1,177,508	b)

	IAS 39 Carrying Amount as of January 1, 2018	Reclassifications	Remeasurements	IFRS 9 Carrying Amount as of January 1, 2018	Retained Earnings Effect on January 1, 2018	Other Equity Effect on January 1, 2018	Remark
FVTOCI - equity instruments	\$ -	\$ 76,256	\$ 16,099				
Add: Reclassification from available-for-sale (IAS 39)	<u>76,256</u>	<u>(76,256)</u>	<u>-</u>				a)
	<u>76,256</u>	<u>-</u>	<u>16,099</u>	\$ 92,355	\$ -	\$ 12,879	
Amortized cost	-	1,298,841	-				b)
Add: Reclassification from loans and receivables (IAS 39)	<u>1,298,841</u>	<u>(1,298,841)</u>	<u>-</u>				
	<u>1,298,841</u>	<u>-</u>	<u>-</u>	<u>1,298,841</u>	<u>-</u>	<u>-</u>	
	<u>\$ 1,375,097</u>	<u>\$ -</u>	<u>\$ 16,099</u>	<u>\$ 1,391,196</u>	<u>\$ -</u>	<u>\$ 12,879</u>	

- a) The Company elected to designate all its investments in equity securities previously classified as available-for-sale under IAS 39 as at FVTOCI under IFRS 9, because these investments are not held for trading. As a result, the related other equity - unrealized gain (loss) on available-for-sale financial assets of \$25,626 thousand was reclassified to other equity - unrealized gain (loss) on financial assets at FVTOCI.

Investments in unlisted shares previously measured at cost under IAS 39 have been designated as at FVTOCI under IFRS 9 and were remeasured at fair value. Consequently, the Company recognized an increase in financial assets at FVTOCI of \$16,099 thousand, an increase in deferred tax liabilities of \$3,220 thousand and an increase in other equity - unrealized gain (loss) on financial assets at FVTOCI of \$12,879 thousand on January 1, 2018.

- b) Cash, notes and accounts receivable, accounts receivable - related parties and amounts due from customers for construction contracts that were previously classified as loans and receivables under IAS 39 were classified as at amortized cost with an assessment of expected credit losses under IFRS 9.

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

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

Under IFRS 15, the net effect of revenue recognized and consideration received and receivable is recognized as a contract asset or a contract liability. Prior to the application of IFRS 15, the net effect of the progress billings, the costs incurred and the recognized profit (loss) of construction contracts were recognized as amounts due from (to) customers for construction contracts under IAS 11.

The Company elected only to retrospectively apply IFRS 15 to contracts that were not complete as of January 1, 2018 and recognize the cumulative effect of the change in retained earnings on January 1, 2018.

The impact on assets, liabilities and equity as of January 1, 2018 from the initial application of IFRS 15 is set out below:

	As Originally Stated	Adjustments Arising from Initial Application	Restated
Amounts due from customers for construction contracts - current	\$ 17,418	\$ (17,418)	\$ -
Contract asset - current	-	17,418	17,418
Amounts due from customers for construction contracts - non-current	27,055	(27,055)	-
Contract asset - non-current	<u>-</u>	<u>27,055</u>	<u>27,055</u>
Total effect on assets	<u>\$ 44,473</u>	<u>\$ -</u>	<u>\$ 44,473</u>

The following table show the increase (decrease) in assets and liabilities resulting from the application of IFRS 15 on the balance sheet date:

	December 31, 2018
Decrease in amounts due from customers for construction contracts - current	\$ (15,669)
Increase in contract asset - current	15,669
Decrease in amounts due from customers for construction contracts - non-current	(11,695)
Increase in contract asset - non-current	<u>11,695</u>
Total effect on assets	<u>\$ -</u>
Increase in contract liabilities - current	\$ 3,647
Decrease in deferred revenue	<u>(3,647)</u>
Total effect on liabilities	<u>\$ -</u>

There is no significant impact on total of comprehensive income and cash flows for current year.

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

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

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

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

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

IFRS 16 “Leases”

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 “Lease”, IFRIC 4 “Determining whether and Arrangement contains a Lease”, and a number of related interpretations.

Definition of a lease

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

The Company as lessee

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

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

Lease liabilities will be recognized on January 1, 2019 for leases currently classified as operating leases with the application of IAS 17. Lease liabilities will be measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate on January 1, 2019. Right-of-use assets will be measured at their carrying amount as if IFRS 16 had been applied since the commencement date, the Company will apply IAS 36 to all right-of-use assets.

The Company expects to apply the following practical expedients:

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

The Company as lessor

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

Anticipated impact on assets, liabilities and equity

	Carrying Amount as of December 31, 2018	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2019
Right-of-use assets	\$ _____ -	\$ 90,780	\$ 90,780
Total effect on assets	\$ _____ -	\$ 90,780	\$ 90,780
Lease liabilities - current	\$ -	\$ 16,646	\$ 16,646
Lease liabilities - non-current	_____ -	74,134	74,134
Total effect on liabilities	\$ _____ -	\$ 90,780	\$ 90,780

Except for the above impacts, as of the date the financial statements were authorized for issue, the Company continues assessing other possible impacts and determines that other amendments to Regulations Governing the Preparation of Financial Reports by Securities Issuers will not have significant impact on the Company's financial position and financial performance.

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

New IFRSs	Effective Date Announced by IASB (Note 1)
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020 (Note 2)
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture"	To be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020 (Note 3)

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

Note 2: The Company shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

Note 3: The Company shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

The financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

b. Basis of preparation

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

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

- 1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- 3) Level 3 inputs are unobservable inputs for an asset or liability.

When preparing its financial statements, the Company account for subsidiaries, associates and joint ventures. In order to agree with the amount of net income, other comprehensive income and equity attributable to shareholders of the parent in the consolidated financial statements, the differences of the accounting treatment between the parent company only basis and the consolidated basis are adjusted under the heading of investments accounted for using equity method, share of profits of subsidiaries, associates and joint ventures, and share of other comprehensive income of subsidiaries, associates and joint ventures in the parent company only financial statements.

c. Classification of current and non-current assets and liabilities

Current assets include:

- 1) Assets expected to be realized within 12 months after the reporting period; and
- 2) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

- 1) Liabilities due to be settled within 12 months after the reporting period; and
- 2) Liabilities for which the Company does not have an unconditional right to defer settlement for at least 12 months after the reporting period.

Assets and liabilities that are not classified as current are classified as non-current.

d. Business combinations

Acquisitions of businesses are accounted for using the acquisition method. Acquisition-related costs are generally recognized in profit or loss as they are incurred.

Goodwill is measured as the excess of the sum of the consideration transferred and the fair value of the acquirer's previously held equity interests in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

When a business combination is achieved in stages, the Company's previously held equity interest in an acquiree is remeasured to fair value at the acquisition date, and the resulting gain or loss is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are recognized on the same basis as would be required if those interests were directly disposed of by the Company.

e. Foreign currencies

In preparing the Company's financial statements, transactions in currencies other than the Company's functional currency (i.e. foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising from the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income; in which cases, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

For the purpose of presenting financial statements, the functional currencies of the Company and the group entities (including subsidiaries, associates and joint ventures in other countries that use currencies which are different from the currency of the Company) are translated into the presentation currency, the New Taiwan dollar, as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; and income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income.

On the disposal of a foreign operation (i.e. a disposal of the Company's entire interest in a foreign operation, or a disposal involving the loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation are reclassified to profit or loss.

In relation to a partial disposal of a subsidiary that does not result in the Company losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to the non-controlling interests of the subsidiary and is not recognized in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences recognized in other comprehensive income is reclassified to profit or loss.

f. Inventories

Inventories consist of raw materials, supplies, semi-finished goods, merchandise, finished goods and work in progress and are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. The net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at the weighted-average cost on the balance sheet date.

g. Investments in subsidiaries

The Company uses the equity method to account for its investments in subsidiaries.

A subsidiary is an entity that is controlled by the Company.

Under the equity method, an investment in a subsidiary is initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the subsidiary. The Company also recognizes the changes in the Company's share of equity of subsidiaries attributable to the Company.

Changes in the Company's ownership interest in a subsidiary that do not result in the Company losing control of the subsidiary are equity transactions. The Company recognizes directly in equity any difference between the carrying amount of the investment and the fair value of the consideration paid or received.

When the Company's share of losses of a subsidiary exceeds its interest in that subsidiary (which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Company's net investment in the subsidiary), the Company continues recognizing its share of further losses.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognized immediately in profit or loss.

The Company assesses its investment for any impairment by comparing the carrying amount with the estimated recoverable amount as assessed based on the investee's financial statements as a whole. Impairment loss is recognized when the carrying amount exceeds the recoverable amount. If the recoverable amount of the investment subsequently increases, the Company recognizes a reversal of the impairment loss; the adjusted post-reversal carrying amount should not exceed the carrying amount that would have been recognized (net of amortization or depreciation) had no impairment loss been recognized in prior years. An impairment loss recognized on goodwill cannot be reversed in a subsequent period.

When the Company loses control of a subsidiary, it recognizes the investment retained in the former subsidiary at its fair value at the date when control is lost. The difference between the fair value of the retained investment plus any consideration received and the carrying amount of the previous investment at the date when control is lost is recognized as a gain or loss in profit or loss. Besides this, the Company accounts for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Company had directly disposed of the related assets or liabilities.

Profits or losses resulting from downstream transactions are eliminated in full only in the parent company's financial statements. Profits and losses resulting from upstream transactions and transactions between subsidiaries are recognized only in the parent company's financial statements only to the extent of interests in the subsidiaries that are not related to the Company.

h. Investments in associates and joint ventures

An associate is an entity over which the Company has significant influence and which is neither a subsidiary nor an interest in a joint venture. A joint venture is a joint arrangement whereby the Company and other parties that have joint control of the arrangement have rights to the net assets of the arrangement.

The Company uses the equity method to account for its investments in associates and joint ventures.

Under the equity method, investments in an associate and a joint venture are initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the associate and joint venture. The Company also recognizes the changes in the Company's share of the equity of associates and joint ventures.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets and liabilities of an associate or a joint venture at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

When the Company subscribes for additional new shares of an associate and joint venture at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Company's proportionate interest in the associate and joint venture. The Company records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in capital surplus from investments in associates and joint ventures accounted for using the equity method. If the Company's ownership interest is reduced due to its additional subscription of the new shares of the associate and joint venture, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate and joint venture is reclassified to profit or loss on the same basis as would be required had the investee directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for using the equity method is insufficient, the shortage is debited to retained earnings.

When the Company's share of losses of an associate and a joint venture equals or exceeds its interest in that associate and joint venture (which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Company's net investment in the associate and joint venture), the Company discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Company has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate and joint venture.

The entire carrying amount of an investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Company discontinues the use of the equity method from the date on which its investment ceases to be an associate and a joint venture. Any retained investment is measured at fair value at that date, and the fair value is regarded as the investment's fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate and the joint venture attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate and the joint venture. The Company accounts for all amounts previously recognized in other comprehensive income in relation to that associate and joint venture on the same basis as would be required had that associate directly disposed of the related assets or liabilities. If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the Company continues to apply the equity method and does not remeasure the retained interest.

When the Company transacts with its associate and joint venture, profits and losses resulting from the transactions with the associate and joint venture are recognized in the Company's financial statements only to the extent that interests in the associate and the joint venture are not related to the Company.

i. Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment loss.

Property, plant and equipment in the course of construction are measured at cost less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Such assets are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for their intended use.

