

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

**FIRST STEAMSHIP COMPANY LTD.  
AND ITS SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2018 and 2017  
(With Independent Auditors' Report Thereon)**

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## **Representation Letter**

The entities that are required to be included in the combined financial statements of First Steamship Company Ltd. as of and for the year ended December 31, 2018 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 by the Financial Supervisory Commission, "Consolidated and Separate Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, First Steamship Company Ltd. and its Subsidiaries do not prepare a separate set of combined financial statements.

Company name: First Steamship Company Ltd.

Chairman: Jen-Hao Kuo

Date: March 28, 2019

## **Independent Auditors' Report**

To the Board of Directors of First Steamship Company Ltd.:

### **Opinion**

We have audited the consolidated financial statements of First Steamship Company Ltd. and its subsidiaries ( "the Group" ), which comprise the consolidated statement of financial position as of December 31, 2018 and 2017, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2018 and 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the reports of other auditors (please refer to Other Matter paragraph,) the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2018 and 2017 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards ( "IFRSs" ), International Accounting Standards ( "IASs" ), interpretation as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China.

### **Basis for Opinion**

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

### **Other Matter**

We did not audit the financial statements of Summit Ascent Holdings Limited and Sandmartin International Holdings Limited, which represented investment in other entities accounted for using the equity method of the Group. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Summit Ascent Holdings Limited and Sandmartin International Holdings Limited, is based solely on the report of other auditors. The investment in Summit Ascent Holdings Limited and Sandmartin International Holdings Limited accounted for using the equity method constituting 3 percent and 3 percent of total assets at December 31, 2018 and 2017, respectively, and the related share of profit of associates accounted for using the equity method constituting (25) percent and (7) percent of total profit before tax for the year ended December 31, 2018 and 2017, respectively.

First Steamship Company Ltd. has prepared its parent-company-only financial statements as of and for the years ended December 31, 2018 and 2017, on which we have issued an unmodified opinion.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In our professional judgments, key audit matters to be communicated in the independent auditors report are listed below:

### 1. Impairment of goodwill and trademark

Refer to notes 4(n), 4(o), 5(b)(ii), and 6(k) to the consolidated financial statements for the accounting principles on the recognition of impairment of goodwill and trademark, the accounting estimates and uncertainty of assumptions in assessment of impairment of goodwill and intangible assets, details of impairment of goodwill and intangible assets, respectively.

#### Description of key audit matter:

As of December 31, 2018, the carrying amounts of intangible assets constitute 6 percent of the total assets of the Group. The major part of goodwill and trademark originated from the acquisition of GORG in 2006. Since retailing business is influenced by downward economic growth and online shopping, maintaining revenue and profitability has become a challenge. Therefore, the goodwill and trademark from acquisition are affected, and the Group concerns if the carrying amounts exceed recoverable amounts of retailing department. The Group's management should follow IAS 36 to determine the value in use using a discounted cash flow forecast of retailing department. Due to the fact that the estimated future cash flow involved management's judgment, and it has great uncertainty, there is an overestimated risk on value in use of goodwill, trademark, and assets of retailing business department. Therefore, we consider the assessment of assets impairment as one of the key audit matters to the consolidated financial statements in the audit process.

#### How the matter was addressed in our audit:

We cast professional doubt on the model that the Group's management used to assess the impairment of goodwill and trademark, including to evaluate whether management has identified cash-generating units ( "CGU" ) which might have impairments, and to consider all the assets that have to be tested have been included in the assessment. We also review separate financial assumptions that the management used to assess impairments (e.g. remaining life in use, revenue growth rate, commission rate of department stores, growth rate of other revenues, income taxes, depreciation, amortization, working capital, and capital expenditure). We verify the reasonability of the assumptions and accuracy of management's calculation based on available data. We also examine the appropriateness of disclosure for the impairment of goodwill and trademark.

### 2. Assets impairment

Refer to notes 4(o), 5(b)(i), and 6(i) to the consolidated financial statements for the accounting principles on the recognition of impairment of non-financial assets, the accounting estimates and assumptions uncertainty in assessment of impairment of property, plant and equipment, and details of impairment of property, plant and equipment, respectively.

Description of key audit matter:

As of December 31, 2018, the carrying amounts of property, plant and equipment constitute 39 percent of the total assets of the Group. The major part of property, plant and equipment is operating assets in retailing and shipping departments. Since retailing business is influenced by downward economic growth and online shopping, maintaining revenue and profitability has become a challenge. Therefore, the carrying amounts of operating assets are affected, and the Group concerns if the carrying amounts exceed recoverable amounts. The Group's management should follow IAS 36 to determine the recoverable amounts by the higher of using discounted cash flow forecast or fair value less disposal costs. Due to the fact that the estimated future cash flow involved management's judgment, and it has great uncertainty, there is an overestimated risk on value in use of operating assets. Therefore, we consider the assessment of assets impairment as one of the key audit matters to the consolidated financial statements in the audit process.

How the matter was addressed in our audit:

We cast professional doubt on the model that the Group's management used to assess assets impairment, including to evaluate whether management has identified CGU which might have impairments, and to consider all the assets that have to be tested have been included in the assessment. We also review separate financial assumptions that the management used to assess impairment (e.g. remaining life in use, revenue growth rate, commission rate of department stores, growth rate of other revenues, income taxes, depreciation, amortization, working capital, and capital expenditure). We verify the reasonability of the assumptions and accuracy of management's calculation based on available data. We also examine the appropriateness of disclosure for the assets impairment.

## 3. Recoverability of other receivables

Refer to notes 4(g) and 6(d) to the consolidated financial statements for the accounting principles on the recognition of other receivables, and the disclosures, respectively.

Description of key audit matter:

The retailing department of the Group recently ended part of their investment due to the downturn of business cycle and rigorous competition in mainland China. As of 31 December 2018, the carrying amounts of other receivables, originated from uncollected prepaid investments, amounted to 725,119 thousand, and constituted 2 percent of the total assets of the Group. The recoverability of other receivables depended on the value of collateral and the progress of the disposal of assets by debtors. Therefore, we consider it as the key audit matter to the consolidated financial statements in the audit process.

How the matter was addressed in our audit:

To evaluate the recoverability of other receivables, we obtained documentation of managements' assessment to examine if their collaterals were sufficient. Also, we tested control points related to collection and examined the collection documents in subsequent period to assess the reasonability on recognition and amount of allowance for bad debt.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs, IASs, interpretation as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

### **Auditor' s Responsibilities for the Audit of the Consolidated Financial Statements**

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

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

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

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Li-Chen Lai and Shu-Ling Lien .

KPMG

Taipei, Taiwan (Republic of China)  
March 28, 2019

#### **Notes to Readers**

The accompanying consolidated financial statements are intended only to present the financial position, financial performance and its cash flows in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards ( "IFRSs" ), International Accounting Standards ( "IASs" ), interpretation as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

The independent auditors' report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language independent auditors' report and financial statements, the Chinese version shall prevail.



(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)  
**REVIEWED ONLY, NOT AUDITED IN ACCORDANCE WITH GENERALLY ACCEPTED AUDITING STANDARDS**

**Consolidated Balance Sheets**

**December 31, 2018 and 2017**

(Expressed in Thousands of New Taiwan Dollars)

		December 31, 2018		December 31, 2017				December 31, 2018		December 31, 2017	
		Amount	%	Amount	%			Amount	%	Amount	%
Assets											
Current assets:											
1100	Cash and cash equivalents(note 6(a))	\$ 5,468,507	16	\$ 6,979,583	20	2100	Short-term borrowings(notes 6(m) and 7)	3,540,288	10	2,813,379	8
1110	Current financial assets at fair value through profit or loss(note 6(b))	151,968	-	589,505	2	2110	Short-term notes and bills payable	49,947	-	49,916	-
1136	Current financial assets at amortized cost, net (Notes 6(b) and 8)	921,600	3	-	-	2130	Current contract liabilities (Notes 6(v) and 9)	5,173	-	-	-
1170	Accounts receivable, net(note 6(c) & (v))	1,214,938	4	480,290	1	2170	Accounts payable(note 6(p))	3,680,595	11	4,177,619	12
1200	Other receivables, net(notes 6(d))	906,515	3	1,095,190	3	2200	Other payables(notes 6(b), (f), (i), (p) ,(r)&(x),7and 9)	1,813,412	6	1,721,474	5
1220	Current tax assets	229	-	-	-	2230	Current tax liabilities(note 6(s))	149,727	-	68,564	-
1300	Inventories, net	363,337	1	304,380	1	2321	Current portion of bonds payable(note 6(o))	997,668	3	-	-
1320	Inventories (for construction business), net(note 8 and 9)	658,896	2	580,401	2	2322	Current portion of long-term borrowings(note 6(n))	1,629,615	5	4,069,290	12
1461	Non-current assets classified as held for sale(note 6(e) and 8)	503,590	1	-	-	2323	Current portion of long-term accounts payable(note 6(q))	46,545	-	61,389	-
1476	Other current financial assets(notes 6(l) and 8)	613,914	2	90,669	-	2399	Other current liabilities(notes 6(l) & (r))	429,187	1	260,717	1
1479	Other current assets, others(notes 6(q) & (t), 7 and 9)	575,933	2	736,132	2			12,342,157	36	13,222,348	38
		11,379,427	34	10,856,150	31						
Non-current assets:											
1550	Investments accounted for using equity method, net(note 6(e) & (f))	1,324,098	4	1,465,317	4	2530	Bonds payable(note 6(o))	997,668	3	1,992,227	6
1600	Property, plant and equipment(notes 6(i) & 7 and 8)	13,427,506	38	13,828,523	39	2540	Long-term borrowings(note 6(n))	5,632,493	16	4,338,461	12
1760	Investment property, net(notes 6(e) & (j) and 8)	144,982	-	393,778	1	2570	Deferred tax liabilities(note 6(s))	68,973	-	198,176	1
1780	Intangible assets(note 6(k))	2,213,422	6	2,110,453	6	2612	Long-term accounts payable(note 6(q))	1,399,021	4	1,538,580	4
1840	Deferred tax assets(note 6(s))	518,633	2	416,784	1	2640	Net defined benefit liability, non-current(note 6(r))	1,650	-	7,675	-
1915	Prepayments for business facilities(note 9)	613,494	2	555,259	2	2645	Guarantee deposits	953,419	3	794,622	2
1935	Long-term lease payments receivable(note 6(c))	885,063	3	1,120,674	3			9,053,224	26	8,869,741	25
1980	Other non-current financial assets(notes 6(l), 7 and 8)	526,060	2	711,417	2		Total liabilities	21,395,381	62	22,092,089	63
1985	Long-term prepaid rents(notes 6(q) and 8)	3,279,198	9	3,532,814	10						
1990	Other non-current assets	163,210	-	27,562	1		Equity attributable to owners of parent(note 6(e),(f) and (t)):				
		23,095,666	66	24,162,581	69	3100	Capital stock	6,308,832	18	6,308,832	18
						3200	Capital surplus	1,953,436	6	1,898,430	5
						3300	Retained earnings	680,956	2	673,130	2
						3400	Other equity interest	(230,852)	(1)	(336,136)	(1)
							Total equity attributable to owners of parent:	8,712,372	25	8,544,256	24
						36XX	Non-controlling interests(note 6(g),(h) and (t))	4,367,340	13	4,382,386	13
							Total equity	13,079,712	38	12,926,642	37
							Total liabilities and equity	\$ 34,475,093	100	\$ 35,018,731	100
	Total assets	\$ 34,475,093	100	\$ 35,018,731	100						

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)  
**FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES**

**Consolidated Statements of Comprehensive Income**

**For the years ended December 31, 2018 and 2017**

**(Expressed in Thousands of New Taiwan Dollars, Except for Earnings Per Common Share)**

		<b>2018</b>		<b>2017</b>	
		<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
4000	<b>Operating revenues</b> (notes 6(v) & (w) and 7)	\$ 8,043,875	100	\$ 7,297,447	100
5000	<b>Operating costs</b> (notes 6(q) & (r) and 7)	2,311,324	29	2,030,187	28
	<b>Gross profit from operations</b>	5,732,551	71	5,267,260	72
6000	<b>Operating expenses</b> (notes 6(f),(i),(k),(g),(r)&(x) and 7)	4,390,681	55	4,283,028	59
6450	Impairment loss determined in accordance with IFRS 9 (Note 6(c))	33,662	-	-	-
	<b>Net operating income</b>	1,308,248	16	984,232	13
	<b>Non-operating income and expenses:</b>				
7010	Other income(notes 6(b),(c),(d),(e),(f),(g),(i),(l),(o)&(y)and 7)	82,554	1	144,793	2
7020	Other gains and losses, net	(355,654)	4	293,358	4
7050	Finance costs	(441,991)	(5)	(398,715)	(5)
7055	Impairment loss determined in accordance with IFRS 9	(18,955)	-	-	-
7060	Share of profit (loss) of associates accounted for using equity method	(134,034)	(2)	(16,286)	-
		(868,080)	(10)	23,150	1
7900	<b>Profit (loss) from continuing operations before tax</b>	440,168	6	1,007,382	14
7950	Less: Tax expense(note 6(s))	220,579	3	312,433	4
	<b>Profit (loss)</b>	219,589	3	694,949	10
8300	<b>Other comprehensive income:</b>				
8310	<b>Components of other comprehensive income that will not be reclassified to profit or loss (notes 6(e),(r)&amp;(t))</b>				
8311	Remeasurements of defined benefit plans	1,426	-	701	-
8314	Equity related to non-current assets or disposal groups classified as held for sale	33,894	-	-	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	-	-	-	-
	<b>Total components of other comprehensive income that will be unclassified to profit or loss</b>	35,320	-	701	-
8360	<b>Components of other comprehensive income that will be reclassified to profit or loss (notes 6(e),(f),(s)&amp;(t))</b>				
8361	Exchange differences on translation of foreign financial statements	(55,608)	-	(487,123)	(7)
8365	Equity related to non-current assets or disposal groups classified as held for sale	2,981	-	-	-
8370	Share of other comprehensive income of associates accounted for using equity method	41,545	-	(41,454)	(1)
8399	Income tax related to components of other comprehensive income that will be reclassified to profit or loss	-	-	37,121	1
	<b>Total components of other comprehensive income that will be reclassified to profit or loss</b>	(11,082)	-	(491,456)	(7)
8300	<b>Other comprehensive income (loss)</b>	24,238	-	(490,755)	(7)
	<b>Comprehensive income (loss)</b>	<u>\$ 243,827</u>	<u>3</u>	<u>204,194</u>	<u>3</u>
	<b>Profit (loss), attributable to:</b>				
8610	Owners of parent	\$ 6,400	-	564,961	8
8620	Non-controlling interests(notes 6(t))	213,189	3	129,988	2
		<u>\$ 219,589</u>	<u>3</u>	<u>694,949</u>	<u>10</u>
	<b>Comprehensive income (loss) attributable to:</b>				
8710	Owners of parent	\$ 113,110	1	104,184	2
8720	Non-controlling interests(notes 6(t))	130,717	2	100,010	1
		<u>\$ 243,827</u>	<u>3</u>	<u>204,194</u>	<u>3</u>
	<b>Earnings per share</b> (note 6(u))				
9750	Basic earnings per share(NT dollars)	\$	0.01		1.06
9850	Diluted earnings per share(NT dollars)	\$	0.01		1.05

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated and Report Originally Issued in Chinese)  
**FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES**

**Consolidated Statements of Changes in Equity**

**For the years ended December 31, 2018 and 2017**

**(Expressed in Thousands of New Taiwan Dollars)**

	Equity attributable to owners of parent										
	Share capital	Retained earnings					Total other equity interest				
	Common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Total retained earnings	Exchange differences on translation of foreign financial statements	Equity related to non-current assets (or disposal groups) classified as held for sale	Total equity attributable to owners of parent	Non-controlling interests	Total equity
Balance at January 1, 2017	\$ 3,708,832	2,614,505	629,955	-	(522,487)	107,468	125,342	-	6,556,147	4,107,001	10,663,148
Profit	-	-	-	-	564,961	564,961	-	-	564,961	129,988	694,949
Other comprehensive income	-	-	-	-	701	701	(461,478)	-	(460,777)	(29,978)	(490,755)
Total comprehensive income	-	-	-	-	565,662	565,662	(461,478)	-	(104,184)	(100,010)	204,194
Appropriation and distribution of retained earnings:											
Legal reserve used to offset accumulated deficits	-	-	(522,487)	-	522,487	-	-	-	-	-	-
Changes in equity of associates accounted for using equity method	-	5,817	-	-	-	-	-	-	5,817	-	5,817
Issuance of shares	2,600,000	(623,877)	-	-	-	-	-	-	1,976,123	-	1,976,123
Difference between consideration and carrying amount of subsidiaries acquired or disposed	-	3,639	-	-	-	-	-	-	3,639	(11,159)	(7,520)
Changes in ownership interests in subsidiaries	-	(101,654)	-	-	-	-	-	-	(101,654)	178,057	76,403
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	8,477	8,477
Balance at December 31, 2017	\$ 6,308,832	1,898,430	107,468	-	565,662	673,130	(336,136)	-	8,544,256	4,382,386	12,926,642
Profit	-	-	-	-	6,400	6,400	-	-	6,400	213,189	219,589
Other comprehensive income	-	-	-	-	1,426	1,426	69,628	35,656	106,710	(82,472)	24,238
Total comprehensive income f8	-	-	-	-	7,826	7,826	69,628	35,656	113,110	130,717	243,827
Appropriation and distribution of retained earnings:											
Legal reserve appropriated	-	-	56,496	-	(56,496)	-	-	-	-	-	-
Special reserve appropriated	-	-	-	336,136	(336,136)	-	-	-	-	-	-
Donation from shareholders	-	3,332	-	-	-	-	-	-	3,332	-	3,332
Changes in equity of associates accounted for using equity method	-	26,220	-	-	-	-	-	-	26,220	-	26,220
Difference between consideration and carrying amount of subsidiaries acquired or disposed	-	25,454	-	-	-	-	-	-	25,454	(46,121)	(20,667)
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	(99,642)	(99,642)
Balance at December 31, 2018	\$ 6,308,832	1,953,436	163,964	336,136	180,856	680,956	(266,508)	35,656	8,712,372	4,367,340	13,079,712

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)  
**FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES**

**Consolidated Statements of Cash Flows**

**For the years ended December 31, 2018 and 2017**

**(Expressed in Thousands of New Taiwan Dollars)**

	<b>For the years ended December 31</b>	
	<b>2018</b>	<b>2017</b>
<b>Cash flows from (used in) operating activities:</b>		
Profit (loss) before tax	\$ 440,168	1,007,382
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	896,622	809,962
Amortization expense	34,564	38,684
Provision for bad debt	52,577	3,412
Net loss (gain) on financial assets or liabilities at fair value through profit or loss	3,257	(240,242)
Interest expense	441,991	398,715
Impairment loss on non-current assets held for sale	106,566	-
Interest income	(76,629)	(128,168)
Dividend income	(5,925)	(16,625)
Expensed of share-based payments	-	399
Loss on redemption of bonds payable	-	8,940
Share of loss (profit) of associates accounted for using equity method	134,034	16,286
Loss on disposal of property, plant and equipment	19,825	8,528
Gain on disposal of non-current assets classified as held for sales	-	(130,726)
Gain on disposal of investments	8,364	(316,128)
Impairment loss on financial assets	-	15,760
Impairment loss on non-financial assets	260,023	79,188
Lease expense	168,943	263,518
Gain on offsetting of financial assets, net	-	(35,773)
Gain on bargain purchase	-	(35,566)
Loss on Compensation	2,103	-
Total adjustments to reconcile profit	2,046,315	740,164
<b>Changes in operating assets and liabilities:</b>		
Changes in operating assets:		
Financial assets held for trading	340,192	624,538
Accounts receivable	(569,673)	(535,463)
Other receivables	(133)	(10,999)
Inventories	(143,370)	(129,083)
Other current assets	29,064	(58,914)
Other financial assets	(5,880)	(8)
Changes in operating liabilities:		
Current contract liability	(15,528)	-
-Accounts payable	(413,733)	250,322
Other payables	90,016	(103,428)
Other current liabilities	(21,863)	7,763
Net defined benefit liability	(4,599)	(2,050)
Other long-term accounts payable	(98,004)	(113,080)
Total adjustments	1,232,804	669,762
Cash inflow generated from operations	1,672,972	1,677,144
Interest received	45,592	100,618
Dividends received	5,925	18,360
Interest paid	(427,183)	(369,495)
Income taxes paid	(380,470)	(333,665)
Net cash flows from operating activities	916,836	1,092,962

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)  
**FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES**

**Consolidated Statements of Cash Flows (CONT' D)**

**For the years ended December 31, 2018 and 2017**

**(Expressed in Thousands of New Taiwan Dollars)**

	<b>For the years ended December 31</b>	
	<b>2018</b>	<b>2017</b>
<b>Cash flows from (used in) investing activities:</b>		
Acquisition of financial assets at amortized cost	(441,185)	-
Acquisition of available-for-sale financial assets	-	(2,897,191)
Proceeds from disposal of available-for-sale financial assets	-	2,929,786
Proceeds from disposal of financial assets at cost	-	1,340,728
Acquisition of investments accounted for using equity method	(753,811)	(659,116)
Proceeds from disposal of investments accounted for using equity method	135,750	1,561
Net cash flow from acquisition of subsidiaries (subsidiaries' cash deducted)	-	155
Proceeds from disposal of non-current assets classified as held for sale	-	587,361
Acquisition of property, plant and equipment	(793,302)	(1,703,561)
Proceeds from disposal of property, plant and equipment	58,212	100,024
Decrease in other receivables	162,131	311,256
Acquisition of intangible assets	(131,388)	(83,579)
Proceeds from disposal of intangible assets	672	-
Decrease in receivables (transfer of stock equity and prepaid investment)	17,328	815,939
Decrease in other financial assets	(30,474)	756,578
Increase in other non-current assets	(38,479)	(12,331)
Increase in prepaid equipment	(69,439)	(548,587)
Other investing activities (long-term prepaid rents)	(7,979)	(103,564)
<b>Net cash flows from (used in) investing activities</b>	<b>(1,891,964)</b>	<b>835,459</b>
<b>Cash flows from (used in) financing activities:</b>		
Increase in short-term borrowings	692,728	-
Decrease in short-term borrowings	-	(1,017,585)
Increase(Decrease) in short-term notes and bills payable	31	(10,077)
Redemption of bonds payable	-	(421,000)
Proceeds from long-term borrowings	3,013,669	1,750,708
Repayments of long-term borrowings	(4,316,110)	(2,979,559)
Increase in guarantee deposits	176,171	108,334
Subsidiaries' cash dividends paid	(99,642)	-
Proceeds from issuing shares	-	1,976,123
Disposal of ownership interests in subsidiaries (without losing control)	(20,667)	(7,520)
Change in non-controlling interests	-	(46,668)
Other financing activities	3,332	-
<b>Net cash flows used in financing activities</b>	<b>(550,488)</b>	<b>(647,244)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>14,540</b>	<b>(351,917)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(1,511,076)</b>	<b>929,260</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>6,979,583</b>	<b>6,050,323</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 5,468,507</b>	<b>6,979,583</b>

See accompanying notes to consolidated financial statements.

