

CHENG SHIN RUBBER IND. CO., LTD
PARENT COMPANY ONLY FINANCIAL
STATEMENTS AND REPORT OF INDEPENDENT
ACCOUNTANTS
DECEMBER 31, 2018 AND 2017

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

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

PWCR 18004212

To the Board of Directors and Shareholders of Cheng Shin Rubber Ind. Co., Ltd.

Opinion

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

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

Basis for opinion

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

Key audit matters

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

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

Appropriateness of cut-off on sales revenue

Description

For the accounting policy of revenue recognition, please refer to Note 4(29). For the years ended December 31, 2018, the sales revenue amounted to NT\$19,374,623 thousand.

The Company's main business is the manufacturing and sales of various tires and rubber products. The main sources of sales revenue are from the assembly plant and dealers. In accordance with the contract terms with the assembly plant, as inspections are completed in the assembly plant, the transfer of control to the merchandise is completed and sales revenue is recognised. The sales revenue recognition process involves many manual controls and adjustments are likely to occur. As a result, the timing of sales revenue recognition could be inappropriate. The aforementioned issue arises from the Company's subsidiaries, recognised under investments accounted for using equity method. Therefore, we included the appropriateness of cut-off on sales revenue of the Company as one of the key areas of focus for this year.

How our audit addressed the matter

The procedures that we have conducted in response to the above key audit matter are summarized as follows:

1. We obtained an understanding of the Company's sales revenue cycle, reviewed internal control process and contracts of assembly plant sales in order to assess the effectiveness of managements'

control of revenue recognition on assembly plant sales.

2. We tested the Company's sales transactions around the year-end date to check whether assembly plant sales are recorded in the proper period. We also tested whether changes in inventory and cost of goods sold were carried over and recorded in the proper period in order to assess the appropriateness of cut-off on sales revenue.
3. We tailored our audit over sales cut-off through accounts receivable testing based on the confirmation procedures in order to check whether sales revenue and accounts receivable are recorded in the proper period.

Timing of reclassification of unfinished construction and uninspected equipment to property, plant and equipment.

Description

For the accounting policy of property, plant and equipment, please refer to Note 4(14). For the details of property, plant and equipment, please refer to Note 6(7). As of December 31, 2018, the unfinished construction and equipment under acceptance amounted to NT\$1,053,091 thousand.

To maintain market competitiveness, the Company continuously replaces old production lines with new ones and incurs significant amounts of capital expenditures every year. The unfinished construction and uninspected equipment are measured at cost. When the finished construction's inspection report is issued and the uninspected equipment is ready for use, they are reclassified to property, plant and equipment and starts accrual of depreciation expense. The inspection process involves human judgement, thus, the timing of reclassification and accrual of depreciation expense could be inappropriate. Therefore, we indicated that the audit of timing of depreciation recognition after reclassification of unfinished construction and uninspected equipment to property, plant and equipment as one of the key areas of focus for this year.

How our audit addressed the matter

The procedures that we have conducted in response to the above key audit matter are summarized as follows:

1. We obtained an understanding of the Company's property, plant and equipment process cycle, reviewed internal control process and purchase contracts of property, plant and equipment in order to assess the effectiveness of managements' control of timing of reclassification of unfinished construction and uninspected equipment to property, plant and equipment.
2. We tailored our audit over fixed asset classification to check whether reclassification of assets are correct and recorded in the proper period.
3. We verified the status of unfinished construction and uninspected equipment and assessed the reasonableness of the recognition of unfinished construction and uninspected equipment.

Other matter – Scope of the Audit

We did not audit the financial statements of certain investments recognised under the equity method that are included in the financial statements. The balances of investments accounted for under equity method were NT\$2,828,988 thousand and NT\$2,569,911 thousand, both representing 2% of total assets as of December 31, 2018 and 2017, respectively; and the share of profit of subsidiaries, associates and joint ventures accounted for using equity method were NT\$690,601 thousand and NT\$679,796 thousand, representing 24% and 14% of the total comprehensive income for the years then ended, respectively. Those financial statements were audited by other independent accountants whose report thereon have been furnished to us, and our opinion expressed herein is based solely on the audit reports of the other independent accountants.

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

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

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

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

Auditor’s responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ROC GAAS, we exercise professional judgement 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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
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 appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

Hung, Shu-Hua

Wu, Der Feng

For and on behalf of PricewaterhouseCoopers, Taiwan

March 21, 2019

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

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

CIJENG SIJIN RUBBER IND. CO., LTD.
PARENT COMPANY ONLY BALANCE SHEETS
DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

			December 31, 2018		December 31, 2017			
Assets			Notes	AMOUNT	%	AMOUNT	%	
Current assets								
1100	Cash and cash equivalents	6(1)	\$	12,820,135	11	\$	12,002,673	10
1110	Financial assets at fair value	6(2)						
	through profit or loss - current			3,243	-		-	-
1120	Financial assets at fair value	6(3)						
	through other comprehensive income - current			22,886	-		-	-
1125	Available-for-sale financial assets	12(4)						
	- current			-	-		69,188	-
1150	Notes receivable, net	6(4) and 7		28,017	-		23,503	-
1170	Accounts receivable, net	6(4)		1,251,493	1		1,181,128	1
1180	Accounts receivable - related parties	7		1,611,889	1		1,648,216	1
130X	Inventories, net	6(5)		3,358,079	3		3,446,903	3
1410	Prepayments			263,624	-		416,157	-
1470	Other current assets	7 and 8		533,141	1		646,276	1
11XX	Current Assets			19,892,507	17		19,434,044	16
Non-current assets								
1517	Financial assets at fair value	6(3)						
	through other comprehensive income - noncurrent			58,187	-		-	-
1523	Available-for-sale financial assets	12(4)						
	noncurrent			-	-		58,187	-
1550	Investments accounted for using equity method	6(6)		81,045,015	68		84,129,266	70
1600	Property, plant and equipment, net	6(7)(26)		16,326,183	14		15,747,604	13
1760	Investment property, net	6(8)		290,562	-		291,173	-
1780	Intangible assets			70,740	-		94,890	-
1840	Deferred income tax assets	6(24)		1,153,491	1		726,996	1
1900	Other non-current assets			1,024	-		1,515	-
15XX	Non-current assets			98,945,202	83		101,049,631	84
1XXX	Total assets		\$	118,837,709	100	\$	120,483,675	100

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CITING SIJIN RUBBER IND. CO., LTD.
PARENT COMPANY ONLY BALANCE SHEETS
DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

Liabilities and Equity			December 31, 2018		December 31, 2017	
Notes			AMOUNT	%	AMOUNT	%
Current liabilities						
2100	Short-term borrowings	6(9)(27)	\$ 500,000	-	\$ -	-
2120	Financial liabilities at fair value through profit or loss - current	12(4)	-	-	408	-
2130	Contract liabilities - current	6(19) and 12(5)	127,663	-	-	-
2170	Accounts payable		1,313,078	1	1,313,171	1
2180	Accounts payable - related parties	7	31,509	-	34,919	-
2200	Other payables	6(10) and 7	1,825,048	2	2,237,619	2
2230	Current income tax liabilities	6(24)	571,305	1	971,856	1
2300	Other current liabilities	6(11)(12)(13)(27)	8,675,481	7	3,220,903	3
21XX	Current Liabilities		13,044,084	11	7,778,876	7
Non-current liabilities						
2530	Corporate bonds payable	6(12)(27)	17,000,000	14	16,800,000	14
2540	Long-term borrowings	6(13)(27)	7,500,000	6	11,548,000	9
2570	Deferred income tax liabilities	6(24)	1,341,768	1	1,348,631	1
2600	Other non-current liabilities	6(14)	758,075	1	802,876	1
25XX	Non-current liabilities		26,599,843	22	30,499,507	25
2XXX	Total liabilities		39,643,927	33	38,278,383	32
Equity						
Share capital						
3110	Shares capital - common stock	6(15)	32,414,155	27	32,414,155	27
Capital surplus						
3200	Capital surplus	6(16)	52,576	-	52,576	-
Retained earnings						
		6(17)				
3310	Legal reserve		14,834,946	13	14,280,767	12
3320	Special reserve		4,430,061	4	3,307,822	3
3350	Unappropriated retained earnings		32,662,342	27	36,580,033	30
Other equity interest						
		6(18)				
3400	Other equity interest		(5,200,298)	(4)	(4,430,061)	(4)
3XXX	Total equity		79,193,782	67	82,205,292	68
Significant contingent liabilities and unrecognised contract commitments						
		9				
Significant events after the balance sheet date						
		11				
3X2X	Total liabilities and equity		\$ 118,837,709	100	\$ 120,483,675	100

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

CIENG SIIN RUBBER IND. CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars, except earnings per share)

				Years ended December 31			
				2018		2017	
Items	Notes			AMOUNT	%	AMOUNT	%
4000 Sales revenue	6(19) and 7		\$	19,374,623	100	\$ 19,437,442	100
5000 Operating costs	6(5)	(		14,887,361)	(77)	(14,399,280)	(74)
5900 Net operating margin				4,487,262	23	5,038,162	26
5910 Unrealized profit from sales		(		61,424)	-	(86,835)	-
5950 Gross profit from operation				4,425,838	23	4,951,327	26
Operating expenses							
6100 Selling expenses		(		1,811,255)	(10)	(1,848,802)	(10)
6200 General and administrative expenses		(		627,510)	(3)	(649,194)	(3)
6300 Research and development expenses		(		1,338,868)	(7)	(1,114,556)	(6)
6000 Total operating expenses		(		3,777,633)	(20)	(3,612,552)	(19)
6900 Operating profit				648,205	3	1,338,775	7
Non-operating income and expenses							
7010 Other income	6(20) and 7			1,526,407	8	1,444,222	8
7020 Other gains and losses	6(21)			361,293	2	(531,557)	(3)
7050 Finance costs	6(22)	(		357,835)	(2)	(338,104)	(2)
7070 Share of profit of associates and joint ventures accounted for using equity method				2,708,390	14	5,089,259	26
7000 Total non-operating income and expenses				4,238,255	22	5,663,820	29
7900 Profit before income tax				4,886,460	25	7,002,595	36
7950 Income tax expense	6(24)	(1,366,140)	(7)	(1,460,810)	(7)
8200 Profit for the year			\$	3,520,320	18	\$ 5,541,785	29

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CITENG SIJIN RUBBER IND. CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars, except earnings per share)

		Years ended December 31				
Items	Notes	2018		2017		
		AMOUNT	%	AMOUNT	%	
Other comprehensive income						
Components of other comprehensive income that will not be reclassified to profit or loss						
8311	Other comprehensive income, before tax, actuarial losses on defined benefit plans	6(14)	\$ 29,288	1	\$ 19,804	-
8316	Unrealized loss on valuation of equity instruments at fair value through profit or loss	6(3)	(4,633)	-	-	-
8330	Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will not be reclassified to profit or loss		891	-	304	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(24)	20,036	-	(3,367)	-
8310	Components of other comprehensive income that will not be reclassified to profit or loss		<u>45,582</u>	<u>1</u>	<u>16,741</u>	<u>-</u>
Components of other comprehensive income that will be reclassified to profit or loss						
8361	Financial statements translation differences of foreign operations		(1,130,613)	(6)	(1,341,422)	(7)
8362	Unrealized loss on valuation of available-for-sale financial assets	12(4)	-	-	3,041	-
8380	Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will be reclassified to profit or loss		-	-	(11,900)	-
8399	Income tax relating to the components of other comprehensive income	6(24)	387,749	2	228,042	1
8360	Components of other comprehensive loss that will be reclassified to profit or loss		<u>(742,864)</u>	<u>(4)</u>	<u>(1,122,239)</u>	<u>(6)</u>
8300	Other comprehensive loss for the year		<u>(\$ 697,282)</u>	<u>(3)</u>	<u>(\$ 1,105,498)</u>	<u>(6)</u>
8500	Total comprehensive income for the year		<u>\$ 2,823,038</u>	<u>15</u>	<u>\$ 4,436,287</u>	<u>23</u>
Earnings per share (in dollars)						
9750	Basic earnings per share	6(25)	<u>\$ 1.09</u>		<u>\$ 1.71</u>	
9850	Diluted earnings per share	6(25)	<u>\$ 1.08</u>		<u>\$ 1.71</u>	

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

CHENG SHIN RUBBER IND. CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY
YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

	Notes	Capital surplus			Retained earnings			Other equity interest		Total equity
		Share capital - common stock	Treasury stock transactions	Gain on sale of assets	Legal reserve	Special reserve	Unappropriated retained earnings	Financial statements translation differences of foreign operations	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	
Year ended December 31, 2017										
Balance at January 1, 2017		\$ 32,414,155	\$ 9,772	\$ 42,804	\$ 12,955,677	\$ 2,604,163	\$ 42,774,502	\$ (3,338,274)	\$ -	\$ 87,493,251
Profit for the year		-	-	-	-	-	5,541,785	-	-	5,541,785
Other comprehensive loss for the year	6(18)	-	-	-	-	-	16,741	(1,113,380)	-	(1,105,498)
Total comprehensive income(loss)		-	-	-	-	-	5,558,526	(1,113,380)	-	4,436,287
Appropriation and distribution of 2016 earnings:										
Legal reserve		-	-	-	1,325,090	-	(1,325,090)	-	-	-
Special reserve		-	-	-	-	703,659	(703,659)	-	-	-
Cash dividends	6(17)	-	-	-	-	-	(9,724,246)	-	-	(9,724,246)
Balance at December 31, 2017		\$ 32,414,155	\$ 9,772	\$ 42,804	\$ 14,280,767	\$ 3,307,822	\$ 36,580,033	\$ (4,471,654)	\$ -	\$ 82,205,292
Year ended December 31, 2018										
Balance at January 1, 2018		\$ 32,414,155	\$ 9,772	\$ 42,804	\$ 14,280,767	\$ 3,307,822	\$ 36,580,033	\$ (4,471,654)	\$ -	\$ 82,205,292
Effect of retrospective application and retrospective restatement		-	-	-	-	-	22,740	-	18,853	(41,593)
Balance after restatement on January 1, 2018	12(4)	32,414,155	9,772	42,804	14,280,767	3,307,822	36,602,773	(4,471,654)	18,853	82,205,292
Profit for the year		-	-	-	-	-	3,520,320	-	-	3,520,320
Other comprehensive income (loss) for the year	6(18)	-	-	-	-	-	50,215	(742,864)	(4,633)	(697,282)
Total comprehensive income (loss)		-	-	-	-	-	3,570,535	(742,864)	(4,633)	2,823,038
Appropriation and distribution of 2017 earnings:										
Legal reserve		-	-	-	554,179	-	(554,179)	-	-	-
Special reserve		-	-	-	-	1,122,239	(1,122,239)	-	-	-
Cash dividends	6(17)	-	-	-	-	-	(5,834,548)	-	-	(5,834,548)
Balance at December 31, 2018		\$ 32,414,155	\$ 9,772	\$ 42,804	\$ 14,834,946	\$ 4,430,061	\$ 32,662,342	\$ (5,214,518)	\$ 14,220	\$ 79,193,782

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

CHENG SHIN RUBBER IND. CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

		Years ended December 31,	
	Notes	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		\$ 4,886,460	\$ 7,002,595
Adjustments			
Adjustments to reconcile profit (loss)			
Unrealised gain on inter-company transaction		20,551	60,927
Depreciation	6(7)(23)	1,483,656	1,591,687
Amortization expense	6(23)	35,551	18,165
Depreciation on investment property	6(8)(23)	611	612
Net gain on financial assets or liabilities at fair value through profit or loss	6(2)(21)	(4,703)	(2,538)
Loss on disposal of investments accounted for using equity method	6(21)	2,654	1,946
Gain on disposal of property, plant and equipment		(160,336)	(161,814)
Share of profit of associates and joint ventures accounted for using equity method		(2,708,390)	(5,089,259)
Interest income	6(20)	(177,277)	(154,215)
Interest expense	6(22)	357,835	338,104
Effect of exchange rate changes on cash and cash equivalents		68,959	(549,719)
Changes in operating assets and liabilities			
Changes in operating assets			
Financial assets mandatorily measured at fair value through profit or loss		41,698	-
Notes receivable		(4,514)	(1,189)
Accounts receivable		(70,365)	188,091
Accounts receivable - related parties		36,327	(330,180)
Inventories		74,978	(1,729,811)
Other current assets		221,275	(84,396)
Other non-current assets		-	(38)
Changes in operating liabilities			
Contract liabilities-current		42,432	-
Accounts payable		(93)	355,213
Accounts payable - related parties		(3,410)	15,236
Other payables		(88,268)	(697,732)
Accrued pension liabilities		(18,171)	(12,334)
Other current liabilities		(17,524)	21,454
Cash inflow generated from operations		4,019,936	780,805
Interest received		139,757	156,860
Dividends received		5,118,286	8,912,898
Interest paid		(349,183)	(327,623)
Income tax paid		(1,722,502)	(1,991,403)
Income tax refunded		27,754	-
Net cash flows from operating activities		7,234,048	7,531,537

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CHENG SHIN RUBBER IND. CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

	Notes	Years ended December 31, 2018	2017
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Net changes on financial assets or liabilities at fair value through profit or loss		\$ 1,025	\$ 2,946
Acquisition of investments accounted for using equity method		(468,390)	(878,101)
Proceeds from disposal of investments accounted for using equity method		20,582	-
Proceeds returned from liquidation of investee accounted for using equity method		-	97,000
Acquisition of property, plant and equipment	6(7)(26)	(2,397,391)	(859,902)
Proceeds from disposal of property, plant and equipment		132,906	218,839
Acquisition of intangible assets		(11,401)	(10,453)
Decrease (increase) in refundable deposits		491	(226)
Net cash flows used in investing activities		(2,722,178)	(1,429,897)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Increase in short-term loans	6(27)	1,000,000	2,440,000
Decrease in short-term loans	6(27)	(500,000)	(2,890,000)
Proceeds from issuing bonds	6(12)(27)	5,000,000	7,000,000
Repayments of bonds	6(27)	(1,900,000)	(1,900,000)
Proceeds from long-term loans	6(27)	300,000	5,700,000
Repayments of long-term loans	6(27)	(1,690,667)	(7,028,331)
Decrease in guarantee deposits received		(234)	(496)
Cash dividends paid	6(17)	(5,834,548)	(9,724,246)
Net cash flows used in financing activities		(3,625,449)	(6,403,073)
Effect of exchange rate changes on cash and cash equivalent		(68,959)	549,719
Net increase in cash and cash equivalents		817,462	248,286
Cash and cash equivalents at beginning of year	6(1)	12,002,673	11,754,387
Cash and cash equivalents at end of year	6(1)	<u>\$ 12,820,135</u>	<u>\$ 12,002,673</u>

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

CHENG SHIN RUBBER IND. CO., LTD
NOTES TO THE PARENT COMPANY ONLY FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

1. HISTORY AND ORGANIZATION

Cheng Shin Rubber Ind. Co., Ltd. (the "Company") was incorporated on December 1969 and is primarily engaged in: (a) Processing, manufacturing and trading of bicycle tires, electrical vehicle tires, reclaimed rubber, various rubbers and resin and other rubber products. (b) Manufacturing and trading of various rubber products and relevant rubber machinery. The Company has been listed on the Taiwan Stock Exchange starting from December 1987.