Depreciation of property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. If a lease term is shorter than the assets' useful lives, such assets are depreciated over the lease term. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effects of any changes in the estimates accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

j. Impairment of tangible assets and assets related to contract costs

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered any impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the individual cash-generating units or the smallest group of cash-generating units on a reasonable and consistent basis of allocation.

The recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

Before the Company recognizes an impairment loss from assets related to contract costs, any impairment loss on inventories, property, plant and equipment and intangible assets related to the contract applicable under IFRS 15 shall be recognized in accordance with applicable standards. Then, impairment loss from the assets related to the contract costs is recognized to the extent that the carrying amount of the assets exceeds the remaining amount of consideration that the Company expects to receive in exchange for related goods or services less the costs which relate directly to providing those goods or services and which have not been recognized as expenses. The assets related to the contract costs are then included in the carrying amount of the cash-generating unit to which they belong for the purpose of evaluating impairment of that cash-generating unit.

When an impairment loss is subsequently reversed, the carrying amount of the corresponding asset, cash-generating unit or assets related to contract costs is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset, cash-generating unit or assets related to contract costs in prior years. A reversal of an impairment loss is recognized in profit or loss.

k. Financial instruments

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

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

1) Financial assets

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

a) Measurement categories

2018

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

i. Financial assets at amortized cost

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

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

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

Interest income is calculated by applying the effective interest rate to the gross carrying amount of such a financial asset, except for:

- i) Purchased or originated credit-impaired financial assets, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of such financial assets; and
- ii) Financial assets that are not credit-impaired on purchase or origination but have subsequently become credit-impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of such financial assets in subsequent reporting periods.

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

ii. Investments in equity instruments at FVTOCI

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

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

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

2017

Financial assets are classified into the following categories: Available-for-sale financial assets and loans and receivables.

i. Available-for-sale financial assets

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

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

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

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

ii. Loans and receivables

Loans and receivables (including cash, notes and accounts receivable, accounts receivable - related parties and amounts due from customers for construction contracts) are measured using the effective interest method at amortized cost less any impairment, except for short-term receivables when the effect of discounting is immaterial.

b) Impairment of financial assets and contract assets

2018

The Company recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including accounts receivable), as well as contract assets.

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

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

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

2017

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

For financial assets at amortized cost, such as notes and accounts receivable, are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. The Company assesses the collectability of receivables by performing the account aging analysis and examining current trends in the credit quality of its customers.

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

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

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

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

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

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

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

c) Derecognition of financial assets

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

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

2) Financial liabilities

a) Subsequent measurement

Financial liabilities measured at amortized cost are measured at amortized cost using the effective interest method except the interest from accounts payable and other payables which measured at amortized cost using the effective interest method is not significant.

b) Derecognition of financial liabilities

The difference between the carrying amount of a financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

1. Revenue recognition

2018

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

1) Revenue from the sale of goods

Revenue from the sale of goods comes from sales of fine chemicals and basic chemicals. Sales of fine chemicals and basic chemicals are recognized as revenue when the goods are delivered to the customer's specific location or the goods are shipped because it is the time when the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility for sales to future customers. Accounts receivable are recognized concurrently.

The Company does not recognize revenue on materials delivered to subcontractors because this delivery does not involve a transfer of control.

2) Revenue from the rendering of services

Service revenue including rendering of business management consulting services is recognized when services are provided.

3) Construction contract revenue

Customers control properties while they are construction in progress, and thus, the Company recognizes revenue over time. The Company measures the progress on the basis of costs incurred relative to the total expected costs as there is a direct relationship between the costs incurred and the progress of satisfying the performance obligations. Contract assets are recognized during the construction and are reclassified to accounts receivable at the point at which the customer is invoiced. If the milestone payments exceed the revenue recognized to date, then the Company recognizes contract liabilities for the difference. Certain payments, which are retained by the customer as specified in the contract, are intended to ensure that the Company adequately completes all of its contractual obligations. Such retention receivables are recognized as contract assets until the Company satisfies its performance obligations.

When it is not able to reasonably measure the Company's progress toward satisfaction of the performance obligation but expects to recover costs, the Company recognizes revenue only to the extent of costs incurred.

2017

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

1) Revenue from the sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- a) The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- b) The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- c) The amount of revenue can be measured reliably;
- d) It is probable that the economic benefits associated with the transaction will flow to the Company; and
- e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Company does not recognize sales revenue on materials delivered to subcontractors because this delivery does not involve a transfer of risks and rewards of the materials' ownership.

2) Revenue from the rendering of services

Revenue from the rendering of services comes from the operating management consulting services and is recognized when services are provided.

3) Dividend and interest income

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

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

4) Construction contract revenue

When the outcome of a construction contract can be estimated reliably, revenue and costs are recognized with reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred to date relative to the estimated total contract costs. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred for which recovery is probable. Contract costs are recognized as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed the total contract revenue, the expected loss is recognized as an expense immediately.

When contract costs incurred to date plus the recognized profit less the recognized deficits exceed progress billings, the surplus is shown as the gross amount due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus the recognized profit less the recognized deficits, the surplus is shown as the gross amount due to customers for contract work. Amounts received before the related work is performed are included in the balance sheets as a liability under advance receipts. Amounts billed for work performed but not yet paid by customers are included in the balance sheets under accounts receivable.

m. Leasing

Leases are classified as finance leases whenever the terms of a lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. The Company's leases only contain operating leases.

1) The Company as lessor

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

2) The Company as lessee

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

3) Leasehold land for own use

When a lease includes both land and building elements, the Company assesses the classification of each element separately as a finance or an operating lease based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the lessee. The minimum lease payments are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

If the allocation of the lease payments can be made reliably, each element is accounted for separately in accordance with its lease classification. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease unless it is clear that both elements are operating leases; in which case, the entire lease is classified as an operating lease.

n. Borrowing costs

Borrowing costs directly attributable to an acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other than that which is stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

o. Employee benefits

1) Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related services.

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as expenses when employees have rendered services entitling them to the contributions.

Defined benefit costs (including service cost, net interest and rereasurement) under defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost and past service cost) and net interest on the net defined benefit liabilities are recognized as employee benefits expense in the period in which they occur. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which it occurs. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liabilities represent the actual deficit in the Company's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

p. Share-based payment arrangements

1) Employee share options granted to employees and others providing similar services

The fair value at the grant date of the employee share options is expensed on a straight-line basis over the vesting period, based on the Company's best estimates of the number of shares or options that are expected to ultimately vest, with a corresponding increase in capital surplus - employee share options. It is recognized as an expense in full at the grant date if vested immediately. The grant date of issued ordinary shares for cash which are reserved for employees is the date on which the board of directors approves the transaction.

At the end of each reporting period, the Company revises its estimate of the number of employee share options expected to vest. The impact of the revision of the original estimates is recognized in profit or loss such that the cumulative expenses reflect the revised estimate, with a corresponding adjustment to capital surplus - employee share options.

2) Issuance ordinary shares for cash which retains portion for employee share options

The fair value of the stock option is calculated on the date of the grant, and is recognized as an increase in salary expenses and capital surplus. If the employee share options do not reach the original share reserved for employee to subscribe, the Company will only makes adjustment to the capital surplus since the share option has been vested.

q. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

1) Current tax

According to the Income Tax Law, an additional tax of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liabilities are settled or the assets are realized, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3) Current and deferred taxes for the year

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity; in which case, the current and deferred taxes are also recognized in other comprehensive income or directly in equity, respectively.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Write-down of Inventories

The net realizable value of inventories is the estimated selling price in the ordinary course of business less the estimated costs of completion and disposal. The estimation of net realizable value is based on current market conditions and historical experience with product sales of a similar nature. Changes in market conditions may have a material impact on the estimation of the net realizable value.

6. CASH

	<u>December 31</u>	
	2018	2017
Cash on hand	\$ 489	\$ 489
Demand deposits	<u>100,368</u>	<u>120,844</u>
	<u>\$ 100,857</u>	<u>\$ 121,333</u>

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

	<u>December 31</u>	
	2018	2017
Bank balance	0.001%-0.50%	0.001%-0.30%

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - NON-CURRENT - 2018

	December 31, 2018
Domestic investments	
Listed shares	\$ 22,662
Unlisted shares	<u>6,698</u>
	29,360
Foreign investments	
Unlisted shares	<u>46,239</u>
	<u>\$ 75,599</u>

These investments in equity instruments are not held for trading. Instead, they are held for medium to long-term strategic purposes. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fair value fluctuations of these investment in profit or loss would be consistent with the Company's strategy of holding these investments for long-term purposes. These investments of equity instruments were classified as available-for-sale and financial assets measured at cost under IAS 39. Refer to Note 3, Note 8 "available-for-sale" and Note 9 "financial assets measured at cost" for information relating to their reclassification and comparative information in 2017.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS - NON-CURRENT - 2017

	December 31, 2017
<u>Non-current</u>	
Domestic investments	
Listed shares	<u>\$ 37,995</u>

9. FINANCIAL ASSETS MEASURED AT COST - 2017

	December 31, 2017
<u>Non-current</u>	
Domestic unlisted ordinary shares	\$ 6,698
Overseas unlisted ordinary shares	<u>31,563</u>
	<u>\$ 38,261</u>

Management believed that the above unlisted equity investments held by the Company had fair values which cannot be reliably measured, because the range of reasonable fair value estimates was so significant. Therefore, they were measured at cost less impairment at the end of the reporting period.

10. NOTES AND ACCOUNTS RECEIVABLE

	<u>December 31</u>	
	2018	2017
<u>Notes receivable</u>		
Notes receivable - operating	<u>\$ 41,737</u>	<u>\$ 54,017</u>
<u>Accounts receivable</u>		
At amortized cost		
Gross carrying amount	\$ 1,006,837	\$ 1,080,463
Less: Allowance for impairment loss	<u>(571)</u>	<u>(6,264)</u>
	<u>\$ 1,006,266</u>	<u>\$ 1,074,199</u>

In 2018

The average credit period of sales of goods was 30 to 120 days.

The Company adopted a policy of only dealing with entities that are higher credit rating. Credit rating information is assessed internally or, if not available, the Company uses other publicly available financial information or its own trading records to rate its major customers. The Company exposure and the credit rating of its counterparties are continuously monitored. In order to minimize credit risk, the management of the Company has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Company reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowance is made for possible irrecoverable amounts. In this regard, the management believed the Company's credit risk would be significantly reduced.

The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all accounts receivable. The expected credit losses on accounts receivable are estimated using a provision matrix by referring to past default experience of the debtor and an analysis of the debtor's current financial position at reporting date. As the Company's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished according to the Company's different customer base.

The Company writes off an accounts receivable when there is an information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been declared bankruptcy and also reported to the court. For accounts receivable that have been written off, the Company continues to engage in enforcement activity to attempt to recover the receivables due. When recoveries are made, these are recognized in profit or loss.

The following table details the loss allowance of accounts receivable based on the Company's provision matrix:

December 31, 2018

	Not Past Due	1 to 90 Days	90 to 180 Days	181 to 365 Days	Over 365 Days	Indication of Default	Total
Expected credit loss rate	-	-	-	50%	100%	100%	-
Gross carrying amount	\$ 993,130	\$ 13,033	\$ 103	\$ -	\$ 81	\$ 490	\$ 1,006,837
Loss allowance (Lifetime ECL)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(81)</u>	<u>(490)</u>	<u>(571)</u>
Amortized cost	<u>\$ 993,130</u>	<u>\$ 13,033</u>	<u>\$ 103</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,006,266</u>

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

	2018
Balance at January 1, 2018 per IAS 39	\$ 6,264
Adjustment on initial application of IFRS 9	<u>-</u>
Balance at January 1, 2018 per IFRS 9	6,264
Add: Net remeasurement of loss allowance	490
Less: Amounts written off	<u>(6,183)</u>
Balance at December 31, 2018	<u>\$ 571</u>

The Company wrote off accounts receivable and related loss allowance of \$6,183 thousand due to liquidation of one customer.