# **FIRST STEAMSHIP COMPANY LTD. AND SUBSIDIARIES**

## **Notes to the Consolidated Financial Statements**

**(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)**

# **FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES**

## **Notes to the Consolidated Financial Statements**

**For the years ended December 31, 2018 and 2017**

**(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)**

### **(1) Company history**

First Steamship Company Ltd. (the "Company") was established in October 1963 in accordance with the Company Act of the Republic of China. The Company's registered office address is located at 14F, No.237, Sec. 2, Fuxing S. Rd., Taipei City, R.O.C. The major business activities of the Company and its subsidiaries ( "the Group" ) are the domestic and international sea transportation and related businesses, trading of vessels and related products, providing services of financial leasing, providing business consultation services, trading of cosmetics, furnishings and etc., investments, and selling, renting, investing in construction. Please refer to note 14 for further information.

### **(2) Approval date and procedures of the consolidated financial statements:**

These consolidated financial statements were authorized for issuance by the Board of Directors on March 28, 2019.

### **(3) New standards, amendments and interpretations adopted:**

- (a) The impact of the International Financial Reporting Standards ( "IFRSs" ) endorsed by the Financial Supervisory Commission, R.O.C. ( "FSC" ) which have already been adopted.

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2018. In addition, based on the announcement issued by the FSC on December 12, 2017, the Group can, and therefore, elected to early adopt the amendments to IFRS 9 "Prepayment features with negative compensation" :

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective date per IASB</b>
Amendment to IFRS 2 "Clarifications of 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
Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	January 1, 2019

(Continued)

**FIRST STEAMSHIP COMPANY LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective date per IASB</b>
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendment to IAS 7 "Statement of Cash Flows–Disclosure Initiative"	January 1, 2017
Amendment to IAS 12 "Income Taxes–Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of Investment Property"	January 1, 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

Except for the following items, the Group believes that the adoption of the above IFRSs would not have any material impact on its consolidated financial statements. The extent and impact of signification changes are as follows:

(i) IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces the existing revenue recognition guidance, including IAS 18 "Revenue" and IAS 11 "Construction Contracts" and related interpretations. The Group applies this standard retrospectively with the cumulative effect, it need not restate those contracts, but instead, continues to apply IAS 11, IAS 18 and the related interpretations for comparative reporting period. The Group recognizes the cumulative effect upon the initially application of this Standard as an adjustment to the opening balance of retained earnings on January 1, 2018.

The Group uses the practical expedients for completed contracts, which means it need not restate those contracts that have been completed on January 1, 2018.

The following are the nature and impacts on changing of accounting policies:

1) Principal and agent

Under IFRS 15, the assessment will be based on whether the Group controls the specific goods before transferring to the end customer, rather than whether it has exposure to significant risks and rewards associated with the sale of goods. The Group assesses that the significant risks and rewards associated with the ownership of goods is similar to the rules of transferring controls. Therefore, it will not have significant influence on the consolidated financial statements.

2) Land development and sale of real estate

The current contract of sales of real estate is processed in accordance with the merchandise sales agreement, and the revenue is recognized when the construction of the real estate is completed and delivered to the customer, as the customer has accepted the

(Continued)

# FIRST STEAMSHIP COMPANY LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

product at that time and the significant risks and rewards of the ownership have been transferred to the customer. The timing of the transfer of risks and rewards is determined by which year the construction is completed and the building is delivered. In principle, the completion of the transfer of the property or the transfer of legal title of the property, that is, the significant risks and rewards of the ownership of the property have been transferred to the buyer, and the income is recognized. Recognizing revenue at that point in time is because the revenue and cost at that point in time can be reasonably measured, the consideration is more than likely to be recovered, and the managing of the goods is no longer continued. Under IFRS 15, it is necessary to assess the contractual commitment to gradually fulfill the performance obligation over time or to meet the performance obligation at a certain point in time. The Company's preliminary assessment of the contract of sales of real estate is still "at a certain point of time to fulfill the performance obligations", and the timing of significant risks and rewards of ownership of the property transferred to the customer is similar to the timing of the control transfer, so there will be no significant impact.

### 3) Major financial components – advanced real estate receipts

For the advance consideration, there is no guidance to accrue interest under the current standard. Therefore, the Group does not adjust the consideration for the advance receipt. Under IFRS 15, the advance receipts should be assessed whether there is a major financial component to decide whether to adjust the consideration for commitment to reflect the effects of the time value of money. The Group preliminarily assesses whether there is a difference between the consideration for contractual commitment and the current sales price based on the individual contract, and whether the advance receipts from the sale of real estate include financing factors. The advance receipts from the sale of real estate are security for the customer to perform the contract and decrease of the price variance risk from re-sale and subsidy to the Group due to the customer not performing the contract, rather than significant financial component of the financing obtained from the customer.

### 4) Impacts on financial statements

The following tables summarize the impacts of adopting IFRS 15 on the Group's consolidated financial statements:

Impacted line items on the consolidated balance sheet	December 31, 2018			January 1, 2018		
	Balances prior to the adoption of IFRS 15	Impact of changes in accounting policies	Balance upon adoption of IFRS 15	Balances prior to the adoption of IFRS 15	Impact of changes in accounting policies	Balance upon adoption of IFRS 15
Non-current contract liabilities	\$ -	5,173	5,173	-	20,701	20,701
Other liabilities	434,360	(5,173)	429,187	260,717	(20,701)	240,016
<b>Impact on liabilities</b>		<u>-</u>			<u>-</u>	

(Continued)



# FIRST STEAMSHIP COMPANY LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

Impacted line items on the consolidated statement of cash flows	For the years ended December 31, 2018		
	Balances prior to the adoption of IFRS 15	Impact of changes in accounting policies	Balance upon adoption of IFRS 15
Cash flows from (used in) operating activities:			
Adjustments:			
Decrease in contract liabilities	\$ -	(15,528)	(15,528)
Decrease in other current liabilities	(37,391)	15,528	(21,863)
<b>Impact on net cash flows from operating activities</b>		<b>-</b>	

Note: Advance receipts for premises are classified as other current liabilities under previous standards. Under IFRS 15, they are reclassified to contract liabilities.

### (ii) IFRS 9 “Financial Instruments”

IFRS 9 replaces IAS 39 “Financial Instruments: Recognition and Measurement” which contains classification and measurement of financial instruments, impairment and hedge accounting.

As a result of the adoption of IFRS 9, the Group adopted the consequential amendments to IAS 1 “Presentation of Financial Statements” which requires impairment of financial assets to be presented in a separate line item in the statement of profit or loss and OCI. Previously, the Group’s approach was to include the impairment of trade receivables in administrative expenses. Additionally, the Group adopted the consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018 but generally have not been applied to comparative information.

The detail of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below:

#### 1) Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available-for-sale assets. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. For an explanation of how the Group classifies and measures financial assets and accounts for related gains and losses under IFRS 9, please see note 4(g)

The adoption of IFRS 9 did not have significant impact on its accounting policies on financial liabilities of the Group.

(Continued)

## FIRST STEAMSHIP COMPANY LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### 2) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with the 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than they are under IAS 39 – please see note 4(g).

#### 3) Transition

The adoption of IFRS 9 have been applied retrospectively, except as described below,

- Comparative periods have been restated only for retrospective application of the cost of hedging approach for forward points. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as on January 1, 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
  - The determination of the business model within which a financial asset is held.
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.
- If an investment in a debt security had low credit risk at the date of initial application of IFRS 9, then the Group assumed that the credit risk on its asset will not increase significantly since its initial recognition.

#### 4) Classification of financial assets on the date of initial application of IFRS 9

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as of January 1, 2018 (Measurement categories and carrying amount of financial liabilities are not changed).

(Continued)

# FIRST STEAMSHIP COMPANY LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

	IAS39		IFRS9	
	Measurement categories	Carrying Amount	Measurement categories	Carrying Amount
<b>Financial Assets</b>				
Cash and cash equivalents	Loans and receivables (note 1)	6,979,583	Amortized cost	6,979,583
Notes receivable and accounts receivable, net	Loans and receivables (note 1)	480,290	Amortized cost	480,290
Other receivables	Loans and receivables (note 1)	1,095,190	Amortized cost	1,095,190
Derivative instruments	Held-for-trading (note 2)	89	Mandatorily at FVTPL	89
Debt securities	Held-for-trading (note 2)	12,798	Mandatorily at FVTPL	12,798
Equity instruments	Held-for-trading (note 2)	576,618	Mandatorily at FVTPL	576,618
Other financial assets	Loans and receivables (note 1)	802,086	Amortized cost	802,086
Long-term lease payment receivables	Loans and receivables (note 1)	1,120,674	Amortized cost	1,120,674

Note1: Trade, lease and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortized cost.

Note2: Under IAS 39, these equity securities were designated as at FVTPL because they were managed on a fair value basis and their performance was monitored on this basis. These assets have been classified as mandatorily measured at FVTPL under IFRS 9.

### (iii) Amendments to IAS 7 “Disclosure Initiative”

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

To satisfy the new disclosure requirements, the Group presents a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities as note 6(ac)

### (b) The impact of IFRS endorsed by FSC but not yet effective

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2019 in accordance with Ruling No. 1070324857 issued by the FSC on July 17, 2018:

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# FIRST STEAMSHIP COMPANY LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

New, Revised or Amended Standards and Interpretations	Effective date per IASB
IFRS 16 "Leases"	January 1, 2019
IFRIC 23 "Uncertainty over Income Tax Treatments"	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
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019

Except for the following items, the Group believes that the adoption of the above IFRSs would not have any material impact on its consolidated financial statements. The extent and impact of signification changes are as follows :

(i) IFRS 16 "Leases"

IFRS 16 replaces the existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 introduces a single and an on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. In addition, the nature of expenses related to those leases will now be changed since IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. There are recognition exemptions for short-term leases and leases of low-value items. The lessor accounting remains similar to the current standard – i.e. the lessors will continue to classify leases as finance or operating leases

1) Determining whether an arrangement contains a lease

The Group has an arrangement that was not in the legal form of a lease, for which it concluded that the arrangement contains a lease of equipment under IFRIC 4. On transition to IFRS 16, the Group can choose to apply either of the following:

- IFRS 16 definition of a lease to all its contracts; or
- a practical expedient that does not need any reassessment whether a contract is, or contains, a lease.

The Group plans to apply the practical expedient to grandfather the definition of a lease upon transition. This means that it will apply IFRS 16 to all contracts entered into before January 1, 2019, and identified as leases in accordance with IAS 17 and IFRIC 4.

2) Transition

As a lessee, the Group can apply the standard using either of the following:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

On January 1, 2019, the Group plans to initially apply IFRS 16 using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at January 1,

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# FIRST STEAMSHIP COMPANY LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

2019, with no restatement of comparative information.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group chooses to elect the following practical expedients:

- apply a single discount rate to a portfolio of leases with similar characteristics.
- adjust the right-of-use assets, based on the amount reflected in IAS 37 onerous contract provision, immediately before the date of initial application, as an alternative to an impairment review.
- apply the exemption not to recognize the right-of-use assets and liabilities to leases with lease term that ends within 12 months of the date of initial application
- exclude the initial direct costs from measuring the right-of-use assets at the date of initial application.
- use hindsight when determining the lease term if the contract contains options to extend or terminate the lease

- 3) So far, the most significant impact identified is that the Group will have to recognize recognition of right-of-use assets and lease liabilities for operating leases, office premises and department stores. The Group estimated that the right-of-use assets to increase by \$10,981,698 thousand, the lease liabilities to increase by \$10,981,698 thousand, long-term prepaid rent (including one year) to decrease by \$3,469,405 thousand, deferred tax assets to increase by \$329,268 thousand, long-term payable to decrease by \$1,445,566 thousand, lease liabilities to increase by \$10,271,181 thousand, non-controlling interests decrease by \$428,649 thousand and retained earnings to decrease by \$554,360 thousand on January 1, 2019. Also, the Group is not required to make any adjustments for leases where the Group is the intermediate lesser in a sub-lease. However, the above estimated impact of adopting the new report may be subject to change based on the future environment or condition.

- (c) The impact of IFRSs issued by IASB but not yet endorsed by the FSC

As of the date the following IFRSs that have been issued by the IASB, but not yet endorsed by the FSC :

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective date per IASB</b>
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Effective date to be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020

(Continued)

**FIRST STEAMSHIP COMPANY LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

Those which may be relevant to the Group are set out below :

<b>Issuance / Release Dates</b>	<b>Standards or Interpretations</b>	<b>Content of amendment</b>
October 31, 2018	Amendments to IAS 1 and IAS 8 “Definition of Material”	The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards.

The Group is evaluating the impact on its financial position and financial performance upon the initial adoption of the abovementioned standards or interpretations. The results thereof will be disclosed when the Group completes its evaluation.

**(4) Summary of significant accounting policies:**

The summary of the significant accounting policies used in this consolidated financial report is as follows. Except as noted in Notes 3 and 4 (g) and (q), the following accounting policies have been consistently applied to all periods of expression of this consolidated financial report..

**(a) Statement of compliance**

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

**(b) Basis of preparation**

**(i) Basis of measurement**

Except for the following significant accounts, the consolidated financial statements have been prepared on a historical cost basis:

- 1) Financial instruments measured at fair value through profit or loss are measured at fair value;
- 2) The defined benefit liability (asset) is recognized as the fair value of the plan assets less the present value of the defined benefit obligation.

**(ii) Functional and presentation currency**

The functional currency of each Group entity is determined based on the primary economic environment in which the entity operates. The consolidated financial statements are presented in New Taiwan dollars, which is the Company’ s functional currency. All financial information presented in New Taiwan dollars has been rounded to the nearest thousand.

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# FIRST STEAMSHIP COMPANY LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### (c) Basis of consolidation

#### (i) Principle of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and its subsidiaries. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

The financial reporting of the subsidiary has been properly adjusted so that its accounting policies are consistent with the accounting policies used by the Group.

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Non-controlling equity adjustment and the fair value of the consideration paid or received is directly recognized in equity and belongs to the owners of the Company.

#### (ii) List of subsidiaries in the consolidated financial statements

List of subsidiaries in the consolidated financial statements include.

Name of Investor	Name of Subsidiary	Principal activity	Shareholding		Note
			December 31, 2018	December 31, 2017	
First Steamship Co., Ltd.	Yee Shin Investment Co., Ltd.	General investing	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
First Steamship Co., Ltd.	Yee young Co., Ltd	Real estate development, rental and leasing of building	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
First Steamship Co., Ltd.	Royal Sunway Co., Ltd	Real estate development, rental and leasing of building	55.00%	55.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
First Steamship Co., Ltd.	FIRST STEAMSHIP S.A.	International transportation and shipping agency	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
First Steamship Co., Ltd.	GRAND OCEAN RETAIL GROUP LTD.	Investment holding company	3.82%	3.82%	The company directly (indirectly) holds more than 50% of its subsidiaries
First Steamship Co., Ltd.	FIRST MARINER HOLDING LTD.	Investment holding company	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
First Steamship Co., Ltd.	NEW URBAN INVESTMENTS LTD.	Investment holding company	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
Yee Shin Investment Co., Ltd	GRAND OCEAN RETAIL GROUP LTD.	Investment holding company	2.29%	1.82%	The company directly (indirectly) holds more than 50% of its subsidiaries
Royal Sunway Co., Ltd.	Lan Hai Engineering Consultants LTD	Engineering Consultancy	70.00%	70.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
FIRST STEAMSHIP S.A.	LONGEVITY NAVIGATION S.A.	International transportation and shipping agency	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
FIRST STEAMSHIP S.A.	PRAISE MARITIME S.A.	International transportation and shipping agency	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries

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# **FIRST STEAMSHIP COMPANY LTD. AND SUBSIDIARIES**

## **Notes to the Consolidated Financial Statements**

Name of Investor	Name of Subsidiary	Principal activity	Shareholding		Note
			December 31, 2018	December 31, 2017	
FIRST STEAMSHIP S.A.	BEST STEAMSHIP S.A.	International transportation and shipping agency	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
FIRST STEAMSHIP S.A.	GRAND STEAMSHIP S.A.	International transportation and shipping agency	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
FIRST STEAMSHIP S.A.	AHEAD CAPITAL LTD.	Investment holding company	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
FIRST STEAMSHIP S.A.	MEDIA ASSETS GLOBAL LTD.	Investment holding company	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
FIRST STEAMSHIP S.A.	BLACK SEA STEAMSHIP S.A.	International transportation and shipping agency	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
FIRST STEAMSHIP S.A.	SHIP BULKER STEAMSHIP S.A..	International transportation and shipping agency	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
FIRST STEAMSHIP S.A.	NATURE SOURCES LTD.	Investment holding company	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
FIRST STEAMSHIP S.A.	GRAND OCEAN RETAIL GROUP LTD.	Investment holding company	48.38%	48.38%	The company directly (indirectly) holds more than 50% of its subsidiaries
FIRST STEAMSHIP S.A.	RELIANCE STEAMSHIP S.A.	International transportation and shipping agency	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
FIRST STEAMSHIP S.A.	ALLIANCE STEAMSHIP S.A.	International transportation and shipping agency	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
FIRST STEAMSHIP S.A.	SURE SUCCESS STEAMSHIP S.A.	International transportation and shipping agency	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
FIRST STEAMSHIP S.A.	HERITAGE RICHES LTD.	Investment holding company	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
AHEAD CAPITAL LTD.	GRAND OCEAN RETAIL GROUP LTD.	Investment holding company	1.85%	1.85%	The company directly (indirectly) holds more than 50% of its subsidiaries
FIRST MARINER HOLDING LTD.	FIRST MARINER CAPITAL LTD.	Investment holding company	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
FIRST MARINER HOLDING LTD.	MARINER FAR EAST LTD.	Investment holding company	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
FIRST MARINER CAPITAL LTD.	MARINER CAPITAL LTD.	Investment holding company	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
FIRST MARINER CAPITAL LTD.	Mariner Finance Ltd.	Loan company	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
FIRST MARINER CAPITAL LTD.	Morton Securities Ltd.	Securities and Securities underwriting company	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
MARINER CAPITAL LTD.	Mariner Finance Ltd.	Automobile Finance leasing company	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries

(Continued)



# **FIRST STEAMSHIP COMPANY LTD. AND SUBSIDIARIES**

## **Notes to the Consolidated Financial Statements**

Name of Investor	Name of Subsidiary	Principal activity	Shareholding		Note
			December 31, 2018	December 31, 2017	
Mariner Finance Ltd.	Shanghai Youxin Car Leasing Ltd.	Automobile Finance leasing company	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
Mariner Finance Ltd.	Suzhou Youcheng Car Leasing Ltd.	Automobile Finance leasing company	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
Mariner Finance Ltd.	Nanjing Youcheng Car Leasing Ltd.	Automobile Finance leasing company	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
Mariner Finance Ltd.	Nantong Youcheng Car Leasing Ltd.	Automobile Finance leasing company	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
Mariner Finance Ltd.	Huaian Youcheng Car Leasing Ltd.	Automobile Finance leasing company	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
Mariner Finance Ltd.	Hefei Youxin Car Leasing Ltd.	Automobile Finance leasing company	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
Mariner Finance Ltd.	Wuhan Youxin Car Leasing Ltd.	Automobile Finance leasing company	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
Mariner Finance Ltd.	Qingdao Youcheng Car Leasing Ltd.	Automobile Finance leasing company	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
Mariner Finance Ltd.	Weifang Youcheng Car Leasing Ltd.	Automobile Finance leasing company	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
Mariner Finance Ltd.	Chongqing Youren Car Leasing Ltd.	Automobile Finance leasing company	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
Mariner Finance Ltd.	Fuzhou Youli Car Leasing Ltd.	Automobile Finance leasing company	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
Mariner Finance Ltd.	Dongguan Youcheng Car Leasing Ltd.	Automobile Finance leasing company	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
Mariner Finance Ltd.	Guangzhou Youqiang Car Leasing Ltd.	Automobile Finance leasing company	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
Mariner Finance Ltd.	Ningbo Youren Car Leasing Ltd.	Automobile Finance leasing company	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
Mariner Finance Ltd.	Changsha Youli Car Service Ltd.	Automobile Finance leasing company	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
Mariner Finance Ltd.	Xian Youcheng Car Leasing Ltd.	Automobile Finance leasing company	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
Mariner Finance Ltd.	Xiamen Youhon Car Leasing Ltd.	Automobile Finance leasing company	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
Mariner Finance Ltd.	Chengdu Youcheng Car Leasing Ltd.	Automobile Finance leasing company	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
Mariner Finance Ltd.	Xuzhou Youhon Car Leasing Ltd.	Automobile Finance leasing company	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
Mariner Finance Ltd.	Lianyungang Youren Car Service Ltd.	Automobile Finance leasing company	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries

(Continued)