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

These parent company only financial statements have been authorized for issuance by the Board of Directors on March 21, 2019.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

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

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Amendments to IFRS 2, 'Classification and measurement of share-based payment transactions'	January 1, 2018
Amendments to IFRS 4, 'Applying IFRS 9, Financial instruments with IFRS 4, Insurance contracts'	January 1, 2018
IFRS 9, 'Financial instruments'	January 1, 2018
IFRS 15, 'Revenue from contracts with customers'	January 1, 2018
Amendments to IFRS 15, 'Clarifications to IFRS 15, Revenue from contracts with customers'	January 1, 2018
Amendments to IAS 7, 'Disclosure initiative'	January 1, 2017
Amendments to IAS 12, 'Recognition of deferred tax assets for unrealised losses'	January 1, 2017
Amendments to IAS 40, 'Transfers of investment property'	January 1, 2018
IFRIC 22, 'Foreign currency transactions and advance consideration'	January 1, 2018

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 1, 'First-time adoption of International Financial Reporting Standards'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 12, 'Disclosure of interests in other entities'	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IAS 28, 'Investments in associates and joint ventures'	January 1, 2018

Except for the following, the above standards and interpretations have no significant impact to the Company's financial condition and financial performance based on the Company's assessment. The quantitative impact is detailed as follows:

A. IFRS 9, 'Financial instruments'

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

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

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

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of

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

Step 1: Identify contracts with customer.

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

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price.

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

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

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

- i. Presentation of assets and liabilities in relation to contracts with customers

In line with IFRS 15 requirements, the Company changed the presentation of certain accounts in the balance sheet as follows:

Under IFRS 15, liabilities are recognised as contract liabilities, but were previously presented as advance sales receipts (shown as other current liabilities) in the balance sheet.

As of January 1, 2018, the balance amounted to \$85,231 thousand.

- ii. Please refer to Note 12(5) for disclosures in relation to the first application of IFRS 15.

C. Amendments to IAS 7, 'Disclosure initiative'

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

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

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

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

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

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

The accompanying parent company only financial statements are prepared in conformity with "Regulations Governing the Preparation of Financial Reports by Securities Issuers".

(2) Basis of preparation

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

- (a) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.
- (b) Financial assets at fair value through other comprehensive income/Available-for-sale financial assets measured at fair value.

- (c) Defined benefit liabilities recognized based on the net amount of pension fund assets less present value of defined benefit obligation.
- B. The preparation of financial statements in conformity with International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the “IFRSs”) requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the parent company only financial statements are disclosed in Note 5.
- C. In adopting IFRS 9 and IFRS 15 effective January 1, 2018, the Company has elected to apply modified retrospective approach whereby the cumulative impact of the adoption was recognised as retained earnings or other equity as of January 1, 2018 and the financial statements for the year ended December 31, 2017 were not restated. The financial statements for the year ended December 31, 2017 were prepared in compliance with International Accounting Standard 39 (‘IAS 39’), International Accounting Standard 11 (‘IAS 11’), International Accounting Standard 18 (‘IAS 18’) and related financial reporting interpretations. Please refer to Notes 12(4) and (5) for details of significant accounting policies and details of significant accounts.

(3) Foreign currency translation

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The accompanying parent company only financial statements are presented in New Taiwan dollars, which is the Company’s functional currency.

A. Foreign currency transactions and balances

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

- (d) All foreign exchange gains and losses are presented in the statement of comprehensive income within 'other gains and losses'.

B. Translation of foreign operations

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

- (a) Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
- (b) Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and
- (c) All resulting exchange differences are recognized in other comprehensive income.

(4) Classification of current and non-current items

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

- (a) Assets arising from operating activities that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle;
- (b) Assets held mainly for trading purposes;
- (c) Assets that are expected to be realized within twelve months from the balance sheet date;
- (d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.

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

- (a) Liabilities that are expected to be paid off within the normal operating cycle;
- (b) Liabilities arising mainly from trading activities;
- (c) Liabilities that are to be paid off within twelve months from the balance sheet date;
- (d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(5) Cash equivalents

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

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

- A. Financial assets at fair value through profit or loss are financial assets that are not measured at amortised cost or fair value through other comprehensive income.
- B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using trade date accounting.
- C. At initial recognition, the Company measures the financial assets at fair value and recognises the transaction costs in profit or loss. The Company subsequently measures the financial assets at fair value, and recognises the gain or loss in profit or loss.
- D. The Company recognises the dividend income when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Company and the amount of the dividend can be measured reliably.

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

- A. Financial assets at fair value through other comprehensive income comprise equity securities which are not held for trading, and for which the Company has made an irrevocable election at initial recognition to recognise changes in fair value in other comprehensive income and debt instruments which meet all of the following criteria:
 - (a) The objective of the Company's business model is achieved both by collecting contractual cash flows and selling financial assets; and
 - (b) The assets' contractual cash flows represent solely payments of principal and interest.
- B. On a regular way purchase or sale basis, financial assets at fair value through other comprehensive income are recognised and derecognised using trade date accounting.
- C. At initial recognition, the Company measures the financial assets at fair value plus transaction costs. The Company subsequently measures the financial assets at fair value:
 - (a) The changes in fair value of equity investments that were recognised in other comprehensive income are reclassified to retained earnings and are not reclassified to profit or loss following the derecognition of the investment. Dividends are recognised as revenue when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Company and the amount of the dividend can be measured reliably.
 - (b) Except for the recognition of impairment loss, interest income and gain or loss on foreign exchange which are recognised in profit or loss, the changes in fair value of debt instruments are taken through other comprehensive income. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

(8) Accounts and notes receivable

- A. Accounts and notes receivable entitle the Company a legal right to receive consideration in exchange for transferred goods or rendered services.
- B. The short-term accounts and notes receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(9) Impairment of financial assets

The Company measured the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that do not contain a significant financing component on every balance sheet dates.

(10) Derecognition of financial assets

The Company derecognises a financial asset when the contractual rights to receive the cash flows from the financial asset expire.

(11) Lease receivables/ leases (lessor)

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

(12) Inventories

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

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

- A. Subsidiaries are all entities (including structured entities) controlled by the Company. The Company controls an entity when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.
- B. Unrealized gains or losses on transactions between the Company and subsidiaries have been eliminated. Accounting policies of the subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Company.
- C. The Company's share of subsidiaries' post-acquisition profit or loss is recognized in the statement of comprehensive income, and its share of subsidiaries' post-acquisition movements in other comprehensive income is recognized in other comprehensive income. When the Company's share of losses in a subsidiary equals to or exceeds its interest in the subsidiary, the Company shall recognize the loss proportional to its shares.
- D. Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity.
- E. When the Company loses control of a subsidiary, the Company remeasures any investment retained in the former subsidiary at its fair value. That fair value is regarded as the fair value on initial recognition of a financial asset or the cost on initial recognition of the associate or joint venture. Any difference between fair value and carrying amount is recognized in profit or loss. All amounts

previously recognized in other comprehensive income in relation to the subsidiary are reclassified to profit or loss on the same basis as would be required if the related assets or liabilities were disposed of. That is, when the Company loses control of a subsidiary, all gains or losses previously recognized in other comprehensive income in relation to the subsidiary should be reclassified from equity to profit or loss, if such gains or losses would be reclassified to profit or loss when the related assets or liabilities are disposed of.

- F. Associates are all entities over which the Company has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20 percent or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognized at cost.
- G. The Company's share of its associates' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.
- H. When changes in an associate's equity that are not recognized in profit or loss or other comprehensive income of the associate and such changes not affecting the Company's ownership percentage of the associate, the Company recognizes the Company's share of change in equity of the associate in 'capital surplus' in proportion to its ownership.
- I. Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Company.
- J. When the Company disposes its investment in an associate, if it loses significant influence over this associate, the amounts previously recognized in other comprehensive income in relation to the associate, are reclassified to profit or loss, on the same basis as would be required if the relevant assets or liabilities were disposed of. If it still retains significant influence over this associate, then the amounts previously recognized in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately in accordance with the aforementioned approach.
- K. According to the Regulations Governing the Preparation of Financial Reports by Securities Issuers, net income and other comprehensive income in the parent company only financial statements shall use the same allotments as the ones that are attributable to owners of the parent in the consolidated financial statements. Equity in parent company only financial statements should equal to equity attributable to owners of the parent in the consolidated financial statements.

(14) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalized.
- B. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. If each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.
- D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:
 - (a) Buildings: 5 ~ 60 years
 - (b) Machinery and equipment: 15 years
 - (c) Test equipment: 5 years
 - (d) Transportation equipment: 6 years
 - (e) Office equipment: 5 years
 - (f) Other assets: 5 years

(15) Investment property

An investment property is stated initially at its cost and measured subsequently using the cost model. Except for land, investment property is depreciated on a straight-line basis over its estimated useful life of 5 ~ 55 years.

(16) Intangible assets

Computer software is stated at cost and amortised on a straight-line basis over its estimated useful life of 2 to 5 years.

(17) Impairment of non-financial assets

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

amortized historical cost would have been if the impairment had not been recognized.

(18) Borrowings

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

(19) Notes and accounts payable

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

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

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

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

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

(21) Bonds payable

Ordinary corporate bonds issued by the Company are initially recognised at fair value less transaction costs. Any difference between the proceeds (net of transaction costs) and the redemption value is presented as an addition to or deduction from bonds payable, which is amortised to profit or loss over the period of bond circulation using the effective interest method as an adjustment to 'finance costs'.

(22) Derecognition of financial liabilities

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

(23) Offsetting financial instruments

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

(24) Financial guarantee contracts

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

(25) Non-hedging derivatives

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

(26) Employee benefits

A. Short-term employee benefits

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

B. Pensions

(a) Defined contribution plans

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

(b) Defined benefit plans

- i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Company in current period or prior periods. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit net obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability; when there is no deep market in high-quality corporate bonds, the Company uses interest rates of government bonds (at the balance sheet date) instead.

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

C. Employees', directors' and supervisors' remuneration

Employees' remuneration and directors' and supervisors' remuneration are recognized as expenses and liabilities, provided that such recognition is required under legal obligation or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates.

(27) Income tax

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

- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.
- C. Deferred tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, the deferred tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.
- D. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognized and recognized deferred tax assets are reassessed.
- E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.
- F. A deferred tax asset shall be recognized for the carryforward of unused tax credits resulting from acquisitions of equipment or technology, research and development expenditures and equity investments to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilized.

(28) Dividends

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

(29) Revenue recognition

Sales of goods

- A. The Company manufactures and sells various tire and rubber products. Sales are recognised when

control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, or the Company has objective evidence that all criteria for acceptance have been satisfied.

B. Sales revenue of the Company, which mainly consists of sale of various tires and rubber products, was recognised based on the contract price net of sales discount and price break. Accumulated experience is used to estimate and provide for the sales discounts and allowances and price break, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. The estimation is subject to an assessment at each reporting date. A refund liability is recognised for expected sales discounts and allowances and price break payable to customers in relation to sales made until the end of the reporting period. The sales are usually made with a credit term of 30 ~90 days. As the time interval between the transfer of committed goods or service and the payment of customer does not exceed one year, the Company does not adjust the transaction price to reflect the time value of money.

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

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

The preparation of the parent company only financial statements requires management to make critical judgements in applying the Company's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. There are no critical accounting judgement, estimates and assumptions uncertainty for the year ended December 31, 2018.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Cash on hand and revolving funds	\$ 550	\$ 550
Checking deposit	2,981	3,420
Demand deposits	4,535,243	1,076,622
Foreign currency deposit	3,557,974	3,776,691
Time deposits	<u>4,723,387</u>	<u>7,145,390</u>
	<u>\$ 12,820,135</u>	<u>\$ 12,002,673</u>
Interest rate range		
Time deposits	<u>2.70%~3.68%</u>	<u>1.60%~4.58%</u>

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

B. The Company has reclassified pledged time deposits to 'other current assets'. Please refer to Note 8 for details.

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

Items	December 31, 2018
Current items:	
Financial assets held for trading	
Forward foreign exchange contracts	\$ 3,243

For the year ended December 31, 2018, the Company recognised net gain of \$4,703 thousand on financial assets held for trading.

B. The non-hedging derivative instruments transaction and contract information are as follows:

	December 31, 2018	
Derivative instruments	Contract amount (Notional principal)	Contract period
Current items:		
Forward foreign exchange contracts		2018/11/2~
(USD exchange to NTD)	USD 18,000 thousand	2019/2/12

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

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

D. Information on financial liabilities at fair value through profit or loss as of December 31, 2017 is provided in Note 12(4).

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

Items	December 31, 2018
Current items:	
Equity instruments	
Listed stocks	\$ 8,665
Valuation adjustment	14,221
Total	\$ 22,886
Non-current items:	
Equity instruments	
Unlisted stocks	\$ 58,187

A. The Company has elected to classify equity instruments investments that are considered to be

steady dividend income as financial assets at fair value through other comprehensive income. The fair value of such investments amounted to \$81,073 thousand as at December 31, 2018.

- B. Amounts recognised in other comprehensive income in relation to the financial assets at fair value through other comprehensive income are listed below:

	<u>December 31, 2018</u>
Equity instruments at fair value through other comprehensive income	
Fair value change recognised in other comprehensive income	(\$ <u>4,633</u>)

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

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

(4) Notes and accounts receivables

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Notes receivable	\$ 37,294	\$ 32,780
Less: Loss allowance	(<u>9,277</u>)	(<u>9,277</u>)
	<u>\$ 28,017</u>	<u>\$ 23,503</u>
Accounts receivable	\$ 1,263,211	\$ 1,192,846
Less: Loss allowance	(<u>11,718</u>)	(<u>11,718</u>)
	<u>\$ 1,251,493</u>	<u>\$ 1,181,128</u>

- A. The ageing analysis of accounts receivable and notes receivable that were past due but not impaired is as follows:

	<u>December 31, 2018</u>		<u>December 31, 2017</u>	
	Accounts receivable	Notes receivable	Accounts receivable	Notes receivable
Without past due	\$ 1,000,756	\$ 37,294	\$ 942,265	\$ 32,780
Up to 30 days	157,646	-	194,639	-
31 -90 days	58,719	-	40,979	-
91 -180 days	44,101	-	14,106	-
Over 180 days	<u>1,989</u>	<u>-</u>	<u>857</u>	<u>-</u>
	<u>\$ 1,263,211</u>	<u>\$ 37,294</u>	<u>\$ 1,192,846</u>	<u>\$ 32,780</u>

The above ageing analysis was based on past due date.

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

(5) Inventories

December 31, 2018			
	Cost	Allowance for valuation loss	Book value
Raw material	\$ 1,409,058	\$ -	\$ 1,409,058
Work in progress	1,102,869	-	1,102,869
Finished goods	860,056	(13,904)	846,152
	<u>\$ 3,371,983</u>	<u>(\$ 13,904)</u>	<u>\$ 3,358,079</u>

December 31, 2017			
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 1,532,737	\$ -	\$ 1,532,737
Work in progress	1,188,302	-	1,188,302
Finished goods	723,770	(13,904)	709,866
Goods	15,998	-	15,998
	<u>\$ 3,460,807</u>	<u>(\$ 13,904)</u>	<u>\$ 3,446,903</u>

The cost of inventories recognized as expense for the period:

Years ended December 31,			
	2018	2017	
Cost of goods sold	\$ 14,946,588	\$ 14,414,459	
Loss on inventory retirement	4,668	897	
(Gain) loss on physical inventory	(33,845)	7,499	
Revenue from sale of scraps	(30,050)	(23,575)	
	<u>\$ 14,887,361</u>	<u>\$ 14,399,280</u>	

(6) Investments accounted for using equity method

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Subsidiaries:		
MAXXIS International Co., Ltd.	\$ 40,426,423	\$ 41,446,874
CST Trading Ltd.	24,870,869	25,175,906
MAXXIS Trading Ltd.	10,106,894	9,890,087
CHENG SHIN RUBBER USA, INC.	2,683,201	2,433,930
MAXXIS Rubber India Private Limited	1,092,663	2,049,105
PT MAXXIS International Indonesia	619,612	1,720,489
CHENG SHIN RUBBER CANADA, INC.	649,182	726,855
MAXXIS (Taiwan) Trading CO., LTD	332,897	424,875
MAXXIS Tech Center Europe B.V.	65,172	60,157
PT.MAXXIS TRADING INDONESIA	27,644	29,968
Maxxis Europe B.V.	17,844	-
Associates:		
NEW PACIFIC INDUSTRY COMPANY LIMITED	152,614	154,347
Cheng Shin Holland B.V.	-	16,673
	<u>\$ 81,045,015</u>	<u>\$ 84,129,266</u>

A. Subsidiary

Details of the Company's subsidiaries are provided in Note 4(3) of the Company's consolidated financial statements as of and for the year ended December 31, 2018.

B. Associates

The carrying amount of the Company's interests in all individually immaterial joint ventures and the Company's share of the operating results are summarized below:

As of December 31, 2018 and 2017, the carrying amount of the Company's individually immaterial joint ventures amounted to \$152,614 thousand and \$171,020 thousand, respectively.