In 2017

The average credit period of sales of goods was 30 to 120 days. The Company considers the recoverable of notes and accounts receivable based on credit rating of counterparties from original credit day to the balance sheet date. There was no significant irrecoverable risk related to the notes and accounts receivable due to the past experience, the allowance of bad debt was determined by the counterparties past default records and current financial condition.

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

The aging of receivables was as follows:

	December 31, 2017
0-60 days	\$ 617,845
61-90 days	249,556
91-180 days	206,646
181-365 days	152
Over 365 days	<u>6,264</u>
	<u>\$ 1,080,463</u>

The above aging schedule was based on the invoice date.

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

	December 31, 2017
Up to 60 days	\$ 2,384
61-90 days	105
91-120 days	128
121-180 days	<u>98</u>
	<u>\$ 2,715</u>

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

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

	For the Year Ended December 31, 2017
Balance at January 1, 2017	\$ 6,472
Add: Impairment losses recognized on receivables	81
Less: Amounts written off during the year as uncollectible	<u>(289)</u>
Balance at December 31, 2017	<u>\$ 6,264</u>

As of December 31, 2017, the amount of individually impaired accounts receivable was \$6,183 thousand. These amounts mainly related to customers that were in severe financial difficulties. The Company did not hold any collateral over these balances.

11. AMOUNTS DUE FROM CUSTOMERS FOR CONSTRUCTION CONTRACTS - 2017

	December 31, 2017
<u>Amounts due from customers for construction contracts</u>	
Construction costs incurred plus recognized profits less recognized losses to date	\$ 72,389
Less: Progress billings	<u>(27,916)</u>
Amounts due from customers for construction contracts	44,473
Less: Amounts due from customers for construction contracts - non-current	<u>(27,055)</u>
Amounts due from customers for construction contracts - current	<u>\$ 17,418</u>

12. INVENTORIES

	December 31	
	2018	2017
Merchandise	\$ 3,620	\$ 302
Finished goods	214,713	150,678
Work in progress	19,890	18,632
Semi-finished goods	5,763	551
Raw materials	265,030	217,218
Supplies	<u>21,397</u>	<u>12,017</u>
	<u>\$ 530,413</u>	<u>\$ 399,398</u>

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2018 and 2017 was \$3,275,695 thousand and \$3,178,567 thousand, respectively. The cost of goods sold included inventory write-downs of \$4,018 thousand and reversals of inventory write-downs of \$(714) thousand. The reversals of previous write-downs for the year ended December 31, 2017 resulted from increased selling prices in certain markets.

13. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	December 31	
	2018	2017
Investments in subsidiaries	\$ 758,510	\$ 462,259
Investments in associates	63,968	61,081
Investments in joint ventures	<u>-</u>	<u>69,800</u>
	<u>\$ 822,478</u>	<u>\$ 593,140</u>

a. Investments in subsidiaries

	December 31	
	2018	2017
San Fu Specialty Chemicals Investments Limited	\$ 464,624	\$ 440,491
San Fu Food Additives Investments Limited	368	355
VinaSanFu Industrial Gas Company Limited	69,645	-
VinaSanFu Material Company Limited	47,266	-
International Nitto Technology Co., Ltd.	152,825	-
San Fu Biotech Co., Ltd.	<u>23,782</u>	<u>21,413</u>
	<u>\$ 758,510</u>	<u>\$ 462,259</u>

Name of Subsidiaries	Proportion of Ownership and Voting Rights	
	December 31	
	2018	2017
San Fu Specialty Chemicals Investments Limited	100%	100%
San Fu Food Additives Investments Limited	100%	100%
San Fu Biotech Co., Ltd.	100%	100%
VinaSanFu Industrial Gas Company Limited	100%	-
VinaSanFu Material Company Limited	100%	-
International Nitto Technology Co., Ltd.	100%	-

On December 28, 2018, the Company completed the acquisition of 49% of International Nitto Technology Co., Ltd.; and the ownership of International Nitto Technology Co., Ltd. become 100%. As a result, the Company reclassified the investment of International Nitto Technology Co., Ltd. which was originally booked as investment in joint ventures to the investment in subsidiaries and recognized gains on disposal with amount \$31,681 thousand.

The profit or loss of investments in subsidiaries accounted for using equity method and other comprehensive income in 2018 and 2017 were calculated based on the financial statements which have been audited.

b. Investments in associates

	December 31	
	2018	2017
Associates that are not individually material	<u>\$ 63,968</u>	<u>\$ 61,081</u>

Aggregate information of associates that are not individually material

	For the Year Ended December 31	
	2018	2017
The Company's share of:		
Net profit	\$ 3,763	\$ 3,247
Other comprehensive income (loss)	<u>249</u>	<u>(2,186)</u>
Total comprehensive income (loss) for the year	<u>\$ 4,012</u>	<u>\$ 1,061</u>

The investments of associates that are not individually material accounted for using equity method and the Company's share of profit or loss and other comprehensive income of those investments were calculated based on financial statements which have not been audited. Management believes there will be no material impact on the equity method accounting or the calculation of the share of profit or loss and other comprehensive income from the financial statements of those investments which have not been audited.

c. Investments in joint ventures

		December 31	
		2018	2017
Material joint ventures			
	International Nitto Technology Co., Ltd.	<u>\$ -</u>	<u>\$ 69,800</u>
			Proportion of Ownership and Voting Rights
			December 31
Name of Associate	Nature of Activities	Principal Place of Business	2018 2017
International Nitto Technology Co., Ltd.	Sales and production of electronic components	Taiwan	- 51%

All the joint ventures are accounted for using the equity method.

Summarized financial information in respect of each of the Company's material joint ventures is set out below. The summarized financial information below represents the amounts shown in the joint ventures' financial statements prepared in accordance with IFRSs adjusted by the Company for equity accounting purposes.

International Nitto Technology Co., Ltd.

	December 31, 2017
Cash and cash equivalent	<u>\$ 81,900</u>
Current assets	\$ 94,479
Non-current assets	122,457
Current liabilities	<u>(80,074)</u>
Equity	136,862
Proportion of the Company's ownership	<u>51%</u>
Carrying amount and equity attributable to the Company	<u>\$ 69,800</u>

	For the Period Ended December 27, 2018	For the Year Ended December 31, 2017
Operating revenue	\$ <u>385</u>	\$ <u>14,037</u>
Depreciation expenses and amortization expenses	\$ <u>7,670</u>	\$ <u>7,341</u>
Interest income	\$ <u>62</u>	\$ <u>67</u>
Interest expenses	\$ <u>2,000</u>	\$ <u>2,000</u>
Income tax expenses	\$ <u>-</u>	\$ <u>7,027</u>
Net loss for the year	\$ <u>(46,116)</u>	\$ <u>(32,798)</u>
Total comprehensive income (loss) for the year	\$ <u>(46,116)</u>	\$ <u>(32,798)</u>

For the period ended December 27, 2018 and for the year ended December 31, 2017, the investments in joint ventures accounted for using the equity method, and the share of income (loss) and other comprehensive income (loss) were recognized based on the joint ventures' audited financial statements for the same year.

On May 3, 2010, the Company signed a tripartite agreement of credit right transferring assignment with International Nitto Co., Ltd. and The Nitto Group ("Nitto Company") which holds 49% of International Nitto Co., Ltd. The agreements are as follows:

- 1) Nitto Company transfers International Nitto Co., Ltd.'s credit right of NT\$96,429 thousand (51% of total receivables) to the Company at NT\$1.
- 2) From the date of signing the agreement, the amount of the transferred credits that International Nitto Co., Ltd. shall repay each year is "half of the annual depreciation expense of fixed assets". The actual payment period and amount shall be negotiated and considered the operating condition and cash flow of the International Nitto Co., Ltd.

Considering the financial condition of the International Nitto Co., Ltd. and the economic environment at the time, the Company estimated the fair value of the accounts receivable was zero. Therefore, if the Company receives payment from International Nitto Co., Ltd., the repayment will be recognized in other income.

14. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Equipment	Transportation	Other Equipment	Property under Construction	Total
<u>Cost</u>							
Balance at January 1, 2017	\$ 63,707	\$ 651,043	\$ 1,602,253	\$ 269,541	\$ 252,005	\$ 183,707	\$ 3,022,256
Reclassifications	-	16,911	148,921	3,262	4,684	(141,331)	32,447
Additions	-	15,028	29,752	13,066	15,278	301,513	374,637
Disposals	-	(6,967)	(48,693)	(420)	(8,680)	-	(64,760)
Balance at December 31, 2017	<u>\$ 63,707</u>	<u>\$ 676,015</u>	<u>\$ 1,732,233</u>	<u>\$ 285,449</u>	<u>\$ 263,287</u>	<u>\$ 343,889</u>	<u>\$ 3,364,580</u>
<u>Accumulated depreciation and impairment</u>							
Balance at January 1, 2017	\$ -	\$ 229,270	\$ 1,203,684	\$ 209,410	\$ 189,899	\$ -	\$ 1,832,263
Depreciation expenses	-	34,785	111,661	24,141	22,479	-	193,066
Impairment loss recognized	-	-	5,454	-	-	-	5,454
Disposals	-	(6,967)	(36,124)	(420)	(8,680)	-	(52,191)
Balance at December 31, 2017	<u>\$ -</u>	<u>\$ 257,088</u>	<u>\$ 1,284,675</u>	<u>\$ 233,131</u>	<u>\$ 203,698</u>	<u>\$ -</u>	<u>\$ 1,978,592</u>
Carrying amounts at December 31, 2017	<u>\$ 63,707</u>	<u>\$ 418,927</u>	<u>\$ 447,558</u>	<u>\$ 52,318</u>	<u>\$ 59,589</u>	<u>\$ 343,889</u>	<u>\$ 1,385,988</u>

(Continued)

	Land	Buildings	Equipment	Transportation	Other Equipment	Property under Construction	Total
Cost							
Balance at January 1, 2018	\$ 63,707	\$ 676,015	\$ 1,732,234	\$ 285,449	\$ 263,288	\$ 343,888	\$ 3,364,581
Reclassifications	-	86,979	203,481	1,450	8,361	(302,271)	(2,000)
Additions	-	17,232	108,403	22,547	13,837	155,455	317,474
Disposals	-	-	(167,930)	(2,217)	(9,491)	-	(179,638)
Balance at December 31, 2018	<u>\$ 63,707</u>	<u>\$ 780,226</u>	<u>\$ 1,876,188</u>	<u>\$ 307,229</u>	<u>\$ 275,995</u>	<u>\$ 197,072</u>	<u>\$ 3,500,417</u>
Accumulated depreciation and impairment							
Balance at January 1, 2018	\$ -	\$ 257,088	\$ 1,284,676	\$ 233,131	\$ 203,698	\$ -	\$ 1,978,593
Depreciation expenses	-	39,056	119,032	20,049	22,120	-	200,257
Disposals	-	-	(163,940)	(2,217)	(9,491)	-	(175,648)
Balance at December 31, 2018	<u>\$ -</u>	<u>\$ 296,144</u>	<u>\$ 1,239,768</u>	<u>\$ 250,963</u>	<u>\$ 216,327</u>	<u>\$ -</u>	<u>\$ 2,003,202</u>
Carrying amounts at December 31, 2018	<u>\$ 63,707</u>	<u>\$ 484,082</u>	<u>\$ 636,420</u>	<u>\$ 56,266</u>	<u>\$ 59,668</u>	<u>\$ 197,072</u>	<u>\$ 1,497,215</u>

(Concluded)

The recoverable amount of idle equipment is determined on the basis of the fair value less the disposal cost. The management assessed the recoverable amount of idle equipment was \$0 thousand which was lower than the carrying amount of \$5,454 thousand. As a result, an impairment loss of \$5,454 thousand was recognized in 2017. The impairment loss were recognized in other gains and losses.