# **FIRST STEAMSHIP COMPANY LTD. AND SUBSIDIARIES**

## **Notes to the Consolidated Financial Statements**

Name of Investor	Name of Subsidiary	Principal activity	Shareholding		Note
			December 31, 2018	December 31, 2017	
Mariner Finance Ltd.	Jinan Youli Car Leasing Ltd.	Automobile Finance leasing company	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
Mariner Finance Ltd.	Yancheng Youcheng Car Leasing Ltd.	Automobile Finance leasing company	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
Mariner Finance Ltd.	Zhuzhou Youcheng Car Leasing Ltd.	Automobile Finance leasing company	-	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries and it also completed liquidation in October 2017
Mariner Finance Ltd.	Zhongshan Youcheng Car Rental Co., Ltd.	Automobile Finance leasing company	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
GRAND OCEAN RETAIL GROUP LTD.	GRAND CITI LTD.	Investment holding company	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
GRAND CITI LTD.	Grand Ocean Retail Group Ltd.	Trading of cosmetics, furnishings, etc.	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
Grand Ocean Retail Group Ltd.	Suzhou Grand Ocean Department Store Co., Ltd.	Trading of cosmetics, furnishings, etc.	86.67%	86.67%	The company directly (indirectly) holds more than 50% of its subsidiaries and it also completed liquidation in December 2017
Grand Ocean Retail Group Ltd.	Nanjing Ocean Department Store Co., Ltd.	Trading of cosmetics, furnishings, etc.	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
Grand Ocean Retail Group Ltd.	Fuzhou Zhongcheng Grand Ocean Department Store Co., Ltd.	Trading of cosmetics, furnishings, etc.	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
Grand Ocean Retail Group Ltd.	Zayton Ocean Department Store Co., Ltd.	Trading of cosmetics, furnishings, etc.	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
Grand Ocean Retail Group Ltd.	Shanghai Jing Xuan Business Management Co., Ltd.	Trading of cosmetics, furnishings, etc.	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
Grand Ocean Retail Group Ltd.	Fuzhou Jiaruixing Commercial Management Co., Ltd.	Trading of cosmetics, furnishings, etc.	100.00%	- %	The company directly (indirectly) holds more than 50% of its subsidiaries
Zayton Ocean Department Store Co., Ltd.	Wuhan Zhongshan Grand Ocean Department Store Co., Ltd.	Trading of cosmetics, furnishings, etc.	30.00%	30.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
Nanjing Ocean Department Store Co., Ltd.	Suzhou Grand Ocean Department Store Co., Ltd.	Trading of cosmetics, furnishings, etc.	6.66%	6.66%	The company directly (indirectly) holds more than 50% of its subsidiaries and it also completed liquidation in December 2017
Nanjing Ocean Department Store Co., Ltd.	Nanjing Grand Ocean Department Store Co., Ltd.	Trading of cosmetics, furnishings, etc.	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
Nanjing Ocean Department Store Co., Ltd.	Xi'an Ocean Department Store Co., Ltd.	Trading of cosmetics, furnishings, etc.	-	-	The company's direct (indirect) holdings of more than 50% of its subsidiaries and it also completed liquidation in November 2017
Fuzhou Zhongcheng Grand Ocean Department Store Co., Ltd.	Fuzhou Grand Ocean Department Store Co., Ltd.	Trading of cosmetics, furnishings, etc.	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries

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# FIRST STEAMSHIP COMPANY LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

Name of Investor	Name of Subsidiary	Principal activity	Shareholding		Note
			December 31, 2018	December 31, 2017	
Fuzhou Zhongcheng Grand Ocean Department Store Co., Ltd.	Fuzhou Tiandi Grand Ocean Department Store Co., Ltd.	Trading of cosmetics, furnishings, etc.	50.00%	50.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
Fuzhou Zhongcheng Grand Ocean Department Store Co., Ltd.	Wuhan Zhongshan Grand Ocean Department Store Co., Ltd.	Trading of cosmetics, furnishings, etc.	70.00%	70.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
Fuzhou Grand Ocean Department Store Co., Ltd.	Fuzhou Tiandi Grand Ocean Department Store Co., Ltd.	Trading of cosmetics, furnishings, etc.	50.00%	50.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
Wuhan Zhongshan Grand Ocean Department Store Co., Ltd.	Wuhan Guanggu Grand Ocean Department Store Co., Ltd.	Trading of cosmetics, furnishings, etc.	100.00%	100.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
Wuhan Zhongshan Grand Ocean Department Store Co., Ltd.	Xiangtan Grand Ocean Department Store Co., Ltd.	Trading of cosmetics, furnishings, etc.	50.00%	50.00%	The company directly (indirectly) holds more than 50% of its subsidiaries and it also completed liquidation in December 2017
Wuhan Zhongshan Grand Ocean Department Store Co., Ltd.	Chongqing Guanggu Grand Ocean Department Store Co., Ltd.	Trading of cosmetics, furnishings, etc.	50.00%	50.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
Wuhan Zhongshan Grand Ocean Department Store Co., Ltd.	Wuhan Longyang Grand Ocean Department Store Co., Ltd.	Trading of cosmetics, furnishings, etc.	50.00%	50.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
Wuhan Zhongshan Grand Ocean Department Store Co., Ltd.	Hengyang Grand Ocean Department Store Co., Ltd.	Trading of cosmetics, furnishings, etc.	100.00%	1.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
Wuhan Zhongshan Grand Ocean Department Store Co., Ltd.	Shiyan Ocean Modern Shopping Co., Ltd.	Trading of cosmetics, furnishings, etc.	100.00%	- %	The company directly (indirectly) holds more than 50% of its subsidiaries
Wuhan Guanggu Grand Ocean Department Store Co., Ltd.	Xiangtan Grand Ocean Department Store Co., Ltd.	Trading of cosmetics, furnishings, etc.	50.00%	50.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
Wuhan Guanggu Grand Ocean Department Store Co., Ltd.	Chongqing Guanggu Grand Ocean Department Store Co., Ltd.	Trading of cosmetics, furnishings, etc.	50.00%	50.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
Wuhan Guanggu Grand Ocean Department Store Co., Ltd.	Wuhan Longyang Grand Ocean Department Store Co., Ltd.	Trading of cosmetics, furnishings, etc.	50.00%	50.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
Wuhan Guanggu Grand Ocean Department Store Co., Ltd.	Yichang Grand Ocean Department Store Co., Ltd.	Trading of cosmetics, furnishings, etc.	99.00%	99.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
Wuhan Longyang Grand Ocean Department Store Co., Ltd.	Yichang Grand Ocean Department Store Co., Ltd.	Trading of cosmetics, furnishings, etc.	1.00%	1.00%	The company directly (indirectly) holds more than 50% of its subsidiaries
Xiangtan Grand Ocean Department Store Co., Ltd.	Hengyang Grand Ocean Department Store Co., Ltd.	Trading of cosmetics, furnishings, etc.	-	99.00%	The company directly (indirectly) holds more than 50% of its subsidiaries

(iii) Subsidiaries excluded from the consolidated financial statements: None.

(d) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the

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## FIRST STEAMSHIP COMPANY LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Nonmonetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for those differences relating to available-for-sale equity instrument, which are recognized in other comprehensive income:

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the reporting currency at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated at the average exchange rate. Translation differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve in equity.

When a foreign operation is disposed of such that control, significant influence, or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as a part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such a monetary item that are considered to form a part of the net investment in the foreign operation are recognized in other comprehensive income.

(e) Classification of current and non-current assets and liabilities

Except for the construction business and rental of real estate, which the operating cycle are categorized as current or non-current by 3 to 5 years, the rules to classify other assets and liabilities as current or non-current are as follows:

- (i) It is expected to be realized, or is intended to be sold or consumed, in the normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is expected to be realized within twelve months after the reporting period;
- (iv) The asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

A liability is classified as current under one of the following criteria, otherwise, is classified as non-current.

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# **FIRST STEAMSHIP COMPANY LTD. AND SUBSIDIARIES**

## **Notes to the Consolidated Financial Statements**

- (i) It is expected to be settled in the normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is due to be settled within twelve months after the reporting period;
- (iv) It does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by issuing equity instruments do not affect its classification.

**(f) Cash and cash equivalents**

Cash and cash equivalents comprise cash, cash in bank, and short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Time deposits which meet the above definition and are held for the purpose of meeting short term cash commitments rather than for investment or other purposes should be recognized as cash equivalents.

**(g) Financial instruments (applicable after January 1, 2018)**

**(i) Financial assets**

Financial assets are classified into the following categories: measured at amortized cost, and fair value through profit or loss (FVTPL).

The Group shall reclassify all affected financial assets only when it changes its business model for managing its financial assets.

**1) Financial assets measured at amortized cost**

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

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

A financial asset measured at amortized cost is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses, and impairment loss, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

**2) Fair value through profit or loss (FVTPL)**

All financial assets not classified as amortized cost described as above are measured at

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## FIRST STEAMSHIP COMPANY LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

FVTPL. On initial recognition, the Group may irrevocably designate a financial asset, which meets the requirements to be measured at amortized cost or at FVOCI, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent changes that are measured at fair value, which take into account any dividend and interest income, are recognized in profit or loss.

#### 3) Impairment of financial assets

The Group recognizes loss allowances for expected credit losses on financial assets measured at amortized cost (including cash and cash equivalents, amortized costs, notes and accounts receivable, other receivables, long-term lease payments receivable and other financial assets), debt investments measured at FVOCI, accounts receivable measured at FVOCI and contract assets.

Loss allowance for trade receivables and contract assets are always measured at an amount equal to lifetime expected credit loss (ECL).

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Group's historical experience and informed credit assessment as well as forward-looking information.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Group assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial assets is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;

(Continued)

## FIRST STEAMSHIP COMPANY LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

- it is probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. The Group recognizes the amount of expected credit losses (or reversal) in profit or loss, as an impairment gain or loss.

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

#### 4) Derecognition of financial assets

Financial assets are derecognized when the contractual rights to the cash flows from the assets expire, or when the Group transfers substantially all the risks and rewards of ownership of the financial assets.

#### (ii) Financial assets (applicable before January 1, 2018)

Financial assets are classified into the following categories: financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity financial assets, and loans and receivables.

##### 1) Financial assets at fair value through profit or loss

A financial asset is classified in this category if it is held-for-trading or is designated as such on initial recognition. Financial assets classified as held-for-trading if it is acquired principally for the purpose of selling in the short term. The Group designates financial assets, other than ones classified as held-for-trading, as at fair value through profit or loss at initial recognition under one of the following situations:

- a) Designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- b) Performance of the financial asset is evaluated on a fair value basis;
- c) A hybrid instrument contains one or more embedded derivatives.

At initial recognition, financial assets classified under this category are measured at fair value. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, which takes into account any dividend and interest income, are recognized in profit or loss, and included in the statement of comprehensive income. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade-date accounting.

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, are measured at cost less accumulated impairment, and are included in financial assets measured at cost.

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## FIRST STEAMSHIP COMPANY LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### 2) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value, plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables other than insignificant interest on short-term receivables are measured at amortized cost using the effective interest method, less any impairment losses. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade-date accounting.

Interest income is recognized in profit or loss, and it is included in the statement of comprehensive income.

#### 3) Impairment of financial assets

Except for financial assets at fair value through profit or loss, financial assets are assessed for impairment at each reporting date. A financial asset is impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the assets and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider, otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is considered objective evidence of impairment.

All individually significant receivables are assessed for specific impairment. Receivables that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics. In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than the those suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

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

An impairment loss in respect of a financial asset is deducted from the carrying amount except for accounts receivable, for which an impairment loss is reflected in an allowance account against the receivables. When it is determined a receivable is uncollectible, it is written off from the allowance account. Changes in the amount of the allowance account are recognized in profit or loss.

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## FIRST STEAMSHIP COMPANY LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss.

If, in a subsequent period, the amount of impairment loss on a financial asset measured at amortized cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through profit or loss to the extent that the carrying value of the asset does not exceed its amortized cost before the impairment was recognized at the reversal date. Impairment losses recognized on an available-for-sale equity security are not reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income, and accumulated in other equity. If, in a subsequent period, the fair value of an impaired available for sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

Impairment losses and recoveries of accounts receivable are included in administrative expenses; impairment losses and recoveries of other financial assets are included in other gains and losses under non-operating income and expenses.

#### 4) Derecognition of financial assets

Financial assets are derecognized when the contractual rights of the cash inflow from the assets are terminated, or when the Group transfers substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in “other equity – unrealized gains or losses on available-for-sale financial assets” in profit or loss is included in the statement of comprehensive income.

The Group separates the part that continues to be recognized and the part that is derecognized based on the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received for the part derecognized, and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income, shall be recognized in profit or loss.

#### (iii) Financial liabilities and equity instruments

##### 1) Classification of debt or equity instruments

Debt or equity instruments issued by the Group are classified as financial liabilities or equity instruments in accordance with the substance of the contractual agreement.

An equity instrument is any contract that evidences residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued are recognized as the amount of consideration received, less the direct cost of issuing.

The compound financial instrument issued by the Group is a convertible corporate bond that the holder has the option to convert into equity. The number of shares issued will not vary with its fair value.

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## FIRST STEAMSHIP COMPANY LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Interest related to the financial liability is recognized in profit or loss, and included in non-operating income and expenses.

On conversion, the financial liability is reclassified to equity, and no gain or loss is recognized.

#### 2) Financial liabilities at fair value through profit or loss

A financial liability is classified in this category if it is classified as held for trading or is designated as such on initial recognition.

Financial liabilities are classified as held for trading if acquired principally for the purpose of selling in the short term. The Group designates financial liabilities, other than those classified as held for trading, as at fair value through profit or loss at initial recognition under one of the following situations:

- a) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses thereon on different basis;
- b) Performance of the financial liabilities is evaluated on a fair value basis;
- c) A hybrid instrument contains one or more embedded derivatives.

Attributable transaction costs are recognized in profit or loss as incurred. Financial liabilities at fair value through profit or loss are measured at fair value, and changes therein, which take into account any interest expense, are recognized in profit or loss, and included in the statement of comprehensive income.

A financial liability at fair value through profit or loss is measured at cost if it is a short sale of unquoted equity investment whose fair value cannot be reliably measured and the short seller is obligated to deliver the equity instrument.

The Group issues financial guarantee contracts and loan commitments and designates them as at fair value through profit or loss. Any gains and losses are recognized in profit or loss, under non-operating income and expenses.

#### 3) Other financial liabilities

Financial liabilities not classified as held for trading or designated as at fair value through profit or loss are measured at fair value, plus any directly attributable transaction costs at the time of initial recognition. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method. Interest expense not capitalized as capitalized cost is recognized in profit or loss, and included in operating costs.

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## FIRST STEAMSHIP COMPANY LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### 4) Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligation has been discharged or cancelled, or has expired. The difference between the carrying amount of a financial liability removed and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss, and is included in non-operating income or expenses.

#### 5) Offsetting of financial assets and liabilities

The Group presents financial assets and liabilities on a net basis when the Group has the legally enforceable right to offset, and intends to settle such financial assets and liabilities on a net basis, or to realize the assets and settle the liabilities simultaneously.

#### (h) Inventories

##### Department stores

Inventory is measured at the lower of cost or net realizable value. Costs include other costs incurred in making them available for use at locations and conditions, and are calculated using the first-in first-out method.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses.

##### Construction

The initial cost of inventory is necessary expenditure incurred in bringing them to their existing location and condition. The developing costs for real estate include construction, land, borrowings, and project expenditure. When the construction is finished, construction in progress will be reclassified to real estate held for sale, and the Group will recognize operating costs in the proportion of the part being sold to the total developing costs for real estate. Inventories are measured at the lower of cost and net realizable value. When the costs exceed net realizable value, the costs should be reduced to their net realizable value, and the reduced amount should be recognized as current cost for sale. The net realizable value is measured as follows:

- (i) Land held for development: the net realizable value is the replacement cost or estimated price (based on the market condition) less the estimated selling expenses at the end of the period.
- (ii) Building construction in progress: the net realizable value is the estimated price (based on the market condition) less the estimated costs of completion and selling expenses at the end of the period.
- (iii) Real estate held for sale: the net realizable value is the estimated price (based on the market condition) less the estimated selling expenses at the end of the period.

#### (i) Non-current assets held for sale

Noncurrent assets or disposal groups comprising assets and liabilities that are expected to be recovered primarily through sale or distribution rather than through continuing use are reclassified as held for sale or held for distribution to owners. Immediately before classification as held for sale or held for distribution to owners, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter, generally, the assets or disposal groups are measured at the lower of their carrying amount and fair value less costs to sell.

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## FIRST STEAMSHIP COMPANY LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

Any impairment loss on a disposal group is first allocated to goodwill, and the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to assets not within the scope of IAS 36 – Impairment of Assets. Such assets will continue to be measured in accordance with the Group's accounting policies.

Impairment losses on assets initially classified as held for sale or held for distribution to owners and any subsequent gains or losses on remeasurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

Intangible assets and Property, Plant and Equipment are no longer depreciated or amortized when they are classified as pending or allocated to the owners. In addition, use of the equity method ceases when the investment recognized under the equity method is classified as pending or allocated to the owner.

#### (j) Investment in associates

Associates are those entities in which the Group has significant influence, but not control or joint control, over their financial and operating policies.

Investments in associates are accounted for using the equity method and are recognized initially at cost. The cost of the investment includes transaction costs. The carrying amount of the investment in associates includes goodwill arising from the acquisition less any accumulated impairment losses.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of associates, after adjustments to align their accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. The Group recognizes any changes, proportionately with the shareholding ratio under capital surplus, when an associate's equity changes due to reasons other than profit and loss or comprehensive income, which did not result in changes in actual controlling power.

Unrealized profits resulting from transactions between the Group and an associate are eliminated to the extent of the Group's interest in the associate. Unrealized losses on transactions with associates are eliminated in the same way, except to the extent that the underlying asset is impaired.

When the Group's share of losses exceeds its interests in an associate, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent the Group has an obligation or has made payments on behalf of the associate.

The Group shall discontinue the use of the equity method from the date when its investment ceases to be an associate or a joint venture. The retained interest is measured at fair value. The difference between the fair value of retained interest and proceeds from disposal, and the carrying amount of the investment at the date the equity method was discontinued is recognized in profit or loss. All of the amounts previously recognized in other comprehensive income in relation to that investment are accounted for on the same basis as would have been required if the investee had directly disposed of the related assets or liabilities. If a gain or loss previously recognized in other comprehensive income would be reclassified to profit or loss on the disposal of the related assets or liabilities, the gain or loss is reclassified from equity to profit or loss (as a reclassification adjustment) as the equity method is discontinued. If an entity's ownership interest in an associate or a joint venture is reduced while the entity continues to apply the equity method, the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest is proportionately reclassified to profit or loss.

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## FIRST STEAMSHIP COMPANY LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the equity method is continuously applied without remeasuring the retained equities. If the merged company does not subscribe according to the shareholding ratio when an affiliate company issues new shares, which causes the change of shareholding ratio and the change of invested net value of equity, the equity method will be applied to adjust the increased or decreased capital surplus; if the adjustment is to write down the capital surplus, but the capital surplus balance generated by the equity method is insufficient, the difference will be debited to the retained earnings.

However, if the merged company does not subscribe according to the shareholding ratio and causes a decrease in the ownership interest of affiliated companies, the previously recognized amount in the affiliated companies will reduce the ratio accordingly based on the comprehensive income and its accounting process is same as the directly disposition of the relevant assets or liabilities for the affiliated companies.

(k) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, for use in the production or supply of goods or services, or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at cost less accumulated depreciation and accumulated impairment losses. Depreciation expense is calculated based on the depreciation method, useful life, and residual value which are the same as those adopted for property, plant and equipment. The estimated useful lives for the investment properties are 50-55 years.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of raw materials and direct labor, any other costs directly attributable to bringing the investment property to a working condition for its intended use, and capitalized borrowing costs.

If the use of an investment property changes such that it is reclassified as property, plant and equipment, its book value at the date of reclassification becomes its cost for subsequent accounting.

(l) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset. The cost of a self-constructed asset comprises material, labor, any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, and any borrowing cost that is eligible for capitalization.

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 is depreciated separately unless the useful life and depreciation method of that significant part are the same as those of another significant part of that same item.

The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and it is recognized in profit or loss, under net other income and expenses.

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# **FIRST STEAMSHIP COMPANY LTD. AND SUBSIDIARIES**

## **Notes to the Consolidated Financial Statements**

### **(ii) Reclassification to investment property**

A property is reclassified to investment property at its carrying amount when the use of the property changes from owner occupied to investment property.

### **(iii) Subsequent cost**

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with the expenditure will flow to the Group. The carrying amount of those parts of fixed assets that are replaced is derecognized. Ongoing repairs and maintenance are expensed as incurred.

### **(iv) Depreciation**

Depreciation is calculated on the cost of an asset less its residual value and is recognized in profit or loss on a straight line basis over the estimated useful lives of each component of an item of property, plant and equipment. Items of property, plant and equipment with the same useful life may be grouped in determining the depreciation charge. The remainder of the items may be depreciated separately.

Leased assets are reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise, the asset is depreciated over the shorter of the lease term and its useful life.

Land has an unlimited useful life and therefore is not depreciated

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

1) Buildings	3~50 years
2) Transportation equipment	5 years
3) Vessel	15~25 years
4) Office equipment	3~5 years
5) Leasehold improvement	5~20 years

The depreciation methods, useful lives, and residual values are reviewed at each reporting date. If expectations differ from the previous estimates, the change is accounted for as a change in accounting estimate.

### **(m) Lease**

#### **(i) Lessor**

A finance lease asset is recognized on a net basis as lease receivable. Initial direct costs incurred in negotiating and arranging an operating lease are added to the net investment in the leased asset. The finance income is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the receivable.

Lease income from an operating lease is recognized in income on a straight line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and recognized as an expense over the lease term on the same basis as the lease income. Incentives granted to the lessee to enter into an operating lease are spread over the lease term on a straight line basis so that the lease income received is reduced accordingly.

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## FIRST STEAMSHIP COMPANY LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

Contingent rents are recognized as income in the period when the lease adjustments are confirmed.

(ii) Lessee

Leases in which the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition, the lease asset is measured at an amount equal to the lower of its fair value or the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to the asset.

Other leases are operating leases and are not recognized in the consolidated balance sheets.

Payments made under operating leases (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight-line basis over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingency rent is recognized as expense in the period in which it is incurred.

(n) Intangible assets

(i) Goodwill

1) Recognition

Goodwill arising from the acquisition of subsidiaries has been included in intangible assets. Measurement of the initial recognition of goodwill, please refer to note 4(u).

2) Measurement

Goodwill is measured at cost less accumulated impairment losses. Impairment loss on equity investment in investees accounted for under the equity method is not allocated to any asset, including goodwill that forms a part of the carrying amount of such investment.

(ii) Other intangible assets

Other intangible assets that are acquired by the Group are measured at cost, less accumulated amortization and any accumulated impairment losses.

(iii) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(iv) Amortization

The amortizable amount is the cost of an asset, less its residual value.

Except for goodwill and intangible assets with indefinite useful lives, amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use.