	<u>Years ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
Share of profit of associates and joint ventures accounted for using equity method	\$ 6,643	\$ 7,674
Other comprehensive income - net of tax	891	907
Total comprehensive income	<u>\$ 7,534</u>	<u>\$ 8,581</u>

(7) Property, plant and equipment, net

	Year ended December 31, 2018			
	Beginning of period	Additions	Disposals	Transfer
Cost				End of period
Land	\$ 3,925,468	\$ -	\$ -	\$ 3,925,468
Buildings and structures	6,089,762	55,716	-	41,358
Machinery	11,519,438	339,629	(136,635)	539,523
Testing equipment	717,637	8,327	(302)	13,820
Transportation equipment	141,586	25,266	(2,500)	-
Office equipment	141,215	17,511	-	175
Other facilities	2,917,127	445,773	(3,491)	355,421
Unfinished construction and equipment under acceptance	829,999	1,175,106	-	(952,014)
	<u>\$ 26,282,232</u>	<u>\$ 2,067,328</u>	<u>(\$ 142,928)</u>	<u>(\$ 1,717)</u>
				<u>\$ 28,204,915</u>
Accumulated depreciation				
Buildings	(\$ 1,981,184)	\$ 170,398	\$ -	\$ -
Machinery	(5,907,542)	(715,657)	135,005	-
Testing equipment	(553,009)	(71,431)	302	-
Transportation equipment	(100,561)	(15,100)	2,500	-
Office equipment	(57,606)	(23,416)	-	-
Other facilities	(1,934,726)	(487,654)	1,745	-
	<u>(\$ 10,534,628)</u>	<u>(\$ 1,483,656)</u>	<u>\$ 139,552</u>	<u>\$ -</u>
	<u>\$ 15,747,604</u>			<u>\$ 16,326,183</u>

Year ended December 31, 2017

	Beginning of period	Additions	Disposals	Transfer	End of period
Cost					
Land	\$ 3,925,468	\$ -	\$ -	-	\$ 3,925,468
Buildings and structures	6,037,632	29,500	-	22,630	6,089,762
Machinery	11,202,257	74,196	73,673	316,658	11,519,438
Testing equipment	619,626	6,741	-	91,270	717,637
Transportation equipment	134,390	9,976	2,780	-	141,586
Office equipment	79,452	24,717	-	37,046	141,215
Other facilities	2,473,154	376,230	15,602	83,345	2,917,127
Unfinished construction and equipment under acceptance	596,738	784,210	-	550,949	829,999
	<u>\$ 25,068,717</u>	<u>\$ 1,305,570</u>	<u>(\$ 92,055)</u>	<u>\$ -</u>	<u>\$ 26,282,232</u>
Accumulated depreciation					
Buildings	(\$ 1,804,209)	\$ 176,975	\$ -	-	(\$ 1,981,184)
Machinery	(5,147,674)	(826,917)	67,049	-	(5,907,542)
Testing equipment	(453,283)	(99,726)	-	-	(553,009)
Transportation equipment	(86,033)	(15,957)	1,429	-	(100,561)
Office equipment	(40,107)	(17,499)	-	-	(57,606)
Other facilities	(1,484,696)	(454,613)	4,583	-	(1,934,726)
	<u>(\$ 9,016,002)</u>	<u>(\$ 1,591,687)</u>	<u>\$ 73,061</u>	<u>\$ -</u>	<u>(\$ 10,534,628)</u>
	\$ 16,052,715				\$ 15,747,604

(8) Investment property, net

Year ended December 31, 2018				
	Opening net book amount as at January 1	Additions	Transfer	Closing net book amount as at December 31
Cost				
Land	\$ 336,339	\$ -	\$ -	\$ 336,339
Buildings and structures	27,766	-	-	27,766
	<u>\$ 364,105</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 364,105</u>
Accumulated depreciation				
Buildings and structures	(\$ 21,894)	(\$ 611)	\$ -	(\$ 22,505)
Accumulated impairment				
Land	(\$ 51,038)	\$ -	\$ -	(\$ 51,038)
	<u>\$ 291,173</u>			<u>\$ 290,562</u>
Year ended December 31, 2017				
	Opening net book amount as at January 1	Additions	Transfer	Closing net book amount as at December 31
Cost				
Land	\$ 336,339	\$ -	\$ -	\$ 336,339
Buildings and structures	27,766	-	-	27,766
	<u>\$ 364,105</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 364,105</u>
Accumulated depreciation				
Buildings and structures	(\$ 21,282)	(\$ 612)	\$ -	(\$ 21,894)
Accumulated impairment				
Land	(\$ 51,038)	\$ -	\$ -	(\$ 51,038)
	<u>\$ 291,785</u>			<u>\$ 291,173</u>

A. Rental income from investment property is shown below:

Years ended December 31,		
	2018	2017
Rental income from investment property	<u>\$ 8,725</u>	<u>\$ 8,725</u>

B. The fair value of the investment property held by the Company as at December 31, 2018 and 2017 was \$539,710 thousand and \$529,829 thousand respectively, which were valued by independent appraisers. Valuations were made using the comparison method which is categorized within Level 3 in the fair value hierarchy.

C. The Company acquired the land in Shangmei Section, Dacun Township, Changhua County which is farming and pasturable land. The land will be registered under the Company after the classification of the land is changed. Currently, the land is under the name of related party, Mr. /Ms. Chiu. The Company plans to use the land for operational expansion. The Company holds the original ownership certificate of such land and signed a land trust agreement, which requires the nominal holder not to transfer the ownership of the land to others.

(9) Short-term borrowings

<u>Type of borrowings</u>	<u>December 31, 2018</u>	<u>Interest rate range</u>	<u>Collateral</u>
Bank borrowings			
Bank unsecured borrowings	<u>\$ 500,000</u>	0.73%	None

As of December 31, 2017, the Company did not hold any short-term borrowings.

(10) Other payables

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Employee bonus payable	\$ 246,584	\$ 469,776
Wages and salaries payable	485,080	305,568
Payable on machinery and equipment	406,073	736,136
Compensation due to directors and supervisors	74,978	118,590
Other accrued expenses	611,685	606,902
Others	648	647
	<u>\$ 1,825,048</u>	<u>\$ 2,237,619</u>

(11) Other current liabilities

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Long-term liabilities due within one year	\$ 8,610,000	\$ 3,052,677
Receipts under custody	62,677	79,184
Advance receipts	18	86,267
Others	2,786	2,785
	<u>\$ 8,675,481</u>	<u>\$ 3,220,913</u>

(12) Bonds payable

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Bonds payable		
-issued in 2013	\$ -	\$ 1,900,000
Bonds payable		
-issued in 2014	4,800,000	4,800,000
Bonds payable		
-issued in 2016	5,000,000	5,000,000
Bonds payable		
-issued in 2017	7,000,000	7,000,000
Bonds payable		
-issued in 2018	5,000,000	-
	<u>21,800,000</u>	<u>18,700,000</u>
Less: Current portion	(<u>4,800,000</u>)	(<u>1,900,000</u>)
	<u>\$ 17,000,000</u>	<u>\$ 16,800,000</u>

A. In order to fulfil its capital and repay long-term and short-term loans, the Board of Directors of the Company has resolved to issue domestic unsecured bonds ("the bonds"). The bond issuance has been approved by the Taipei Exchange on July 16, 2018 and completed on July 25, 2018. The bonds were fully issued and total issuance amount was \$5 billion with a coupon rate of 0.87%. The issuance period of the bonds is 5 years, which is from July 25, 2018 and July 25, 2023. The terms are as follows:

(a) Interest accrued/paid:

The interest is accrued/paid at a single rate annually from the issue date.

(b) Redemption:

The principal of the corporate bond will be redeemed at 50% of the total amount after four and five years from the issue date.

B. In order to fulfil its capital and repay long-term and short-term loans, the Board of Directors of the Company has resolved to issue domestic unsecured bonds ("the bonds"). The bond issuance has been approved by the Taipei Exchange on August 1, 2017 and completed on August 10, 2017. The bonds were fully issued and total issuance amount was \$7 billion with a coupon rate of 1.03%. The issuance period of the bonds is 5 years, which is from August 10, 2017 to August 10, 2022. The terms are as follows:

(a) Interest accrued/ paid:

The interest is accrued/ paid at a single rate annually from the issue date.

(b) Redemption:

The principal of the corporate bond will be redeemed at 50% of the total amount after four and five years from the issue date.

C. In order to fulfil its capital and repay long-term and short-term loans, the Board of Directors of the Company has resolved to issue domestic unsecured bonds ("the bonds"). The bond issuance has been approved by the Taipei Exchange on September 13, 2016 and completed on September

26, 2016. The bonds were fully issued and total issuance amount was \$5 billion with a coupon rate of 0.71%. The issuance period of the bonds is 5 years, which is from September 26, 2016 to September 26, 2021. The terms are as follows:

(a) Interest accrued/ paid:

The interest is accrued/ paid at a single rate annually from the issue date.

(b) Redemption:

The principal of the corporate bond will be redeemed at 50% of the total amount after four and five years from the issue date.

D. In order to meet operating capital requirements, repay debts and improve the financial structure, the Board of Directors of the Company has resolved to issue domestic unsecured bonds ("the bonds"). The bond issuance has been approved by FSC on June 6, 2014 and completed on July 18, 2014. The bonds were fully issued and total issuance amount was \$4.8 billion with a coupon rate of 1.40%. The issuance period of the bonds was 5 years, which is from July 18, 2014 to July 18, 2019. The terms are as follows:

(a) Interest accrued/ paid:

The interest is accrued/ paid at a single rate annually from the issue date.

(b) Redemption:

The corporate bonds will be redeemed in full amount at the maturity date.

E. In order to fulfil its capital and repay long-term and short-term loans, the Board of Directors of the Company has resolved to issue domestic unsecured bonds ("the bonds"). The bond issuance has been approved by FSC on May 20, 2013 and completed on August 19, 2013. The bonds were fully issued and total issuance amount was \$3.8 billion with a coupon rate of 1.55%. The issuance period of the bonds was 5 years, which is from August 19, 2013 to August 19, 2018. The terms are as follows:

(a) Interest accrued/ paid:

The interest is accrued/ paid at a single rate annually from the issue date.

(b) Redemption:

The principal of the corporate bond will be redeemed at 50% of the total amount after four and five years from the issue date.

(13) Long-term borrowings

Type of borrowings	Borrowing period and repayment term	Interest rate range	Collateral	December 31, 2018
Installment-repayment borrowings				
Unsecured borrowings	Principal is repayable in installment until December, 2021.	0.97%~1.25%	None	\$ 11,310,000
Less: Current portion				(3,810,000) \$ 7,500,000

Type of borrowings	Borrowing period and repayment term	Interest rate range	Collateral	December 31, 2017
Installment-repayment borrowings				
Unsecured borrowings	Principal is repayable in installment until November, 2021.	0.97%~1.31%	None	\$ 12,700,667
Less: Current portion				(1,152,677) \$ 11,548,000

According to the borrowing contract, the Company shall calculate the financial ratios based on the audited annual financial statements (non-consolidated and consolidated) and the reviewed semi-annual consolidated financial statements. The financial ratios shall be maintained as follows: at least 100% for current ratio, no more than 200% for debt-to-equity ratio, at least 150% for debt-service coverage ratio. The financial ratios as assessed in the financial statements have met the abovementioned requirements for the years ended December 31, 2018 and 2017.

(14) Pensions

A. (a) The Company has a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' including commissioned managers service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company would assess the balance in the aforementioned labor pension reserve account by December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method to the employees expected to

qualify for retirement in the following year, the Company will make contributions to cover the deficit by next March.

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

	December 31, 2018	December 31, 2017
Present value of defined benefit obligations	\$ 1,389,880	\$ 1,475,833
Fair value of plan assets	(680,510)	(721,893)
Net defined benefit liability	\$ 709,370	\$ 753,940

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

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
Year ended December 31, 2018			
Balance at January 1	\$ 1,475,833	(\$ 721,893)	\$ 753,940
Current service cost	21,861	-	21,861
Interest expense (income)	16,234	(7,941)	8,293
	<u>1,513,928</u>	<u>(729,834)</u>	<u>784,094</u>
Remeasurements:			
Change in financial assumptions	14,225	-	14,225
Experience adjustments	(21,478)	-	(21,478)
Return on plan asset (excluding amounts included in interest income or expense)	-	(22,035)	(22,035)
	<u>(7,253)</u>	<u>(22,035)</u>	<u>(29,288)</u>
Pension fund contribution	-	(29,727)	(29,727)
Paid pension	(116,795)	101,086	(15,709)
Balance at December 31	\$ 1,389,880	(\$ 680,510)	\$ 709,370

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
Year ended December 31, 2017			
Balance at January 1	\$ 1,535,785	(\$ 752,649)	\$ 783,136
Current service cost	25,849	-	25,849
Interest expense (income)	21,501	(10,537)	10,964
	<u>1,583,135</u>	<u>(763,186)</u>	<u>819,949</u>
Remeasurements:			
Change in financial assumptions	46,083	-	46,083
Experience adjustments	(68,585)	-	(68,585)
Return on plan asset (excluding amounts included in interest income or expense)	-	2,698	2,698
	<u>(22,502)</u>	<u>2,698</u>	<u>(19,804)</u>
Pension fund contribution	-	(35,789)	(35,789)
Paid pension	(84,800)	74,384	(10,416)
Balance at December 31	<u>\$ 1,475,833</u>	<u>(\$ 721,893)</u>	<u>\$ 753,940</u>

- (d) The Bank of Taiwan was commissioned to manage the Fund of the Company's and domestic subsidiaries' defined benefit pension plan in accordance with the Fund's annual investment and utilization plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund" (Article 6: The scope of utilization for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilization of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earning is less than aforementioned rates, government shall make payment for the deficit after authorized by the Regulator. The Company has no right to participate in managing and operating that fund and hence the Company is unable to disclose the classification of plan asset fair value in accordance with IAS19 paragraph 142. The constitution of fair value of plan assets as of December 31, 2018 and 2017 is given in the Annual Labor Retirement Fund Utilization Report announced by the government.

For the years ended December 31, 2018 and 2017, the actual return on plan assets was \$29,976 thousand and \$7,839 thousand.

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

	2018	2017
Discount rate	1.00%	1.10%
Future salary increases	3.00%	3.00%

Future mortality rate was estimated based on the 5th Taiwan Standard Ordinary Experience Mortality Table.

Sensitivity analysis of the effect on present value of defined benefit obligation due from the changes of main actuarial assumptions was as follows:

	Discount rate		Future salary increases	
	Increase 0.25%	Decrease 0.25%	Increase 0.25%	Decrease 0.25%
December 31, 2018				
Effect on present value of defined benefit obligation	(\$ 35,158)	\$ 36,534	\$ 32,433	(\$ 31,436)
December 31, 2017				
Effect on present value of defined benefit obligation	(\$ 38,553)	\$ 40,106	\$ 35,767	(\$ 34,629)

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

(f) Expected contributions to the defined benefit pension plans of the Company for the year ended December 31, 2019 amounts to \$34,706 thousand.

(g) As of December 31, 2018, the weighted average duration of that retirement plan is 11 years. The analysis of timing of the future pension payment was as follows:

Within 1 year	\$	130,181
2-5 year(s)		252,082
Over 6 years		387,343
	\$	769,606

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

(b) The pension costs under defined contribution pension plans of the Company for the years ended December 31, 2018 and 2017 were \$145,048 thousand and \$130,895 thousand, respectively.

(15) Share capital

As of December 31, 2018, the Company's authorized capital and paid-in capital were both \$32,414,155 thousand, and all proceeds from shares issued have been collected.

(16) Capital surplus

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

(17) Retained earnings

- A. Under the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay taxes and offset prior years' operating losses and then 10% of the remaining amount shall be set aside as legal reserve. The remainder, if any, shall be distributed as employees' bonus and directors' and supervisors' remuneration. The ratio shall not be lower than 2% for employees' bonus and shall not be higher than 3% for directors' and supervisors' remuneration. The appropriation of the remaining amount along with the unappropriated earnings shall be proposed by the Board of Directors and resolved by the shareholders. According to the appropriation of earnings proposed by the Board of Directors, at least 10% ~ 80% of the Company's accumulated distributable earnings shall be appropriated as dividends, and cash dividends shall account for at least 10% of the total dividends distributed.
- B. Where the Company accrues annual net income, no less than 2% of which shall be appropriated as employees' compensation and no higher than 3% of which shall be appropriated as directors' remuneration after offsetting accumulated deficit. The employees' compensation can be appropriated in the form of share or cash whereas the directors' remuneration can only be appropriated in the form of cash. The appropriations require attendance of over two thirds of Board of Directors members and approval of over the half of attendees. The resolution of Board of Directors shall be reported at the shareholders' meeting. The recipients of aforementioned employees' compensation include eligible employees of subordinate companies who meet the requirements set out by the Board of Directors.
- C. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.
- D. (a) In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.
(b) The amounts previously set aside by the Company as special reserve on initial application of IFRSs in accordance with Jin-Guan-Zheng-Fa-Zi Letter No. 1010012865, dated April 6, 2012, shall be reversed proportionately when the relevant assets are used, disposed of or reclassified subsequently.

E. The Company recognised dividends distributed to shareholders amounting to \$5,834,548 thousand and \$9,724,246 thousand (\$1.8 (in dollars) and \$3 (in dollars) per share) for the years ended December 31, 2018 and 2017, respectively. On March 21, 2019, the Board of Directors proposed that total dividends for the distribution of earnings for the year of 2018 was \$3,565,557 thousand at \$1.1 (in dollars) per share.

F. For the information relating to employees' remuneration and directors' and supervisors' remuneration, please refer to Note 6(23).