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

Buildings	
Main buildings	3-38 years
Employee dormitory	25-50 years
Firefighting, air-conditioning and other systems	1-8 years
Engineering system	3-38 years
Transportation	1-7 years
Equipment	1-27 years
Other equipment	1-25 years

Property, plant and equipment pledged as collateral for bank borrowings is set out in Note 32.

15. LONG-TERM PREPAYMENT

	December 31	
	2018	2017
Prepayments for purchase of equipment	<u>\$ 3,724</u>	<u>\$ 9,027</u>

16. BORROWINGS

	December 31	
	2018	2017
<u>Secured borrowings (Note 32)</u>		
Bank loans	\$ 230,000	\$ 60,000
<u>Unsecured borrowings</u>		
Bank loans	<u>170,000</u>	<u>140,000</u>
	<u>\$ 400,000</u>	<u>\$ 200,000</u>

The range of weighted average effective interest rates on bank loans was 1.00%-1.10% and 1.00%-1.18% per annum as of December 31, 2018 and 2017, respectively.

17. NOTES AND ACCOUNTS PAYABLE

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Notes payable	\$ 171	\$ -
Accounts payable	<u>342,798</u>	<u>370,390</u>
	<u>\$ 342,969</u>	<u>\$ 370,390</u>

The average payment period on purchasing raw materials and supplies was two months. The Company has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

18. OTHER PAYABLES

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Payables for accrued expenses	\$ 150,823	\$ 144,155
Payables for investments	74,904	-
Payables for constructions	32,634	56,142
Payables for purchase of equipment	32,370	24,890
Others	<u>710</u>	<u>1,320</u>
	<u>\$ 291,441</u>	<u>\$ 226,507</u>

19. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Company adopted a pension plan under the Labor Pension Act (the "LPA"), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

b. Defined benefit plans

The defined benefit plans adopted by the Company in accordance with the Labor Standards Law is operated by the government of the ROC. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the 6 months before retirement. The Company contribute amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Company assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); the Company has no right to influence the investment policy and strategy.

The amounts included in the balance sheets in respect of the Company's defined benefit plans were as follows:

	December 31	
	2018	2017
Present value of defined benefit obligation	\$ 122,538	\$ 124,178
Fair value of plan assets	<u>(68,197)</u>	<u>(49,796)</u>
Net defined benefit liabilities	<u>\$ 54,341</u>	<u>\$ 74,382</u>

Movements in net defined benefit liabilities were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities (Assets)
Balance at January 1, 2017	\$ 130,431	\$ (32,882)	\$ 97,549
Service cost			
Current service cost	1,717	-	1,717
Net interest expense (income)	<u>1,456</u>	<u>(452)</u>	<u>1,004</u>
Recognized in profit or loss	<u>3,173</u>	<u>(452)</u>	<u>2,721</u>
Premeasurement			
Return on plan assets (excluding amounts included in net interest)	-	79	79
Actuarial (gain) loss			
Changes in demographic assumptions	1,893	-	1,893
Experience adjustments	<u>(145)</u>	<u>-</u>	<u>(145)</u>
Recognized in other comprehensive income	<u>1,748</u>	<u>79</u>	<u>1,827</u>
Contributions from the employer	-	(16,541)	(16,541)
Benefits paid	<u>(11,174)</u>	<u>-</u>	<u>(11,174)</u>
Balance at December 31, 2017	<u>\$ 124,178</u>	<u>\$ (49,796)</u>	<u>\$ 74,382</u>
Balance at January 1, 2018	\$ 124,178	\$ (49,796)	\$ 74,382
Service cost			
Current service cost	1,318	-	1,318
Net interest expense (income)	<u>1,397</u>	<u>(653)</u>	<u>744</u>
Recognized in profit or loss	<u>2,715</u>	<u>(653)</u>	<u>2,062</u>
Premeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(1,235)	(1,235)
Actuarial (gain) loss			
Changes in demographic assumptions	634	-	634
Changes in financial assumptions	1,367	-	1,367
Experience adjustments	<u>(1,796)</u>	<u>-</u>	<u>(1,796)</u>
Recognized in other comprehensive income	<u>205</u>	<u>(1,235)</u>	<u>(1,030)</u>
Contributions from the employer	-	(16,513)	(16,513)
Benefits paid	<u>(4,560)</u>	<u>-</u>	<u>(4,560)</u>
Balance at December 31, 2018	<u>\$ 122,538</u>	<u>\$ (68,197)</u>	<u>\$ 54,341</u>

An analysis by function of the amounts recognized in profit or loss in respect of the defined benefit plans is as follows:

	For the Year Ended December 31	
	2018	2017
Operating costs	\$ 1,293	\$ 1,818
Selling and marketing expenses	297	353
General and administrative expenses	472	528
Research and development expenses	<u>-</u>	<u>22</u>
	<u>\$ 2,062</u>	<u>\$ 2,721</u>

Through the defined benefit plans under the Labor Standards Law, the Company is exposed to the following risks:

- 1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- 2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plans' debt investments.
- 3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	
	2018	2017
Discount rate	1.000%	1.125%
Expected rate of salary increase	2.000%	2.000%

If possible reasonable changes in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

	December 31	
	2018	2017
Discount rate(s)		
0.25% increase	<u>\$ (2,721)</u>	<u>\$ (2,955)</u>
0.25% decrease	<u>\$ 2,813</u>	<u>\$ 3,059</u>
Expected rate(s) of salary increase		
0.25% increase	<u>\$ 2,737</u>	<u>\$ 2,980</u>
0.25% decrease	<u>\$ (2,660)</u>	<u>\$ (2,893)</u>

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

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Expected contributions to the plans for the next year	<u>\$ 16,000</u>	<u>\$ 16,536</u>
Average duration of the defined benefit obligation	9 years	9.7 years

20. EQUITY

a. Share capital

Ordinary shares

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Number of shares authorized (in thousands)	<u>120,000</u>	<u>120,000</u>
Shares authorized	<u>\$ 1,200,000</u>	<u>\$ 1,200,000</u>
Number of shares issued and fully paid (in thousands)	<u>90,706</u>	<u>90,706</u>
Shares issued	<u>\$ 907,060</u>	<u>\$ 907,060</u>

For the year ended December 31, 2017, the shares increased by 129 thousand shares due to the employees' exercise of their employee share options with average \$10 per share.

b. Capital surplus

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital</u>		
Issuance of ordinary shares	\$ 611,529	\$ 611,529
Donations (Note 31)	12,870	4,879
<u>May be used to offset a deficit only</u>		
Exercised employee share options	35,773	35,773
Expired employee share options	<u>2,151</u>	<u>2,151</u>
	<u>\$ 662,323</u>	<u>\$ 654,332</u>

Capital surplus in excess of par or from donations may be used to offset a deficit. When the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred once a year to share capital within a certain percentage of the Company's paid-in capital.

The capital surplus resulting from exercised or expired employee share options shall only be used to offset a deficit.

c. Retained earnings and dividends policy

Under the dividends policy as set forth in the amended Articles, where the Company made a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as a legal reserve of 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders. For the policies on the distribution of employees' compensation and remuneration of directors and supervisors after the amendment, refer to employees' compensation and remuneration of directors and supervisors in Note 22-e.

The distribution of the Company's dividends depends on the current year's surplus and the principle of distribution is to keep dividends stable. As the Company is currently growing, the Company takes into consideration of the its future capital demand and long-term financial planning while allocating dividends. In principle, cash dividends should be no less than 5% of the total dividends distributed. However, shareholders may adjust the percentage of appropriation depending on the Company's actual profit and capital situation.

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

Items referred to Rule No. 1010012865, and Rule No. 1010047490 issued by the FSC and in the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs" should be appropriated to or reversed from a special reserve by the Company. For the subsequent reversal of the other shareholders' equity deductions, the Company may distribute the surplus limited to the reversal.

The appropriations of earnings for 2017 and 2016 were approved in the shareholders' meetings on June 14, 2018 and June 22, 2017, respectively, were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For the Year Ended		For the Year Ended	
	December 31		December 31	
	2017	2016	2017	2016
Legal reserve	\$ 38,647	\$ 28,620		
Cash dividends	235,836	145,130	\$ 2.6	\$ 1.6

The appropriation of earnings for 2018 had been proposed by the Company's board of directors on February 25, 2019. The appropriation and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
Legal reserve	\$ 39,773	
Special reserve	6,442	
Cash dividends	244,906	\$ 2.7

The appropriation of earnings for 2018 are subject to the resolution of the shareholders' meeting to be held on June 13, 2019.

21. REVENUE

	For the Year Ended December 31	
	2018	2017
Revenue from sale of goods	\$ 3,988,158	\$ 3,963,856
Construction contract revenue	<u>40,433</u>	<u>-</u>
	<u>\$ 4,028,591</u>	<u>\$ 3,963,856</u>

Contact Balances

	December 31, 2018
Contract assets	
Properties construction - current	\$ 15,669
Properties construction - non-current	<u>11,695</u>
	<u>\$ 27,364</u>
Contract liabilities	
Properties construction - current	<u>\$ 3,647</u>

22. NET PROFIT

a. Other income

	For the Year Ended December 31	
	2018	2017
Interest income	\$ 124	\$ 144
Dividends	963	1,413
Others	<u>27,068</u>	<u>28,606</u>
	<u>\$ 28,155</u>	<u>\$ 30,163</u>

b. Other gains and losses

	For the Year Ended December 31	
	2018	2017
Gain on disposal of investments	\$ 31,681	\$ -
Net foreign exchange gains (losses)	19,459	(23,358)
Gain (losses) on disposal of property, plant and equipment	920	(12,068)
Impairment loss recognized on property, plant and equipment	<u>-</u>	<u>(5,454)</u>
	<u>\$ 52,060</u>	<u>\$ (40,880)</u>

c. Depreciation and amortization

	<u>For the Year Ended December 31</u>	
	2018	2017
Properties, plants and equipment	\$ <u>200,257</u>	\$ <u>193,066</u>
An analysis of depreciation by function		
Operating costs	\$ 189,401	\$ 181,016
Operating expenses	<u>10,856</u>	<u>12,050</u>
	<u>\$ 200,257</u>	<u>\$ 193,066</u>

d. Employee benefits expense

	<u>For the Year Ended December 31</u>	
	2018	2017
Post-employment benefits		
Defined contribution plans	\$ 10,740	\$ 9,424
Defined benefit plans (Note 19)	2,062	2,721
Short-term benefits		
Salaries	202,388	185,834
Labor and health insurance	23,610	21,271
Others	<u>136,881</u>	<u>120,218</u>
Total employee benefits expense	<u>\$ 375,681</u>	<u>\$ 339,468</u>
An analysis of employee benefits expense by function		
Operating costs	\$ 213,034	\$ 192,928
Operating expenses	<u>162,647</u>	<u>146,540</u>
	<u>\$ 375,681</u>	<u>\$ 339,468</u>

e. Employees' compensation and remuneration of directors and supervisors

The Company accrued employees' compensation and remuneration of directors and supervisors at rates of 1%-3% and no higher than 3%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors. The employees' compensation and the remuneration of directors and supervisors for the years ended December 31, 2018 and 2017, which were approved by the Company's board of directors on February 25, 2019 and March 15, 2018, respectively, are as follows:

Accrual rate

	<u>For the Year Ended December 31</u>	
	2018	2017
Employees' compensation	1.93%	1.95%
Remuneration of directors and supervisors	1.93%	1.95%

Amount

	For the Year Ended December 31	
	2018	2017
	Cash	Cash
Employees' compensation	\$ 9,945	\$ 9,630
Remuneration of directors and supervisors	9,945	9,630

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

The Company held board of directors' meetings on March 15, 2018 and March 22, 2017, and those meetings resulted in the actual amounts of the employees' compensation and remuneration of directors and supervisors paid for 2017 and 2016 to differ from the amounts recognized in the financial statements for the year ended December 31, 2017 and 2016, respectively. The differences were adjusted to profit and loss for the years ended December 31, 2018 and 2017, respectively.