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## FIRST STEAMSHIP COMPANY LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

1) Computer software 5 years

The residual value, amortization period, and amortization method for an intangible asset with a finite useful life shall be reviewed at least annually at each fiscal year end. Any changes shall be accounted for as changes in accounting estimates.

(o) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than assets arising from inventories, deferred tax assets, assets arising from employee benefits, and non-current asset classified as held for sale, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. If it is not possible to determine the recoverable amount (the higher of its fair value less costs of disposal and its value in use) for the individual asset, then the recoverable amount for the asset's cash generating unit ( "CGU" ) is determined.

Notwithstanding whether indicators exist, recoverability of goodwill and intangible assets with indefinite useful lives or those not yet in use is tested at least annually. Impairment loss is recognized if the recoverable amount is less than the carrying amount.

The recoverable amount for an individual asset or a CGU is the higher of its fair value less costs to sell and its value in use.

If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss. An impairment loss is recognized immediately in profit or loss.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the acquirer's CGUs, or groups of CGUs, that are expected to benefit from the synergies of the combination. If the carrying amount of each of the CGUs exceeds the recoverable amount of the unit, impairment loss is recognized and is allocated to reduce the carrying amount of each asset in the unit. Reversal of an impairment loss for goodwill is prohibited.

An assessment is made at the end of each reporting period as to whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amount of that asset is estimated. An impairment loss recognized in prior periods for an asset other than goodwill is reversed if, and only if, there has been an improvement in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized.

(p) Treasury stock

Repurchased shares are recognized under treasury shares (a contra-equity account) based on their repurchase price (including all directly accountable costs), net of tax. Gains on disposal of treasury shares should be recognized under "capital reserve — treasury share transactions". Losses on disposal of treasury shares should be offset against existing capital reserves arising from similar types of treasury shares. If there are insufficient capital reserves to be offset against, then such losses should be accounted for under retained earnings. The carrying amount of treasury shares should be calculated using the weighted average of different types of repurchase.

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## FIRST STEAMSHIP COMPANY LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

During the cancellation of treasury shares, “capital reserve — share premiums” and “share capital” should be debited proportionately. Gains on cancellation of treasury shares should be recognized under existing capital reserves arising from similar types of treasury shares; losses on cancellation of treasury shares should be offset against existing capital reserves arising from similar types of treasury shares. If there are insufficient capital reserves to be offset against, then such losses should be accounted for under retained earnings.

#### (q) Revenue

##### (i) Revenue from Contracts with Customers ( After January 1, 2018 )

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring goods or services to a customer. The Group recognizes revenue when it satisfies a performance obligation by transferring control of a good or a service to a customer. The accounting policies for the Group’ s main types of revenue are explained below.

##### 1) Sales of goods

The Group’ s department store sells goods in the retail market. The Group recognizes revenue when the goods are delivered to the customer. Payment of the transaction price is due immediately when the customer purchases the product.

##### 2) Customer loyalty program

The Group operates a customer loyalty program to its retail customers. Retail customers obtain points for purchases made, which entitle them to discount on future purchases. The Group considers that the points provide a material right to customers that they would not receive without entering into a contract. Therefore, the promise to provide points to the customer is a separate performance obligation. The transaction price is allocated to the product and the points on a relative stand-alone selling price basis. Management estimates the stand-alone selling price per point on the basis of the discount granted when the points are redeemed and on the basis of the likelihood of redemption, based on past experience. The stand-alone selling price of the product sold is estimated on the basis of the retail price. The Group has recognized contract liability at the time of sale on the basis of the principle mentioned above. Revenue from the award points is recognized when the points are redeemed or when they expire.

##### 3) Services

The Group provides consultancy services and management services to the customers. Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to services performed to date as a percentage of total services to be performed.

##### 4) Commissions

When the Group acts as an agent rather than as a principal in a transaction, the revenue is recognized as the net amount of the commission received.

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## **FIRST STEAMSHIP COMPANY LTD. AND SUBSIDIARIES**

### **Notes to the Consolidated Financial Statements**

#### **5) Rental income**

The rental income of the Group is recognized on the straight-line method over the lease term. The lease incentives are recognized as part of the entire rental income, and are recognized as a decrease in rental income over the lease term. The proceeds from the sub-leasing department store and the rental of its own vessel equipment are recognized as rental income in total operating revenue.

#### **6) Leasing business**

Lease contracts are classified as capital or operating leases based on certain criteria, such as the lease terms, the likelihood of collecting receivables under lease contracts, and future cost to be borne by the lessor. The revenues generated from leasing business are interest revenue for capital leases and rental revenue for operating leases.

#### **7) Land development and sale of real estate**

The Group develops and sells residential properties and usually sells properties in advance during construction or before construction begins. Revenue is recognized when control over the properties has been transferred to the customer. The properties have generally no alternative use for the Group due to contractual restrictions. However, an enforceable right to payment does not arise until legal title of a property has passed to the customer. Therefore, revenue is recognized at a point in time when the legal title has passed to the customer.

The revenue is measured at the transaction price agreed under the contract. For sale of readily available house, in most cases, the consideration is due when legal title of a property has been transferred. While deferred payment terms may be agreed in rare circumstances, the deferral never exceeds twelve months. The transaction price is therefore not adjusted for the effects of a significant financing component. For pre-selling properties, the consideration is usually received by installment during the period from contract inception until the transfer of properties to the customer. If the contract includes a significant financing component, the transaction price will be adjusted for the effects of the time value of money during the period, using the specific borrowing rate of the construction project. Receipt of a prepayment from a customer is recognized as contract liability. Interest expense and contract liability are recognized when adjusting the effects of the time value of money. Accumulated amount of contract liability is recognized as revenue when control over the property has been transferred to the customer.

#### **8) Financing components**

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

The Group preliminarily assesses whether there is a difference between the consideration for contractual commitment and the current sales price based on the individual contract, and whether the advance receipts from the sale of real estate include financing factors. The advance receipts from the sale of real estate are security for the customer to perform the contract and decrease of the price variance risk from re-sale and subsidy to the Group due to the customer not performing the contract, rather than significant financial component of the financing obtained from the customer.

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## FIRST STEAMSHIP COMPANY LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### (ii) Revenue ( Before January 1, 2018 )

##### 1) Freight revenue

Revenue is recognized when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following basis:

- A From chartering hire, on a time proportion basis over the lease term;
- B From vessel management, in the period in which the vessels are managed in accordance with the respective agreement

##### 2) Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts, and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that a discount will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement. Sales from real estates are recognized only if the risks and rewards are transferred to the buyers, namely, the construction is completed and the ownership has been transferred or the property has been delivered to the customers.

##### 3) Customer loyalty program

The Group has a customer loyalty program whereby customers are awarded credit ( "Points" ) entitling them to purchase paper products from the Group at a discount. The fair value of the consideration received or receivable in respect of the initial sale is allocated to Points and the other components of the sale. The amount allocated to Points is estimated by reference to the fair value of the right to purchase paper products at a discount. The fair value of the right to purchase the discounted paper products is estimated based on the amount of the discount adjusted to take into account the expected forfeiture rate. The amount allocated to Points is deferred, and revenue is recognized when the Points are redeemed and the Group has fulfilled its obligations to supply the discounted paper products. The amount of revenue recognized in those circumstances is based on the number of Points that have been redeemed in exchange for discounted paper products, relative to the total number of Points that are expected to be redeemed.

Deferred revenue is recognized as revenue when it is no longer considered probable that the Points will be redeemed.

##### 4) Services

The Group provides consultancy services and management services to its customers. Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to services performed to date as a percentage of total services to be performed.

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## FIRST STEAMSHIP COMPANY LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### 5) Commissions

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognized is the net amount of commission made by the Group.

#### 6) Leasing business

Lease contracts are classified as capital or operating leases based on certain criteria, such as the lease terms, the likelihood of collecting receivables under lease contracts, and future cost to be borne by the lessor. The revenues generated from leasing business are interest revenue for capital leases and rental revenue for operating leases.

#### (iii) Cost from Contracts with Customers ( After January 1, 2018 )

##### Incremental costs of obtaining a contract

The Group recognizes as an asset the incremental costs of obtaining a contract with a customer if the Group expects to recover those costs. The incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained shall be recognized as an expense when incurred, unless those costs are explicitly chargeable to the customer regardless of whether the contract is obtained.

The Group recognizes the incremental costs as an asset which meets the expectation to recover those costs of obtaining a contract through the sale of the real estate and amortizes it on the basis of the transfer of pre-sold house.

#### (r) Employee benefits

##### (i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

##### (ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, based on the discounted present value of the said defined benefit obligation. Any unrecognized past service costs and the fair value of any plan assets are deducted for purposes of determining the Group's net defined benefit obligation. The discount rate used in calculating the present value is the market yield at the reporting date of government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. If the calculation results in a benefit to the Group, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In calculating the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is

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## FIRST STEAMSHIP COMPANY LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

available to the Group if it is realizable during the life of the plan, or on settlement of the plan liabilities.

If the benefits of a plan are improved, the pension cost incurred from the portion of the increased benefit relating to past service by employees, is recognized immediately in profit or loss.

Remeasurements of the net defined benefit liability (asset), which comprise (1) actuarial gains and losses, (2) the return on plan assets (excluding interest), and (3) the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Group can reclassify the amounts recognized in other comprehensive income to retained earnings or other equity. If the amounts recognized in other comprehensive income are transferred to other equity, they shall not be reclassified to profit or loss or recognized in retained earnings in a subsequent period.

The gain or loss on curtailment arises from any change in the fair value of plan assets, any change in the present value of the defined benefit obligation, and any related actuarial gains or losses and past service cost which had not been previously recognized.

#### (iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

#### (s) Income taxes

Income tax expenses include both current taxes and deferred taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred taxes are recognized in profit or loss.

Current taxes include tax payables and tax deduction receivables on taxable gains (losses) for the year calculated using the statutory tax rate on the reporting date or the actual legislative tax rate, as well as tax adjustments related to prior years.

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes are recognized except for the following:

- (i) Assets and liabilities that are initially recognized but are not related to the business combination and have no effect on net income or taxable gains (losses) arising from the transaction.
- (ii) Temporary differences arising from equity investments in subsidiaries or joint ventures where there is a high probability that such temporary differences will not reverse.
- (iii) Initial recognition of goodwill.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, which are normally the tax rates that have been enacted or substantively enacted by the end of the reporting period.

(Continued)

## FIRST STEAMSHIP COMPANY LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

Deferred tax assets and liabilities may be offset against each other if the following criteria are met:

- (i) The entity has the legal right to settle tax assets and liabilities on a net basis; and
- (ii) The taxing of deferred tax assets and liabilities fulfills one of the below scenarios:
  - 1) Levied by the same taxing authority; or
  - 2) Levied by different taxing authorities, but where each such authority intends to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation, or where the timing of asset realization and debt liquidation is matched.

A deferred tax asset is recognized for the carry forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized. Such unused tax losses, unused tax credits, and deductible temporary differences are also reevaluated every year on the financial reporting date, and adjusted based on the probability that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized.

#### (t) Share-based payment

The grant-date fair value of share-based payment awards granted to employees is recognized as employee expenses, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards whose related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

For share based payment awards with non-vesting conditions, the grant date fair value of the share based payment is measured to reflect such conditions, and there is no true up for differences between expected and actual outcomes.

The Group' s grant-date of the share based payment is the date which the subscription price is resolved from the board of directors and employees are entitled to subscribe shares.

#### (u) Business combination

Goodwill is measured at the consideration transferred less the amounts of the identifiable assets acquired and liabilities assumed (generally at fair value) at the acquisition date. If the amount of net assets acquired and liabilities assumed exceeds the acquisition price, the Group reassesses whether it has correctly identified all of the assets acquired and liabilities assumed, and recognizes a gain for the excess.

All transaction costs relating to a business combination are recognized immediately as expenses when incurred, except for the issuance of debt or equity instruments.

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## FIRST STEAMSHIP COMPANY LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

The Group shall measure any non-controlling interests in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets, if the non-controlling interests are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other non-controlling interests are evaluated by their fair value or by another basis permitted by the IFRSs endorsed by the FSC.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, provisional amounts for the items for which the accounting is incomplete are reported in the Group's financial statements. During the measurement period, the provisional amounts recognized at the acquisition date are retrospectively adjusted, or additional assets or liabilities are recognized to reflect new information obtained about facts and circumstances that existed as of the acquisition date. The measurement period shall not exceed one year from the acquisition date.

(v) Earnings per share

The Group discloses the Company's basic and diluted earnings per share attributable to ordinary shareholders of the Company. Basic earnings per share are calculated as the profit attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding. Diluted earnings per share are calculated as the profit attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding after adjustment for the effects of all potentially dilutive ordinary shares, such as convertible bonds.

(w) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group). Operating results of the operating segment are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance. Each operating segment consists of standalone financial information.

**(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty:**

The preparation of the consolidated financial statements in conformity with the IFRSs endorsed by the FSC requires management to make judgments, estimates, and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

The management continues to monitor the accounting estimates and assumptions. The management recognizes any changes in accounting estimates during the period and the impact of those changes in accounting estimates in the following period.

(a) Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements is as follows:

(i) Classification of lease

The lease agreement of the Group's non-ownership property department store business base did not assume the remaining value of the property, so it was determined that almost all the risks and rewards of the property were borne by the owner. According to this, the Group determines that the lease is an operating lease. Please refer to note 6(q).

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**FIRST STEAMSHIP COMPANY LTD. AND SUBSIDIARIES****Notes to the Consolidated Financial Statements**

- (b) Among the uncertainties of assumptions and estimates, the relevant information that has significant risks that will cause major adjustments in the following year is as follows:

- (i) Impairment of property, plant and equipment

In the process of evaluating the potential impairment, the Group is required to make subjective judgments in determining the independent cash flows, useful lives, expected future income and expenses related to the specific asset groups considering of the nature of the industry. Any changes in these estimates based on changed economic conditions or business strategies and could result in significant impairment charges or reversal in future years. Refer to note 6(i) for further description of the discount rates used to determine the amount of value in use.

- (ii) Impairment assessment to goodwill and intangible assets

The assessment of impairment of goodwill and intangible assets requires the Group to make subjective judgments to identify CGU, allocate the goodwill to relevant CGU, and estimate the recoverable amount of relevant CGU. Refer to note 6(k) for further description of the assessment of impairment of goodwill and intangible assts.

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**FIRST STEAMSHIP COMPANY LTD. AND SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

**(6) Explanation of significant accounts:**

**(a) Cash and cash equivalents**

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Petty cash	\$ 49,601	71,717
Demand deposits	5,397,402	6,772,278
Time deposits	21,504	135,588
<b>Total</b>	<b><u>\$ 5,468,507</u></b>	<b><u>6,979,583</u></b>

Please refer to note 6(z) for the sensitivity analysis and interest rate risk of the financial assets and liabilities of the Group.

**(b) Financial assets**

**(i) As follows:**

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
<b>Mandatorily measured at fair value through profit or loss:</b>		
Non-derivative financial assets		
Shares of stock of listed companies	\$ 140,466	-
Beneficiary certificates	11,502	-
<b>Total</b>	<b><u>\$ 151,968</u></b>	<b><u>0</u></b>
<b>Financial liabilities held-for-trading</b>		
Non-financial assets		
Beneficiary certificates	\$ -	12,798
Shares of stock of listed companies	-	576,618
Derivate instruments not used for hedging —		
Accumulator/ Decumulator	-	89
<b>Total</b>	<b><u>\$ -</u></b>	<b><u>589,505</u></b>
<b>Current financial assets at amortized cost:</b>		
Corporate bond	<b><u>\$ 921,600</u></b>	<b><u>0</u></b>

(ii) Please refer to note 6(z) for disclosure of interest risk, credit risk, and fair value of all derivative financial instruments mentioned above.

(Continued)

# FIRST STEAMSHIP COMPANY LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

- (iii) On December 11, 2017, the Board of Directors of the Group resolved during the meeting to sell its financial assets carried at cost — non-current for \$1,340,728 thousand (USD\$44,100 thousand), and recognized a gain on disposal of \$282,739 thousand (USD\$9,300 thousand) . All of the proceeds had been received.
- (iv) On June 15, 2018, the Group' s Board of Directors had passed a resolution during the meeting to purchase a one-year unsecured 10% corporate bond issued by Skyfame Realty Holdings Ltd. at par value of \$915,900 thousand (USD \$30,000 thousand). The Group assesses that the objective is to hold the asset to collect the contractual cash flows until its maturity date, and the cash flows of financial assets are solely payments of principal and interest on the principal amount outstanding; therefore, the financial asset was reported as financial asset measured at amortized cost. Moreover, the aforesaid amount in financing was \$468,163 thousand (USD \$15,240 thousand) as of December 31, 2018.
- (v) As of December 31, 2018 and 2017 the financial assets of the Group had been pledged as collateral for borrowings. Please refer to note 8.
- (vi) Sensitivity analysis— equity price risk  
If the equity price changes, the impact to comprehensive income, using the sensitivity analysis based on the same variables except for the price index for both periods, will be as follows:

Equity price at reporting date	2018		2017	
	After-Tax Other comprehensive Income	After-Tax Profit (Loss)	After-Tax Other comprehensive Income	After-Tax Profit (Loss)
Increase 5%	\$ -	7,023	-	28,831
Decrease 5%	\$ -	(7,023)	-	(28,831)

- (vii) Derivative instruments not used for hedging

The Group holds the following derivative financial instruments presented as held-for-trading financial assets as of December 31, 2017:

### Accumulator/Decumulator

The unexpired accumulator and decumulator contracts held by the Group were as follows:

December 31, 2017					
Derivative financial products	Contract period	Exercise price (USD, HKD)	Knock out price (USD, HKD)	Contract quantity (share) (note)	Fair value of financial assets
Accumulator	2017.01.09~2018.01.17	5.3136~5.5042	6.4890~6.6675	440~5,000	\$ 89

Note: If the market price of the target stock at Accumulator / Decumulator is lower / higher than the exercise price, the Group has to buy double the volume of shares.

- (viii) Please refer to note 6(y) for the unrealized gain (loss) on valuation of financial assets and liabilities.

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**FIRST STEAMSHIP COMPANY LTD. AND SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

(c) Trade receivables

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Current		
Trade receivables	\$ 385,502	323,592
Allowance for impairment	<u>-</u>	<u>-</u>
	<u>385,502</u>	<u>323,592</u>
Leases payment receivable (included operating lease)	1,025,414	179,545
Less: Unearned interest	(169,065)	(20,534)
Allowance for impairment	<u>(26,913)</u>	<u>(2,313)</u>
	<u>829,436</u>	<u>156,698</u>
Subtotal	<u>1,214,938</u>	<u>480,290</u>
Non-current		
Leases payment receivable	988,803	1,336,285
Less: Unearned interest	(78,628)	(198,558)
Allowance for impairment	<u>(25,112)</u>	<u>(17,053)</u>
Subtotal of non-current asset	<u>885,063</u>	<u>1,120,674</u>
Total	<u><b>\$ 2,100,001</b></u>	<u><b>1,600,964</b></u>

- (i) The Group applies the simplified approach to provide for its expected credit losses, i.e. the use of lifetime expected loss provision for all receivables on December 31, 2018. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due, as well as incorporated forward looking information.

- 1) The loss allowance provision in rental business department in China as of December 31, 2018 was determined as follows:

	<b>Gross carrying amount of leases payment receivable</b>	<b>Weighted-aver age loss rate</b>	<b>Loss allowance provision</b>
Current	\$ 1,605,182	0.15%	2,428
1 to 30 days past due	79,394	2.30%	1,826
31 to 60 days past due	10,676	16.59%	1,770
61 to 90 days past due	4,768	36.88%	1,759
More than 90 days past due	<u>66,504</u>	66.51%	<u>44,232</u>
	<u><b>\$ 1,766,524</b></u>		<u><b>52,025</b></u>

Note: The amount of the overdue payment of the lease business on December 31, 2018 was \$62,494 thousand (CNY\$ 13,962 thousand). The Group assessed the recoverable amount of the above overdue payment and proposed a reserve for loss of \$36,143 thousand (CNY\$7,927 thousand) after deducting unrealized financing profit and deposit.

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**FIRST STEAMSHIP COMPANY LTD. AND SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

- 2) The loss allowance provision in retail business department in China as of December 31, 2018 was determined as follows:

	<b>Gross carrying amount</b>	<b>Weighted-aver age loss rate</b>	<b>Loss allowance provision</b>
Current	<u>\$ 339,792</u>	-	<u>-</u>

- 3) The loss allowance provision in shipping business department as of December 31, 2018 was determined as follows:

	<b>Gross carrying amount</b>	<b>Weighted-aver age loss rate</b>	<b>Loss allowance provision</b>
Current	<u>\$ 24,718</u>	-	<u>-</u>

- 4) The loss allowance provision in Taiwan as of December 31, 2018 was determined as follows:

	<b>Gross carrying amount</b>	<b>Weighted-aver age loss rate</b>	<b>Loss allowance provision</b>
Current	<u>\$ 20,992</u>	-	<u>-</u>

As of December 31, 2017, the Group applies the incurred loss model to consider the loss allowance provision of note and trade receivables and lease payment receivables, and the aging analysis of notes and trade receivable, which were past due but not impaired, was as follows:

	<b>December 31, 2017</b>
Past due 1 to 60 days	\$ 4,388
Past due 61 to 180 days	98
Past due 181 to 360 days	<u>21,473</u>
	<u><b>\$ 25,959</b></u>

- (ii) The movements in the allowance for trade receivables were as follows:

	<b>For the years ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Balance on January 1, 2018 and 2017 per IAS 39	\$ 19,366	16,232
Adjustment on initial application of IFRS 9	-	
Balance on January 1, 2018 per IFRS 9	19,366	-
Impairment losses recognized	33,622	3,412
Foreign exchange losses	<u>(963)</u>	<u>(278)</u>
Balance on December 31, 2018 and 2017	<u><b>\$ 52,025</b></u>	<u><b>19,336</b></u>

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# **FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES**

## **Notes to the Consolidated Financial Statements**

(iii) The components and aging of financial lease receivables were as follows:

	<b>Gross investment in the lease</b>	<b>Unearned revenue</b>	<b>Present value of minimum lease payment receivables</b>
December 31, 2018			
Within operating cycle	\$ 1,025,414	(169,065)	856,339
Between operating cycle and 5 year	988,803	(78,628)	910,175
	<b>\$ 2,014,217</b>	<b>(247,693)</b>	<b>1,766,524</b>
December 31, 2017			
Within operating cycle	\$ 179,545	(20,534)	159,011
Between operating cycle and 5 year	1,336,285	(198,558)	1,137,727
	<b>\$ 1,515,830</b>	<b>(219,092)</b>	<b>1,296,738</b>

(d) Other receivables

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Other receivables–loans (included related parties)	71,616	66,277
Other receivables–transfer of equity shares	18,608	36,266
Other receivables–investment and guarantee deposits	725,119	738,325
Other receivables–transfer of loans	-	168,631
Other receivables–others	109,780	85,691
Less: Allowance for impairment	(18,608)	-
<b>Total</b>	<b>\$ 906,515</b>	<b>1,095,190</b>

(i) The other receivables–loans arise from the demand of short-term financing by the car rental platform and cooperative construction in rental business department and other department.. Furthermore, other receivables–others are the advance payment in accordance with the promotions held by retail business department and vendors. Since the Group and the vendors are in a long-term business relationship, the Group has considered historical experience and believed that they were less doubtful of the recoverability of these receivables. The Group assessed the aforesaid other receivables as the financial assets with low credit risk and measured loss allowances at an amount as 12-month expected credit loss. Management believed that there were less doubtful of credit losses.