(18) Other equity items

	2018				
	Currency translation	Unrealized gain (loss) on valuation of equity instruments at fair value through profit or loss	Unrealized gain (loss) on valuation of equity instruments at fair value through other comprehensive income	Unrealized gain on available-for-sale financial assets	Total
At January 1	(\$ 4,471,654)	\$ -	\$ -	\$ 41,593	(\$ 4,430,061)
Effect of retrospective application and retrospective restatement	-	22,740	18,853	(41,593)	-
Valuation adjustment -Company	-	27	(4,633)	-	(4,606)
Valuation adjustment transferred to retained earnings	-	(22,767)	-	-	(22,767)
Currency translation differences:					
– Subsidiaries and associates	(1,137,791)	-	-	-	(1,137,791)
– Tax on subsidiaries and associates	388,969	-	-	-	388,969
– Disposal of investments accounted for using equity method transferred to profit or loss	7,178	-	-	-	7,178
– Disposal of investments accounted for using equity method transferred to profit or loss-tax	(1,220)	-	-	-	(1,220)
At December 31	(\$ 5,214,518)	\$ -	\$ 14,220	\$ -	(\$ 5,200,298)

	2017		
	Currency translation	Unrealized gain on available-for-sale financial assets	Total
At January 1	(\$ 3,358,274)	\$ 50,452	(\$ 3,307,822)
Valuation adjustment – Company	-	3,041	3,041
Valuation adjustment – Associates	-	(11,900)	(11,900)
Currency translation differences:			
– Subsidiaries and associates			
– Before income tax	(1,341,422)	-	(1,341,422)
– Subsidiaries and associates			
– Tax	228,042	-	228,042
At December 31	(\$ 4,471,654)	\$ 41,593	\$ 4,430,061

(19) Operating revenue

	Year ended December 31, 2018
Revenue from contracts with customers	\$ 19,374,623

A. Disaggregation of revenue from contracts with customers

The Company derives revenue from the transfer of goods and services at a point in time in the following and geographical regions:

	Year ended December 31, 2018				
	Sale of tires based on location				Total
	Taiwan	China	US	Others	
Revenue from external customer contracts	\$ 2,170,451	\$ 158,978	\$ 1,295,375	\$ 6,760,620	\$ 10,385,424
Inter-segment revenue	3,698,288	170,398	3,333,935	1,786,578	8,989,199
Total segment revenue	\$ 5,868,739	\$ 329,376	\$ 4,629,310	\$ 8,547,198	\$ 19,374,623

B. Contract liabilities

The Company has recognised the following revenue-related contract liabilities:

	December 31, 2018
Contract liabilities:	
Contract liabilities-advance sales receipts	\$ 127,663

C. Related disclosures for 2018 operating revenue are provided in Note 12(5).

(20) Other income

	Years ended December 31,	
	2018	2017
Revenue from patent royalties	\$ 531,044	\$ 533,677
Revenue from trademark royalties	380,161	398,046
Revenue from commission	237,898	250,371
Interest income		
Endorsements/guarantees	11,855	12,153
Interest income	165,422	142,062
Income from investment	22,993	14,249
Others	177,034	93,664
	<u>\$ 1,526,407</u>	<u>\$ 1,444,222</u>

(21) Other gains and losses

	Years ended December 31,	
	2018	2017
Net currency exchange gain (loss)	\$ 180,825	(\$ 700,577)
Gain on disposal of property, plant and equipment	160,336	161,814
Net gain on financial assets and liabilities at fair value through profit or loss	4,703	2,538
Loss on investment	(2,654)	(1,946)
Other expenses	18,083	6,614
	<u>\$ 361,293</u>	<u>(\$ 531,557)</u>

(22) Finance costs

	Years ended December 31,	
	2018	2017
Interest expense:		
Bank borrowings	\$ 145,409	\$ 166,961
Corporate bonds	212,426	171,143
	<u>\$ 357,835</u>	<u>\$ 338,104</u>

(23) Expenses by nature

	Year ended December 31, 2018		
	Operating costs	Operating expense	Total
Employee benefits costs			
Wages and salaries	\$ 2,573,824	\$ 1,388,340	\$ 3,962,164
Labour and health insurance fees	230,529	123,114	353,643
Pension costs	112,114	63,088	175,202
Directors' remuneration	-	68,651	68,651
Other personnel expenses	85,212	35,329	120,541
	<u>\$ 3,001,679</u>	<u>\$ 1,678,522</u>	<u>\$ 4,680,201</u>
Raw materials and supplies used	\$ 8,487,610	\$ -	\$ 8,487,610
Depreciation charges on property, plant and equipment	\$ 1,295,407	\$ 188,249	\$ 1,483,656
Depreciation on investment property	\$ -	\$ 611	\$ 611
Amortisation charges on intangible assets	\$ 542	\$ 35,009	\$ 35,551
	Year ended December 31, 2017		
	Operating costs	Operating expense	Total
Employee benefits costs			
Wages and salaries	\$ 2,360,512	\$ 1,161,024	\$ 3,521,536
Labour and health insurance fees	228,169	109,963	338,132
Pension costs	111,522	56,186	167,708
Directors' remuneration	-	94,072	94,072
Other personnel expenses	78,325	33,279	111,604
	<u>\$ 2,778,528</u>	<u>\$ 1,454,524</u>	<u>\$ 4,233,052</u>
Raw materials and supplies used	\$ 8,767,952	\$ -	\$ 8,767,952
Depreciation charges on property, plant and equipment	\$ 1,385,289	\$ 206,398	\$ 1,591,687
Depreciation on investment property	\$ -	\$ 612	\$ 612
Amortisation charges on intangible assets	\$ 114	\$ 18,051	\$ 18,165

Note: As of December 31, 2018 and 2017, the Company had 6,453 and 6,263 employees, respectively, of which 7 directors were not the Company's employee.

- A. According to the Articles of Incorporation of the Company, a ratio of distributable profit of the current year, after covering accumulated losses, shall be distributed as employees' compensation and directors' and supervisors' remuneration. The ratio shall not be lower than 2% for employees' compensation and shall not be higher than 3% for directors' and supervisors' remuneration.
- B. For the years ended December 31, 2018 and 2017, employees' compensation was accrued at \$101,254 thousand, and \$145,330 thousand, respectively; while directors' and supervisors' remuneration was accrued at \$74,978 thousand and \$118,590 thousand, respectively. The amounts were recognized in salary expenses.

The employees' compensation and directors' and supervisors' remuneration were estimated and accrued based on 2% and 1.481% of distributable profit of current year for the year ended December 31, 2018.

For 2017, the employees' compensation of 2017, as resolved at the meeting of Board of Directors amounting to \$145,330 thousand, was in agreement with those amounts recognized in the 2017 financial statements. The Board of Directors during its meeting resolved to distribute 1.481% of

retained earnings as supervisors' remuneration for the year ended December 31, 2017 while the amounts recognized in the financial statements based on 1.632% of retained earnings was \$118,590 thousand for directors' and supervisors' remuneration. The difference in the directors' and supervisors' remuneration for 2017 was \$10,972 thousand. The difference resulted from adjustment of estimated percentage of directors' and supervisors' remuneration which had been adjusted in the profit or loss for 2018. The employees' compensation for 2017 will be distributed in the form of cash. As of March 21, 2019, the employees' compensation for 2017 has not yet been distributed.

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

(24) Income tax

A. Income tax expense

(a) Components of income tax expense:

	Years ended December 31,	
	2018	2017
Current tax:		
Current tax on profits for the period	\$ 1,330,613	\$ 1,644,800
Prior year income tax underestimation	61,100	203,888
Additional 10% income tax imposed on unappropriated earnings	-	143,020
Total current tax	1,391,713	1,991,708
Deferred tax:		
Origination and reversal of temporary differences	(80,545)	(530,898)
Impact of change in tax rate	54,972	-
Income tax expense	\$ 1,366,140	\$ 1,460,810

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

	Years ended December 31,	
	2018	2017
Generated during the period:		
Currency translation differences	\$ 318,128	\$ 228,042
Remeasurement of defined benefit obligations	(5,857)	(3,367)
Total generated during the period	<u>312,271</u>	<u>224,675</u>
Impact of change in tax rate		
Currency translation differences	69,621	-
Remeasurement of defined benefit obligations	<u>25,893</u>	<u>-</u>
Total impact of change in tax rate	<u>95,514</u>	<u>-</u>
Income tax benefit from other comprehensive income	<u>\$ 407,785</u>	<u>\$ 224,675</u>

B. Reconciliation between income tax expense and accounting profit

	Years ended December 31,	
	2018	2017
Tax calculated based on profit before tax and statutory tax rate	\$ 977,293	\$ 1,190,441
Effects from items disallowed by tax regulation	86,005	79,874
Temporary difference not recognized as deferred tax liabilities	211,477	(94,548)
Effect from five-year tax exemption	(24,707)	(61,866)
Prior year income tax underestimate	61,100	203,889
Impact of change in tax rate	54,972	-
Additional 10% income tax imposed on unappropriated earnings	-	143,020
Income tax expense	<u>\$ 1,366,140</u>	<u>\$ 1,460,810</u>

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

	2018			
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	December 31
Temporary differences:				
- Deferred tax assets:				
Unrealized gain on inter-affiliated accounts	\$ 145,841	\$ 23,686	\$ -	\$ 169,527
Remeasurement of defined benefit obligations	146,730	-	20,036	166,766
Unrealized evaluation losses on financial assets and liabilities	69	(69)	-	-
Exchange differences on translation of foreign financial statements	394,523	40	387,749	782,312
Unrealised exchange loss	26,576	(7,287)	-	19,289
Others	13,257	2,340	-	15,597
Subtotal	<u>\$ 726,996</u>	<u>\$ 18,710</u>	<u>\$ 407,785</u>	<u>\$ 1,153,491</u>
- Deferred tax liabilities:				
Gain on foreign long-term investments	(\$ 817,759)	\$ 50,134	\$ -	(\$ 767,625)
Adjustment of land value increment tax	(514,733)	-	-	(514,733)
Unrealized evaluation gains on financial assets and liabilities	-	(649)	-	(649)
Others	(16,139)	(42,622)	-	(58,761)
Subtotal	<u>(\$ 1,348,631)</u>	<u>\$ 6,863</u>	<u>\$ -</u>	<u>(\$ 1,341,768)</u>
Total	<u>(\$ 621,635)</u>	<u>\$ 25,573</u>	<u>\$ 407,785</u>	<u>(\$ 188,277)</u>

2017				
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	December 31
Temporary differences:				
- Deferred tax assets:				
Unrealized gain on inter affiliated accounts	\$ 129,018	\$ 16,823	\$ -	\$ 145,841
Remeasurement of defined benefit obligations	150,097	-	(3,367)	146,730
Unrealized evaluation losses on financial assets and liabilities	-	69	-	69
Exchange differences on translation of foreign financial statements	166,481	-	228,042	394,523
Unrealised exchange loss	-	26,576	-	26,576
Others	13,257	-	-	13,257
Subtotal	<u>\$ 458,853</u>	<u>\$ 43,468</u>	<u>\$ 224,675</u>	<u>\$ 726,996</u>
- Deferred tax liabilities:				
Gain on foreign long-term investments	(\$ 1,287,141)	\$ 469,382	\$ -	(\$ 817,759)
Adjustment of land value increment tax	(514,733)	-	-	(514,733)
Exchange differences on translation of foreign financial statements	-	-	-	-
Unrealised exchange gain	(7,776)	7,776	-	-
Others	(26,411)	10,272	-	(16,139)
Subtotal	<u>(\$ 1,836,061)</u>	<u>\$ 487,430</u>	<u>\$ -</u>	<u>(\$ 1,348,631)</u>
Total	<u>(\$ 1,377,208)</u>	<u>\$ 530,898</u>	<u>\$ 224,675</u>	<u>(\$ 621,635)</u>

- D. In 2009, the investment plan of the Company to increase capital for expanding its production of rubber products is qualified for "Five-year tax exemption incentive for investment in the establishment or expansion of manufacturing enterprises or related technical services from July 1, 2008 to December 31, 2009". The Company is entitled to income tax exemption for 5 consecutive years starting from 2014 to 2018.

- E. The Company accrued deferred tax liabilities, taking into account operating result, degree of expansion and dividend policy of each overseas subsidiary. Based on the assessment, the amounts of temporary difference unrecognised as deferred tax liabilities as of December 31, 2018 and 2017 were \$41,486,669 thousand and \$41,912,057 thousand, respectively.
- F. The Company's income tax returns through 2015 have been assessed and approved by the Tax Authority.
- G. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China on February 7, 2018, the Company's applicable income tax rate was raised from 17% to 20% effective from January 1, 2018. The Group has assessed the impact of the change in income tax rate.

(25) Earnings per share

	Year ended December 31, 2018		
	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 3,520,320	3,241,416	\$ 1.09
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	3,520,320	3,241,416	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	3,196	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 3,520,320	3,244,612	\$ 1.08

	Year ended December 31, 2017		
	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 5,541,785	3,241,416	\$ 1.71
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	5,541,785	3,241,416	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	3,930	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 5,541,785	3,245,346	\$ 1.71

(26) Supplemental cash flow information

Investing activities with partial cash payments

	Years ended December 31,	
	2018	2017
Purchase of property, plant and equipment	\$ 2,067,328	\$ 1,305,570
Add: Opening balance of payable on equipment	736,136	290,468
Less: Ending balance of payable on equipment	(406,073)	(736,136)
Cash paid during the period	\$ 2,397,391	\$ 859,902

(27) Changes in liabilities from financing activities

	Short-term borrowings	Long-term borrowings	Bonds payable	Liabilities from financing activities-gross
January 1, 2018	\$ -	\$ 12,700,667	\$ 18,700,000	\$ 31,400,667
Changes in cash flow from financing activities	500,000	(1,390,667)	3,100,000	2,209,333
December 31, 2018	\$ 500,000	\$ 11,310,000	\$ 21,800,000	\$ 33,610,000

7. RELATED PARTY TRANSACTIONS

(1) Names of related parties and relationship

Information on investee companies and indirect investments in Mainland China are described in Notes 13(2) and 13(3).

(2) Significant related party transactions

A. Operating revenue

		Years ended December 31,	
		2018	2017
Sales of goods:			
– Subsidiaries			
MAXXIS (Taiwan) Trading CO., LTD.	\$	3,698,288	\$ 4,073,337
CHENG SHIN RUBBER USA, INC.		3,333,935	3,264,383
Others		1,956,976	2,178,047
– Associates			
		85,063	73,125
	\$	<u>9,074,262</u>	\$ <u>9,588,892</u>

The Company's sales price to related parties was approximately the same as third parties. Credit term for exporting sales amount was the same as third parties, which was collected after 60 days to 90 days.

B. Purchases:

		Years ended Decemebr 31,	
		2018	2017
Sales of goods:			
Subsidiaries			
	\$	<u>286,230</u>	\$ <u>367,951</u>

The credit term for purchases from related parties is the same with third parties. Except for Maxxis (Thailand) is paid 30 days after the purchase, other payments are the same with third parties, which are 90 days after the purchase.

C. Property transactions:

(a) Proceeds from sales of property and gain (loss) on disposal:

		2018		2017	
		Sales amount	Gain (loss) on disposal	Sales amount	Gain (loss) on disposal
Subsidiaries	\$	<u>644,999</u>	\$ <u>209,113</u>	\$ <u>776,631</u>	\$ <u>203,575</u>

(b) Ending balance of receivables from sales of property:

	December 31, 2018	December 31, 2017
Subsidiaries	\$ <u>112,536</u>	\$ <u>159,912</u>

Abovementioned payments from sales of fixed property to related parties are collected 60~90 days after the sales of equipment.

D. Revenue from patent royalties (listed other income) and other receivables: (shown as 'Other current assets')

(a) Revenue from patent royalties:

	Years ended December 31,	
	2018	2017
Subsidiaries	\$ 531,044	\$ 533,677

(b) Ending balance of royalty receivables from technology:

	December 31, 2018	December 31, 2017
Subsidiaries	\$ 155,403	\$ 147,495

Abovementioned royalty revenue for technology was calculated by applying the agreed upon ratio to net sales amounts, and payment was originally collected yearly and was changed to quarterly since 2014.

E. Interest income-endorsements/guarantees (listed other income) and other receivables: (shown as 'Other current assets')

(a) Interest income-endorsements/guarantees:

	Years ended December 31,	
	2018	2017
Subsidiaries	\$ 11,855	\$ 12,153

(b) Ending balance of interest receivables from endorsements and guarantees:

	December 31, 2018	December 31, 2017
Subsidiaries	\$ 8,062	\$ 7,031

Abovementioned interest income from endorsements and guarantees was calculated by applying the agreed ratio to the amount guaranteed and payment was originally collected yearly but was changed to quarterly since 2014.

F. Revenue from commission (shown as 'Other income') and other receivables: (shown as 'Other current assets')

(a) Revenue from commission:

	Years ended Decemebr 31,	
	2018	2017
Subsidiaries	\$ 237,898	\$ 250,371

(b) Ending balance of receivables from commission:

	December 31, 2018	December 31, 2017
Subsidiaries	\$ 54,084	\$ 49,263

Abovementioned commission revenue was determined at certain rate of sales amounts and payment was originally collected yearly but was changed to quarterly since 2014.

G. Revenue from trademark royalties (listed other income) and other receivables: (shown as 'Other current assets')

(a) Revenue from trademark royalties:

	Years ended Decemebr 31,	
	2018	2017
Subsidiaries	\$ 379,903	\$ 397,132

(b) Ending balance of receivables from trademark royalties:

	December 31, 2018	December 31, 2017
Subsidiaries	\$ 88,338	\$ 81,289

Abovementioned revenue from trademark royalties was determined at certain rate of sales and was originally collected yearly but was changed to quarterly since 2014.

H. Revenue from per diem (listed other income) and other receivables: (shown as 'Other current assets')

(a) Revenue from per diem:

	Years ended Decemebr 31,	
	2018	2017
Subsidiaries	\$ 8,042	\$ 10,482

(b) Ending balance of receivables from per diem:

	December 31, 2018	December 31, 2017
Subsidiaries	\$ 2,763	\$ 2,781

The aforementioned per diem income is based on agreed per diem rate multiplied by traveling days. Collection terms have been revised from yearly to quarterly since year 2014.

I. Accounts receivable

	December 31, 2018	December 31, 2017
Accounts receivable		
–Subsidiaries		
MAXXIS (Taiwan) Trading CO., LTD.	\$ 296,946	\$ 315,091
CHENG SHIN RUBBER USA, INC.	693,701	789,260
CHENG SHIN RUBBER CANADA, INC.	415,261	363,079
Others	184,535	154,156
–Associates	21,446	26,630
	<u>\$ 1,611,889</u>	<u>\$ 1,648,216</u>

J. Other receivables (shown as 'Other current assets')

	December 31, 2018	December 31, 2017
Subsidiaries	\$ 112,528	\$ 159,912

Other receivables mainly arose from supplies and packaging material sold to related parties and payment on behalf of related parties.