	For the Year Ended December 31			
	2017		2016	
	Employees' Compensation	Remuneration of Directors and Supervisors	Employees' Compensation	Remuneration of Directors and Supervisors
Amounts approved in the board of directors' meeting	<u>\$ 9,510</u>	<u>\$ 9,510</u>	<u>\$ 7,250</u>	<u>\$ 7,250</u>
Amounts recognized in the annual financial statements	<u>\$ 9,630</u>	<u>\$ 9,630</u>	<u>\$ 7,200</u>	<u>\$ 7,200</u>

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

f. Finance costs

	For the Year Ended December 31	
	2018	2017
Interest on bank loans	<u>\$ 3,532</u>	<u>\$ 2,671</u>

g. Gains or losses on foreign currency exchange

	For the Year Ended December 31	
	2018	2017
Foreign exchange gains	\$ 35,752	\$ 17,736
Foreign exchange losses	<u>(16,293)</u>	<u>(41,094)</u>
Net gain (losses)	<u>\$ 19,459</u>	<u>\$ (23,358)</u>

23. INCOME TAXES

a. Income tax recognized in profit or loss

Major components of income tax expense are as follows:

	For the Year Ended December 31	
	2018	2017
Current tax		
In respect of the current period	\$ 84,485	\$ 76,992
Income tax on unappropriated earnings	11,047	10,776
Adjustments for prior periods	<u>(1,447)</u>	<u>669</u>
	<u>94,085</u>	<u>88,437</u>
Deferred tax		
In respect of the current period	6,548	1,969
Adjustments to deferred tax attributable to changes in tax rates and laws	(4,109)	-
Adjustments for prior periods	<u>-</u>	<u>(1,385)</u>
	<u>2,439</u>	<u>584</u>
Income tax expense recognized in profit or loss	<u>\$ 96,524</u>	<u>\$ 89,021</u>

A reconciliation of accounting profit and income tax expense is as follows:

	For the Year Ended December 31	
	2018	2017
Profit before tax	<u>\$ 494,256</u>	<u>\$ 475,496</u>
Income tax expense calculated at the statutory rate (2018: 20%; 2017: 17%)	\$ 98,851	\$ 80,834
Nondeductible expenses in determining taxable income	3,696	2,312
Tax-exempt income	(6,529)	(240)
Additional income for tax purpose	-	829
Effect of tax rate changes	(4,109)	-
Income tax on unappropriated earnings	11,047	10,776
Unrecognized taxable temporary differences	(4,985)	(4,774)
Adjustments for prior years' tax	<u>(1,447)</u>	<u>(716)</u>
Income tax expense recognized in profit or loss	<u>\$ 96,524</u>	<u>\$ 89,021</u>

In 2017, the applicable corporate income tax rate used by the Company is 17%. However, the Income Tax Act in the ROC was amended in 2018, and the corporate income tax rate was adjusted from 17% to 20%, effective in 2018. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings will be reduced from 10% to 5%.

As the status of the 2019 appropriation of earnings is uncertain, the potential income tax consequences of the 2018 unappropriated earnings are not reliably determinable.

b. Current tax liabilities

	December 31	
	2018	2017
Current tax liabilities		
Income tax payable	<u>\$ 56,896</u>	<u>\$ 55,140</u>

Prepaid income tax of \$38,637 thousand and \$32,629 thousand has been deducted from the income tax payable for 2018 and 2017, respectively.

c. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities are as follows:

For the year ended December 31, 2018

	Opening Balance	Recognized in Profit or Loss	Recognized Directly in Equity	Recognized in Other Comprehensive Income	Closing Balance
<u>Deferred tax assets</u>					
Temporary differences					
Defined benefit obligation	\$ 12,645	\$ (2,343)	\$ -	\$ 566	\$ 10,868
Payables for annual leave	1,384	290	-	-	1,674
Allowance for impairment loss	3,072	(433)	-	-	2,639
Unrealized exchange loss	636	(636)	-	-	-
Others	<u>9,923</u>	<u>769</u>	<u>-</u>	<u>-</u>	<u>10,692</u>
	<u>\$ 27,660</u>	<u>\$ (2,353)</u>	<u>\$ -</u>	<u>\$ 566</u>	<u>\$ 25,873</u>
<u>Deferred tax liabilities</u>					
Temporary differences					
Unrealized exchange gain	\$ -	\$ 86	\$ -	\$ -	\$ 86
FVOCI financial assets	<u>-</u>	<u>-</u>	<u>3,220</u>	<u>(285)</u>	<u>2,935</u>
	<u>\$ -</u>	<u>\$ 86</u>	<u>\$ 3,220</u>	<u>\$ (285)</u>	<u>\$ 3,021</u>

For the year ended December 31, 2017

	Opening Balance	Recognized in Profit or Loss	Recognized Directly in Equity	Recognized in Other Comprehensive Income	Closing Balance
<u>Deferred tax assets</u>					
Temporary differences					
Defined benefit obligations	\$ 16,583	\$ (4,249)	\$ -	\$ 311	\$ 12,645
Payables for annual leave	1,004	380	-	-	1,384
Allowance for impairment loss	3,204	(132)	-	-	3,072
Unrealized exchange loss	-	636	-	-	636
Others	<u>7,298</u>	<u>2,625</u>	<u>-</u>	<u>-</u>	<u>9,923</u>
	<u>\$ 28,089</u>	<u>\$ (740)</u>	<u>\$ -</u>	<u>\$ 311</u>	<u>\$ 27,660</u>
<u>Deferred tax liabilities</u>					
Temporary differences					
Unrealized exchange gain	\$ 40	\$ (40)	\$ -	\$ -	\$ -
Others	<u>116</u>	<u>(116)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 156</u>	<u>\$ (156)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

As of December 31, 2018 and 2017, the taxable temporary differences associated with investments in subsidiaries and associates for which no deferred tax liabilities have been recognized were \$48,387 thousand and \$36,894 thousand, respectively.

- e. Income tax assessments

The income tax returns through 2016, have been assessed by the tax authorities.

24. EARNINGS PER SHARE

	Unit: NT\$ Per Share	
	<u>For the Year Ended December 31</u>	
	2018	2017
Basic earnings per share		
Basic earnings per share	<u>\$ 4.38</u>	<u>\$ 4.26</u>
Diluted earnings per share		
Diluted earnings per share	<u>\$ 4.37</u>	<u>\$ 4.25</u>

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

Net Profit for the Year

	<u>For the Year Ended December 31</u>	
	2018	2017
Profit for the year	<u>\$ 397,732</u>	<u>\$ 386,475</u>

The weighted average number of ordinary shares outstanding (in thousand shares) is as follows:

	<u>For the Year Ended December 31</u>	
	2018	2017
Weighted average number of ordinary shares used in the computation of basic earnings per share	90,706	90,686
Effect of potentially dilutive ordinary shares		
Employees' compensation	290	227
Employee share options	<u>-</u>	<u>15</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>90,996</u>	<u>90,928</u>

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

25. SHARE-BASED PAYMENT ARRANGEMENTS

Employee Share Option Plan of the Company

Qualified employees of the Company were granted 3,200 options in June 2012. Each option entitles the holder to subscribe for one thousand ordinary shares of the Company. The granted options are valid for 5 years and the employee's vested period is as follows: (1) 50% of granted options can be exercised after the second anniversary from the grant date. Thereafter, 25% of granted options can be exercised each year. There is a total of four years in the vested period. (2) The board of directors may adjust the period to exercise the options and the proportion of exercisable options. The options were granted at an exercise price of NT\$10, and the subscription price will not be adjusted after the share options are issued. The expiration date of exercising employee share options was June 30, 2017.

The Company has not granted new share options in 2017. The information on employee share options is as follows:

	For the Year Ended December 31, 2017	
	Number of Options (In Thousands)	Weighted- average Exercise Price (NT\$)
Balance at January 1	131	\$10
Options forfeited	(2)	10
Options exercised	<u>(129)</u>	10
Balance at December 31	<u>-</u>	
Options exercisable, end of period	<u>-</u>	
Weighted-average fair value of options granted (NT\$)		<u>\$ 13.36</u>

26. BUSINESS COMBINATIONS

Subsidiaries Acquired

Subsidiary	Principal Activity	Date of Acquisition	Proportion of Voting Equity Interests Acquired (%)	Consideration Transferred
International Nitto Technology Co., Ltd.	Thin-Film Transistor liquid crystal display glass polishing and cutting	December 28, 2018	49	<u>\$ 74,904</u>

International Nitto Technology Co., Ltd. were acquired in order to continue the expansion of the Company's activities in fine chemical products. The information of the subscription of International Nitto Technology Co., Ltd., refer to Note 28 to the Company's consolidated financial statements for the year ended December 21, 2018.

27. NON-CASH TRANSACTION

For the years ended December 31, 2018 and 2017, the Company entered into the following non-cash investing activities which were not reflected in the statements of cash flows:

The Company reclassified and paid for property, plant and equipment partly during 2018 and 2017 (see Notes 14 and 18) and the information is as follows:

	For the Year Ended December 31	
	2018	2017
Long-term prepaid transferred (classification)	\$ <u>-</u>	\$ <u>32,985</u>
Increase in property, plant and equipment	\$ 317,474	\$ 374,637
(Increase) decrease in payable of purchase of equipment	<u>(7,480)</u>	<u>6,085</u>
Paid in cash by acquiring property, plant and equipment	\$ <u>309,994</u>	\$ <u>380,722</u>

28. OPERATING LEASE ARRANGEMENTS

Operating leases relate to leases of land, office; plants and vehicles with lease terms between 1 and 20 years.

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

	December 31	
	2018	2017
Not later than 1 year	\$ 20,716	\$ 20,062
Later than 1 year and not later than 5 years	30,711	35,572
Later than 5 years	<u>49,474</u>	<u>55,471</u>
	\$ <u>100,901</u>	\$ <u>111,105</u>

The lease payments and sublease payments recognized in profit or loss for the current period were as follows:

	For the Year Ended December 31	
	2018	2017
Minimum lease payments	\$ <u>23,390</u>	\$ <u>22,576</u>

The Company signed a twenty-year lease agreement with San Fu Global Co., Ltd. For the land in Liuying Technology Industrial Park in April 2012. San Fu Global Co., Ltd. agrees that the Company has the preferential right to purchase the land. The Company promises to purchase the leased object at an appropriate time, and the two parties will entrust an appraisal agency to issue the appraisal report as the basis for the transaction price.