(ii) In 2012, the Group paid a guarantee deposit of CNY\$124,000 thousand to Quanzhou Fengsheng Group to purchase the commercial real estate of the Fengsheng Junyuan Development Project developed by Fengsheng Group in Fengze District, Quanzhou. After assessing the investment value of the project, the Board of Directors of the Group resolved during the meeting in July, 2015 to invest Quanzhou Fenggan Real Estate Development Co., Ltd., and expected to obtain 100% equity of the company with a contractual amount of CNY\$325,000 thousand. As of December 31, 2015, the Group had paid CNY\$200,000 thousand, which was reported under the prepayment for investments. The management of the Group evaluated the uncertainty of the investment and thus terminated the investment. Therefore, the original prepayment for investments of CNY\$200,000 thousand and other

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## FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

financial assets – current of CNY\$124,000 thousand, were reclassified as other receivables as of June 30, 2016.

In addition, the Group reviewed the nature of other receivables and analyzed the current financial position of the counterparty. In order to secure the aforementioned debt, the Group had acquired pledge of stock rights of Quanzhou Fengnan Real Estate Development Co., Ltd., and at the same time had obtained the debtor's promise that other investment profits to be priority to repay the debt. The Group evaluated that the aforementioned debt should have no impairment concern. Because the debtor takes time to complete the relevant legal procedures of the disposition of investment, the Group and the debtor renegotiate the repayment period, which should be before April 30, 2017, before September 30, 2017, and before December 31, 2017. The total amount of repayment should be 10%, 40% and 50%, respectively. In case of violation of the agreement, the aforementioned collateral would be transferred to the Group for debt repayment. In accordance with the aforesaid agreement, the Group was received CNY\$162,000 thousand on December 31, 2017. On December 19, 2017, the Board of Directors of the Group resolved during the meeting on the Fengsheng Group's extension of the repayment agreement, which extended remaining proceeds to June 30, 2018. Due to the delay of procedures of the disposition of investment, Fengsheng Group could not make the payments by the aforementioned date. As of December 31, 2018 and 2017, the outstanding receivables were \$725,119 thousand (CNY\$162,000 thousand) and \$738,325 thousand (CNY\$162,000 thousand), respectively. The Group acquired the deferred repayment instructions by Fullshare Holdings and promised that it will be the first one to receive funds when developing the land of Fengnan and it will repay the debts; and it shall be based on the assessment report of this claim, to assess that the value of the creditor's rights without any impairment. In addition, the Group shall actively assist the Fengnan Company in the development of the Fengnan land, so to recover the amount owed to the merged company when the development project begins its pre-sales process.

- (iii) In March 2015, the Board of Directors of the Group resolved during the meeting to invest \$382,192 thousand (CNY\$75,000 thousand) on Fuzhou Dayang Pawnshop Limited ( "Pawnshop Limited" ) through FuZhou Zhongcheng Grand Ocean Department Store Co., Ltd. In June 2015, the Board of Directors of the Group resolved during the meeting to reduce the investment amount to \$199,097 thousand (CNY\$39,150 thousand), which likewise reduced its equity ownership ratio to 45%. As of December 31, 2018 and 2017, other receivables arising from the disposal of ownership of such equity shares amounted to \$0 and \$8,921 thousand (CNY\$1,958 thousand), respectively. The meeting of stockholders of Pawnshop Limited resolved to reduce the capital in cash. On the basis of the agreement of both parties, the Pawnshop Limited should have the first priority to repay the transferee's equity receivables after the reduction of cash capital. The payment was fully received on January 16, 2018.
- (iii) The merged company sold its 100% equity of Tong-ling Grand Ocean Department Store in December 2016. The selling price was \$48,549 thousand (CNY\$ 10,000 thousand). As of the end of 2018 and December 31, 2017, the transfer amount that has not yet been received is \$18,608 thousand dollars (CNY\$ 4,157 thousand) and \$27,345 thousand dollars (CNY\$6,000 thousand), and the payments should be collected by May 15, 2017 according to the contract. The merged company has obtained the financial support statement of the transferee company and has coordinated the repayment method and schedule. However, the company has filed a lawsuit against the transferee company in 2018, but the recoverability of the amount was assessed and the impairment loss of \$18,955 thousand dollars (CNY\$4,157 thousand) was recognized on December 31, 2018, under the expected credit impairment loss of the statement of comprehensive income.

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**FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

The movements in the allowance for other receivables were as follows:

	<b>For the twelve months ended December 31 2018</b>
Balance on January 1, 2018	\$ -
Impairment losses recognized	18,955
Foreign exchange losses	(347)
Balance on December 31, 2018	<u><u>\$ 18,608</u></u>

- (iv) The subsidiary of the merged company, Youchen Car Leasing Ltd., loaned the original funds to ChaoShang Investment Limited in Jiangsu in December 2017 and the remaining credits plus interest of \$168,631 thousand (CNY\$ 37,000 thousand) was transferred to Huiho Investment Management Co., Ltd. in Shanghai, and the creditor's amount was fully collected in March 2018.

(e) Non-current Assets Held for Sale

- (i) On December 7, 2018, the board of directors of the merged company resolved to sale the invested real estate, including related lands and houses; it has started to conduct the sales and is expected to complete the sales within one year, and the assets will be reported under the non-current assets held for sale. As of December 31, 2018, the amount of non-current assets held for sale is \$ 246,147 thousand .
- (ii) On December 7, 2018, the board of directors of the merged company resolved to sale the investment of equity method - Sandmartin International Holdings Limited; it has started to conduct the related sales and is expected to complete the sales within one year, and the investment using the equity method will be reported under the non-current assets held for sale. As of December 31, 2018, the amount of non-current assets held for sale was \$257,443 thousand .

	<b>December 31, 2018</b>
Investment Property	\$ 246,147
Investments at equity	<u>257,443</u>
Total	<u><u>\$ 503,590</u></u>
Exchange difference arising from the translation of the financial statements of the foreign operating institution in relation to the non-current assets to be disposed of and recognized in other comprehensive gains and losses	\$ 3,596
Property revaluation increments	<u>32,060</u>
	<u><u>\$ 35,656</u></u>

Where the investment using the equity method is measured at the lower of the book value and the fair value less costs to sell, the impairment loss of \$106,566 thousand (US\$ 3,532 thousand) is recognized, and it will be reported under the other benefits and losses of the consolidated statement of comprehensive income. Please refer to Note 6 (y) for details.

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# FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

The non-repetitive fair value and investment using the equity method is measured at \$459,001 thousand and \$257,443 thousand, respectively, based on observable inputs which are the measurement basis of the price in similar transaction or in the same industry, and their fair value are in the second level and first level, respectively.

The non-current assets held for sale of the merged company are estimated using the market valuation technique to estimate the fair value of the non-current assets held for sale, using the recent transaction price of the same or similar transactions in the market as the observable inputs

(f) Investments accounted for using equity method

The Group's investments accounted for using the equity method at the reporting date were as follows:

<b>Investee</b>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Beijin ShouHai International Economics and Technology Consultant Service Co., Ltd.	\$ 6,742	6,806
Taiwan Environment Scientific Co., Ltd.	120,745	140,322
Sandmartin International Holdings., Ltd.	-	411,453
IRC Properties Inc.	-	147,824
Summit Ascent Holdings., Ltd.	1,196,611	758,912
	<u><b>\$ 1,324,098</b></u>	<u><b>1,465,317</b></u>

(i) Aggregation of financial information—individually insignificant associates' equity

The Group's financial information for investments accounted for using the equity method that are individually insignificant were as follows:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Carrying amount of individually insignificant associates' equity	<u><b>\$ 1,324,098</b></u>	<u><b>1,465,317</b></u>
	<b>For the years ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Attributable to the Group:		
Loss from continuing operations	\$ (134,034)	(16,286)
Other comprehensive income	414,545	(41,454)
Total comprehensive income	<u><b>\$ (92,489)</b></u>	<u><b>(57,740)</b></u>

- (ii) The Group obtained 29% of the equity of Sandmartin International Holdings Ltd., which is listed in Hong Kong, in cash in July 2017 amounting to \$443,737 thousand. The management of the Group is a director of Sandmartin International Holdings Ltd., which has a significant influence on the company; therefore, the company is evaluated under the equity method. The Group will be disposed of by the board of directors on December 7, 2018, The full equity of Sandmartin International Holdings., Ltd. will be sold within one year. The investments using

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## FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

the equity method are reported to the non-current assets held for sale of Note 6(e).

- (iii) The Group obtained 12.81% of the equity of IRC Properties Inc., a Philippine listed company in cash in July 2017 amounting to \$114,089 thousand. The management of the Group was a director of IRC Properties Inc. and had a significant influence on the company; therefore, the company was evaluated by the equity method. The consideration transferred by the Group on the acquisition date was lower than the provisional fair value of the identifiable assets obtained and the liabilities assumed, resulting in gain from bargain purchase of \$30,700 thousand that was reported as other gains and losses in the consolidated statement of comprehensive income. On May 3, 2018, the Group had disposed the entire equity of IRC Properties Inc. and ceased the significant influence on the company. The disposal price was \$135,750 thousand (USD\$4,499 thousand), and the loss on disposal was \$8,364 thousand (USD\$277 thousand), the loss on disposal had already been reported to other gains and losses in the consolidated statements of comprehensive income. This loss on disposal had included the amount reclassified to profits and losses which was recognized in other comprehensive income before.
- (iv) In December 2017, the Group obtained 12.67% of the equity of Summit Ascent Holdings Ltd. in cash of \$101,290 thousand and in financing of \$676,073 thousand (reported as other payables). The management of the Group is a director of Summit Ascent Holdings Ltd. which has significant influence on the company; therefore, the company is evaluated by the equity method. Subsequently, the Group obtained 6.55% by \$384,171 thousand. Moreover, the aforesaid amount in financing were \$333,419 thousand (reported as other payables) as of December 31, 2018.
- (v) On March 5, 2018, the Group subscribed to the issuance of new shares of the investee, Taiwan Environment Scientific Co., Ltd., amounting to \$12,127 thousand. The Group recognizes increase of capital surplus due to not subscribing by shareholding percentage amounting to \$4,207 thousand. Moreover, the Group recognized the capital surplus by shareholding percentage of \$414 thousand due to the change in investee's capital surplus.
- (vi) Guarantees

There is no guarantee in investments using equity methods of the Group.

#### (g) Acquisition of subsidiaries

- (i) On May 9, 2017, the board of directors of the Group passed a resolution during the meeting to hold 58.33% shares of Lan Hai Engineering Consultants Co., Ltd. with amount of \$7,000 thousand through reinvesting First Steamship Group Co., Ltd. On May 25, 2017, the company entered into capital increased by cash by Lan Hai Engineering Consultants Co., Ltd. The Group acquired 700 thousand new shares, which were issued after the completion of the capital increase, and the change registration was completed on June 3, 2017. On July 29, 2017, the board of directors approved a new investment with amount of \$4,500 thousand, which held a total of 70% shares.

Between the acquisition date and December 31, 2017, Lan Hai Engineering Consultants Co., Ltd's revenue and loss attributable to the Group were \$490 thousand and \$(4,584) thousand, respectively. If the acquisition had occurred on January 1, 2017, management estimated that consolidated revenue and consolidated profit after income tax from January 1 to December 31, 2017 would have been \$16,607 thousand and \$1,768 thousand, respectively. In determining these amounts, the management had assumed that the fair value adjustments, determined provisionally, that arose on the acquisition date would have been the same if the acquisition had occurred on January 1, 2017.

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# **FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES**

## **Notes to the Consolidated Financial Statements**

The following table summarizes the fair value of major class of consideration transferred and the amount of assets acquired and liabilities assumed at the acquisition date.

1) Consideration transferred

The major class of consideration transferred was as follows:

Cash	<u>\$ 7,000</u>
------	-----------------

2) Identifiable assets acquired and liabilities assumed

The fair value of the identifiable assets acquired and liabilities assumed at the acquisition date was as follows:

Cash and cash equivalents	\$ 7,155
Accounts receivable	21,059
Property, plant and equipment	512
Refundable deposits	331
Other assets	131
Other payables	<u>(8,845)</u>
The fair value of the net identifiable assets	<u>\$ 20,343</u>

The fair value of the identifiable assets acquired was \$20,343 thousand.

If there is information discovered within one year from the acquisition date about facts and circumstances that existed at the acquisition date which leads to an adjustment to the above provision amounts, or any additional provisions as at the acquisition date, then the acquisition accounting will be revised.

3) Gain on bargain purchase

Due to acquisitions, the gain on bargain purchase is as follows

Consideration transferred	\$ 7,000
Non-controlling interests (Net identifiable assets are measured as the proportion of non-controlling interests)	8,477
Less: the fair value of identifiable assets	<u>(20,343)</u>
Gain on bargain purchase	<u>\$ (4,866)</u>

(h) Material non-controlling interests of subsidiaries

The material non-controlling interests of a subsidiary were as follows:

Name of Subsidiary	Main operation/ place	Percentage of non-controlling interests	
		December 31, 2018	December 31, 2017
GRAND OCEAN RETAIL GROUP LTD.	China/Cayman Islands	43.66%	44.13%

The following information of the aforementioned subsidiary has been prepared in accordance with the IFRSs endorsed by the FSC. Intra-group transactions were not eliminated in this information.

(Continued)

# **FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES**

## **Notes to the Consolidated Financial Statements**

(i) Collective financial information of Grand Ocean Retail Group Ltd.

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Current assets	\$ 7,695,337	8,503,378
Non-current assets	13,239,338	13,504,005
Current liabilities	(7,194,719)	(9,108,111)
Non-current liabilities	(3,910,056)	(3,144,430)
Non-controlling interest	(304)	(5,031)
Net assets	<u><b>\$ 9,829,596</b></u>	<u><b>9,749,811</b></u>
Non-controlling interest	<u><b>\$ 4,291,602</b></u>	<u><b>4,302,592</b></u>

	<b>For the years ended December 31 2018</b>	<b>2017</b>
Sales revenue	<u><b>\$ 6,457,831</b></u>	<u><b>6,041,927</b></u>
Net income	\$ 490,621	338,788
Other comprehensive income	(188,464)	(72,832)
Comprehensive income	<u><b>\$ 302,157</b></u>	<u><b>265,956</b></u>
Profit, attributable to non-controlling interests	<u><b>\$ 212,040</b></u>	<u><b>144,508</b></u>
Comprehensive income, attributable to non-controlling interests	<u><b>\$ 129,568</b></u>	<u><b>114,732</b></u>

	<b>For the years ended December 31 2018</b>	<b>2017</b>
Net cash flows from operating activities	\$ 909,729	698,173
Net cash flows from investing activities	(1,026,411)	840,933
Net cash flows from financing activities	(1,015,869)	(125,986)
Effect of exchange rate changes	(70,203)	(131,271)
Net decrease in cash and cash equivalents	<u><b>\$ (1,202,754)</b></u>	<u><b>1,281,849</b></u>
Dividends paid to non-controlling interests	<u><b>\$ 99,164</b></u>	<u><b>80,164</b></u>

(Continued)

# FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### (i) Property, plant and equipment

The cost, depreciation, and impairment of the property, plant and equipment of the Group for the years ended December 31, 2018 and 2017, were as follows:

	Land	Buildings	Transportation equipment	Vessels	Office equipment	Leasehold improvement	Construction in progress	Total
<b>Cost or deemed cost:</b>								
Balance at January 1, 2018	\$ 126,409	3,869,781	183,662	7,902,335	323,543	6,906,844	201,690	19,514,264
Additions	-	7,489	40,437	893	14,295	285,051	398,462	746,627
Reclassification from other financial instruments – current	-	783	-	-	5,876	461,607	(486,266)	-
Disposals and obsolescence	-	(14,029)	(103,826)	-	(17,592)	(32,074)	-	(167,521)
Effect of change in foreign exchange rates	-	(68,175)	(1,746)	249,471	(5,450)	(136,011)	(1,929)	36,160
Balance at December 31, 2018	<u>\$ 126,409</u>	<u>3,795,849</u>	<u>118,527</u>	<u>8,152,699</u>	<u>320,672</u>	<u>7,485,417</u>	<u>129,957</u>	<u>20,129,530</u>
Balance at January 1, 2017	\$ 126,409	1,987,924	305,228	8,546,697	338,702	7,167,153	34,422	18,506,535
Additions	-	1,477,819	21,120	10,436	22,664	111,932	313,607	1,957,578
Reclassification from other financial instruments – current	-	418,760	-	-	-	-	-	418,760
Other reclassifications	-	-	-	-	289	147,200	(147,489)	-
Disposals and obsolescence	-	-	(134,313)	-	(22,167)	(42,480)	(191)	(199,151)
Liquidation of subsidiaries	-	-	(1,120)	-	(8,696)	(333,937)	-	(343,753)
Acquisition through combination	-	-	627	-	-	-	-	627
Effect of change in foreign exchange rates	-	(14,722)	(7,880)	(654,798)	(7,249)	(143,024)	1,341	(826,332)
Balance at December 31, 2017	<u>\$ 126,409</u>	<u>3,869,781</u>	<u>183,662</u>	<u>7,902,335</u>	<u>323,543</u>	<u>6,906,844</u>	<u>201,690</u>	<u>19,514,264</u>
<b>Depreciation and impairment loss:</b>								
Balance at January 1, 2018	\$ -	330,525	91,496	1,205,218	228,357	3,830,145	-	5,685,741
Depreciation	-	80,821	26,058	328,434	26,778	431,882	-	893,973
Impairment loss	-	-	187	-	2,329	257,507	-	260,023
Disposals and obsolescence	-	(6,443)	(45,078)	-	(15,357)	(22,606)	-	(89,484)
Effect of change in foreign exchange rates	-	(6,892)	(1,034)	43,997	(4,083)	(80,217)	-	(48,229)
Balance at December 31, 2018	<u>\$ -</u>	<u>398,011</u>	<u>71,629</u>	<u>1,577,649</u>	<u>238,024</u>	<u>4,416,711</u>	<u>-</u>	<u>6,702,024</u>
Balance at January 1, 2017	\$ -	290,582	87,605	955,703	233,373	3,844,131	-	5,411,394
Depreciation	-	44,643	40,042	329,452	24,838	368,024	-	806,999
Impairment loss	-	-	9,691	-	-	58,536	-	68,227
Liquidation of subsidiary	-	-	(1,120)	-	(8,696)	(333,937)	-	(343,753)
Acquisition through combination	-	-	115	-	-	-	-	115
Disposals and obsolescence	-	-	(42,992)	-	(16,338)	(31,269)	-	(90,599)
Effect of change in foreign exchange rates	-	(4,700)	(1,845)	(79,937)	(4,820)	(75,340)	-	(166,642)
Balance at December 31, 2017	<u>\$ -</u>	<u>330,525</u>	<u>91,496</u>	<u>1,205,218</u>	<u>228,357</u>	<u>3,830,145</u>	<u>-</u>	<u>5,685,741</u>
<b>Carrying amounts:</b>								
Balance at December 31, 2018	<u>\$ 126,409</u>	<u>3,397,838</u>	<u>46,898</u>	<u>6,575,050</u>	<u>82,648</u>	<u>3,068,706</u>	<u>129,957</u>	<u>13,427,506</u>
Balance at January 1, 2017	<u>\$ 126,409</u>	<u>1,697,342</u>	<u>217,623</u>	<u>7,590,994</u>	<u>105,329</u>	<u>3,323,022</u>	<u>34,422</u>	<u>13,095,141</u>
Balance at December 31, 2017	<u>\$ 126,409</u>	<u>3,539,256</u>	<u>92,166</u>	<u>6,697,117</u>	<u>95,186</u>	<u>3,076,699</u>	<u>201,690</u>	<u>13,828,523</u>

### (i) Impairment loss and subsequent reversal:

On November 23, 2018, the board of directors decided that Xiangtan Grand Ocean Department Store Co., Ltd. lease will not be renewed. Therefore, the Group recognized impairment losses of all its relevant property, plant and equipment amounting to \$138,332 (CNY\$30,338 thousand) thousand

On June 4, 2018, the Board of Directors of Suzhou Grand Ocean Department Store Co., Ltd. resolved during the meeting to signed agreements with lessors to terminate in advance the original rental contracts which will be expired on February 15, 2019. Therefore, the Group recognized impairment losses of all its relevant property, plant and equipment amounting to \$89,290 (CNY\$19,583 thousand) thousand.

Fuzhou Tiandi Grand Ocean Department Store Co., Ltd. continues to lose money, the Group recognized impairment losses of all its relevant property, plant and equipment amounting to \$32,401 (CNY\$7,106 thousand) thousand.

(Continued)

# FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

In 2017, Xiangtan Grand Ocean Department Store Co., Ltd. and Mariner Finance Ltd. recognized the impairment losses of \$58,536 thousand and \$9,691 thousand, respectively, with respect to its bad operating performance. Losses were recorded as other gains and losses in the consolidated statements of comprehensive income.

The recoverable amount of the segment of the vessels, which was based on the value in use. The key assumptions used in estimating the value in use were as follows:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Discount rate	5.65%	4.16%

The discount rate was a pre-tax measure based on the rate of 10-year government bonds issued by the government in the relevant market and in the same currency as the cash flows, adjusted for a risk premium to reflect both the increased risk of investing in equities generally and the systemic risk of the specific CGU.