K. Accounts payable

	December 31, 2018	December 31, 2017
Subsidiaries	\$ 31,220	\$ 34,883
Associates	289	36
	<u>\$ 31,509</u>	<u>\$ 34,919</u>

L. Other payables

	December 31, 2018	December 31, 2017
Subsidiaries	\$ 129,196	\$ 137,584

Abovementioned payments are advertisement expense and sponsorship to racing drivers paid by related parties on behalf of the Company.

M. Information about guarantees

As of December 31, 2018 and 2017, the Company and the financial institutions agreed the Company's subsidiary may apply for loans within the following credit lines as stated in the letter of credit with a local branch of the aforementioned financial institutions. The Company will be responsible for the guarantee. Details is as follows:

Warrantee	Guaranteed line of credit	Used amounts as of December 31, 2018
Subsidiaries	USD 693,800 thousand	USD 578,198 thousand
	THB 2,000,000 thousand	THB 1,942,880 thousand
	RMB 550,000 thousand	RMB 270,273 thousand
	INR 400,000 thousand	INR 61,630 thousand

Warrantee	Guaranteed line of credit	Used amounts as of December 31, 2017
Subsidiaries	USD 690,800 thousand	USD 525,724 thousand
	THB 2,000,000 thousand	THB 2,000,000 thousand
	RMB 550,000 thousand	RMB 158,050 thousand
	INR 400,000 thousand	INR 11,630 thousand

As of December 31, 2018 and 2017, the Company's endorsements/guarantees have not exceeded the limit.

(3) Key management compensation

	Years ended Decemebr 31,	
	2018	2017
Salaries and other		
short-term employee benefits	\$ 205,067	\$ 252,190
Post-employment benefits	3,054	3,858
	<u>\$ 208,121</u>	<u>\$ 256,048</u>

8. PLEDGED ASSETS

The Group's assets pledged as collateral are as follows:

Pledged asset	Book value		Purpose
	December 31, 2018	December 31, 2017	
Time deposits (Other current assets)	\$ 15,395	\$ 14,885	Product liability insurance

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

(1) Contingencies

Information about related parties' guarantees is provided in Note 7.

(2) Commitments

A. Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

	December 31, 2018	December 31, 2017
Property, plant and equipment	\$ 302,772	\$ 276,414

B. Amount of letter of credit that has been issued but not yet used:

	December 31, 2018	December 31, 2017
Amount of letter of credit that has been issued but not yet used	\$ 18,417	\$ 28,706

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENT AFTER THE BALANCE SHEET DATE

None.

12. OTHERS

(1) Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as total liabilities divided by tangible equity. Total liabilities is calculated by the total liabilities presented in the parent company only balance sheet. Tangible equity is calculated as 'Total equity' as shown in the parent company only balance sheet less 'intangible assets'.

During the year ended December 31, 2018, the Company's strategy was unchanged from 2017. The gearing ratios at December 31, 2018 and 2017 were as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Total liabilities	\$ 39,643,927	\$ 38,278,383
Total equity	\$ 79,193,782	\$ 82,205,292
Less : Intangible assets	(70,740)	(94,890)
Tangible equity	\$ 79,123,042	\$ 82,110,402
Debt-equity ratio	50.10%	46.62%

(2) Financial instruments

A. Financial instruments by category

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>Financial assets</u>		
Financial assets at fair value through profit or loss-current	\$ 3,243	\$ -
Financial assets at fair value through other comprehensive income - current	22,886	-
Financial assets at fair value through other comprehensive income - noncurrent	58,187	-
Available-for-sale financial assets - current	-	69,188
Available-for-sale financial assets - noncurrent	-	58,187
Cash and cash equivalents	12,820,135	12,002,673
Notes receivable, net	28,017	23,503
Accounts receivable (including related parties)	2,863,382	2,829,344
Guarantee deposits paid	986	1,477
Other financial assets	15,395	14,885
	<u>\$ 15,812,231</u>	<u>\$ 14,999,257</u>

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>Financial liabilities</u>		
Financial liabilities at fair value through profit or loss - current	\$ -	\$ 408
Financial liabilities at amortised cost		
Short-term borrowings	500,000	-
Accounts payable (including related parties)	1,344,587	1,348,090
Other accounts payable	1,825,048	2,237,619
Corporate bonds payable (including current portion)	21,800,000	18,700,000
Long-term borrowings (including current portion)	11,310,000	12,700,667
Guarantee deposits received	7,130	7,364
	<u>\$ 36,786,765</u>	<u>\$ 34,994,148</u>

B. Financial risk management policies

- (a) The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management programmer focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial position and financial performance.
- (b) Risk management is carried out by a central treasury department (Company treasury) under policies approved by the board of directors. Company treasury identifies, evaluates and hedges financial risks in close cooperation with the Company's operating units. The material financing activities are reviewed by the Board of Directors in accordance with procedures required by relevant regulations and internal control system. During the implementation of financing plans, the Board of Directors is assisted in its oversight role by the internal audit department. Internal audit undertakes both regular and exceptional reviews of risk management controls and procedures, and reports the results to the Board of Directors.

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

- i. The Company operates internationally and is exposed to foreign exchange risk arising from the transactions of the Company and its subsidiaries used in various functional currency. Primarily with respect to the USD and RMB. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities.
- ii. The Company hedges foreign exchange rate by using forward exchange contracts. However, the Company does not adopt hedging accounting. Details of financial assets or liabilities at fair value through profit or loss.
- iii. The Company's businesses involve some non-functional currency operations (the Company's and certain subsidiaries' functional currency: TWD; other certain subsidiaries' functional currency: RMB, THB, VND, CAD, IDR, EUR, INR and USD). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

December 31, 2018

	Foreign currency amount (thousands)	Exchange rate	Book value (TWD in thousands)	Sensitivity analysis		
				Degree of variation	Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)						
Financial assets						
<u>Monetary items</u>						
USD : TWD	\$ 142,027	30.715	\$ 4,362,359	1% \$	43,624 \$	-
EUR : TWD	42,002	35.200	1,478,470	1%	14,785	-
JPY : TWD	2,003,286	0.278	557,314	1%	5,573	-
RMB : TWD	945,826	4.472	4,229,734	1%	42,297	-
GBP : RMB	8,063	38.880	313,489	1%	3,135	-
Financial assets						
<u>Non-monetary items</u>						
USD:TWD	\$ 110,809	30.715	\$ 3,403,498	1% \$	7,203 \$	26,832
EUR:TWD	9,854	35.200	346,861	1%	2,639	830
JPY:TWD	926,399	0.278	257,724	1%	2,577	-
RMB:TWD	218,761	4.472	978,299	1%	9,783	-
CAD:TWD	28,779	22.558	649,182	1%	-	6,492
IDR:TWD	303,876,195	0.002	647,256	1%	-	6,473
INR:TWD	2,487,849	0.439	1,092,663	1%	-	10,927
Financial liabilities						
<u>Monetary items</u>						
USD:TWD	\$ 22,548	30.715	692,562	1% \$	6,926	-

December 31, 2017						
Sensitivity analysis						
	Foreign currency amount (In thousands)	Exchange rate	Book value (TWD in thousands)	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)						
Financial assets						
Monetary items						
USD:TWD	\$ 391,426	29.760	\$ 11,648,838	1%	\$ 116,488	\$ -
EUR:TWD	19,411	35.570	690,449	1%	6,904	-
JPY:TWD	1,611,207	0.264	425,681	1%	4,257	-
RMB:TWD	116,324	4.565	531,019	1%	5,310	-
GBP:TWD	6,409	40.110	257,065	1%	2,571	-
Financial assets						
Non-monetary items						
USD:TWD	\$ 98,821	29.760	\$ 2,940,913	1%	\$ 5,070	\$ 24,339
EUR:TWD	10,568	35.570	375,904	1%	2,991	768
JPY:TWD	483,945	0.264	127,858	1%	1,279	-
RMB:TWD	124,107	4.565	566,548	1%	5,665	-
CAD:TWD	30,662	23.705	726,843	1%	-	7,268
IDR:TWD	784,958,275	0.00223	1,750,457	1%	-	17,505
INR:TWD	4,383,113	0.46750	2,049,105	1%	-	20,491
Financial liabilities						
Monetary items						
USD:TWD	\$ 25,745	29.760	766,171	1%	\$ 7,662	\$ -

- iv. The exchange gain (loss) including realized and unrealized arising from significant foreign exchange variation on the monetary items held by the Company for the years ended December 31, 2018 and 2017 amounted to \$180,825 thousand and (\$700,577) thousand, respectively.

Price risk

- i. The Company's equity securities, which are exposed to price risk, are the held financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and available-for-sale financial assets. The Company diversifies its portfolio to manage its price risk arising from investments in equity securities.
- ii. Shares issued by the domestic companies. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities had increased/decreased by 1% with all other variables held constant, equity investments at fair value through other comprehensive income and gain or loss on the available-for-sale equity investments for the years ended December 31, 2018 and 2017 would have increased/decreased by \$811 thousand and \$1,274 thousand, respectively.

Cash flow and fair value interest rate risk

- i. The Company's main interest rate risk arises from long-term and short-term borrowings with variable rates, which expose the Company to cash flow interest rate risk. During the years ended December 31, 2018 and 2017, the Company's borrowings at variable rate were denominated in the TWD.
 - ii. The Company's borrowings are measured at amortised cost. The rate of borrowings are referred market interest rates and to that extent are also exposed to the risk of future changes in market interest rates.
 - iii. At December 31, 2018 and 2017, if interest rates on TWD -denominated borrowings at that date had been 0.1% higher/lower with all other variables held constant, post-tax profit for the years ended December 31, 2018 and 2017 would have been \$11,810 thousand and \$12,701 thousand higher / lower, respectively, mainly as a result of higher/lower interest expense on floating rate borrowings.
- (b) Credit risk
- i. Credit risk refers to the risk of financial loss to the Company arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms, and the contract cash flows of financial instruments at fair value through profit or loss and at fair value through other comprehensive income.
 - ii. According to the Company's credit policy, each local entity in the Company is responsible for managing and analysing the credit risk for each of their new clients before standard receiving and payment and delivery terms and conditions are offered. Internal risk control

assesses the credit quality of the customers, taking into account their financial position, past experience and other factors.

- iii. The Company adopts assumptions under IFRS 9 to assess whether there has been a significant increase in credit risk on that instrument since initial recognition:

If the contract payments were past due over 30 days based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition.

- iv. The Company used the forecastability to adjust historical and timely information to assess the default possibility of accounts receivable. On December 31, 2018, the provision matrix is as follows:

<u>December 31, 2018</u>	<u>Expected loss rate</u>	<u>Total book value</u>	<u>Loss allowance</u>
Without past due	0.00%	\$ 1,000,756	\$ -
Up to 30 days	0.17%	157,646	268
31 to 90 days	2.00%	58,719	1,174
91 to 180 days	20.72%	44,101	9,138
Over 180 days	57.21%	1,989	1,138
		<u>\$ 1,263,211</u>	<u>\$ 11,718</u>

- v. Movements in relation to the Company applying the simplified approach to provide loss allowance for accounts receivable are as follows:

	<u>2018</u>
At January 1_IAS 39	\$ 11,718
Adjustments under new standards	-
At January 1 and December 31_IFRS 9	<u>\$ 11,718</u>

- vi. Credit risk information of 2017 is provided in Note 12(4).

(c) Liquidity risk

- i. Cash flow forecasting is performed in the operating entities of the Company and aggregated by Company treasury. Company treasury monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs so that the Company does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Company's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements.
- ii. Surplus cash held by the operating entities over and above balance required for working capital management are transferred to the Company treasury. Company treasury invests surplus cash in interest bearing current accounts and time deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the abovementioned forecasts.

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

December 31, 2018

Non-derivative financial liabilities	Less than 90 days	Between 91 and 180 days	Between 181 and 365 days	Over 1 year	Total
Short-term borrowings	\$ 501,810	\$ -	\$ -	\$ -	\$ 501,810
Accounts payable (including related parties)	1,344,587	-	-	-	1,344,587
Other payables	1,561,123	-	162,672	101,253	1,825,048
Guarantee deposits	-	-	-	7,130	7,130
Long-term borrowings	1,278,230	247,197	2,384,749	7,567,815	11,477,991
Bonds payable	-	-	5,018,300	17,385,750	22,404,050

December 31, 2017

Non-derivative financial liabilities	Less than 90 days	Between 91 and 180 days	Between 181 and 365 days	Over 1 year	Total
Accounts payable (including related parties)	\$ 1,348,090	\$ -	\$ -	\$ -	\$ 1,348,090
Other payables	1,894,182	-	198,107	145,330	2,237,619
Guarantee deposits	-	-	-	7,364	7,364
Long-term borrowings	36,605	36,635	1,220,917	11,715,063	13,009,220
Bonds payable	-	-	2,104,250	17,208,300	19,312,550

Derivative financial liabilities:

Forward exchange contracts	\$ 408	\$ -	\$ -	\$ -	\$ 408
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As of December 31, 2018, there was no financial derivative liabilities transaction.

(3) Fair value information

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

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

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

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

B. Fair value information of investment property at cost is provided in Note 6(8).

C. Financial instruments not measured at fair value

(a) Except for those listed in the table below, the carrying amounts of cash and cash equivalents, notes receivable, accounts receivable, other receivables, guarantee deposits paid, short-term borrowings, accounts payable, other payables and long-term borrowings (including current portion) are approximate to their fair values.

December 31, 2018				
	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
Financial liabilities:				
Bonds payable	\$ 21,800,000	\$ -	\$ 21,876,771	\$ -

December 31, 2017				
	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
Financial liabilities:				
Bonds payable	\$ 18,700,000	\$ -	\$ 18,779,641	\$ -

(b) The methods and assumptions of fair value estimate are as follows:

Bonds payable: They are measured at present value, which is calculated based on the cash flow expected to be paid and discounted using a market rate prevailing at balance sheet date, the interest rate of par value was equivalent to market interest rate.

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

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

December 31, 2018				
	Level 1	Level 2	Level 3	Total
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
-Forward exchange contracts	\$ -	\$ 3,243	\$ -	\$ 3,243
Financial assets at fair value through other comprehensive income - equity securities	22,886	-	58,187	81,073
	<u>\$ 22,886</u>	<u>\$ 3,243</u>	<u>\$ 58,187</u>	<u>\$ 84,316</u>

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Assets				
<u>Recurring fair value measurements</u>				
Available-for-sale financial assets	\$ 69,188	\$ -	\$ 58,187	\$ 127,375
Liabilities				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss				
- Forward exchange contracts	\$ -	\$ 408	\$ -	\$ 408

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

- (i) For Level 1, the Company used market quoted prices as their fair values according to the characteristics of instruments. Listed shares and balanced mutual fund use closing price as their fair values.
- (ii) Except for financial instruments with active markets, the fair value of other financial instruments is measured by using valuation techniques or by reference to counterparty quotes.
- (iii) Level 2: When assessing non-standard and low-complexity financial instruments, for example, debt instruments without active market, interest rate swap contracts, foreign exchange swap contracts and options, the Company adopts valuation technique that is widely used by market participants. The inputs used in the valuation method to measure these financial instruments are normally observable in the market.

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

F. There was no movement in Level 3 for the years ended December 31, 2018 and 2017.

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

A. Summary of significant accounting policies adopted in 2017:

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

- i. Financial assets at fair value through profit or loss are financial assets held for trading or financial assets designated as at fair value through profit or loss on initial recognition. Financial assets are classified in this category of held for trading if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as financial assets held for trading unless they are designated as hedges.
- ii. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using trade date accounting.
- iii. Financial assets at fair value through profit or loss are initially recognised at fair value. Related transaction costs are expensed in profit or loss. These financial liabilities are

subsequently remeasured and stated at fair value, and any changes in the fair value of these financial liabilities are recognised in profit or loss.

(b) Available-for-sale financial assets

- i. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.
- ii. On a regular way purchase or sale basis, available-for-sale financial assets are recognised and derecognised using trade date accounting.
- iii. Available-for-sale financial assets are initially recognised at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognised in other comprehensive income.

(c) Receivables

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

(d) Impairment of financial assets

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

group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group;

- (vii) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered;
- (viii) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

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

(i) Financial assets at amortised cost

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

(ii) Available-for-sale financial assets

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

(e) Derivative financial instruments

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

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

	Measured at fair value through profit or loss	Measured at fair value through other comprehensive income - equity	Available-for sale - equity	Retained earnings	Other equity
IAS 39	\$ -	\$ -	\$ 127,375	\$ -	\$ 41,593
Transferred into and measured at fair value through profit or loss	41,670	- (41,670)	22,740	(22,740)	
Transferred into and measured at fair value through other comprehensive income - equity	-	85,705 (85,705)	-	-	-
IFRS 9	<u>\$ 41,670</u>	<u>\$ 85,705</u>	<u>\$ -</u>	<u>\$ 22,740</u>	<u>\$ 18,853</u>

- (a) Under IAS 39, because the equity instruments, which were classified as: available-for-sale financial assets amounting to \$85,705 thousand, respectively, were not held for the purpose of trading, they were reclassified as "financial assets at fair value through other comprehensive income (equity instruments)" amounting to \$85,705 thousand.
- (b) Under IAS 39, the equity instruments, which were classified as: available-for-sale financial assets amounting to \$41,670 thousand, respectively, were reclassified as "financial assets at fair value through profit or loss (equity instruments)" amounting to \$41,670 thousand. Additionally, the Company increased retained earnings and decreased other equity in the amounts of \$22,740 thousand and \$22,740 thousand, respectively.