29. CAPITAL MANAGEMENT

The Company manages its capital to ensure that the Company will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance.

As for the strategy of the Company's capital structure management, the Company sets its suitable market share according to its industry scale, the growth of the industry and the blueprint of the product development. The Company estimates the required capacity, the equipment and related capital expenditure to be used. Then the Company calculates working capitals and cash on the basis of the industry character to support a complete plan for its long-term development. Finally, the Company estimates not only the possible contribution margin, operating profit ratio and cash flows according to the product competitiveness but also risk factors such as the fluctuation of the business circle and the life circle of the product to decide the suitable capital structure. The management inspects capital structures periodically and considers the possible costs and risks taken by different capital structures. In general, the Company adopts a prudent risk management strategy.

30. FINANCIAL INSTRUMENTS

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

The Company considers that the carrying amounts of financial assets and liabilities not measured at fair value approximate their fair values or the fair values cannot be reliably estimated.

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

1) Fair value hierarchy

	Level 1	Level 2	Level 3	Total
<u>December 31, 2018</u>				
Financial assets at FVTOCI				
Investments in equity instruments at FVTOCI				
Domestic listed shares	\$ 22,662	\$ -	\$ -	\$ 22,662
Domestic unlisted shares	-	-	6,698	6,698
Foreign unlisted shares	-	-	46,239	46,239
	<u>\$ 22,662</u>	<u>\$ -</u>	<u>\$ 52,937</u>	<u>\$ 75,599</u>
<u>December 31, 2017</u>				
Available-for-sale financial assets				
Listed shares	<u>\$ 37,995</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 37,995</u>

There were no transfers between Levels 1 and 2 for the years ended December 31, 2018 and 2017.

2) Valuation techniques and assumptions using in fair value measurement

- a) The fair values of financial assets and financial liabilities with standard terms and conditions and traded in active markets are determined with reference to quoted market prices.

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

- i. The fair values of domestic unlisted equity securities - ROC were determined using the income approach. In this approach, the discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of these investees. The significant unobservable inputs used are listed in the table below. Decrease in discount for lack of marketability or non-controlling interests discount would result in increases in fair value.

	December 31, 2018
Discount for lack of marketability	25%
Non-controlling interests discount	20%

If the inputs to the valuation model were changed to reflect reasonably possible alternative assumptions while all the other variables were held constant, the fair value of the shares would increase (decrease) as follows:

	December 31, 2018
Discount for lack of marketability 1% decrease	<u>\$ 88</u>
Non-controlling interests discount 1% decrease	<u>\$ 83</u>

- ii. The fair values of non-listed foreign equity investments were determined using the market approach by reference the Price-to-Book ratios (P/B ratios) of peer companies that traded in active market or using assets approach. The significant unobservable inputs used were listed in the table below. A decrease in discount for the lack of marketability would result in increases in the fair values.

	December 31, 2018
Discount for lack of marketability	14.6%

If the inputs to the valuation model were changed to reflect reasonably possible alternative assumptions while all the other variables were held constant, the fair value of the shares would increase (decrease) as follows:

	December 31, 2018
Discount for lack of marketability 1% decrease	<u>\$ 928</u>

c. Categories of financial instruments

	December 31	
	2018	2017
<u>Financial assets</u>		
Loans and receivables (1)	\$ -	\$ 1,298,841
Available-for-sale financial assets - non-current	-	37,995
Financial assets at cost - non-current	-	38,261
Financial assets at amortized cost (2)	1,164,627	-
Financial assets at FVTOCI - equity instruments	75,599	-
<u>Financial liabilities</u>		
Financial liabilities at amortized cost (3)	1,045,767	806,436

- 1) The balances include loans and receivables measured at amortized cost, which comprise cash, notes and accounts receivables, accounts receivables - related parties and amounts due from customers for construction contracts.
- 2) The balances include financial assets at amortized cost, which comprise cash, notes and accounts receivables and accounts receivables - related parties.
- 3) The balances include financial liabilities at amortized cost, which comprise short-term loans, notes and accounts payables, accounts payables - related parties and other payables.

d. Financial risk management objectives and policies

The Company's major financial instruments include financial assets at amortized cost, equity investments, short-term loans, notes and account payables and account payables - related parties and other payables. The Company's Corporate Treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Company through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

The board of directors is solely responsible for established and monitored the framework of risk management of the Company, the board of directors authorized the chairman develop and monitored the risk management policy of the Company with the operation center of the Company, and regularly reported the situation to the board of directors.

The Company's financial risk management policies are developed for identifying and analyzing the financial risks to the Company, evaluating the impacts of the financial risks, and executing the financial-risk aversion policies. The financial risk management are periodically reviewed to reflect changes to the market and the operations. Through the internal controls, such as training and setting up managing requirements and procedures, the Company is engaged in developing a disciplined and constructive control environment, in order to have all employees understand own responsibilities.

The Company's board of directors monitors the management on managing the compliance to the Company's financial risk management policies and procedures and reviews the appropriateness of risk management structure. To assist the board of directors, the internal auditors perform period and exceptional reviews on the controls and procedures of board of directors.

1) Market risk

The Company's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates (see (a) below) and interest rates (see (b) below) and other price risk (see (c) below).

a) Foreign currency risk

The Company has assets and liabilities not recorded in the same functional currency as that of the Company; thus, it is exposed to risks due to exchange rate fluctuation.

To manage risks within an acceptable level, the Company uses natural hedge against its currency risk. The Company monitors and evaluates the movements of exchange rates and the weakness or strength of a currency's performance in line with natural hedging.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities which were not in the same functional currency as the Company entity at the end of the reporting period are shown in Note 33.

Sensitivity analysis

The Company is mainly exposed to the U.S. dollar.

The following table shows the Company's sensitivity to a 5% increase and decrease in the New Taiwan dollar (the functional currency of the Company) against the relevant foreign currencies. A 5% sensitivity rate is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The number in the table indicates the change in pretax profit associated with the 5% appreciation of the New Taiwan dollar against the relevant currency. For a 5% weakening of the New Taiwan dollar against the relevant currency, there would be an equal and opposite impact on pre-tax profit and other equity, and the balances below would be positive.

	Currency USD Impact	
	For the Year Ended December 31	
	2018	2017
Profit or loss	<u>\$ 10,778</u> *	<u>\$ 10,227</u> *

* This was mainly attributable to the exposure on outstanding receivables and payables in Currency USD which were not hedged at the end of the reporting period.

b) Interest rate risk

The Company is exposed to interest rate risk because entities in the Company borrow funds at both fixed and floating interest rates. The Company's financial costs for the years ended December 31, 2018 and 2017 were \$3,532 thousand and \$2,671 thousand, respectively, which only constitute 0.09% and 0.07% of the operating revenue. Therefore, interest rate risk has no significant impact on the Company.

The carrying amounts of the Company's financial liabilities with exposure to interest rates at the end of the reporting period were as follows:

	Unit: Thousand	
	December 31	
	2018	2017
Fair value interest rate risk		
Financial liabilities	\$ 100,000	\$ 160,000
Cash flow interest rate risk		
Financial liabilities	300,000	40,000

Sensitivity analysis

The sensitivity analysis were determined on the basis of the Company's exposure to interest rate change for non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of the liability outstanding at the end of the reporting period has been outstanding for the whole year. Had interest rates been five basis points higher/lower and all other variables were held constant, the Company's pre-tax profit for the years ended December 31, 2018 and 2017 would decrease/increase by \$150 thousand and \$20 thousand, respectively.

c) Other price risk

The Company is exposed to price risk due to the investment in the financial assets of domestic listed companies. The Company has established an immediate control mechanism and is therefore not expected to have significant price risk.

Sensitivity analysis

If equity prices had been 5% higher/lower, pre-tax other comprehensive income for the year ended December 31, 2018 would have increased/decreased by \$3,780 thousand, as a result of the changes in fair value of financial assets at FVTOCI.

If equity prices had been 5% higher/lower, pre-tax profit for the year ended December 31, 2017 would have increased/decreased by \$1,900 thousand, as a result of the changes in fair value of available-for-sale shares.

2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in financial loss to the Company. As of the end of the reporting period, the Company's maximum exposure to credit risk, which will cause a financial loss to the Company because of the counterparties' failure to discharge their obligations, could arise from the carrying amount of the financial assets recognized in the balance sheets.

Apart from Company A, B and C, the Company did not have significant credit risk exposure from any single counterparty or any group of counterparties with similar characteristics. Apart from Company A, B and C, the concentration of credit risk to other clients did not exceed 10% of total accounts receivable. The credit risk is expected to be immaterial as Company A, B and C are all trustworthy counterparties.

3) Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the Company's short-, medium- and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, and continuously monitoring forecasted and actual cash flows as well as matching the maturity profiles of financial assets and liabilities. As of December 31, 2018 and 2017, the Company had available unutilized short-term bank loan facilities of \$712,213 thousand and \$1,051,652 thousand, respectively.

The following table shows the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed-upon repayment periods. The tables had been drawn up on the basis of the undiscounted cash flows of financial liabilities from the earliest date on which the Company can be required to pay.

December 31, 2018

	On Demand or Less than 1 Month	1-3 Months
<u>Non-derivative financial liabilities</u>		
Variable interest rate liabilities	\$ 270,000	\$ 30,000
Fixed interest rate liabilities	<u>40,000</u>	<u>60,000</u>
	<u>\$ 310,000</u>	<u>\$ 90,000</u>

December 31, 2017

	On Demand or Less than 1 Month	1-3 Months
<u>Non-derivative financial liabilities</u>		
Variable interest rate liabilities	\$ 40,000	\$ -
Fixed interest rate liabilities	<u>160,000</u>	<u>-</u>
	<u>\$ 200,000</u>	<u>\$ -</u>

31. TRANSACTIONS WITH RELATED PARTIES

Besides information disclosed elsewhere in the other notes, details of transactions between the Company and other related parties are disclosed below.

a. Related party name and category

<u>Related Party Name</u>	<u>Related Party Category</u>
San Fu Global Co., Ltd.	Investors with significant influence
Chang, Chwen-Ming	Investors with significant influence
San Fu Biotech Co., Ltd.	Subsidiaries
International Nitto Technology Co., Ltd.	Subsidiaries (since December 28, 2018)
Shian Yun Joint Stock Company	Associates
Lifu Carbonic Acid Co., Ltd.	Associates
Hong Cheng Enterprise Co., Ltd.	Associates
Zhong Hua Fang Da (International Investment Development Limited)	Associates
International Nitto Technology Co., Ltd.	Joint venture (subsidiary starting from December 28, 2018)
San Fu Ming Electronic Materials Co., Ltd.	Joint venture

b. Operating transactions

	<u>For the Year Ended December 31</u>	
	<u>2018</u>	<u>2017</u>
<u>Sales</u>		
Subsidiaries	\$ 14,024	\$ 12,370
Joint ventures	<u>5,772</u>	<u>2,178</u>
	<u>\$ 19,796</u>	<u>\$ 14,548</u>
<u>Purchase</u>		
Subsidiaries	\$ 1,945	\$ 1,015
Associates	27,420	24,103
Joint ventures	<u>91,031</u>	<u>1,616</u>
	<u>\$ 120,396</u>	<u>\$ 26,734</u>
<u>Service revenue (recognized as other income)</u>		
Investors with significant influence		
San Fu Global Co., Ltd.	\$ 1,600	\$ 710
Associates	955	-
Joint ventures		
San Fu Ming Electronic Materials Co., Ltd.	<u>6,930</u>	<u>6,919</u>
	<u>\$ 9,485</u>	<u>\$ 7,629</u>

(Continued)

For the Year Ended December 31
2018 **2017**

Rent expense (recognized as cost of goods sold and operating expenses)

Investors with significant influence		
San Fu Global Co., Ltd.	\$ 6,434	\$ 6,434
Others	<u>969</u>	<u>353</u>
	7,403	6,787
Joint ventures	<u>138</u>	<u>139</u>
	<u>\$ 7,541</u>	<u>\$ 6,926</u>

Entertainment expense (recognized as cost of goods sold and operating expenses)

Subsidiaries	<u>\$ 376</u>	<u>\$ 262</u> (Concluded)
--------------	---------------	------------------------------

Transactions with related parties were not materially different from those non-related parties with third parties unless otherwise agreed.