Budgeted EBITDA was based on expectations of future outcomes taking into account past experience, adjusted for the anticipated revenue growth. Revenue growth was projected taking into account the average growth levels experienced over the past five years and the estimated sales volume and price growth for the next five years. It was assumed that the vessels' rent would grow at a constant margin above the Baltic Dry Index (BDI) over the next five years.

Following the impairment loss recognized in the CGU, the recoverable amount was equal to the carrying amount. Therefore, any adverse movement in a key assumption would lead to further impairment.

- (ii) As of December 31, 2018 and 2017, due to payments to stores maintenance to acquire property, plant and equipment, and payments to land use rights, the subsidiary recognized other payables amounting to \$286,652 thousand and \$338,525 thousand, respectively.
- (iii) In 2016, the subsidiary acquired a commercial property as the operating base of the department store amounting to \$1,896,579 thousand (CNY \$421,200 thousand). Please refer to note 7 for further details.
- (iv) In March, 2017, The Group sold the vessel equipment (Ever Shinning) amounting to \$140,520 thousand, and recognized the gain on disposal of the non-current asset held for sale under other gains and losses amounting to \$12,821 thousand.
- (v) The significant components of the buildings include the main building, machinery and air conditioner with their own estimated useful lives.
- (vi) Please refer to note 6(y) for gains on disposal of property, plant and equipment.
- (vii) Guarantee

As of December 31, 2018 and 2017, the property, plant and equipment of the Group had been pledged as collateral for bank borrowings; please refer to note 8 for further details.

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# **FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES**

## **Notes to the Consolidated Financial Statements**

(j) Investment properties

	<b>Land and improvement</b>	<b>Buildings</b>	<b>Total</b>
Cost or deemed cost:			
Balance at January 1, 2018	\$ 313,005	135,322	448,327
Transfer to non-current assets held for sale	(197,236)	(85,071)	(282,307)
Balance at December 31, 2018	<u><u>\$ 115,769</u></u>	<u><u>50,251</u></u>	<u><u>166,020</u></u>
Balance at January 1, 2017	\$ 313,005	135,322	448,327
Balance at December 31, 2017	<u><u>\$ 313,005</u></u>	<u><u>135,322</u></u>	<u><u>448,327</u></u>
Accumulated depreciation and impairment losses:			
Balance at January 1, 2018	\$ -	54,549	54,549
Depreciation	-	2,649	2,649
Transfer to non-current assets held for sale	-	(36,160)	(36,160)
Balance at December 31, 2018	<u><u>\$ -</u></u>	<u><u>21,038</u></u>	<u><u>21,038</u></u>
Balance at January 1, 2017	\$ -	51,586	51,586
Depreciation	-	2,963	2,963
Balance at December 31, 2017	<u><u>\$ -</u></u>	<u><u>54,549</u></u>	<u><u>54,549</u></u>
Carrying amounts:			
Balance at December 31, 2018	<u><u>\$ 115,769</u></u>	<u><u>29,213</u></u>	<u><u>144,982</u></u>
Balance at January 1, 2017	<u><u>\$ 313,005</u></u>	<u><u>83,736</u></u>	<u><u>396,741</u></u>
Balance at December 31, 2017	<u><u>\$ 313,005</u></u>	<u><u>80,773</u></u>	<u><u>393,778</u></u>
Fair value amount:			
Balance at December 31, 2018			<u><u>\$ 280,244</u></u>
Balance at December 31, 2017			<u><u>\$ 768,438</u></u>
Balance at January 1, 2017			<u><u>\$ 690,965</u></u>

The Group has set standards to decide whether an asset is able to be classified as investment property. Investment property is property held either to earn rental income or for capital appreciation or for both; therefore, the Group considers whether the major part of cash flow from an asset is independent of other assets held. One part of the real estate held by the Group is either to earn rental income or for capital appreciation, and the other part is held under management purpose. If each part of the investment property can be sold separately, the Group should decide which accounting treatment being adopted to those parts. And if each part of the investment property cannot be sold separately, the real estate can be classified as investment property only under circumstances that the part held under management purpose is not material.

(Continued)

# FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

The fair value of the invested real estate is based on the assessment of independent appraisers (with recognized professional qualifications and have recent experience in the location and type of the invested real estate to be evaluated).

As for the invested real estate of the merged company is transferred to the non-current assets held for sale, please refer to Note 6 (e) for details.

As of December 31, 2018 and 2017, the investment property of the Group had been pledged as collateral for borrowings; please refer to note 8.

### (j) Intangible assets

The costs, amortization, and impairment loss of intangible assets for the years ended December 31, 2017 and 2016, were as follows:

	<u>Goodwill</u>	<u>Trademark</u>	<u>License Plate</u>	<u>Other</u>	<u>Total</u>
Cost:					
Balance at January 1, 2018	\$ 1,421,771	417,399	273,176	60,716	2,173,062
Additions—parent company only	-	-	110,319	21,069	131,388
Disposals	-	-	(672)	-	(672)
Effect of change in foreign exchange rates	(25,126)	13,176	(6,896)	(1,240)	(20,086)
Balance at December 31, 2018	<u>\$ 1,396,645</u>	<u>430,575</u>	<u>375,927</u>	<u>80,545</u>	<u>2,283,692</u>
Balance at January 1, 2017	\$ 1,450,677	452,021	200,078	54,514	2,157,290
Additions—parent company only	-	-	76,108	7,471	83,579
Effect of change in foreign exchange rates	(28,906)	(34,622)	(3,010)	(1,269)	(67,807)
Balance at December 31, 2017	<u>\$ 1,421,771</u>	<u>417,399</u>	<u>273,176</u>	<u>60,716</u>	<u>2,173,062</u>
Accumulated amortization and impairment loss					
Balance at January 1, 2018	\$ 6,125	-	5,337	51,147	62,609
Additions—parent company only	-	-	-	8,399	8,399
Effect of change in foreign exchange rates	193	-	(95)	(836)	(738)
Balance at December 31, 2018	<u>\$ 6,318</u>	<u>-</u>	<u>5,242</u>	<u>58,710</u>	<u>70,270</u>
Balance at January 1, 2017	\$ -	-	5,444	44,438	49,882
Amortization	-	-	-	2,942	2,942
Impairment loss	6,253	-	-	4,708	10,961
Effect of change in foreign exchange rates	(128)	-	(107)	(941)	(1,176)
Balance at December 31, 2017	<u>\$ 6,125</u>	<u>-</u>	<u>5,337</u>	<u>51,147</u>	<u>62,609</u>
Carrying amounts:					
Balance at December 31, 2018	<u>\$ 1,390,327</u>	<u>430,575</u>	<u>370,685</u>	<u>21,835</u>	<u>2,213,422</u>
Balance at December 31, 2017	<u>\$ 1,450,677</u>	<u>452,021</u>	<u>194,634</u>	<u>10,076</u>	<u>2,107,408</u>
Balance at January 1, 2017	<u>\$ 1,415,646</u>	<u>417,399</u>	<u>267,839</u>	<u>9,569</u>	<u>2,110,453</u>

(Continued)

# **FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES**

## **Notes to the Consolidated Financial Statements**

### (i) Recognition of amortization and impairment

The amortization and impairment loss of intangible assets are included in the consolidated statements of comprehensive income for the years ended December 31, 2018 and 2017:

	For the years ended December 31	
	2018	2017
Operating expenses	<u>\$ 8,399</u>	<u>2,942</u>

### (ii) Impairment testing of goodwill

For impairment testing, the Group had allocated goodwill to two CGUs, Wuhan Zhongshan Grand Ocean Department Store Co., Ltd. and Fuzhou Zhongcheng Grand Ocean Department Store Co., Ltd. The aggregated carrying amount of goodwill was allocated to each CGU as follows:

	December 31, 2018		December 31, 2017	
	Carrying amount	Carrying amount	Carrying amount	Recoverable amount
<b>Goodwill</b>				
Wuhan Zhongshan Grand Ocean Department Store Co., Ltd.	\$ 195,758	\$ 1,875,498	\$ 199,323	2,220,224
Fuzhou Zhongcheng Grand Ocean Department Store Co., Ltd.	<u>1,194,569</u>	<u>3,245,133</u>	<u>1,216,323</u>	<u>3,327,018</u>
	<u>\$ 1,390,327</u>	<u>\$ 5,120,631</u>	<u>\$ 1,415,646</u>	<u>5,547,242</u>
<b>Trademark</b>				
Grand Ocean Department Store Group Co., Ltd.	<u>\$ 430,575</u>	<u>\$ 1,143,544</u>	<u>\$ 417,399</u>	<u>2,562,008</u>

The recoverable amount of CGU is the higher of fair value less costs of disposal or value in use. If an asset's recoverable amount is higher than its carrying amount, the Group assumes that there is no doubt about impairment loss. The recoverable amount of CGUs as of December 31, 2018 and 2017 was estimated on its value in use except Fuzhou Zhongcheng Grand Ocean Department Store Co., Ltd., its recoverable amount was fair value less costs of disposal.

The fair value of Fuzhou Zhongcheng Grand Ocean Department Store Co., Ltd. as of December 31, 2018 and 2017 was estimated by market method, which was based on the identical industries in recent market or similar deal prices in the neighborhood, and it was level two input of the fair value hierarchy.

(Continued)



# FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

The recoverable amount of two CGUs, Wuhan Zhongshan Grand Ocean Department Store Co., Ltd. and Fuzhou Zhongcheng Grand Ocean Department Store Co., Ltd., as of December 31, 2018 and 2017, was estimated on the value in use. The key assumptions used in estimating the value in use were as follows:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Discount rate	10%	10%
Terminal value growth rate	1%~5%	3%~9%
Growth rate of earnings before interest, taxes, depreciation, and amortization from financial budget period	3%~21%	2%~32%

- 1) The discount rate is a pre-tax earnings ratio based on the government debt of China due on May, 2039, and adjustments of risk premium to reflect incremental risk of general investment in equity and systematic risk specific to CGU.
- 2) Estimates of future cash flows are based on past experience, actual operating results and future lease agreement due date.
- 3) Operating revenue are considered the average growth level of the past three years. Also, managements use data to estimate that the selling price will stably grow at a rate higher than expected inflation rate in the future three years.
- 4) Operating costs and expenses are estimated based on past experiences and variable factors.

The aforementioned key assumptions represent management' s evaluation and best estimates of future economic trend of retail business based on the external and internal historical information.

(l) Other financial assets—current and non-current

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Other financial assets—current		
Deposits—out for lease	3,900	3,289
Restricted deposits	296,279	85,693
Deposits—ready to transaction	310,028	-
Others	<u>3,707</u>	<u>1,687</u>
	<b><u>\$ 613,914</u></b>	<b><u>\$ 90,669</u></b>
Other financial assets—non-current		
Deposits—out for lease	\$ 239,621	\$ 242,845
Restricted deposits	255,084	430,150
Others	<u>31,355</u>	<u>38,422</u>
	<b><u>\$ 526,060</u></b>	<b><u>\$ 711,417</u></b>

(Continued)

# **FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES**

## **Notes to the Consolidated Financial Statements**

- (i) Deposits — out for lease are guarantee deposits for leasing buildings.
- (ii) The Group had pre-received \$310,028 thousand and \$310,028 thousand for security brokerage business as of December 31, 2018 and 2017, respectively, which were under other financial assets — current and other current liabilities.
- (iii) The Group recognized losses \$15,760 thousand, which were under other gains and losses, due to uncollectible deposits for leasing of Xi'an Grand Ocean Department Store Co., Ltd., which was discontinued in 2017.

(m) Short-term borrowings

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Unsecured bank loans	\$ 1,253,516	\$ 2,092,275
Secured bank loans	1,694,854	386,123
Other unsecured loans	591,918	334,981
Total	<u>\$ 3,540,288</u>	<u>\$ 2,813,379</u>
Unused credit lines	<u>\$ 750,000</u>	<u>\$ 1,094,382</u>
Range of interest rates	<u>1.5%~7%</u>	<u>1.436%~7.38%</u>

For the collateral of short-term borrowings, please refer to note 8.

(m) Long-term borrowings

The list, terms and conditions of long-term borrowings of the Group were as follows:

	<b>December 31, 2018</b>			
	<b>Currency</b>	<b>Annual interest rate</b>	<b>Year of maturity</b>	<b>Amount</b>
Secured bank loans	TWD	1.35%~2%	2019~2021	\$ 430,000
	USD	2.28%~4.498%	2021~2023	3,487,033
	CNY	4.28%~5.23%	2021~2022	788,903
Unsecured bank loans	TWD	1.76%~2%	2019~2020	538,000
	USD	3.41%~4.8%	2019~2020	1,524,480
	EUR	1.65%	2020	399,695
	CNY	4.62%~5.35%	2019~2020	93,997
				7,260,108
Less: current portion				<u>(1,629,615)</u>
Total				<u>\$ 5,632,493</u>
Unused credit lines				<u>\$ 2,741,795</u>

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**FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

<b>December 31, 2017</b>				
	<b>Currency</b>	<b>Annual interest rate</b>	<b>Year of maturity</b>	<b>Amount</b>
Secured bank loans	TWD	1.35%~1.5%	2018~2019	\$ 430,000
	USD	2.28%~3.79%	2018~2024	3,611,724
	CNY	5.23%	2022	666,543
Unsecured bank loans	TWD	1.6%	2018~2019	200,000
	USD	1.6%~4.34%	2018~2019	466,504
	EUR	1.5%~1.8%	2018~2019	2,896,253
	CNY	4.25%~4.7%	2018	136,727
				8,407,751
Less: current portion				(4,069,290)
Total				<u>\$ 4,338,461</u>
Unused credit lines				<u>\$ 366,017</u>

(i) For the collateral of long-term borrowings, please refer to note 8.

(ii) On October 23, 2015, the Group signed a syndicated loan agreement with a total credit line of EUR \$66,000 thousand, and the period was from November 23, 2015 to November 22, 2018, a total of three years' agreement with the banks, the Group should repay the loan in five installments from November 2016. Furthermore, the credit period was extended for two years in November 2018, to November 23, 2020, hence it shall be repaid in four installments starting in November 2018. The Group must comply with certain financial covenants based on its audited annual and reviewed semiannual consolidated financial statements (June 30 and December 31).

(iii) For the information of interest risk, currency risk and liquidity risk, please refer to note 6(z).

(o) Bonds payable

The information of bonds of the Group were as follows:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Total convertible bonds issued	\$ -	1,000,000
Total ordinary bonds issued	2,000,000	2,000,000
Less: redeemed portion	-	(1,000,000)
Less: current portion	(997,668)	-
Discounted corporate bonds payable	(4,664)	(7,773)
Long-term portion of bonds payable	<u>\$ 997,668</u>	<u>1,992,227</u>

(Continued)

# **FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES**

## **Notes to the Consolidated Financial Statements**

	<b>For the years ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Embedded derivative instruments – call and put rights, included in financial liabilities at fair value through profit or loss	\$ -	<u>12,147</u>
Interest expense	<u>\$ 36,609</u>	<u>34,368</u>

- (i) As of December 31, 2018, the key terms and conditions of the outstanding convertible bonds issued by the Group were as follows:

<b>Terms</b>	<b>1st secured convertible bonds issued in 2015</b>
Offering Amount	\$2,000,000 thousand
Issue Date	June 29, 2015
Issue Period	June 29, 2015 ~ June 29, 2020
Coupon Rate	1.675%
LC Bank	Changhua Commercial Bank
Entrusted Bank	Mega International Commercial Bank
Final Redemption	The Company can exercise the right to redeem one half of issued amount in the fourth and fifth year.

- (ii) In 2015, the Group has issued secured convertible bonds and ordinary bonds through credit agreement with certain financial institutions. Under this credit agreement, the Group is obliged to meet certain financial ratios based on the Group's consolidated financial statements during the guarantee period. If the Group breaches this financial covenant, it will be required to deposit or remit cash, equal to 20% of the current balance of guarantee, into the bank account as a fund for debt redemption within certain business days after the cut-off date of the related consolidated financial statements. This bank account will be established and controlled by the custodian banks.

According to the repurchase at the option of the holder, the Group had bought back all outstanding convertible bonds amounting to \$421,000 thousand on February and March, 2017 respectively. For the losses of repurchase, please refer to note 6(y).

**(P) Accounts payable and other payables**

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
<u>Accounts payable</u>		
Arising from direct sales	\$ 156,481	143,494
Arising from concessionaire sales	3,452,100	3,974,442
Others	<u>72,014</u>	<u>59,683</u>
Total	<u>\$ 3,680,595</u>	<u>4,177,619</u>

(Continued)

# **FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES**

## **Notes to the Consolidated Financial Statements**

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
<u>Other payables</u>		
Securities payable (including related parties)	\$ 801,582	779,100
Construction payables	286,652	338,525
Others	<u>725,178</u>	<u>603,849</u>
Total	<b><u>\$ 1,813,412</u></b>	<b><u>1,721,474</u></b>

Note: It was no longer a related party of the Group after the change of its chairman in December, 2017.

(q) Operating lease

(i) Long-term prepaid rental

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Current (reported as other current assets)	\$ 190,207	223,596
Non-current	<u>3,279,198</u>	<u>3,532,814</u>
Total	<b><u>\$ 3,469,405</u></b>	<b><u>3,756,410</u></b>

Long-term prepaid rental consisted of advance payment of the right to use a piece of land, advance rental payment for the lease of space in the shopping mall. The land use right covers a period ranging from forty to fifty years.

(ii) Leases as lessee

Rental payables from non-cancellable operating leases were analyzed as follows:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Less than one year	\$ 1,532,227	1,604,662
Between one and five years	5,734,934	5,864,428
Over five years	<u>6,984,833</u>	<u>7,676,299</u>
	<b><u>\$ 14,251,994</u></b>	<b><u>15,145,389</u></b>

The Group has signed operating lease contracts relating to the lease of buildings for business operation, with lease periods ranging from 6 to 22 years. The rentals are adjusted according to the lease agreement, which also provides an option for early termination or renewal after the lease period. The rentals are adjusted regularly to reflect market condition, and the Group has to pay additional rental based on the revenue growth rate as described in the said lease agreements. These lease agreements meet the accounting policy criteria for classifying the leases as operating leases, because the Group accesses that the majority risks of ownership of leased properties have not been transferred.

(Continued)

**FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES****Notes to the Consolidated Financial Statements**

As of December 31, 2017 and 2016, lease payables were as follows:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Long-term payables	\$ 1,445,566	1,599,969
Less: current portion	<u>(46,545)</u>	<u>(61,389)</u>
	<b><u>\$ 1,399,021</u></b>	<b><u>1,538,580</u></b>

As disclosed in note 6(i), Suzhou Grand Ocean Department Store Co., Ltd. will terminate the lease contract on February 15, 2019 in advance, so the Group reversed long-term payables of \$98,030 thousand (CNY \$21,499 thousand) and recognized the deduction of lease expense for the years ended December 31, 2018.

**(iii) Leases as lessor**

The future minimum lease payments under non-cancellable leases were as follows:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Bulk carriers		
Less than one year	\$ 557,048	453,627
Between one and five years	835,691	980,787
Over five years	<u>304,527</u>	<u>588,938</u>
	<b><u>\$ 1,697,266</u></b>	<b><u>2,023,352</u></b>
Transportation equipments		
Less than one year	\$ 20,496	38,979
Between one and five years	<u>16,075</u>	<u>12,682</u>
	<b><u>\$ 36,571</u></b>	<b><u>51,661</u></b>

The Group leases a number of bulk carriers under operating leases. These leases typically cover a period of 1 to 7 years. As all of the risks and rewards of ownership over the lease object are substantially retained within the Group, such leases are treated as operating leases. For the financing leases of the minibuses, please refer to note 6(c) for further details.

The direct expenses including repairs and maintenance arising from bulk carriers and investment properties were as follows:

	<b>For the years ended December 31</b>
	<b>2018                      2017</b>
Bulk carriers	<b><u>\$ 20,826                      17,892</u></b>

(Continued)

# **FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES**

## **Notes to the Consolidated Financial Statements**

(q) Employee benefits

(i) Defined benefit plans

The present value of defined benefit obligation was reconciled with plan asset at fair value as follows:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Present value of the defined benefit obligation	\$ 13,609	14,336
Fair value of plan assets	(11,959)	(6,661)
Net defined benefit liabilities	<u><b>\$ 1,650</b></u>	<u><b>7,675</b></u>

The Group makes defined benefit plan contributions to the pension fund account with Bank of Taiwan that provides pension benefits for employees upon retirement. Plans (covered by the Labor Standards Law) entitle a retired employee to receive retirement benefits based on years of service and average monthly salary for the six months prior to retirement.

1) Composition of plan assets

The Group allocates pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Bureau of Labor Funds, Ministry of Labor. With regard to the utilization of the funds, minimum earnings shall be no less than the earnings attainable from two-year time deposits with interest rates offered by local banks.

The Group's Bank of Taiwan labor pension reserve account balance amounted to \$11,959 thousand as of December 31, 2018. For information on the utilization of the labor pension fund assets, including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of Labor.

2) Movements in present value of the defined benefit obligations

The movements in present value of defined benefit obligations for the Group were as follows:

	<b>For the years ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Defined benefit obligation at January 1	\$ 14,336	26,443
Current service costs and interest cost	311	691
Remeasurement gain		
— Return of plan assets excluding interest income	(1,038)	(744)
Benefit paid		(12,054)
Defined benefit obligation at December 31	<u><b>\$ 13,609</b></u>	<u><b>14,336</b></u>

(Continued)

# **FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES**

## **Notes to the Consolidated Financial Statements**

### 3) Movements in fair value of the defined benefit plan assets

The movements in present value of defined benefit plan assets for the Group were as follows:

	<b>For the years ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Fair value of plan assets at January 1	\$ 6,661	16,017
Interests income	114	165
Remeasurement loss		
— Return on plan assets excluding interest income	388	(43)
Contributions paid by the employees	4,796	2,576
Benefits paid	-	(12,054)
Fair value of plan assets at December 31	<b>\$ 11,959</b>	<b>6,661</b>

### 4) Expenses recognized in profit or loss

The expenses recognized in profit or loss for the Group were as follows:

	<b>For the years ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Current service costs	\$ 134	411
Net interest of net liabilities for defined benefit obligations	63	115
	<b>\$ 197</b>	<b>526</b>
Administration expenses	<b>\$ 197</b>	<b>526</b>

### 5) Remeasurement of net defined benefit liability (asset) recognized in other comprehensive income

The Group' s remeasurement of the net defined benefit liability (asset) recognized in other comprehensive income was as follows:

	<b>For the years ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Accumulated amount at January 1	(4,164)	(4,865)
Recognized during the period	1,426	701
Accumulated amount at December 31	<b>\$ (2,738)</b>	<b>(4,164)</b>

(Continued)



# **FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES**

## **Notes to the Consolidated Financial Statements**

### **6) Actuarial assumptions**

The principal actuarial assumptions at the reporting date were as follows:

	<b>2018.12.31</b>	<b>2017.12.31</b>
Discount rate	1.125%	1.25%
Future salary increase rate	2.25%	2.25%

Based on actuarial report, the expected allocation payment to be made by the Group to the defined benefit plans for the one-year period after the reporting date is \$8,319 thousand.