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

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

<u>Items</u>	<u>December 31, 2017</u>
Current items:	
Financial liabilities held for trading	
Forward foreign exchange contracts	\$ 408

- i. The Company recognised net profit amounting to \$2,538 thousand, on financial assets at fair value through profit or loss for the year ended December 31, 2017.
- ii. The non-hedging derivative instruments transaction and contract information are as follows :

<u>Types of instrument</u>	<u>December 31, 2017</u>	
	<u>Contract amount (Notional principal)</u>	<u>Contract period</u>
Current items:		
Forward foreign exchange contracts		2017.11.23~
USD converted to NTD	<u>USD 6 million</u>	2018.1.29

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

(b) Available-for-sale financial assets

<u>Items</u>	<u>December 31, 2017</u>	
Current items:		
Listed stocks	\$	8,665
Funds		<u>18,930</u>
Subtotal		27,595
Available-for-sale financial assets		
Valuation adjustment		<u>41,593</u>
Total	\$	<u>69,188</u>
Non-current items:		
Unlisted shares	\$	<u>58,187</u>

The Company recognised \$3,041 thousand in other comprehensive income for fair value change and reclassified (\$12,267) thousand from equity to profit or loss for the year ended December 31, 2017.

D. Credit risk information for the year ended December 2017 are as follows :

- (a) Credit risk refers to the risk of financial loss to the Company arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Company's credit policy, each local entity in the Company is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, including outstanding receivables and commitments.

- (b) For the year ended December 31, 2017, no credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.
- (c) The credit quality of accounts receivable that were neither past due nor impaired was in the following counterparties categories based on the Company's Credit Quality Control Policy:

	December 31, 2017
Distributor	\$ 488,004
Car assembly factory	339,445
Others	<u>114,815</u>
	<u>\$ 942,264</u>

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

	December 31, 2017
Up to 30 days	\$ 194,639
31 to 90 days	40,979
91 to 180 days	14,107
Over 180 days	<u>857</u>
	<u>\$ 250,582</u>

The above ageing analysis was based on past due date.

- (e) Movement analysis of financial assets that were impaired is as follows:
- As of December 31, 2017, the Company has no accounts receivable that were impaired.
 - Movements in the provision for impairment of accounts receivable are as follows:

	Year ended December 31, 2017		
	<u>Individual provision</u>	<u>Group provision</u>	<u>Total</u>
At January 1 and December 31	\$ -	\$ 11,718	\$ 11,718

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

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

Sales of goods

The Company manufactures and sells tire products. Revenue is measured at the fair value of the consideration received or receivable taking into account of business tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Company's activities. Revenue arising from the sales of goods should be recognized when the Company has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity. The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Company retains neither continuing managerial

involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.

- B. The effects and description of current balance sheets items if the Company continues adopting above accounting policies are as follows:

Balance sheet items	December 31, 2018		
	Balance by using IFRS 15	Balance by using previous accounting policies	Effects from changes in accounting policy
Contract liabilities	\$ 127,663	\$ -	\$ 127,663
Other current liabilities			
- Advance sales receipts	-	127,663	(127,663)

Note: Statement of comprehensive income was not affected.

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

- A. Loans to others: please refer to table 1.
- B. Provision of endorsements and guarantees to others: please refer to table 2.
- C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): please refer to table 3.
- D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital: please refer to table 4.
- E. Acquisition of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- F. Disposal of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- G. Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more: please refer to table 5.
- H. Receivables from related parties reaching \$100 million or 20% of paid-in capital or more: please refer to table 6.
- I. Trading in derivative instruments undertaken during the reporting periods: please refer to Notes 6(2), (21) and 12(2), 12(3), 12(4).
- J. Significant inter-company transactions during the reporting periods: please refer to table 7.

(2) Information on investees

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

(3) Information on investments in Mainland China

A. Basic information: please refer to table 9.

B. Ceiling on investments in Mainland China: please refer to table 9.

Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area:

Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area for the year ended December 31, 2018: please refer to tables 5, 6 and 7.

CHENG SHIN RUBBER IND. CO., LTD.

Loans to others

Year ended December 31, 2018

Table 1

Expressed in thousands of NTD
(Except as otherwise indicated)

No. (Note 1)	Creditor	Borrower	General ledger account	Is a related party	Maximum outstanding balance during the year ended		Balance at December 31, 2018	Actual amount drawn down	Interest rate	Nature of loan	Amount of transactions with the borrower	Reason for short-term financing		Collateral		Limit on loans granted to a single party (Note 2)	Ceiling on total loans granted (Note 3)	Footnote	
					December 31, 2018	December 31, 2018						Operating accounts	for doubtful	Item	Value				
1	XIAMEN CHENG SHIN ENTERPRISE CO., LTD.	CHENG SHIN RUBBER (ZHANGZHOU) IND CO., LTD.	Other receivables	Yes	\$ 3,636,360	\$ 2,232,000	\$ 2,142,720	\$ 2,142,720	4.75%	Note 4	\$ -	-	Operating capital	-	None	\$ -	4,594,702	\$ 7,657,837	Note 6
1	XIAMEN CHENG SHIN ENTERPRISE CO., LTD.	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	Other receivables	Yes	2,678,400	2,678,400	2,209,680	2,209,680	4.75%	Note 4	-	-	Operating capital	-	None	-	4,594,702	7,657,837	Note 6
1	XIAMEN CHENG SHIN ENTERPRISE CO., LTD.	CHENG SHIN (XIAMEN) INTL. AUTOMOBILE CULTURE CENTER CO., LTD.	Other receivables	Yes	892,800	892,800	285,696	285,696	6.65%	Note 4	-	-	Operating capital	-	None	-	4,594,702	7,657,837	Note 6
2	CHENG SHIN PETREL TIRE (XIAMEN) CO., LTD.	CHENG SHIN RUBBER (ZHANGZHOU) IND CO., LTD.	Other receivables	Yes	4,687,200	4,687,200	3,548,880	3,548,880	4.75%	Note 4	-	-	Operating capital	-	None	-	7,773,255	12,955,425	Note 6
2	CHENG SHIN PETREL TIRE (XIAMEN) CO., LTD.	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	Other receivables	Yes	1,121,500	1,116,000	1,026,720	1,026,720	4.75%	Note 4	-	-	Operating capital	-	None	-	7,773,255	12,955,425	Note 6
2	CHENG SHIN PETREL TIRE (XIAMEN) CO., LTD.	XIAMEN ESATE CO., LTD.	Other receivables	Yes	468,000	446,400	357,120	357,120	4.75%	Note 4	-	-	Operating capital	-	None	-	7,773,255	12,955,425	Note 6
3	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	CHENG SHIN RUBBER (ZHANGZHOU) IND CO., LTD.	Other receivables	Yes	2,763,600	2,155,080	1,128,360	1,128,360	3.59%-4.75%	Note 4	-	-	Operating capital	-	None	-	13,309,820	22,183,033	Note 6
4	CHENG SHIN LOGISTIC (XIAMEN) IND., LTD.	CHIN CHOU CHENG SHIN ENTERPRISE CO., LTD	Other receivables	Yes	9,360	8,928	8,928	8,928	4.35%	Note 4	-	-	Operating capital	-	None	-	192,759	321,264	Note 6

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

(1) The Company is "0".

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

Note 2: Limit on loans granted by CHENG SHIN RUBBER (XIAMEN) IND., LTD., CHENG SHIN PETREL TIRE (XIAMEN) CO., LTD., XIAMEN CHENG SHIN ENTERPRISE CO., LTD. and CHEN SHIN LOGISTIC (XIAMEN) CO., LTD. to a single party is 60% of above Companies' net assets

Note 3: Limit on loans granted by CHENG SHIN RUBBER (XIAMEN) IND., LTD., CHENG SHIN PETREL TIRE (XIAMEN) CO., LTD., XIAMEN CHENG SHIN ENTERPRISE CO., LTD. and CHEN SHIN LOGISTIC (XIAMEN) CO., LTD. to a single party is 100% of above Companies' net assets

Note 4: Fill in purpose of loan when nature of loan is for short-term financing. The transaction was completed through the trust loans signed with financial institutions in Mainland China.

Note 5: The amount of ending balance was equal to the limit on loans as approved by the Board of Directors.

Note 6: The transactions were eliminated when preparing the consolidated financial statements.

CHENG SHIN RUBBER IND. CO., LTD.
Provision of endorsements and guarantees to others
Year ended December 31, 2018

Table 2

Expressed in thousands of NTD
(Except as otherwise indicated)

Number (Note 1)	Endorser/ guarantor	Party being endorsed/guaranteed		Limit on endorsements/ guarantees provided for a single party	Maximum outstanding endorsement/ guarantee amount as of December 31, 2018	Outstanding endorsement/ guarantee amount at December 31, 2018	Actual amount drawn down	Amount of endorsements / guarantees secured with collateral	Ratio of accumulated endorsement/ guarantee amount to net asset value of the endorser/ guarantor company	Ceiling on total amount of endorsements/ guarantees provided	Provision of endorsements/ guarantees by parent company to subsidiary	Provision of endorsements/ guarantees by subsidiary to parent company	Provision of endorsements/ guarantees to the party in Mainland China	Footnote
		Company name	Relationship with the endorser/ guarantor											
0	Cheng Shin Rubber Ind. Co., Ltd.	MAXXIS International (Thailand) Co., Ltd.	Sub- subsidiary	\$ 39,596,891	\$ 5,226,300	\$ 4,516,950	\$ 3,692,880	\$ -	5.70	\$ 55,435,647	Y	N	N	Note 2, Note 5
0	Cheng Shin Rubber Ind. Co., Ltd.	Cheng Shin Rubber (Vietnam) IND Co., Ltd.	Sub- subsidiary	39,596,891	305,750	-	-	-	-	55,435,647	Y	N	N	Note 2, Note 5
0	Cheng Shin Rubber Ind. Co., Ltd.	CHENG SHIN TIRE & RUBBER (CHONGQING) CO., LTD.	Sub- subsidiary	39,596,891	2,338,000	-	-	-	-	55,435,647	Y	N	Y	Note 2, Note 5
0	Cheng Shin Rubber Ind. Co., Ltd.	CHENG SHIN RUBBER (ZHANGZHOU) IND CO., LTD.	Sub- subsidiary	39,596,891	464,625	461,850	461,850	-	0.58	55,435,647	Y	N	Y	Note 2, Note 5
0	Cheng Shin Rubber Ind. Co., Ltd.	Maxxis Rubber India Private Limited	Subsidiary	39,596,891	8,482,462	8,482,462	7,102,554	-	10.71	55,435,647	Y	N	N	Note 2, Note 5
0	Cheng Shin Rubber Ind. Co., Ltd.	PT MAXXIS International Indonesia	Subsidiary	39,596,891	9,975,960	9,975,960	8,417,986	-	12.60	55,435,647	Y	N	N	Note 2, Note 5
1	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	XIAMEN ESATB CO., LTD.	Note 3 (1)	17,746,426	2,574,000	2,455,200	1,266,497	-	11.07	22,183,033	N	N	Y	Note 4, Note 5
										\$ 55,435,647				
										\$ 15,838,756				
										\$ 39,596,891				

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

(1) The Company is '0'.

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

Note 2: Ceiling on the Company's total endorsements/guarantees to others is 70% of the Company's current net assets.

Limit on the Company's endorsements/guarantees to a single party is 20% of the Company's net assets.

Limit on the Company's endorsements/guarantees to a foreign single affiliate company is 50% of the Company's net assets.

Note 3: Relationship between the endorser/guarantor and the Company is classified into the following two categories:

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

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

Note 4: Limit on the Company's endorsements/guarantees provided to others is 100% of the Company's net assets.

Limit on total endorsements provided to a single party is 80% of the Company's net assets.

Note 5: Outstanding endorsement/guarantee amount and draw down amount are translated at the spot exchange rates prevailing at December 31, 2018.

CHENG SHIN RUBBER IND. CO., LTD.

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

December 31, 2018

Table 3

		Relationship with the securities		As of December 31, 2018		Expressed in thousands of NTD (Except as otherwise indicated)	
Securities held by	Marketable securities (Note 1)	Relationship with the securities	General ledger account	Number of shares/ units	Ownership (%)	Book value	Fair value
Cheng Shin Rubber Ind. Co., Ltd.	Other ordinary shares	-	Current financial assets at fair value through other comprehensive income	-	-	22,886	22,886
Cheng Shin Rubber Ind. Co., Ltd.	Other ordinary shares	-	Non-current financial assets at fair value through other comprehensive income	-	-	58,187	58,187

Footnote
Note 2

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

Note 2: Other marketable securities do not exceed 5% of the account.

CHENG SHIN RUBBER IND. CO., LTD.

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

Year ended December 31, 2018

Table 4

Expressed in thousands of NTD
(Except as otherwise indicated)

Investor	Marketable securities (Note 1)	General ledger account	Counterparty (Note 2)	Relationship with the investor (Note 2)	Balance as at January 1, 2018		Addition (Note 3)		Disposal (Note 3)		Balance as at December 31, 2018	
					Number of shares	Amount	Number of shares	Amount	Number of shares	Book value	Gain (loss) on disposal	Number of shares
Cheng Shin Rubber Ind. Co., Ltd.	Maxxis Rubber India Private Limited	Investments accounted for using equity method	Maxxis Rubber India Private Limited	Subsidiary	549,995,541	\$ 2,049,105	99,999,189	\$ 450,690	-	\$ -	\$ -	649,994,730
												\$ 1,092,663

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

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

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

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

Note 5: Gain and loss on investment accounted for using equity method was included in the balance as at December 31, 2018.

CHENG SHIN RUBBER IND. CO., LTD.

Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more
Year ended December 31, 2018

Table 5

Expressed in thousands of NT\$
(Except as otherwise indicated)

Purchaser/seller	Counterparty	Relationship with the counterparty	Purchases (sales)	Amount (\$)	Percentage of total purchases (sales) (%)	Credit term	Unit price	Differences in transaction terms compared to third party transactions (Note 1)	Notes/accounts receivable (payable)		Footnote
									Balance	Percentage of total notes/accounts receivable (payable) (%)	
Cheng Shin Rubber Ind. Co., Ltd.	CHENG SHIN RUBBER USA, INC.	Subsidiary	(sales)	(3,333,935)	(17.21)	Collect within 90 days after shipment of goods	Same	Same	\$ 693,701	23.82	Note 4
Cheng Shin Rubber Ind. Co., Ltd.	CHENG SHIN RUBBER CANADA, INC.	Subsidiary	(sales)	(1,321,691)	(6.82)	Collect within 90 days after shipment of goods	Same	Same	415,261	14.26	Note 4
Cheng Shin Rubber Ind. Co., Ltd.	MAXXIS International (Thailand) Co., Ltd.	Subsidiary	(sales)	(293,079)	(1.51)	Collect within 60 days after shipment of goods	Same	Same	48,496	1.67	Note 4
Cheng Shin Rubber Ind. Co., Ltd.	Cheng Shin Rubber (Vietnam) IND Co., Ltd.	Subsidiary	(sales)	(160,790)	(0.83)	Collect within 60 days after shipment of goods	Same	Same	56,834	1.95	Note 4
Cheng Shin Rubber Ind. Co., Ltd.	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	Subsidiary	(sales)	(134,149)	(0.69)	Collect within 60 days after shipment of goods	Same	Same	71,295	2.45	Note 4
Cheng Shin Rubber Ind. Co., Ltd.	Maxxis(Taiwan) Trading Co., LTD.	Subsidiary	(sales)	(3,698,288)	(19.09)	Collect within 30 days	Same	Same	296,946	10.20	Note 4
CHENG SHIN RUBBER (XIAMEN) IND., LTD.	Cheng Shin Rubber Ind. Co., Ltd.	Ultimate parent	(sales)	(143,397)	(0.82)	Collect within 60 days after shipment of goods	Same	Same	24,061	1.26	Note 4
CHENG SHIN RUBBER (XIAMEN) IND., LTD.	CHENG SHIN TIRE & RUBBER (CHINA) CO., LTD.	Same ultimate parent	(sales)	(770,473)	(4.41)	Collect within 60-90 days after shipment of goods	Same	Same	286,644	15.03	Note 4
CHENG SHIN RUBBER (XIAMEN) IND., LTD.	CHENG SHIN RUBBER(ZHANGZHOU) IND CO., LTD	Same ultimate parent	(sales)	(211,130)	(1.21)	Collect within 60-90 days after shipment of goods	Same	Same	29,762	1.56	Note 4
CHENG SHIN RUBBER (XIAMEN) IND., LTD.	CHENG SHIN RUBBER USA, INC.	Same ultimate parent	(sales)	(140,202)	(0.80)	Collect within 60-90 days after shipment of goods	Same	Same	7,656	0.40	Note 4
CHENG SHIN RUBBER (XIAMEN) IND., LTD.	Cheng Shin Holland B.V.	Same ultimate parent	(sales)	(139,125)	(0.80)	Collect within 60-90 days after shipment of goods	Same	Same	-	-	-
XIAMEN CHENG SHIN ENTERPRISE CO., LTD.	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	Same ultimate parent	(sales)	(1,733,160)	(43.75)	Collect within 60-90 days after shipment of goods	Same	Same	314,346	29.43	Note 4
XIAMEN CHENG SHIN ENTERPRISE CO., LTD.	CHENG SHIN PETREL TIRE (XIAMEN) CO., LTD.	Same ultimate parent	(sales)	(586,123)	(14.79)	Collect within 60-90 days after shipment of goods	Same	Same	111,188	10.41	Note 4
XIAMEN CHENG SHIN ENTERPRISE CO., LTD.	CHENG SHIN RUBBER (ZHANGZHOU) IND CO., LTD.	Same ultimate parent	(sales)	(135,956)	(3.43)	Collect within 60-90 days after shipment of goods	Same	Same	37,141	3.48	Note 4
XIAMEN CHENG SHIN ENTERPRISE CO., LTD.	CHENG SHIN TIRE & RUBBER (CHINA) CO., LTD.	Same ultimate parent	(sales)	(252,648)	(6.38)	Collect within 60-90 days after shipment of goods	Same	Same	43,428	4.07	Note 4
CHENG SHIN RUBBER (ZHANGZHOU) IND CO., LTD.	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	Same ultimate parent	(sales)	(568,906)	(7.21)	Collect within 60-90 days after shipment of goods	Same	Same	134,110	68.37	Note 4
CHENG SHIN TIRE & RUBBER (CHINA) CO., LTD.	CHENG SHIN RUBBER CANADA, INC.	Same ultimate parent	(sales)	(265,895)	(1.12)	Collect within 60-90 days after shipment of goods	Same	Same	53,173	1.21	Note 4
CHENG SHIN TIRE & RUBBER (CHINA) CO., LTD.	CHENG SHIN TIRE & RUBBER (CHONGQING) CO., LTD.	Same ultimate parent	(sales)	(112,383)	(0.48)	Collect within 60-90 days after shipment of goods	Same	Same	69,296	1.58	Note 4
CHENG SHIN TOYO (KUNSHAN) MACHINERY CO., LTD.	CHENG SHIN TIRE & RUBBER (CHINA) CO., LTD.	Same ultimate parent	(sales)	(108,004)	(29.20)	Collect within 60-90 days after shipment of goods	Same	Same	15,833	47.54	Note 4
CHENG SHIN TOYO (KUNSHAN) MACHINERY CO., LTD.	Toyo Tire & Rubber Co., Ltd.	Same ultimate parent	(sales)	(140,347)	(37.95)	Collect within 60-90 days after shipment of goods	Same	Same	4,564	13.70	Note 4
CHENG SHIN TIRE & RUBBER (CHONGQING) CO., LTD.	CHENG SHIN TIRE & RUBBER (CHINA) CO., LTD.	Same ultimate parent	(sales)	(388,841)	(5.50)	Collect within 60-90 days after shipment of goods	Same	Same	104,059	16.33	Note 4
CHENG SHIN TIRE & RUBBER (CHONGQING) CO., LTD.	KUNSHAN MAXXIS TIRE CO., LTD.	Same ultimate parent	(sales)	(103,286)	(1.46)	Collect within 60-90 days after shipment of goods	Same	Same	20,771	3.26	Note 4
Cheng Shin Rubber (Vietnam) IND Co., Ltd.	MAXXIS International (Thailand) Co., Ltd.	Same ultimate parent	(sales)	(164,729)	(3.13)	Collect within 60-90 days after shipment of goods	Same	Same	6,968	1.42	Note 4

Table 5, page 1

CHENG SHIN RUBBER IND. CO., LTD.