December 31
2018 **2017**

Accounts receivable - related parties

Subsidiaries	\$ 3,123	\$ 2,878
Joint ventures	5,217	1,142

Other receivable - related parties

Investors with significant influence		745
Subsidiaries	94	50
Associates	955	-
Joint ventures	<u>6,378</u>	<u>4</u>
	<u>\$ 15,767</u>	<u>\$ 4,819</u>

Accounts payable - related parties

Subsidiaries	\$ 1,106	\$ 397
Associates	10,251	8,272
Joint ventures	<u>-</u>	<u>870</u>
	<u>\$ 11,357</u>	<u>\$ 9,539</u>

The outstanding accounts payable to related parties are unsecured, and the outstanding accounts receivable from related parties are unsecured. For the years ended December 31, 2018 and 2017, no impairment loss was recognized for accounts receivable from the related parties.

	Acquisition Cost	
	For the Year Ended December 31	
	2018	2017
<u>Acquisition of plant, property and equipment</u>		
Joint Venture	\$ <u> -</u>	\$ <u> 861</u>

c. Others

Investors with significant influence signed a trust agreement of marketable securities with CTBC Bank on September 29, 2016. The Company is a beneficiary of interest. The trust interest revenue was \$7,991 and \$4,879 in 2018 and 2017, respectively, and the revenue was credited in Capital Surplus - Donations.

d. Compensation of key management personnel

	For the Year Ended December 31	
	2018	2017
Short-term employee benefits	\$ 41,630	\$ 38,157
Post-employment benefits	<u> 1,253</u>	<u> 1,143</u>
	<u>\$ 42,883</u>	<u>\$ 39,300</u>

The remuneration of directors and key executives was determined by the remuneration committee based on the performance of individuals and market trends.

32. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for bank borrowing:

	December 31	
	2018	2017
Land	\$ 40,349	\$ 40,349
Buildings, net	<u> 55,912</u>	<u> 59,373</u>
	<u>\$ 96,261</u>	<u>\$ 99,722</u>

33. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Company's significant financial assets and liabilities denominated in foreign currencies aggregated by the foreign currencies other than functional currencies and the related exchange rates between foreign currencies and respective functional currencies were as follows:

December 31, 2018

	Foreign Currencies (In Thousands)	Exchange Rate (Functional Currency)	Carrying Amount (In Thousands)
<u>Foreign financial assets</u>			
Monetary items			
USD	\$ 9,119	30.665 (USD:NTD)	\$ 279,634
JPY	195,205	0.276 (JPY:NTD)	53,916
Non-monetary items			
Investments for subsidiaries and associates accounted for using the equity method			
USD	15,139	30.715 (USD:NTD)	464,992
VND	128,690,000	0.0012 (VND:NTD)	154,428
<u>Foreign financial liabilities</u>			
Monetary items			
USD	2,083	30.765 (USD:NTD)	64,083

December 31, 2017

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Foreign financial assets</u>			
Monetary items			
USD	\$ 9,378	29.71 (USD:NTD)	\$ 278,620
Non-monetary items			
Investments for subsidiaries and associates accounted for using the equity method			
USD	14,813	29.76 (USD:NTD)	440,846
VND	30,433,613	0.0012 (VND:NTD)	36,216
<u>Foreign financial liabilities</u>			
Monetary items			
USD	2,485	29.81 (USD:NTD)	74,078

The significant unrealized foreign exchange gains (losses) were as follows:

Foreign Currencies	For the Year Ended December 31			
	2018		2017	
	Exchange Rate	Net Foreign Exchange Gains	Exchange Rate	Net Foreign Exchange Losses
USD	30.665 (USD:NTD)	\$ 4,177	29.71 (USD:NTD)	\$ 3,982

34. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

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

b. Information on investments in mainland China

- 1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area. (Table 4)

- 2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses: (None)
- a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period
 - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period
 - c) The amount of property transactions and the amount of the resultant gains or losses
 - d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes
 - e) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds
 - f) Other transactions that have a material effect on the profit or loss for the year or on the financial position, such as the rendering or receipt of services

SAN FU CHEMICAL CO., LTD.

**FINANCING PROVIDED TO OTHERS
FOR THE YEAR ENDED DECEMBER 31, 2018**
(Amounts in Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No. (Note 1)	Financing Company	Counter-party	Financial Statement Account	Related Party	Maximum Balance for the Period	Ending Balance	Amount Actually Drawn	Interest Rate	Nature for Financing	Transaction Amounts	Reason for Financing	Allowance for Bad Debt	Collateral		Financing Company's Total Financing Amount Limits (Note)	Note
													Item	Value		
0	San Fu Chemical Co., Ltd.	San Fu Biotech Co., Ltd.	Other receivables	Yes	\$ 250,000	\$ 250,000	\$ -	-	The need for short-term financing	\$ -	Operating capital	\$ -	-	\$ 312,352	\$ 1,249,407	Note 3

Note 1: The items are numbered as follows:

- a. Issuer is numbered as "0".
- b. Investee companies are numbered from "1".

Note 2: The maximum amount for financing provided to others:

- a. The maximum amount of financing provided by the Company shall not exceed 40% of the Company's net worth.
- b. The maximum amount of financing provided by the Company and its subsidiaries to each individuals is as follows:
 - i. The maximum amount of financing provided to all businesses shall not exceed 10% of the Company's net worth. The maximum amount of financing provided to an individual shall not exceed 10% of the Company's net worth, and the gross transaction amount (the higher of purchase amount or sales amount between the two parties) for the past year.
 - ii. In the case of financing companies with short-term financing needs, the maximum amount of financing provided to such companies shall not exceed 30% of their net worth; the maximum amount of financing provided to an individual shall not exceed 10% of the Company's net worth.

Note 3: Other receivables has been eliminated when preparing the consolidated financial statements.

SAN FU CHEMICAL CO., LTD.

MARKETABLE SECURITIES HELD

DECEMBER 31, 2018

(Amounts in Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Holding Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2018			Note
				Shares (in Thousands)	Carrying Value	Percentage of Ownership (%)	
San Fu Chemical Co., Ltd.	E'Date Technology Co., Ltd.	-	Financial assets at fair value through other comprehensive income	642	\$ 6,698	3.45	\$ 6,698
	Savior Lifetec Corporation	-	Financial assets at fair value through other comprehensive income	1,357	22,662	0.55	22,662
	Angstrom Energy Company	-	Financial assets at fair value through other comprehensive income	1	46,239	2.35	46,239
Sion Star Holding Limited	Hubei Sinophorus Electronic Materials Co., Ltd.	-	Financial assets at fair value through other comprehensive income	-	58,719	9.06	58,719

Note 1: The information for investments in subsidiaries, associates and joint venture is included in Tables 3 and 4.

Note 2: The fair value is calculated based on closing prices on December 31, 2018.

SAN FU CHEMICAL CO., LTD.

INFORMATION ON INVESTEES
FOR THE YEAR ENDED DECEMBER 31, 2018
(Amounts in Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company (Note 2)	Location	Main Businesses and Products	Original Investment Amount		As of December 31, 2018			Net Income (Loss) of the Investee	Share of Profit (Loss) of the Investee	Note	
				December 31, 2018 (Foreign Currencies in Thousands)	December 31, 2017 (Foreign Currencies in Thousands)	Shares (In Thousands)	Percentage of Ownership	Carrying Amount				
San Fu Specialty Chemicals Investments Limited	San Fu Specialty Chemicals Investments Limited	Samoa	Investment activities	US\$ 4,751	US\$ 4,751	4,751	100.00	\$ 464,624	\$ 24,238	\$ 24,238	Note 1	
	San Fu Food Additives Investments Limited	Samoa	Investment activities	US\$ 552	US\$ 552	552	100.00	368	1	1	"	
	VinaSanFu Industrial Gas Company Limited	Vietnam	Engaged in industrial gas production	US\$ 2,500	-	-	100.00	69,645	(193)	(193)	"	
	VinaSanFu Material Company Limited	Vietnam	Engaged in the production of chemical materials	US\$ 1,700	-	-	100.00	47,266	(188)	(188)	"	
	San Fu Biotech Co., Ltd.	Taiwan	Engaged in the manufacture and sale of food additives	25,000	25,000	2,500	100.00	23,782	2,369	2,369	"	
	International Nitto Technology Co., Ltd.	Taiwan	Engaged in electronic component manufacturing business	227,904	153,000	30,000	100.00	152,825	(46,116)	(23,560)	Note 3	
	Hong Cheng Enterprise Co., Ltd.	Taiwan	Liquid oxygen, oxygen, liquid nitrogen and other gas trading business	10,527	10,527	1,200	50.00	14,177	4,026	2,013	2,013	
	Lifu Carbonic Acid Co., Ltd.	Taiwan	Engaged in carbon dioxide gas, carbonic acid Fire extinguisher, dry ice manufacturing and its sales and marketing	7,193	7,193	1	25.00	12,274	2,789	698	698	
	Shian Yun Joint Stock Company	Vietnam	Engaged in industrial gas production	US\$ 1,232	US\$ 1,232	2,660	33.33	37,517	3,158	1,052	1,052	
	San Fu Specialty Chemicals Investments Limited	San Fu Ming Electronic Materials Co., Ltd.	Shanghai, China	Engaged in the operation of international trade business	US\$ 2,151	US\$ 2,151	-	50.00	331,501	45,844	22,922	
San Fu Food Additives Investments Limited	Lucky Star Holding Limited	Samoa	Investment activities	US\$ 1,325	US\$ 1,325	1,325	100.00	51,344	912	912	Note 1	
	Sino Star Holding Limited	Samoa	Investment activities	US\$ 1,868	US\$ 1,868	1,868	100.00	59,778	3	3	"	
San Fu Food Additives Investments Limited	Fangda International (SAMOA) Ltd.	Samoa	Investment activities	US\$ 1,300	US\$ 1,300	1,300	41.94	368	1	1		

Note 1: When the consolidated financial statements are prepared, they were all written off.

Note 2: Information of investments in mainland China is included in Table 4.

Note 3: International Nitto Technology Co., Ltd. has been included in consolidated statements since acquisition date December 28, 2018. The information about International Nitto Technology Co., Ltd. in this table is share of profit (loss) based on percentage of ownership before the acquisition date.

SAN FU CHEMICAL CO., LTD.