The weighted-averaged duration of defined benefit plans is ten years.

### **7) Sensitivity analysis**

In calculating the present value of the defined benefit obligations, the Group uses judgments and estimations to determine the actuarial assumptions, including discount rate, rate of resignation and future salary changes, as of the financial statement date. Any changes in the actuarial assumptions may significantly impact the amount of the defined benefit obligations.

If the actuarial assumptions had changed, the impact on the present value of the defined benefit obligation shall be as follows:

	<b>Influences of defined benefit obligations</b>	
	<b>Increased 0.25%</b>	<b>Decreased 0.25%</b>
December 31, 2018		
Discount rate	\$ (309)	318
Future salary increase rate	306	(298)
December 31, 2017		
Discount rate	(353)	366
Future salary increase rate	353	(342)

Given that other assumptions remain constant, reasonably possible changes at the reporting date to one of the relevant actuarial assumptions would have affected the defined benefit obligation by the amounts shown above. The method used in the sensitivity analysis is consistent with the calculation of pension liabilities on the balance sheets.

There was no change in the method and assumptions used in the preparation of sensitivity analysis for 2018 and 2017.

(Continued)

# FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### (ii) Defined contribution plans

Under these defined contribution plans, the Group allocates 6% of each employee's monthly wages in Taiwan to the labor pension personal account at the Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act, without additional legal or constructive obligation.

The subsidiaries in China also adopt defined contribution pension plans for their employees. These companies contribute amounts proportionate to each employee's salary level to personal accounts. The amounts contributed by the employees but minus the amounts withdrawn by them in advance are returned to them as they resign or retire. Also, the amounts contributed by these companies are returned to the employees based on the service years but minus the amounts withdrawn by them in advance.

The pension costs incurred from defined contribution plans amounting to \$74,361 thousand and \$76,232 thousand for the years ended December 31, 2018 and 2017, respectively.

### (iii) Short-term employee benefits

The Group's employee benefit liabilities were as follows:

	December 31, 2018	December 31, 2017
Vacation liability	<u>\$ 11,171</u>	<u>11,375</u>

### (s) Income Tax

According to the amendments to the "Income Tax Act" enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, an increase in the corporate income tax rate from 17% to 20% is applicable upon filing the corporate income tax return commencing the year of 2018.

#### (i) Income tax expense

The components of income tax were as follows:

	<u>For the years ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Current tax expense		
Current period	\$ 446,307	280,157
10% surtax on undistributed earnings	17,303	-
Land value increment tax	628	-
Adjustment for prior periods	<u>(416)</u>	<u>5,303</u>
	<u>463,822</u>	<u>285,460</u>
Deferred tax expense		
Origination and reversal of temporary differences	<u>(243,243)</u>	<u>26,973</u>
Income tax expense	<u>\$ 220,579</u>	<u>312,433</u>

(Continued)

# **FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES**

## **Notes to the Consolidated Financial Statements**

The amount of income tax recognized in other comprehensive income were as follows:

	<b>For the years ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Items will be reclassified to profits and losses :		
Exchange differences on translation	<u>\$ -</u>	<u>(37,121)</u>

Reconciliation of income tax and profit before tax were as follows:

	<b>For the years ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Profit before tax	<u>\$ 440,168</u>	<u>1,007,382</u>
Income tax calculated on profit before tax using the Company' s domestic tax rate	\$ 182,341	253,653
Effect of tax rates in foreign jurisdiction	35,642	149,863
Non-deductible expenses	12,721	9,359
Investment loss	(86,318)	-
Recognition of previously unrecognized tax losses	(1,310)	(109,881)
Land value increment tax	628	-
Land exempt income	(4,313)	-
10% surtax on undistributed earnings	17,303	-
Liquidation losses of subsidiaries	-	(90,056)
Current-year losses for unrecognized deferred tax asset	126,114	174,978
Change in unrecognized temporary differences	(75,621)	(70,394)
Change in provision in prior periods	(416)	5,303
Others	<u>13,808</u>	<u>(10,392)</u>
Total	<u>\$ 220,579</u>	<u>312,433</u>

(ii) Deferred tax assets and liabilities

1) Unrecognized deferred tax liabilities

The Group is able to control the timing of the reversal of the temporary differences associated with investments in subsidiaries as of December 31, 2018 and 2017. Also, management considers it probable that the temporary differences will not reverse in the foreseeable future. Hence, such temporary differences are not recognized under deferred tax liabilities, the details of which were as follows:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Aggregated amount of temporary differences related to investments in subsidiaries	<u>\$ 1,238,467</u>	<u>564,335</u>
Unrecognized deferred tax liabilities	<u>\$ 247,694</u>	<u>95,937</u>

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# **FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES**

## **Notes to the Consolidated Financial Statements**

The board of directors of the merged company resolved to adopt the stock dividend policy for the invested subsidiary company, First Steamship S.A. Moreover, the merged company does not intend to dispose the equity investment in the near future, hence the temporary difference between the book value and the tax of the subsidiary company will not be disposed and the non-recognized deferred income tax liabilities shall not be divided.

### 2) Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following items:

	December 31, 2018	December 31, 2017
Tax effect of deductible temporary differences	<u>\$ 9,502</u>	<u>6,279</u>
The carry forward of unused tax losses	<u>\$ 539,470</u>	<u>515,611</u>

The R.O.C Income Tax Act allows net losses, as assessed by the tax authorities, to offset taxable income over a period of ten years for local tax reporting purposes. Besides, the Law of the People's Republic of China on Enterprise Income Tax allows net losses, as assessed by the tax authorities, to offset taxable income over a period of five years for local tax reporting purposes.

### 3) Recognized deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities for the years ended December 31, 2018 and 2017 were as follows:

Deferred tax liabilities:

	Foreign currency translation differences for foreign operations	Estimated subsidiary earnings appropriated	Total
Balance at January 1, 2018	\$ 198,176	198,176	198,176
Recognized in profit or loss	-	(131,899)	(131,899)
Foreign currency translation differences for foreign operations	-	2,696	2,696
Balance at December 31, 2018	<u>\$ -</u>	<u>68,973</u>	<u>68,973</u>
	\$ 37,121	182,697	219,818
Balance at January 1, 2017	-	25,546	25,546
Recognized in profit or loss	-	-	-
Recognized in other comprehensive income	(37,121)	-	(37,121)
Foreign currency translation differences for foreign operations	-	(10,067)	(10,067)
Balance at December 31, 2017	<u>\$ -</u>	<u>198,176</u>	<u>198,176</u>

(Continued)

# FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

Deferred tax assets:

	<u>Rental expenses</u>	<u>Loss deduction</u>	<u>Other</u>	<u>Total</u>
Balance at January 1, 2018	\$ 366,025	\$ 50,759	\$ -	\$ 416,784
(Debit)Credit in Statements of comprehensive Income	443	14,969	95,932	111,344
Foreign currency translation differences for foreign operations	(6,554)	(1,182)	(1,759)	(9,495)
Balance at December 31, 2018	<u>\$ 359,914</u>	<u>\$ 64,546</u>	<u>\$ 94,173</u>	<u>\$ 518,633</u>
Balance at January 1, 2017	\$ 400,949	\$ 25,670	\$ -	\$ 426,619
(Debit)Credit in Statements of comprehensive Income s	(26,714)	25,287	-	(1,427)
Foreign currency translation differences for foreign operations	(8,210)	(198)	-	(8,408)
Balance at December 31, 2017	<u>\$ 366,025</u>	<u>\$ 50,759</u>	<u>\$ -</u>	<u>\$ 416,784</u>

3. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilize the benefits therefrom.

As of December 31, 2018, the information of the Group' s unutilized business losses for which no deferred tax assets were recognized are as follows:

<u>Year of loss</u>	<u>Unutilized business loss</u>		<u>Expiry date</u>	
	<u>Taiwan</u>	<u>China</u>	<u>Taiwan</u>	<u>China</u>
2009	\$ 26,760	-	2019	-
2010	10,170	-	2020	-
2011	13,913	-	2021	-
2014	-	164,272	-	2019
2015	72,548	257,999	2025	2020
2016	82,075	266,215	2026	2021
2017	52,246	682,160	2027	2022
2018	47,509	543,057	2028	2023
Total	<u>\$ 305,221</u>	<u>1,913,703</u>		

### 4. Examination and Approval

- 1)The Company' s tax returns for the years through 2016 were examined and approved by the national tax authorities.

(Continued)

# FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

2) The years of ROC subsidiaries' tax returns which were examined and approved by the national tax authorities were as follows:

<u>Approved year</u>	<u>Name of a Subsidiary</u>
2016	Yee Shin Investment Co., Ltd.
2016	Yee Young Co., Ltd.
2017	Sin Sheng Yiang Co., Ltd.
2016	Lan Hai Engineering Consultants Ltd.

3) The annual tax returns of subsidiaries in China through 2017 were examined and approved by the tax authority.

### (t) Capital and other equity

As of December 31, 2018 and 2017, the number of authorized ordinary shares were both 800,000 thousand shares, respectively, with par value of \$10 per share. The total value of authorized ordinary shares was amounted to both \$8,000,000 thousand, respectively. Also, the number of issued and outstanding shares were both 630,883 thousand shares, respectively. All issued shares were paid up upon issuance.

Reconciliation of shares outstanding for 2018 and 2017 was as follows:

(Expressed in thousand shares)

	<u>For the years ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Balance at January 1	630,883	370,883
Issued for cash	-	260,000
Ending balance at December 31	<u>630,883</u>	<u>630,883</u>

### (i) Ordinary shares and preferred shares

A resolution was passed during the board meeting held on December 16, 2016, March 16 and April 24, 2017 for the issuance of 260,000,000 new shares for cash, with par value of \$10 per share, amounting to \$2,600,000 thousand, with issuance price of \$7.6 per share. The capital surplus - share capital of \$624,000 thousand was debited and the capital surplus - share options of \$123 thousand was credited. The Company has received approval, with ruling No. 1060003795, from the Financial Supervisory Commission for this capital increase, with May 19, 2017 as the date of capital increase. The relevant statutory registration procedures have been completed.

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# FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### (ii) Capital surplus

The components of the capital surplus were as follows:

	December 31, 2018	December 31, 2017
Share capital	\$ 561,458	561,458
Stock option from convertible corporate bonds	748,921	748,921
Forfeited share options	13,838	13,838
Treasury share transactions	15,967	15,967
Stock options—fair value differences of associates and joint ventures under equity method	32,037	5,817
Difference arising from subsidiary' s share price and its carrying value	430,844	405,390
Changes in a parent's ownership interest in a subsidiary	147,039	147,039
Donation from shareholders	3,332	-
	<u>\$ 1,953,436</u>	<u>1,898,430</u>

According to the ROC Company Act, capital surplus can only be used to offset a deficit, and only the realized capital surplus can be used to increase the common stock or be distributed as cash dividends. The aforementioned realized capital surplus includes capital surplus resulting from premium on issuance of capital stock and earnings from donated assets received. According to the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, capital increases by transferring paid-in capital in excess of par value should not exceed 10% of the total common stock outstanding.

The Company collected the expired unclaimed dividends of the period from 2008 to 2012 and recognized capital surplus—donation from shareholders of \$3,332 thousand in accordance with regulation with Ruling No. 10602420200 from the Ministry of Economic Affairs.

### (iii) Retained earnings

The Company' s article of incorporation stipulate that Company's net earnings should first be used to offset the prior years' deficits, if any, before paying any income taxes. Of the remaining balance, 10% is to be appropriated as legal reserve, and then any remaining profit together with any undistributed retained earnings shall be distributed according to the distribution plan proposed by the Board of Directors and submitted to the stockholders' meeting for approval.

According to the Company' s articles of incorporation, the dividend policy of the Company is based on the principle of prudence, which considers the Company' s future funding needs and financial structure by reserving a certain amount of earnings, and distributing stock dividends and cash dividends from the remaining earnings. In order to maintain stable dividend distribution, in principle, the distribution of cash dividends shall not be less than 10% of the total dividends. If the distribution of cash dividends is less than NT\$0.1 dollars per share, the board of directors can resolve to distribute stock dividends instead, but it will be subject to a resolution by the shareholders during their shareholders' meeting.

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## FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### 1) Legal reserve

According to the ROC Company Act, the Company must retain 10% of its after-tax annual earnings as legal reserve until such retention equals the amount of total capital. When a company incurs no loss, it may, pursuant to a resolution by a shareholders' meeting, distribute its legal reserve by issuing new shares or by distributing cash, and only the portion of legal reserve which exceeds 25% of capital may be distributed.

#### 2) Special reserve

The Group chose to apply the exemption under the IFRS1 "First-time adoption of IFRS"; therefore, a portion of cumulative translation adjustments amounting to thousand was reclassified as special earnings reserve. The net increase in retained earnings due to this reclassification is not covered by the Ruling No. 1010012865 issued by the FSC on April 6, 2012 for purposes of appropriating the same amount of special earnings reserve.

In accordance with the aforementioned Ruling No. 1010012865, a portion of current-period earnings and undistributed prior-period earnings shall be reclassified as special earnings reserve during earnings distribution. The amount to be reclassified should equal the current-period total net reduction of other shareholders' equity. Similarly, a portion of undistributed prior-period earnings shall be reclassified as special earnings reserve (and does not qualify for earnings distribution) to account for cumulative changes to other shareholders' equity pertaining to prior periods. Amounts of subsequent reversals pertaining to the net reduction of other shareholders' equity shall qualify for additional distributions. A resolution was passed during the shareholders' meeting held on June 29, 2018 for the reclassification of special earnings reserve of \$336,136 thousand.

#### 3) Earnings distribution

- a) On June 29, 2018, the shareholder's meeting had passed a resolution not to distribute the earnings of 2017.
- b) Deficit compensation for 2016 were decided via the shareholders' meeting held on June 21, 2017. The legal reserve of \$522,487 thousand had been resolved to offset the Company's losses.

#### (iv) Treasury stock

A resolution for transferring 6,370,000 treasury shares to employees was passed during the board meeting of the subsidiary, Grand Ocean Retail Group Ltd., held on August 11, 2017. The recipients include the senior level management, and employees nominated by the general manager or board of directors. The grant-date fair value were \$0.052, \$0.076 and \$0.051, respectively.

#### 1) The employees must comply with rules below after shares have been granted:

- a) The employees cannot apply for these shares to be traded until the 24th month period has elapsed from the subscription date.
- b) Within the 24th to the 36th month period from the subscription date, the employees can choose to sell up to 30% of the original shares subscribed or postpone the sale.

(Continued)



# **FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES**

## **Notes to the Consolidated Financial Statements**

- c) Within the 36th month to the 48th month period from the subscription date, the employees can choose to sell another 15,000 shares subscribed (i.e., accumulated shares sold cannot exceed 60% of the original shares subscribed) or postpone the sale.
- d) After the 48th month period from the subscription date, the employees can choose to sell the remaining 40% of the original shares subscribed (i.e., accumulated

2) The details for transferring treasury shares to employees:

(In thousands of shares)

	<b>For the nine months ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Outstanding at January 1 (Same as outstanding at December 31)	<u><b>6,350</b></u>	<u><b>6,370</b></u>

The proceeds from transferring treasury shares were recognized as prepaid salary for employees to execute subscription. As of December 31, 2018 and 2017, these prepaid salary amounting to \$115,276 thousand and \$124,163 thousand were recognized under other current assets, respectively.

(Continued)

# **FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES**

## **Notes to the Consolidated Financial Statements**

(v) Other equity interests

	Real estate revaluation increment	Exchange differences on translation of foreign financial statements	Non-contro lling Interest	Total
Balance at January 1, 2018	\$ (336,136)		4,382,386	4,046,250
Profit of non-controlling interests	-	-	213,189	213,189
Subsidiaries' dividend distributed	-	-	(99,642)	(99,642)
Difference between consideration and carrying amount of subsidiaries acquired or disposal	-	-	(46,121)	(46,121)
Exchange differences on subsidiaries accounted for using equity method	41,545	-	-	41,545
Real estate revaluation increment on subsidiaries accounted for using equity method	-	35,656	1,219	36,875
Exchange differences on foreign operations	28,083	-	(83,691)	(55,608)
Balance at December 31, 2018	<u>\$ (266,508)</u>	<u>35,656</u>	<u>4,367,340</u>	<u>4,136,488</u>
Balance at January 1, 2017	\$ 125,342	-	4,107,001	4,232,343
Loss of non-controlling interests	-	-	129,988	129,988
Difference between consideration and carrying amount of subsidiaries acquired or disposal	-	-	(11,159)	(11,159)
Exchange differences on subsidiaries accounted for using equity method	(41,454)	-	-	(41,454)
Subsidiaries' dividend declared	-	-	(80,164)	(80,164)
Changes in equity of subsidiary	-	-	258,221	258,221
Changes in non-controlling interests	-	-	8,477	8,477
Exchange differences on foreign operations	(420,024)	-	(29,978)	(450,002)
Balance at December 31, 2017	<u>\$ (336,136)</u>	<u>-</u>	<u>4,382,386</u>	<u>4,046,250</u>

(u) Earnings per share

(i) Basic earnings per share

The basic earnings per share at December 31, 2018 and 2017 was based on the profit attributable to ordinary shareholders of the Company and the weighted-average number of ordinary shares outstanding, calculated as follows:

1) Profit or loss attributable to ordinary shareholders of the Company

	<b>For the years ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Profit or Loss of the Company for the year	<u>\$ 6,400</u>	<u>564,961</u>

(Continued)

**FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES****Notes to the Consolidated Financial Statements**

## 2) Weighted-average number of ordinary shares

	<b>For the years ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Issued ordinary shares at January 1	630,883	370,883
Effect on issuance of new stocks for cash	-	162,500
Weighted average number of ordinary shares at December 31	<u><b>630,883</b></u>	<u><b>533,383</b></u>
Earnings per share (dollars)	<u><b>\$ 0.01</b></u>	<u><b>\$ 1.06</b></u>

## (ii) Diluted earnings per share

## 1) Profit attributable to ordinary shareholders of the Company (diluted)

	<b>For the years ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Profit or loss attributable to ordinary shareholders	\$ 6,400	564,961
Effect of dilutive potential ordinary shares— conversion of convertible bonds	-	(1,941)
Profit or loss attributable to ordinary shareholders (diluted)	<u><b>\$ 6,400</b></u>	<u><b>563,020</b></u>

## 2) Weighted-average number of ordinary shares outstanding (diluted)

	<b>For the years ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Weighted-average number of ordinary shares	630,883	533,383
Effect of employees remuneration for stock	193	712
Effect of dilutive potential ordinary shares— conversion of convertible bonds	-	1,469
Weighted average number of ordinary shares outstanding (diluted) at December 31	<u><b>631,076</b></u>	<u><b>535,564</b></u>
Diluted earnings per share (dollars)	<u><b>\$ 0.01</b></u>	<u><b>\$ 1.05</b></u>

(Continued)

# **FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES**

## **Notes to the Consolidated Financial Statements**

(t) Revenue from contracts with customers

(i) Disaggregation of revenue

	For the years ended December 31, 2018					Total
	Freight department	Invest department	Retail department	Lease department	Other department	
Primary geographical markets						
Taiwan	\$ 3,984	-	-	7,634	102,335	113,953
China	-	-	6,457,831	314,990	-	6,772,821
Other	1,098,052	59,049	-	-	-	1,157,101
	<u>\$ 1,102,036</u>	<u>59,049</u>	<u>6,457,831</u>	<u>322,624</u>	<u>102,335</u>	<u>8,043,875</u>
Major products/services lines						
Commissions revenue (Retail revenue – concessionaire sales)	\$ -	-	2,927,137	-	-	2,927,137
Commodity sales (Retail revenue – direct sales)	-	-	1,596,855	-	-	1,596,855
Lease revenue (Note)	1,102,036	-	787,966	69,414	-	1,959,416
Financial lease interest income (Note)	-	-	-	221,424	-	221,424
Service revenue and others	-	59,049	1,145,873	31,786	102,335	1,339,043
	<u>\$ 1,102,036</u>	<u>59,049</u>	<u>6,457,831</u>	<u>322,624</u>	<u>103,335</u>	<u>8,043,875</u>

Note: The lease revenue and financial lease interest income of the Group are under accounting policies of IAS 17.

For details on revenue twelve months ended December 31, 2017, please refer to note 6(w)

(ii) Contract balances

	December 31, 2018	January 1, 2018
Accounts receivable	\$ 20,992	11,661
Less: allowance for impairment	-	-
Total	<u>\$ 20,992</u>	<u>11,661</u>
Contract liabilities	<u>\$ 5,173</u>	<u>20,701</u>

For details on accounts receivable and allowance for impairment, please refer to note 6(c).

The initial balance of the contract liabilities on January 1, 2018 was recognized as revenue in the amount of \$20,701 thousand for the years ended December 31, 2018.

The major change in the balance of contract liabilities is the difference between the time frame in the performance obligation to be satisfied and the payment to be received. There was no other significant changes during the period from January 1 to December 31, 2018.

(Continued)

# FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### (w) Revenue

	<b>For the years ended December 31</b>
	<b>2017</b>
Retail revenue	\$ 4,517,268
Lease revenue	
— Mall sublet	580,260
— Investment property for rent	12,325
— Vehicle leasing	46,713
Financial lease interest income	175,913
Freight revenue	
— Vessel for rent	1,001,925
Other	963,043
	<b><u>\$ 7,297,447</u></b>

For details on revenue twelve months ended December 31, 2018, please refer to note 6(y).