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

Year ended December 31, 2018

Table 5

Expressed in thousands of NTD
(Except as otherwise indicated)

Purchaser/seller	Counterparty	Relationship with the counterparty	Transaction			Differences in transaction terms compared to third party transactions (Note 1)			Notes/accounts receivable (payable)	Expressed in thousands of NTD (Except as otherwise indicated)
			Purchases (sales)	Amount	Percentage of total purchases (sales) (%)	Unit price	Credit term	Balance		
MAXXIS International (Thailand) Co., Ltd.	CHENG SHIN RUBBER USA, INC.	Same ultimate parent	(sales)	(1,471,946)	(10.70)	Same	Same	328,841	13.59	Note 2
MAXXIS International (Thailand) Co., Ltd.	CHENG SHIN TIRE & RUBBER (CHINA) CO., LTD.	Same ultimate parent	(sales)	(653,384)	(4.75)	Same	Same	169,689	8.05	Note 4
MAXXIS International (Thailand) Co., Ltd.	Cheng Shin Rubber (Vietnam) IND Co., Ltd.	Same ultimate parent	(sales)	(136,558)	(0.99)	Same	Same	1,009	0.05	Note 4

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

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

Note 3: Paid-in capital referred to herein is the paid-in capital of parent company.

Note 4: The transactions were eliminated when preparing the consolidated financial statements.

CHENG SHIN RUBBER IND. CO., LTD.

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

December 31, 2018

Table 6

Expressed in thousands of NT\$
(Except as otherwise indicated)

Creditor	Counterparty	Relationship with the counterparty	Balance as at December 31, 2018	Turnover rate	Overdue receivables		Amount collected subsequent to the balance sheet date (Note 1)	Allowance for doubtful accounts
					Amount	Action taken		
Cheng Shin Rubber Ind. Co., Ltd.	CHENG SHIN RUBBER USA, INC.	Subsidiary (Note 5)	\$ 693,943	Note 4	-	-	691,785	-
Cheng Shin Rubber Ind. Co., Ltd.	CHENG SHIN RUBBER CANADA, INC.	Subsidiary (Note 5)	415,523	Note 4	-	-	257,971	-
Cheng Shin Rubber Ind. Co., Ltd.	MAXXIS International (Thailand) Co., Ltd.	Subsidiary (Note 5)	209,822	Note 3	-	-	62,685	-
Cheng Shin Rubber Ind. Co., Ltd.	Cheng Shin Rubber (Vietnam) IND Co., Ltd.	Subsidiary (Note 5)	127,872	Note 3	-	-	61,559	-
Cheng Shin Rubber Ind. Co., Ltd.	Maxxis(Taiwan) Trading Co., LTD.	Subsidiary (Note 5)	298,922	Note 4	-	-	298,922	-
CHENG SHIN RUBBER (XIAMEN) IND., LTD.	CHENG SHIN TIRE & RUBBER (CHINA) CO., LTD.	Same ultimate parent (Note 5)	286,644	2.70	-	-	179,439	-
XIAMEN CHENG SHIN ENTERPRISE CO., LTD.	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	Same ultimate parent (Note 5)	317,102	Note 4	-	-	302,132	-
XIAMEN CHENG SHIN ENTERPRISE CO., LTD.	CHENG SHIN PETREL TIRE (XIAMEN) CO., LTD.	Same ultimate parent (Note 5)	111,188	5.45	-	-	105,737	-
CHENG SHIN TIRE & RUBBER (CHONGQING) CO., LTD.	CHENG SHIN TIRE & RUBBER (CHINA) CO., LTD.	Same ultimate parent (Note 5)	104,059	4.00	-	-	86,778	-
CHENG SHIN RUBBER (ZHANGZHOU) IND CO., LTD.	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	Same ultimate parent (Note 5)	134,110	6.40	-	-	116,307	-
MAXXIS International (Thailand) Co., Ltd.	CHENG SHIN RUBBER USA, INC.	Same ultimate parent (Note 5)	328,841	5.32	-	-	116,636	-
MAXXIS International (Thailand) Co., Ltd.	CHENG SHIN TIRE & RUBBER (CHINA) CO., LTD.	Same ultimate parent (Note 5)	169,689	6.14	-	-	54,721	-

Note 1: Subsequent collection is the amount collected as of March 13, 2019.

Note 2: Paid-in capital referred to herein is the paid-in capital of parent company.

Note 3: The amount comprises accounts receivable, commission receivable, endorsements/guarantees receivable, patent royalties receivable, royalties receivable for trademark and other receivables and thus, the turnover rate is not calculated.

Note 4: The amount comprises accounts receivable and other receivables and thus, the turnover rate is not calculated.

Note 5: The transactions were eliminated when preparing the consolidated financial statements.

CHENG SHIN RUBBER IND. CO., LTD.

Significant inter-company transactions during the reporting periods

Year ended December 31, 2018

Table 7

Expressed in thousands of NT\$
(Except as otherwise indicated)

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			Percentage of consolidated total operating revenues or total assets (Note 3)
				General ledger account	Amount (Note 4)	Transaction terms	
0	Cheng Shin Rubber Ind. Co., Ltd.	CHENG SHIN RUBBER USA, INC.	1	Sales	\$ 3,333,935	Collect within 90 days after shipment of goods	3.05%
0	Cheng Shin Rubber Ind. Co., Ltd.	CHENG SHIN RUBBER USA, INC.	1	Accounts receivable	693,701	Collect within 90 days after shipment of goods	0.40%
0	Cheng Shin Rubber Ind. Co., Ltd.	CHENG SHIN RUBBER CANADA, INC.	1	Sales	1,321,691	Collect within 90 days after shipment of goods	1.21%
0	Cheng Shin Rubber Ind. Co., Ltd.	CHENG SHIN RUBBER CANADA, INC.	1	Accounts receivable	415,261	Collect within 90 days after shipment of goods	0.24%
0	Cheng Shin Rubber Ind. Co., Ltd.	MAXXIS International (Thailand) Co., Ltd.	1	Sales	293,079	Collect within 60 days after shipment of goods	0.27%
0	Cheng Shin Rubber Ind. Co., Ltd.	Maxxis(Taiwan) Trading Co., LTD.	1	Sales	3,698,288	The term is 30 days after monthly billing	3.39%
0	Cheng Shin Rubber Ind. Co., Ltd.	Maxxis(Taiwan) Trading Co., LTD.	1	Accounts receivable	296,946	The term is 30 days after monthly billing	0.17%
1	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	CHENG SHIN TIRE & RUBBER (CHINA) CO., LTD.	3	Sales	770,473	Collect within 60-90 days after shipment of goods	0.71%
1	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	CHENG SHIN TIRE & RUBBER (CHINA) CO., LTD.	3	Accounts receivable	286,644	Collect within 60-90 days after shipment of goods	0.16%
1	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	CHENG SHIN RUBBER (ZHANGZHOU) IND CO., LTD.	3	Sales	211,130	Collect within 60-90 days after shipment of goods	0.19%
1	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	CHENG SHIN RUBBER (ZHANGZHOU) IND CO., LTD.	3	Other receivables	1,128,360	Pay interest quarterly	0.65%
2	XIAMEN CHENG SHIN ENTERPRISE CO., LTD.	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	3	Sales	1,733,160	Collect within 60-90 days after shipment of goods	1.59%
2	XIAMEN CHENG SHIN ENTERPRISE CO., LTD.	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	3	Accounts receivable	314,346	Collect within 60-90 days after shipment of goods	0.18%
2	XIAMEN CHENG SHIN ENTERPRISE CO., LTD.	CHENG SHIN PETREL TIRE (XIAMEN) CO., LTD.	3	Sales	586,123	Collect within 60-90 days after shipment of goods	0.54%
2	XIAMEN CHENG SHIN ENTERPRISE CO., LTD.	CHENG SHIN RUBBER (ZHANGZHOU) IND CO., LTD.	3	Other receivables	2,142,720	Pay interest quarterly	1.23%
2	XIAMEN CHENG SHIN ENTERPRISE CO., LTD.	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	3	Other receivables	2,209,680	Pay interest quarterly	1.26%
2	XIAMEN CHENG SHIN ENTERPRISE CO., LTD.	CHENG SHIN (XIAMEN) INTL AUTOMOBILE CULTURE CENTER CO., LTD	3	Other receivables	285,696	Pay interest quarterly	0.16%
2	XIAMEN CHENG SHIN ENTERPRISE CO., LTD.	CHENG SHIN TIRE & RUBBER (CHINA) CO., LTD.	3	Sales	252,648	Collect within 60-90 days after shipment of goods	0.23%
3	CHENG SHIN PETREL TIRE (XIAMEN) CO., LTD.	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	3	Other receivables	1,026,720	Pay interest quarterly	0.59%
3	CHENG SHIN PETREL TIRE (XIAMEN) CO., LTD.	CHENG SHIN RUBBER (ZHANGZHOU) IND CO., LTD.	3	Other receivables	3,548,880	Pay interest quarterly	2.03%
3	CHENG SHIN PETREL TIRE (XIAMEN) CO., LTD.	XIAMEN ESTATE CO., LTD.	3	Other receivables	357,120	Pay interest quarterly	0.20%
4	CHENG SHIN RUBBER (ZHANGZHOU) IND CO., LTD.	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	3	Sales	568,906	Collect within 60-90 days after shipment of goods	0.52%
5	CHENG SHIN TIRE & RUBBER (CHINA) CO., LTD.	CHENG SHIN TIRE & RUBBER CANADA, INC.	3	Sales	265,895	Collect within 60-90 days after shipping of goods	0.24%

CHENG SHIN RUBBER IND. CO., LTD.

Significant inter-company transactions during the reporting periods

Year ended December 31, 2018

Table 7

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			Expressed in thousands of NT\$ (Except as otherwise indicated)
				General ledger account	Amount (Note 4)	Transaction terms	
6	CHENG SHIN TIRE & RUBBER (CHONGQING) CO., LTD.	CHENG SHIN TIRE & RUBBER (CHINA) CO., LTD.	3	Sales	388,841	Collect within 60-90 days after shipment of goods	Percentage of consolidated total operating revenues or total assets (Note 3) 0.36%
7	MAXXIS International (Thailand) Co., Ltd.	CHENG SHIN RUBBER USA, INC.	3	Sales	1,471,948	Collect within 60-90 days after shipment of goods	1.35%
7	MAXXIS International (Thailand) Co., Ltd.	CHENG SHIN TIRE & RUBBER (CHINA) CO., LTD.	3	Sales	653,384	Collect within 60-90 days after shipment of goods	0.60%
7	MAXXIS International (Thailand) Co., Ltd.	CHENG SHIN RUBBER USA, INC.	3	Accounts receivable	328,841	Collect within 60-90 days after shipment of goods	0.19%

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

(1) Parent company is '0'.

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

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

(1) Parent company to subsidiary.

(2) Subsidiary to parent company.

(3) Subsidiary to subsidiary.

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

Note 4: Transaction amounts account for at least NT\$200 million.

CHENG SHIN RUBBER IND. CO., LTD.

Information on investees

Year ended December 31, 2018

Table 8

Expressed in thousands of NTD
(Except as otherwise indicated)

Initial investment amount				Shares held as at December 31, 2018				Net profit (loss) of the investee for the year ended December 31, 2018	Investment income (loss) recognised by the Company for the year ended December 31, 2018 (Note 1)	Footnote	
Investor	Investee	Location	Main business activities	Balance as at December 31, 2018	Balance as at December 31, 2017	Number of shares	Ownership (%)				Book value
Cheng Shin Rubber Ind. Co., Ltd.	MAXXIS International Co., Ltd.	Cayman Islands	Holding company	\$ 912,218	\$ 912,218	35,050,000	100.00	\$ 40,426,423	\$ 1,149,102	\$ 1,154,216	Subsidiary Note 3
Cheng Shin Rubber Ind. Co., Ltd.	CST Trading Ltd.	British Virgin Islands	Holding company	2,103,073	2,103,073	72,900,000	100.00	24,870,869	2,825,638	2,828,157	Subsidiary Note 3
Cheng Shin Rubber Ind. Co., Ltd.	MAXXIS Trading Ltd.	British Virgin Islands	Holding company	7,669,780	7,669,780	237,811,720	100.00	10,106,894	424,609	390,011	Subsidiary Note 3
Cheng Shin Rubber Ind. Co., Ltd.	CHENG SHIN RUBBER USA, INC.	U.S.A	Import and export of tires	551,820	551,820	1,800,000	100.00	2,683,201	319,213	319,221	Subsidiary Note 3
Cheng Shin Rubber Ind. Co., Ltd.	CHENG SHIN RUBBER CANADA, INC.	Canada	Import and export of tires	32,950	32,950	1,000,000	100.00	649,182	106,992	106,992	Subsidiary Note 3
Cheng Shin Rubber Ind. Co., Ltd.	NEW PACIFIC INDUSTRY COMPANY LIMITED	Taiwan	Processing and sales of various anti-vibration rubber and hardware	50,001	50,001	5,000,000	50.00	152,614	4,752	2,376	Note 2
Cheng Shin Rubber Ind. Co., Ltd.	MAXXIS Tech Center Europe B.V.	Netherlands	Technical centre	41,260	41,260	1,000,000	100.00	65,172	5,705	5,705	Subsidiary Note 3
Cheng Shin Rubber Ind. Co., Ltd.	Cheng Shin Holland B.V.	Netherlands	Import and export of tires	-	23,162	-	-	-	14,224	4,267	Note 4
Cheng Shin Rubber Ind. Co., Ltd.	PT MAXXIS INTERNATIONAL INDONESIA	Indonesia	Production and sales of various types of tires	2,461,355	2,461,355	79,997,000	100.00	619,612	(1,007,564)	(1,007,250)	Subsidiary Note 3
Cheng Shin Rubber Ind. Co., Ltd.	Maxxis Rubber India Private Limited	India	Production and sales of various types of tires	3,124,651	2,673,961	649,994,730	100.00	1,092,663	(1,277,159)	(1,277,159)	Subsidiary Note 3
Cheng Shin Rubber Ind. Co., Ltd.	Maxxis(Taiwan) Trading Co., LTD.	Taiwan	Wholesale and retail of tires	100,000	100,000	10,000,000	100.00	332,897	182,686	182,686	Subsidiary Note 3
Cheng Shin Rubber Ind. Co., Ltd.	PT MAXXIS TRADING INDONESIA	Indonesia	Large-amount trading of vehicles parts and accessories	30,235	30,235	9,990	100.00	27,644	(980)	(980)	Subsidiary Note 3
Cheng Shin Rubber Ind. Co., Ltd.	Maxxis Europe B.V.	Netherlands	Import and export of tires	17,700	-	500,000	100.00	17,844	147	147	Subsidiary Note 3
MAXXIS International Co., Ltd	MAXXIS International (HK) Ltd.	Hong Kong	Holding company	-	-	226,801,983	100.00	31,449,536	946,696	946,696	Subsidiary Note 3

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CHENG SHIN RUBBER IND. CO., LTD.
Information on investees
Year ended December 31, 2018

Table 8

		Initial investment amount				Shares held as at December 31, 2018			Expressed in thousands of NTD (Except as otherwise indicated)		
Investor	Investee	Location	Main business activities	Balance as at December		Number of shares	Ownership (%)	Book value	Net profit (loss) of the investee for the year ended December 31, 2018	Investment income (loss) recognised by the Company for the year ended December 31, 2018 (Note 1)	Footnote
				31, 2018	31, 2017						
CST Trading Ltd.	Cheng Shin International (HK) Ltd.	Hong Kong	Holding company	-	-	246,767,840	100.00	24,707,022	2,818,711	2,818,711	Footnote Sub-subsidary Note 3
MAXXIS Trading Ltd.	MAXXIS Holdings (BVI) Co., Ltd.	British Virgin Islands	Holding company	7,669,780	7,669,780	237,811,720	100.00	10,576,888	424,730	424,730	Sub-subsidary Note 3
MAXXIS Holdings (BVI) Co., Ltd.	MAXXIS International (Thailand) Co., Ltd.	Thailand	Production and sales of truck and automobile tires	5,724,372	5,724,372	65,000,000	100.00	7,744,761	(282,914)	(300,568)	Sub-subsidary Note 3
MAXXIS Holdings (BVI) Co., Ltd.	Cheng Shin Rubber (Vietnam) DMD Co., Ltd.	Vietnam	Production and sales of various types of tires	1,945,408	1,945,408	62,000,000	100.00	2,828,988	710,546	690,601	Sub-subsidary Note 3

Note 1: Including investment income (loss) used to offset against sidestream and upstream transactions.