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2018

(Amounts in Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investee Company	Main Businesses and Products	Total Amount of paid-in Capital (Foreign currencies in Thousands)	Method of Investment	Accumulated Outward Investment from January 1, 2018 (USD in Thousands) (Note 1)	Remittance of Funds		Accumulated Outward Remittance from Taiwan as of December 31, 2018 (USD in Thousands) (Note 1)	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 3)	Carrying Amount as of December 31, 2018 (USD in Thousands) (Note 1)	Accumulated Repatriation of Investment Income as of December 31, 2018
					Outward	Inward						
San Fu Ming Electronic Materials Co., Ltd.	Engaged in the operation of international trade business	\$ 276,435 (US\$ 9,000) (Note 1 and 4)	Through the third company reinvest in mainland companies	\$ 19,995 (US\$ 651)	\$ -	\$ -	\$ 19,995 (US\$ 651)	\$ 45,844	50.00	\$ 22,922	\$ 331,501 (US\$ 10,793)	\$ -
Hubei Sinophorus Electronic Materials Co., Ltd.	Engaged in chemical products production and sales	614,928 (RMB138,000) (Note 2)	Through the third company reinvest in mainland companies	57,314 (US\$ 1,866)	-	-	57,314 (US\$ 1,866)	28,982	9.06	-	58,719 (US\$ 1,912)	-
Hangzhou Greendea Chemical Co., Ltd.				69,907 (US\$ 2,276) (Note 5)	-	-	69,907 (US\$ 2,276)	-	-	-	-	-

Accumulated Investment in Mainland China as of December 31, 2018 (USD in Thousands)	Investment Amount Authorized by Investment Commission, MOEA (USD in Thousands)	Upper Limit on Investment
\$249,099 (US\$8,110) (Notes 5, 6 and 7)	\$321,248 (US\$10,459)	\$1,874,111

Note 1: The exchange rate is US\$1=NT\$30.715 on December 31, 2018.

Note 2: The exchange rate is RMB1=NT\$4.456 on December 31, 2018.

Note 3: The average exchange rate is US\$1=NT\$30.149 for the year ended December 31, 2018.

Note 4: In April, the Company raised US\$651 thousand of capital (all new shares were subscribed by Hubei Sinophorus Electronic Materials Co., Ltd.). In October 2012, the Company converted US\$1,698 thousand of retained earnings into capital stock. In April 2013, the Company increased its capital by US\$3,000 thousand, and in July 2018, the Company transferred US\$3,000 thousand of retained earnings into capital.

Note 5: Accumulated outward remittance for investment from Taiwan includes shares of Hangzhou Greendea Chemical Co., Ltd. (US\$2,276 thousand). All of the shares has been sold in December 2012, and Lucky Star Holding Limited, a shareholder of Hangzhou Greendea Chemical Co., Ltd., has received the consideration.

Note 6: This includes accumulated outward remittance for investments in Keyron Top Chemical (Shanghai) Co., Ltd. (US\$2,017 thousand). The Company was liquidated in August 1995.

Note 7: The investment in Shandong Fangda Jinke Additive Co., Ltd. was remitted from Taiwan (US\$1,300 thousand). The Company was liquidated in January 2017.

SAN FU CHEMICAL CO., LTD.

THE CONTENTS OF STATEMENTS OF MAJOR ACCOUNTING ITEMS

Item	Statements Index
Major Accounting Items in Assets, Liabilities and Equity	
Major accounting items in assets, liabilities and equity	
Statement of accounts receivable, net	1
Statement of inventories	2
Statement of changes in investments accounted for using equity method	3
Statement of changes in property, plant and equipment	Note 14
Statement of short-term loans	Note 16
Statement of accounts payables	4
Statement of other payables	Note 18
Major accounting items in profit or loss	
Statement of revenues	5
Statement of operating costs	6
Statement of operating expenses	7
Statement of employee benefit, depreciation and amortization by function	8

SAN FU CHEMICAL CO., LTD.

STATEMENT OF ACCOUNTS RECEIVABLE, NET

DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars)

Item	Amount
Innolux Corporation	\$ 340,475
AU Optronics Corp.	216,044
HannStar® Display Corporation	113,292
Hayashi Pure Chemical Ind., Ltd.	52,983
Others (Note)	<u>284,043</u>
	1,006,837
Less: Allowance for doubtful accounts	<u>(571)</u>
	<u>\$ 1,006,266</u>

Note: The amount of individual client included in others does not exceed 5% of the account balance.

SAN FU CHEMICAL CO., LTD.**STATEMENT OF INVENTORIES****DECEMBER 31, 2018****(In Thousands of New Taiwan Dollars)**

Item	Amount	
	Cost	Net Realizable Value
Merchandise	\$ 3,799	\$ 3,620
Finished goods	252,998	214,713
Work in process	19,890	19,890
Semi-finished goods	5,763	5,763
Raw materials	266,295	265,030
Supplies	<u>22,108</u>	<u>21,397</u>
	570,853	530,413
Less: Inventory write-downs	<u>(40,440)</u>	<u>-</u>
	<u>\$ 530,413</u>	<u>\$ 530,413</u>

Note: Inventory write-downs include \$179 thousand for merchandise, \$38,285 thousand for finished goods, \$1,265 thousand for raw materials and \$711 thousand for supplies.

SAN FU CHEMICAL CO., LTD.

STATEMENT OF CHANGES IN INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investees	Balance, January 1, 2018		Additions in Investment		Decrease in Investment		Share of Profit (Loss) of the Investee	Cumulative Exchange Differences on Translating Foreign Operations	Shares	Ownership (%)	Amount	Net Assets Value	Collateral	Note
	Shares	Amount	Shares	Amount (Note 2)	Shares	Amount (Note 1)								
Unlisted companies														
San Fu Specialty Chemicals Investments Limited	4,751	\$ 440,491	-	\$ -	-	\$ -	\$ 24,238	\$ (105)	4,751	100	\$ 464,624	\$ 464,624	Nil	
San Fu Food Additives Investments Limited	552	355	-	-	-	-	1	12	552	100	368	368	Nil	
VinaSanFu Industrial Gas Company Limited	-	-	-	77,483	-	-	(193)	(7,645)	-	100	69,645	69,645	Nil	
VinaSanFu Material Company Limited	-	-	-	52,499	-	-	(188)	(5,045)	-	100	47,266	47,266	Nil	
San Fu Biotech Co., Ltd.	2,500	21,413	-	-	-	-	2,369	-	2,500	100	23,782	23,782	Nil	
International Nitto Technology Co., Ltd.	15,300	69,800	14,700	106,585	-	-	(23,560)	-	30,000	100	152,825	152,825	Nil	
Hong Cheng Enterprise Co., Ltd.	1,200	12,164	-	-	-	-	2,013	-	1,200	50	14,177	14,177	Nil	
Lifu Carbonic Acid Co., Ltd.	1	12,701	-	-	-	(1,125)	698	-	1	25	12,274	12,274	Nil	
Shian Yun Joint Stock Company	2,360	36,216	-	-	-	-	1,052	249	2,360	33.33	37,517	29,943	Nil	
		<u>\$ 593,140</u>		<u>\$ 236,567</u>		<u>\$ (1,125)</u>	<u>\$ 6,430</u>	<u>\$ (12,534)</u>			<u>\$ 822,478</u>	<u>\$ 814,904</u>		

Note 1: Cash dividends received.

Note 2: The Company recognized gain on disposal of joint ventures of \$31,681 thousand and additions in investments of \$74,904 thousand for International Nitto Technology Co., Ltd. converted from a joint venture to a subsidiary.

SAN FU CHEMICAL CO., LTD.**STATEMENT OF ACCOUNTS PAYABLES****DECEMBER 31, 2018****(In Thousands of New Taiwan Dollars)**

Item	Amount
Puritech Corporation	\$ 42,414
Yee Fong Chemical & Industrial Co., Ltd.	34,461
Oriental Union Chemical Corporation	27,317
SABIC Asia Pacific Pte. Ltd.	22,951
Mega Union Technology Incorporated	19,017
Taiwan Refine Co., Ltd.	18,429
Others (Note)	<u>178,380</u>
	<u>\$ 342,969</u>

Note: The amount of individual vendor included in others does not exceed 5% of the account balance.

SAN FU CHEMICAL CO., LTD.**STATEMENT OF REVENUES
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)**

Item	Shipments (KG)	Amount
Stripper	19,301,380	\$ 1,024,399
Etchant	26,138,110	742,082
Developer	10,595,300	479,903
Others (Note)		<u>1,788,962</u>
		4,035,346
Less: Sales returns		(6,101)
Sales discounts		<u>(654)</u>
		<u>\$ 4,028,591</u>

Note: The amount of each item in others does not exceed 10% of the total revenue.

SAN FU CHEMICAL CO., LTD.**STATEMENT OF OPERATING COSTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)**

Item	Amount
Merchandise balance, beginning of year	\$ 302
Merchandise purchased	78,222
Merchandise balance, end of year	(3,799)
Transferred to expenses	<u>(64)</u>
Cost of contract revenue and merchandise sales	<u>74,661</u>
Raw materials, beginning of year	218,483
Raw materials purchased	2,550,491
Raw materials balance, end of year	(266,295)
Sales of raw materials	(848,932)
Transferred to expenses	<u>(1,691)</u>
Raw materials used	1,652,056
Supplies, beginning of year	12,728
Supplies purchased	132,385
Supplies, end of year	(22,108)
Sales of supplies	(5,802)
Transferred to expenses	<u>(88,418)</u>
Supplies used	28,785
Direct labor	146,541
Manufacturing expenses	<u>552,900</u>
Manufacturing cost	2,380,282
Work in process, beginning of year	18,632
Work in process, end of year	(19,890)
Transferred to semi-finished goods	(9,955)
Semi-finished goods, beginning of year	551
Semi-finished goods purchased	34,444
Transferred from work in process	9,955
Semi-finished goods, end of year	(5,763)
Sales returns	<u>(2,426)</u>
Cost of finished goods	2,405,830
Finished goods, beginning of year	185,124
Other adjustments for finished goods	10,687
Finished goods, end of year	(252,998)
Transferred to other accounts	<u>(2,343)</u>
Cost of goods sold	2,346,300
Other cost of goods sold	<u>854,734</u>
Operating costs	<u>\$ 3,275,695</u>

SAN FU CHEMICAL CO., LTD.**STATEMENT OF OPERATING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)**

Item	Selling Expenses	General and Administrative Expenses	Research and Development Expenses	Total
Payroll	\$ 66,730	\$ 57,804	\$ 4,687	\$ 129,221
Freight	84,968	-	-	84,968
Travel expenses	11,490	2,065	230	13,785
Others (Note)	<u>48,306</u>	<u>58,046</u>	<u>7,427</u>	<u>113,779</u>
	<u>\$ 211,494</u>	<u>\$ 117,915</u>	<u>\$ 12,344</u>	<u>\$ 341,753</u>

Note: Expected credit loss is included and the amount of each item in others does not exceed 5% of the account balance.

SAN FU CHEMICAL CO., LTD.

STATEMENT OF EMPLOYEE BENEFIT, DEPRECIATION AND AMORTIZATION BY FUNCTION
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	2018			2017		
	Classified as Operating Costs	Classified as Operating Expenses	Total	Classified as Operating Costs	Classified as Operating Expenses	Total
Employee benefit						
Salary and bonus	\$ 119,189	\$ 72,014	\$ 191,203	\$ 111,854	\$ 73,500	\$ 185,354
Labor and health insurance	15,300	8,310	23,610	14,019	7,252	21,271
Pension	7,658	5,144	12,802	7,520	4,625	12,145
Board compensation	-	19,223	19,223	-	8,093	8,093
Others	70,887	57,956	128,843	59,535	53,070	112,605
Depreciation	189,401	10,856	200,257	181,016	12,050	193,066

Note: As of December 31, 2018 and 2017, the Company had 376 and 344 employees, respectively. There were 6 non-employee directors for both years and their calculation basis is consistent with employee benefit.