Note 2: Investee companies are accounted for under the equity method.

Note 3: The transactions were eliminated when preparing the consolidated financial statements.

Note 4: It was the Company's investee accounted for using equity method before October 2, 2018 and was no longer a related party of the Company starting from October 2, 2018.

CHENG SHIN RUBBER IND. CO., LTD.
Information on investments in Mainland China

Year ended December 31, 2018

Table 9

Expressed in thousands of NTD
(Except as otherwise indicated)

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018	Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2018	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Net income of investee as of December 31, 2018	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2018	Book value of investments in Mainland China as of December 31, 2018	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018	Footnote
CHENG SHIN RUBBER (XIAMEN) IND., LTD.	A. Cover and tubes of tires and cover and tubes of bicycle tires B. Reclaimed rubber, adhesive, tape and other rubber products C. Plastic machinery, molds and its accessory products	\$ 5,375,125	2	\$ 910,834	\$ -	\$ 910,834	\$ 537,833	100.00	\$ 542,012	\$ 22,183,033	\$ 17,768,971	(Note 2、3、 5、6、7)
CHENG SHIN TIRE & RUBBER (CHINA) CO., LTD.	A. Cover and tubes of tires and cover and tubes of bicycle tires B. Reclaimed rubber, adhesive, tape and other rubber products C. Plastic machinery, molds and its accessory products	6,910,875	2	2,385,506	-	2,385,506	2,478,296	100.00	2,486,042	22,758,966	19,723,046	(Note 2、4、 6、8)
CHENG SHIN TOYO (KUNSHAN) MACHINERY CO., LTD.	Plastic machinery, molds and its accessory products	261,078	2	68,602	-	68,602	82,953	50.00	41,477	348,243	401,471	(Note 6、8)
CHENG SHIN TIRE & RUBBER (CHONGQING) CO., LTD.	A. Cover and tubes of tires and cover and tubes of bicycle tires B. Reclaimed rubber, adhesive, tape and other rubber products C. Plastic machinery, molds and its accessory products	3,071,500	2	-	-	-	955,335	100.00	961,814	5,493,696	1,097,525	(Note 2、4、 6、8)
KUNSHAN MAXXIS TIRE CO., LTD TIANJIN TAFENG RUBBER IND CO., LTD.	Retail of accessories for rubber tires Warehouse logistics and after- sales service centre	22,360 552,870	2 2	- -	- -	- -	7,028 (308,975)	100.00 100.00	7,028 308,975	28,529 1,264,082	- 757,407	(Note 6、8) (Note 6、7)
CHENG SHIN PETREL TIRE (XIAMEN) CO., LTD.	A. Radial tire and other various tire products B. Reclaimed rubber, adhesive, tape and other rubber products C. Plastic machinery, molds and its accessory products	3,992,950	2	-	-	-	844,820	100.00	844,828	12,967,020	3,663,962	(Note 2、3、 6、7)

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CHENG SHIN RUBBER IND. CO., LTD.
Information on investments in Mainland China

Year ended December 31, 2018

Table 9

Expressed in thousands of NTD
(Except as otherwise indicated)

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018	Amount remitted from Mainland China back to Taiwan for the year ended December 31, 2018	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Net income of investee as of December 31, 2018	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2018	Book value of investments in Mainland China as of December 31, 2018	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018	Footnote
		\$	2	\$	\$	\$	\$		\$	\$	\$	(Note 2 - 6 - 7)
XIAMEN CHENG SHIN ENTERPRISE CO., LTD.	A. Radial tire and other various tire products B. Reclaimed rubber, adhesive, tape and other rubber products C. Plastic machinery, molds and its accessory products	1,382,175		-	-	-	422,298	100.00	425,486	7,657,837	5,121,834	
CHENG SHIN (XIAMEN) INTL AUTOMOBILE CULTURE CENTER CO., LTD.	A. Research, development and testing of tires and automobiles accessory products and display of related products B. Management of racing tracks	614,300	2	-	-	-	100,374	100.00	(100,374)	284,021	-	(Note 6)
CHIN CHOU CHENG SHIN ENTERPRISE CO., LTD.	Distribution of rubber and components of tires	156,520	2	-	-	-	9,090	95.00	8,569	127,529	-	(Note 6 - 7)
CHENG SHIN LOGISTIC (XIAMEN) CO., LTD.	International container transportation business	64,450	2	-	-	-	26,065	49.00	12,772	157,420	-	(Note 6 - 7)
CHENG SHIN RUBBER (ZHANGZHOU) IND CO., LTD.	A. Tires and tubes B. Reclaimed rubber, adhesive, tape and other rubber products C. Plastic machinery, molds and its accessory products	4,248,400	2	-	-	-	348,159	100.00	345,897	5,297,329	508,017	(Note 5 - 6 - 7)

CHENG SHIN RUBBER IND. CO., LTD.
Information on investments in Mainland China
Year ended December 31, 2018

Table 9

Expressed in thousands of NTD
(Except as otherwise indicated)

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018	Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2018	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Net income of investee as of December 31, 2018	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2018	Book value of investments in Mainland China as of December 31, 2018	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018	Footnote
XIAMEN ESATE CO., LTD.	Construction and trading of employees' housing	\$ 1,699,360	2	\$ -	\$ -	\$ -	\$ -	100.00	\$ 39,633	\$ 1,606,433	\$ -	(Note 6 - 7)

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

- (1) Directly invest in a company in Mainland China.
- (2) Through investing in an existing company in the third area, which then invested in the investee in Mainland China.
- (3) Others

Note 2: Including investment income (loss) used to offset against sidestream and upstream transactions.

Note 3: The Company and Cheng Shin Rubber (Xiamen) Ind., Ltd. directly and indirectly holds 60% and 40% of the share ownership in Cheng Shin Petrol Tire (Xiamen) Co., Ltd., respectively.

Note 4: The Company and Cheng Shin Tire & Rubber (China) Co., Ltd. directly and indirectly holds 30% and 70% of share ownership in Cheng Shin Tire & Rubber (Chongqing) Co., Ltd., respectively.

Note 5: Cheng Shin Rubber (Xiamen) Ind., Ltd. and MAXXIS International (HK) Ltd. directly and indirectly holds 75% and 25% of share ownership in Cheng Shin Rubber (Zhangzhou) Ind Co., Ltd., respectively.

Note 6: Paid-in capital was converted at the exchange rate of NTD 30.715: USD 1 and NTD 4.472: RMB 1 prevailing on December 31, 2018.

Note 7: Investment income (loss) was recognised based on the financial statements that are audited and attested by international accounting firm which has cooperative relationship with accounting firm in R.O.C.

Note 8: Investment income (loss) was recognised based on the financial statements that are audited and attested by R.O.C. parent company's CPA.

CHENG SHIN RUBBER IND. CO., LTD.

Ceiling on investments in Mainland China

Year ended December 31, 2018

Table 9

Expressed in thousands of NTD
(Except as otherwise indicated)

Company name	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018 (Note 1)		Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA) (Note 1)		Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA (Note 2)	
Cheng Shin Rubber Ind. Co., Ltd.	\$	3,774,874	\$	20,668,124	\$	-

Note 1: Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018 was USD\$122,900 thousand and the total investment amount approved by the Investment Commission, MOEA, was USD\$672,900 thousand.

Note 2: According to 'Regulations Governing the Permission of Investment or Technical Cooperation in Mainland Area', the Company acquired the operations headquarters certification issued by the Industrial Development Bureau, Ministry of Economic Affairs, R.O.C. and thus, the investments amount in Mainland China is unlimited.

CHENG SHIN RUBBER IND. CO., LTD.
STATEMENT OF CASH AND CASH EQUIVALENTS
DECEMBER 31, 2018
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Table 1

Item	Description				Amount
Cash on hand and petty cash					\$ 550
Bank deposits					
Check deposits					2,981
Demand deposits					4,535,243
Foreign currency deposits	USD	33,091	thousand	Exchange rate 30.810	3,557,974
	EUR	35,306	thousand	Exchange rate 35.120	
	JPY	1,913,071	thousand	Exchange rate 0.279	
	THB	58	thousand	Exchange rate 0.951	
	GBP	7,101	thousand	Exchange rate 39.150	
	RMB	110,592	thousand	Exchange rate 4.471	
Time deposits	USD	36,000	thousand	Exchange rate 30.810	4,723,387
	Period	2018.12.03~2019.01.07			
	Interest rate	2.70% ~ 3.10%			
	RMB	809,800	thousand	Exchange rate 4.471	
	Period	2018.11.29~2019.01.30			
	Interest rate	2.80% ~ 3.68%			
					\$ 12,820,135

CHENG SHIN RUBBER IND. CO., LTD.
STATEMENT OF ACCOUNTS RECEIVABLE, NET
DECEMBER 31, 2018

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Table 2

<u>Name of Customer</u>	<u>Description</u>	<u>Amount</u>	<u>Remark</u>
Nissan North America, Inc.		\$ 177,413	
Polaris Industries Inc.		83,059	
Giant Manufacturing Co. Ltd		71,369	
Maxxis International GMBH		66,882	
Others		864,488	None of the balances of each remaining accounts is greater than 5% of this account balance.
		<u>1,263,211</u>	
Less: Allowance for bad debts		(<u>11,718</u>)	
		<u>\$ 1,251,493</u>	

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CHENG SHIN RUBBER IND. CO., LTD.
STATEMENT OF INVENTORIES
DECEMBER 31, 2018
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Table 3

Item	Description	Amount		Remark
		Cost	Market price	Method for determining market price
Raw materials		\$ 1,409,058	\$ 1,397,718	Net realisable value
Work in process		1,102,869	1,166,888	Net realisable value
Finished goods		<u>860,056</u>	<u>909,605</u>	Net realisable value
		3,371,983	<u>\$ 3,474,211</u>	
Less: Allowance for loss for obsolete and slow- moving inventories and market value decline		(<u>13,904</u>)		
		<u>\$ 3,358,079</u>		

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CHENG SHIN RUBBER IND. CO., LTD.
MOVEMENT SUMMARY OF INVESTMENTS ACCOUNTED FOR UNDER EQUITY METHOD
YEAR ENDED DECEMBER 31, 2018
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Table 4

Investee	As of January 1, 2018		Additions		Deductions		As of December 31, 2018		Market price or net in equity		Guarantee or pledge as collaterals
	No. of shares	Amount	No. of shares	Amount	No. of shares	Amount	No. of shares	Amount	Unit price	Total	
MAXXIS International Co., Ltd.	35,050,000	\$ 41,446,874	-	\$ 327,470	-	(\$ 1,347,921)	Note 1	35,050,000	\$ 1,153	\$ 40,426,423	None
CST Trading Ltd.	72,900,000	25,175,906	-	2,328,842	-	(2,633,879)	Note 1	72,900,000	341	24,870,869	None
MAXXIS Trading Ltd.	237,811,720	9,890,087	-	762,638	-	(545,831)	Note 1	237,811,720	42	10,106,894	None
PT MAXXIS International Indonesia	79,997,000	1,720,489	-	(1,100,877)	-	-	-	79,997,000	8	619,612	None
Cheng Shin Rubber USA, Inc.	1,800,000	2,433,930	-	401,871	-	(152,600)	Note 1	1,800,000	1,491	2,683,201	None
MAXXIS Rubber India Private Limited	549,995,541	2,049,105	99,999,189	(956,442)	-	-	-	649,994,730	2	1,092,663	None
PT MAXXIS TRADING INDONESIA	9,900	29,968	-	(2,324)	-	-	-	9,900	2,792	27,644	27,644
Cheng Shin Rubber Canada, Inc.	1,000,000	7,26,855	-	75,852	-	(153,525)	Note 1	1,000,000	649	649,182	None
NEW PACIFIC INDUSTRY COMPANY LIMITED	5,000,000	154,347	-	3,267	-	(5,000)	Note 1	5,000,000	31	152,614	None
MAXXIS Tech Center Europe B.V.	1,000,000	60,157	-	5,015	-	-	-	1,000,000	65	65,172	None
Cheng Shin Holland B.V.	9,708	16,673	-	8,750	(9,708)	(25,423)	Note 2	-	-	-	None
Maxxis Europe B.V.	-	-	500,000	17,844	-	-	-	500,000	36	17,844	-
MAXXIS (Taiwan) Trading Co., Ltd.	10,000,000	424,875	-	182,711	-	(274,689)	Note 1	10,000,000	33	332,897	None
		<u>\$ 84,129,266</u>		<u>\$ 2,054,617</u>		<u>(\$ 5,138,868)</u>			<u>\$ 81,045,015</u>	<u>\$ 332,897</u>	<u>\$ 81,045,015</u>

Note 1: The deduction amount is the amount of cash dividends distributed for the year ended December 31, 2018.

Note 2: Derived from current cash dividend of \$4,841 thousand, and proceeds from disposal of \$20,582 thousand.

CHENG SHIN RUBBER IND. CO., LTD.
STATEMENT OF LONG-TERM BORROWINGS
DECEMBER 31, 2018
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Table 5

Creditor	Amount of borrowings	Contract period	Interest rate	Pledges or collaterals	Remark
FIRST COMMERCIAL BANK CO., LTD.	\$ 3,400,000	2012.12.12~ 2021.10.06	Note	None	
CHANG HWA COMMERCIAL BANK, LTD.	2,360,000	2014.07.31~ 2021.09.23	Note	None	
HUA NAN COMMERCIAL BANK LTD.	2,200,000	2016.01.12~ 2020.10.31	Note	None	
HSBC Bank (Taiwan) Limited	1,000,000	2017.08.28~ 2019.08.28	Note	None	
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,000,000	2017.10.18~ 2020.10.16	Note	None	
Taiwan Cooperative Bank CO., LTD.	250,000	2016.09.26~ 2019.09.26	Note	None	
The Shanghai Commercial & Savings Bank, LTD.	500,000	2015.10.08~ 2020.10.08	Note	None	
Bangkok Bank Public Company Limited	300,000	2015.08.20~ 2020.08.20	Note	None	
Mega International Commercial Bank	300,000	2018.12.24~ 2021.12.24	Note	None	
	<u>11,310,000</u>				
Less: maturity at one year	<u>(3,810,000)</u>				
	<u>\$ 7,500,000</u>				

Note: For the year ended December 31, 2018, interest rate of borrowing ranged between 0.97%~1.25%.

CHENG SHIN RUBBER IND. CO., LTD.
STATEMENT OF SALES REVENUE, NET
YEAR ENDED DECEMBER 31, 2018
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Table 6

Item	Quantity (in thousands of tires)	Amount	Remark
Radial cover tires for passenger cars	6,378	\$ 7,839,207	
Cover tires for motorcycles	5,864	3,840,342	
Cover tires for automobiles	2,854	2,757,753	
Cover tires for bicycles	7,190	2,089,114	
Radial ply truck tyres	244	1,415,758	
Cover tires for industrial use	732	470,105	
Tubes for bicycles	4,993	252,512	
Others	-	824,579	None of the balances of each remaining accounts is greater than NT\$100 million.
		19,489,370	
Less: Sales returns and discounts		(114,747)	
		<u>\$ 19,374,623</u>	

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CHENG SHIN RUBBER IND. CO., LTD.
STATEMENT OF COST OF GOODS SOLD
YEAR ENDED DECEMBER 31, 2018
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Table 7

Item	Amount
Direct material	
Opening balance of materials	\$ 1,169,192
Add: Purchases in the period	8,335,640
Gain on physical of raw material	775
Less: Materials sold	(252,319)
Transfer to expenses	(202,760)
Scrapping of raw material	(534)
Ending balance of raw materials	(1,135,545)
Materials used during the period	7,914,449
Direct labour	1,448,546
Manufacturing overhead	5,539,429
Manufacturing costs	14,902,424
Add: Opening balance of work in process	1,188,302
Work in process purchased	408,229
Amortisation of difference	327,074
Less: Work in process sold	(27,898)
Transferred to expenses	(1,305,036)
Loss on physical inventory for work in process	(12,736)
Scrapping of inventory	(1,029)
Ending balance of work in progress	(1,102,869)
Cost of finished goods	14,376,461
Add: Opening balance of finished goods	723,770
Finished goods purchased	330,530
Gain on physical of finished goods	45,806
Amortisation of difference	442,918
Less: Transferred to expenses	(389,953)
Scrapping of finished goods	(3,105)
Ending balance of finished goods	(860,056)
Cost of manufacturing and sales of goods for the period	14,666,371
Cost of materials sold	252,319
Cost of work in process sold	27,898
Cost of production and sales of goods	14,946,588

CHENG SHIN RUBBER IND. CO., LTD.
STATEMENT OF COST OF GOODS SOLD
YEAR ENDED DECEMBER 31, 2018
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Table 7

<u>Item</u>	<u>Amount</u>
Add: Scrapping of inventory	4,668
Less: Revenue from sale of scraps	(30,050)
Gain on physical inventory	(33,845)
Total cost of sales	<u>\$ 14,887,361</u>

CHENG SHIN RUBBER IND. CO., LTD.
STATEMENT OF MANUFACTURING OVERHEAD
YEAR ENDED DECEMBER 31, 2018
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Table 8

<u>Item</u>	<u>Description</u>	<u>Amount</u>	<u>Remark</u>
Depreciation		\$ 1,260,399	
Wages and salaries		1,237,392	
Utilities expense		558,281	
Repairs and maintenance expense		552,136	
Fuel expense		377,895	
Other expenses		1,553,326	None of the balances of each remaining accounts is greater than 5% of this account balance.
		<u>\$ 5,539,429</u>	

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CHENG SHIN RUBBER IND. CO., LTD.
STATEMENT OF OPERATING EXPENSES
YEAR ENDED DECEMBER 31, 2018
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Table 9

<u>Item</u>	<u>Description</u>	<u>Selling expenses</u>	<u>General and administrative expenses</u>	<u>Remark</u>
Taxes		\$ 431,917	\$ -	
Advertisement expense		392,171	-	
Wages and salaries		370,253	346,170	
Freight		144,800	-	
Import/export(customs) expense		119,381	-	
Repairs and maintenance expense		-	43,509	
Amortization		-	32,159	
Other expenses		352,733	205,672	None of the balances of each remaining accounts is greater than 5% of this account balance.
		<u>\$ 1,811,255</u>	<u>\$ 627,510</u>	

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