### (x) Employee compensation and directors' and supervisors' remuneration

In accordance with the articles of incorporation, the Company should contribute no less than 1% of the profit as employee compensation and less than 3% as directors' and supervisors' remuneration when there is profit for the year. However, if the Company has accumulated deficits, the profit should be reserved to offset the deficit. The compensation could be paid to employees which include employees of the Company's affiliated companies who meet certain conditions approved by board of directors by cash or shares. However, directors' and supervisors' remuneration could only be paid by cash.

As the operations for the year 2018 resulted in a net loss, no employee compensation and directors' and supervisors' remuneration were estimated and accrued. The information is available on the Market Observation Post System website

For the year ended December 31, 2017, the Company estimated its employee compensation and directors' and supervisors' remuneration amounting to \$6,800 thousand and \$3,000 thousand, respectively. The estimated amounts mentioned above are calculated based on the net profit before tax, excluding the compensation to employees, and remuneration to directors and supervisors of each period, multiplied by the percentage contributed to employees, directors and supervisors as specified in the Company's articles. These compensation and remuneration were expensed under operating costs or operating expenses during 2017.

If there is difference between actual amount distributed and estimated amount, recognized as the change of accounting estimation and expensed under profit or loss in the subsequent year. The shares calculation of stock compensation is based on the information which can be searched on the Market Observation Post System the day before the board of directors' meeting, if the board of directors decides to issue stock for employee compensation. There is no difference between actual amount distributed and the estimated amount in the consolidated financial statements of 2017 for the employee compensation and directors' and supervisors' remuneration.

(Continued)

# **FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES**

## **Notes to the Consolidated Financial Statements**

(y) Non-operating income and expenses

(i) Other income

The details of other income for the years ended December 31, 2018 and 2017 were as follows:

	<b>For the years ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Interest income		
Loan to related parties	\$ -	77,312
Loan to unrelated parties	8,546	18,011
Open-end fund	1,111	1,171
Bank deposits	36,549	31,655
Amortized cost financial assets	30,173	-
Other	250	19
Dividend income	5,925	16,625
Total	<u><b>\$ 82,554</b></u>	<u><b>144,793</b></u>

(ii) Other gains and losses

The details of other gains and losses for the years ended December 31, 2018 and 2017 were as follows:

	<b>For the years ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Foreign exchange loss	\$ (82,151)	(459,916)
Gain (loss) on disposal of investments and financial assets		
Net gains on disposal of investments under the equity method	(8,364)	794
Net gains on disposal of available for sale financial assets	-	32,595
Net gains on disposal of financial assets at cost	-	282,739
Gain (loss) of financial asset or financial liability at fair value through profit or loss		
Open-end fund and shares of stock of listed companies	(3,166)	41,284
Non-derivative instruments—accumulator and decumulator	(91)	185,927
Non-derivative instruments—Buy-low-and-sell-high contracts	-	884
Convertible bonds	-	12,147
Impairment loss		

(Continued)

# **FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES**

## **Notes to the Consolidated Financial Statements**

Financial assets impairment loss	-	(15,760)
Non-financial assets impairment loss	(260,023)	(79,188)
Loss on disposal of non-current assets held for sale	(106,566)	-
Gain on disposal of non-current assets held for sale	-	130,726
Loss on disposal of property, plant and equipment	(19,825)	(8,528)
Gain (loss) on redemption of bonds payable	-	(8,940)
Gain on offsetting of financial assets	-	35,773
Gain on bargain purchase	-	35,566
Other revenues	124,532	107,255
	<b>\$ (355,654)</b>	<b>293,358</b>

Note: The uncollectible receivables from the charterers' liquidation amounting to \$135,010 thousand (USD\$4,348 thousand). There were guarantee deposit with amount of \$147,483 thousand (USD\$4,750 thousand) and unearned receipts with amount of \$23,300 thousand (USD\$750 thousand) toward the charterer, and no unsettled payments to the Group when the liquidation was completed. Therefore, all these accounts mentioned above were derecognized, and other gain with amount of \$35,773 thousand was recognized in 2017.

### (iii) Finance costs

The details of finance costs for the years ended December 31, 2018 and 2017 were as follows:

	<b>For the years ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Interest expense		
Bank loans	\$ 338,815	303,225
Loans from related parties	-	6,704
Amortization on discount of corporate bonds	3,109	494
Interest on corporate bonds	33,500	33,874
Others	30,747	16
Financial expenditures	35,820	54,402
	<b>\$ 441,991</b>	<b>398,715</b>

### (z) Financial instruments

#### (i) Credit risks

##### 1) Credit risk exposure

As of December 31, 2018 and 2017, the maximum exposure of credit risks of financial loss to the Group if a counterparty to a financial instrument fails to meet its contractual obligations were mainly from:

- The carrying amounts of financial assets recognized in the consolidated balance sheet; and
- The amounts of liabilities as a result from the mutual guarantee in terms of the contract between joint constructors and the Group providing financial guarantees are \$0 and \$822,000 thousand.

(Continued)

# FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### 2) Concentration of credit risk

There is no significant concentration on single customer in the Group's retail business, and debtors of accounts receivable are banks with high credit rating; therefore, management believes that there is no significant concentration of credit risk.

The Group's automobile lease business has a wide range of customers. To minimize the credit risk, the Group transacts with corporations or individuals that have credit ratings equivalent, and will assesses the ratings based on other publicly available financial information and will continuously monitor the exposure to credit risk.

Besides, the Group's shipping business consistently adheres to its policy of receiving in advance of each freight fee charged to customers to minimize credit risk.

### 3) Account receivable and Debt securities of credit risk

Please refer to Note 6 (c) for credit risk information of the lease receivables and account receivable. Other amortized costs of financial assets include other receivables and invested corporate bonds (it was reported in the loans and receivables on December 31, 2017). Please refer to Note 6 (b), (c) and (d) for details.

For the expected credit loss of 12 month or the expected credit loss at the loan duration, the above-mentioned financial assets are listed on December 31, 2018 as credit losses are presented. Please refer to Note 6 (c) and (d) for credit impairment status.

### (ii) Liquidity risks

The following table shows the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

	Carrying amount	Contractual cash flows	1 years	1 to 5 years	Over 5 years
<b>December 31, 2018</b>					
Non-derivative financial liabilities					
Non-interest bearing liabilities	\$ 7,091,410	7,091,410	4,578,900	770,244	1,562,266
Floating rate instrument	10,079,572	10,639,068	5,046,952	5,592,116	-
Fixed rate instruments	3,569,689	3,698,010	2,664,510	1,033,500	-
	<u>\$ 20,740,671</u>	<u>21,428,488</u>	<u>12,470,362</u>	<u>7,395,860</u>	<u>1,562,266</u>
<b>December 31, 2017</b>					
Non-derivative financial liabilities					
Non-interest bearing liabilities	\$ 8,293,684	8,293,684	6,491,585	684,780	1,117,319
Floating rate instrument	10,886,149	11,124,916	6,608,391	4,059,307	457,218
Fixed rate instruments	2,377,124	2,528,881	428,381	2,100,500	-
	<u>\$ 21,556,957</u>	<u>21,947,481</u>	<u>13,528,357</u>	<u>6,844,587</u>	<u>1,574,537</u>

The Group does not expect the cash flows included in the maturity analysis to occur significantly earlier or at significantly different amounts.

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# **FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES**

## **Notes to the Consolidated Financial Statements**

### (iii) Marker risk

#### 1) Foreign currency risk

The Group's significant exposure to foreign currency risk was as follows:

	December 31, 2018			December 31, 2017				
	Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD		
<u>Financial assets</u>								
<u>Monetary items</u>								
USD:NTD	\$	533	30.72	16,374	\$	15	29.78	447
HKD:USD		10,740	0.1277	42,145	148,252	0.1281	565,581	
AUD:USD		40	0.7050	861	14,322	0.7800	332,666	
EUR:USD		551	1.1465	19,391	423	1.1968	15,085	
<u>Non-monetary items</u>								
Non-current assets held for sale		65,624	0.1277	257,443	-	-	-	
Investments accounted for using equity method								
HKD:USD		304,957	0.1277	1,196,611	307,082	0.1281	1,170,365	
PHP:USD		-	-	-	247,797	0.0200	147,824	
<u>Financial liabilities</u>								
<u>Monetary items</u>								
USD:CNY		13,000	6.8632	399,356	8,225	6.5342	244,941	
HKD:USD		259,234	0.1277	1,017,199	204,220	0.1281	779,100	
EUR:USD		11,348	1.1465	399,695	88,113	1.1968	3,140,392	
CNY:USD		70,000	0.1457	313,323	35,000	0.1530	159,515	
EUR:CNY		-	-	-	4,700	7.8201	167,511	

#### 2) Sensitivity analysis

The Group's exposure to foreign currency risk arises from cash and cash equivalents, financial assets at fair value through profit or loss, loans and borrowings; and trade and other payables that are denominated in foreign currency.

A weakening (strengthening) of 1% of the NTD against the USD, EUR, HKD, AUD and RMB as of December 31, 2018 and 2017 would have decreased (increased) the profit before tax by 20,508 thousand and 35,710 thousand, respectively. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the reporting date.

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## FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

Since the Group has several functional currencies, the information on foreign exchange gain (loss) on foreign currency denominated monetary items is disclosed by the total amount thereof. For the years ended December 31, 2018 and 2017, foreign exchange gain (loss) (including realized and unrealized portions) amounted to \$(82,151) thousand and \$(459,916) thousand, respectively.

(iv) Interest rate analysis

The details of the Group' s exposure to interest rate of financial assets and liabilities, please refer to the note on liquidity risk management.

The following sensitivity analysis is based on the exposure to the interest rate risk of derivative and non-derivative financial instruments at the reporting date. Regarding of liabilities with floating interest rates, the analysis is based on the assumption that the amount of liabilities outstanding at the reporting date was outstanding throughout the year. The rate of change is expressed as the interest rate increases or decreases by 0.5% when reporting to management internally, which also represents the Group management's assessment of the reasonably possible interest rate change.

If the interest rate had increased or decreased by 0.5%, the Group' s profit before tax would have decreased or increased by \$20,654 thousand and \$17,990 thousand, which is mainly due to the Group' s borrowings at variable rates and demand deposits for the years ended December 31, 2018 and 2017, respectively, given that all other variable factors remaining constant.

(v) Fair value of financial instruments

1) Fair value hierarchy

The Group' s accounting policies and disclosures include measuring financial assets and liabilities at fair value.

The Company establishes related internal control systems to measure fair value. The valuation group periodically reviews and adjusts significant unobservable data for valuation models and report to treasurer directly. If using outside information (i.e. broker or pricing service institutions) as inputs to measure fair value, the valuation group will assess the proof provided by the third parties to ensure that the assessment and its fair value rating classification comply with IFRSs.

The Company strives to use market observable inputs when measuring assets and liabilities. Different levels of the fair value hierarchy being used in determining the fair value of financial instruments are as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identifiable assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs for assets or liability that are not based on observable market data. (Non-observable parameters)

(Continued)

# FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### 2) Fair value of financial instruments

The carrying amount and fair value of the Group' s financial assets and liabilities, including the information on fair value hierarchy were as follows; however, except as described in the following paragraphs, for financial instruments not measured at fair value whose carrying amount is reasonably close to the fair value, and for equity investments that has no quoted prices in the active markets and whose fair value cannot be reliably measured, disclosure of fair value information is not required:

		December 31, 2018			
		Fair Value			
	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets					
Non-derivative financial assets mandatorily measured at fair value through profit or loss	\$ 151,968	151,968	-	-	151,968
		December 31, 2017			
		Fair Value			
	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets					
Financial assets at fair value through profit or loss					
Non-derivative held for trading financial assets	\$ 589,416	589,416	-	-	589,416
Non-hedging derivative held for trading financial assets	89	-	89	-	89
	\$ 589,505	589,416	89	-	589,505

### 3) Valuation techniques for financial instruments not measured at fair value

The Group' s valuation techniques and assumptions used for financial instruments not measured at fair value are as follows:

#### a) Held-to-maturity financial assets

If the quoted prices in active markets are available, the market price is established as the fair value. However, if quoted prices in active markets are not available, the estimated valuation or prices used by competitors are adopted.

#### b) Debt Investment that has no active markets and financial liabilities measured at amortized cost.

If there is quoted price generated by transactions, the recent transaction price and quoted price data is used as the basis for fair value measurement. However, if no quoted prices are available, the discounted cash flows are used to estimate fair values.

### 4) Valuation techniques for financial instruments measured at fair value

#### a) Non-derivative financial instruments

(Continued)

## FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

A financial instrument is regarded as being quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. Whether transactions are taking place 'regularly' is a matter of judgment and depends on the facts and circumstances of the market for the instrument.

Quoted market prices may not be indicative of the fair value of an instrument if the activity in the market is infrequent, the market is not well established, only small volumes are traded, or bid ask spreads are very wide. Determining whether a market is active involves judgment.

#### b) Derivative financial instruments

Measurement of the fair value of derivative instruments is based on the valuation techniques. The details of the valuation model used by the Group for each derivative financial instrument were as follows:

<u>Monte Carlo Simulation</u>	<u>Adjusted Binary tree</u>
1 Financial instruments — foreign exchange	1.Accumulator/ Decumulator  2.Call option, put option and convertible option of corporate bond

5) There were no transfers in either direction of levels in 2018 and 2017.

#### (aa) Financial risk management

##### (i) Overview

The Group have exposures to the following risks due to the uses of its financial instruments:

- 1) Credit risk
- 2) Liquidity risk
- 3) Market risk

The following likewise discusses the Group's objectives, policies and processes for measuring and managing the above mentioned risks. For more disclosures about the quantitative effects of these risks exposures, please refer to the respective notes in the accompanying consolidated financial statements.

##### (ii) Structure of risk management

The Group's risk management policies are established to identify and analyze the Group's exposure to risks, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The board of directors has overall responsibility for the establishment and oversight of the derivative financial instruments, and internal auditor undertakes regular reviews of risk management controls and procedures.

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## FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### (iii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investments in debt securities.

##### 1) Trade and other receivables

To minimize the credit risk, the Group's shipping business consistently adheres to its policy of receiving in advance of each freight fee being charged to its customers. In addition, the Group's vessel management receives fees monthly, assesses possibility of collecting receivables, and recognizes allowances for doubtful account.

The Group's retail business is expected to have no significant credit risk because its collection methods of primary customers and debtors of accounts receivable are through cash or credit card.

To minimize credit risk, the Group's automobile lease business transacts with corporations with high credit ratings, and assesses the ratings based on other publicly available financial information and records of transactions with its major customers. The Group continuously monitors the exposure to credit risk and counterparty credit ratings, and establishes sales limits based on credit rating for each of its approved customer. In addition, the management of credit risk to other receivables, please refers to note 6(c).

The Group establishes an impairment allowance that represents its estimate of incurred losses in respect of trade receivables. The two components of this impairment allowance are specific loss component that relates to individually significant exposures, and a collective loss component which the loss has been incurred but not yet identified. Considering that the Group has no concentration on single customer and complies with the policy to receive proceeds in advance, the credit risk of accounts receivable is estimated to be low.

##### 2) Investment

The exposure to credit risk for the bank deposits, fixed income investments, and other financial instruments is measured and monitored by the Group's finance department. The Group only deals with banks with high credit rating, or financial institutes and corporate organizations with level of professional investor; therefore, the Group does not expect any counterparty above fails to meet its obligations hence there is no significant credit risk arising from these counterparties.

##### 3) Guarantees

For the Group providing financial guarantees, please refer to note 9 and 13.

#### (iv) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it always has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

(Continued)

## FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

As of December 31, 2018 and 2017, the Group's unused credit line amounted to \$3,491,795 thousand and \$1,460,399 thousand, respectively.

(v) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, and equity prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Group buys and sells derivatives, and also incurs financial liabilities, in order to manage market risk. All such transactions are carried out within the guidelines set by the Risk Management Committee. Generally, the Group seeks to apply hedge accounting in order to manage volatility in profit or loss.

1) Currency risk

The Group is exposed to currency risk on sales, purchases, and borrowings that are denominated in a currency other than the respective functional currencies of the Group's entities, primarily the NTD, USD, and CNY. The currencies used in these transactions are the USD and CNY.

The subsidiaries of the Group which use the CNY as the functional currency, choose USD or EUR borrowings to reduce the finance cost, because these borrowings are denominated in currencies that not match the cash flows generated by the underlying operations of the Group. The Group considers that reduced finance cost should offset the exchange rate risk arising from USD and EUR borrowings, and therefore, hedge accounting is not applied in these circumstances.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

2) Interest rate risk

The Group's risks with exposure to changes in interest rates arise mainly from borrowings from banks. Borrowings on a variable-rate basis will expose the Group to the variability in cash flows attributable to interest rate risk. The Group assesses the level of interest rate risk is recently stable in the business environment. Therefore, material interest rate risk is less likely to occur.

3) Other market price risk

The Group is exposed to equity price risk due to use capital effectively and hold different investment portfolios. The management of the Group monitors the proportion of equity securities in its investment portfolio based on market index. Material investments within the portfolio are managed on an individual basis, and all buy and sell decisions are approved by the management authority.

The primary goal of the Group's investment strategy is to maximize investment returns; the board of directors and member in investment department were all professional in finance to make appropriate decision, and therefore the market price risk of investment at fair value through profit or loss were controlled by management.

(Continued)

# FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### (ab) Capital management

The Group's objectives for managing capital are ensuring the ability to operate continuously, providing returns to shareholders and other stakeholders, and maintaining an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the dividend payment to the shareholders, reduce the capital for redistribution to shareholders, issue new shares, or sell assets to settle any liabilities.

The Group and other entities in the same industry use the debt-to-equity ratio to manage capital. This ratio is the total net debt divided by the total capital. The net debt from the balance sheet is derived from the total liabilities less cash and cash equivalents. The total capital and equity include share capital, capital surplus, retained earnings, and other equity plus net debt.

The Group's debt to adjusted capital ratios at the end of the reporting period were as follows:

	December 31, 2018	December 31, 2017
Total liabilities	\$ 21,395,381	22,092,089
Less: cash and cash equivalents	(5,468,507)	(6,979,583)
Net debt	<u>\$ 15,926,874</u>	<u>15,112,506</u>
Total equity	<u>\$ 13,079,712</u>	<u>12,926,642</u>
Debt-to-equity ratio at December 31	<u>122%</u>	<u>117%</u>

The increase in the ratio of debt to equity in 2018 is due to investment in equity method and buys real estate, resulting to decrease in cash and cash equivalents and in the amount of net debt.

### (ac) Changes in liabilities arising from financing activities

The Group's financing activities which did not affect the current cash flow in the year ended December 31, 2018 were as follows:

	January 1, 2018	Cash flows	Non-cash changes		December 31, 2018
			Amortization on bonds payable	Foreign exchange movement	
Short-term borrowings	\$ 2,813,379	692,728	-	34,181	3,540,288
Short-term notes and bills payable	49,916	31	-	-	49,947
Bonds payable	1,992,227	-	3,109	-	1,995,336
Long-term borrowings	8,407,751	(1,302,441)	-	156,798	7,262,108
Guarantee deposits	794,622	176,171	-	(17,374)	953,419
Total liabilities from financing activities	<u>\$ 14,057,895</u>	<u>(433,511)</u>	<u>3,109</u>	<u>173,605</u>	<u>13,801,098</u>

(Continued)

# FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### (7) Related-party transactions:

#### (a) Parent company and ultimate controlling company

First Steamship Company Ltd. is the ultimate controlling company of the Group.

#### (b) Names and relationship with related parties

The followings are entities that have had transactions with related party during the periods covered in the consolidated financial statements:

<u>Name of related party</u>	<u>Relationship with the Group</u>
Hubei Dayang Huayu Investment Co., Ltd.	Associates accounted for using equity method (Note 1)
Nanjing Tiandu Co., Ltd.	The Group' s manager is the company' s chairman
Shanghai Tian An Tower Co., Ltd.	The Group' s manager is the company' s director
Everbright Sun Hung Kai Company Limited	A substantial related party (Note 2)
Best Perspective Asian Real Estate Fund Ltd.	A substantial related party (Note 3)
Huizhou Tianan Xinghe City Management Co., Ltd.	A substantial related party
Huiyang Tamsui New Sun City Construction Co., Ltd.	A substantial related party
Shanghai Guorui Tongshun Environmental Protection Technology Co., Ltd.	A substantial related party
United Asia finance Co., Ltd. Pudong New District, Shanghai	A substantial related party (Note 2)
United Asia finance Co., Ltd. Lixia District, Jinan City	A substantial related party (Note 2)
United Asia finance Co., Ltd. Chengyang District, Qingdao City	A substantial related party (Note 2)

Note 1: It' s no longer a related party of the Group after the total shares were sold in June, 2017.

Note 2: It' s no longer a related party of the Group after its chairman changed in December, 2017.

Note 3: It' s no longer a related party of the Group after its independent directors were re-elected in June, 2017.

#### (c) Significant transactions with related parties

##### (i) Sales

The amounts of significant sales by the Group to related parties were as follows:

	<u>For the years ended</u> <u>December 31</u>
	<u>2017</u>
Associates	<u>\$ 3,865</u>

The selling price for related parties approximated the market price. The receivables from related parties were uncollateralized, and no provisions for doubtful debt were required after the assessment by the management.

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**FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(ii) Payables to Related Parties

The payables to related parties were as follows:

<u>Account</u>	<u>Relationship</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Other payables	Other related parties	<u>\$ -</u>	<u>1,663</u>

(iii) Loans to Related Parties

The interest charged by the Group to related parties is 8% annually. The loans to related parties were secured by 30% of the related parties' equity, and were fully repaid in March, 2017, with the equity pledge revoked. For the years ended December 31, 2017, the interest revenue collected by the Group was \$77,312 thousand, respectively.

(iv) Borrowings from Related Parties

<u>Relationship</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Other related parties	<u>\$ -</u>	<u>175,468</u>

The interest charged to the Group is 6% annually for the years ended December 31, 2017, respectively. The interest expense is \$6,704 thousand in 2017, respectively.

(v) Securities financing limits and loans

The Group acquires securities financing limits and makes loans from related parties (accounted for as other payables):

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Securities financing limits	<u>\$ -</u>	<u>2,098,205</u>
Amount of loan	<u>\$ -</u>	<u>777,437</u>
	<u>For the years ended December 31</u>	
	<u>2017</u>	<u>2017</u>
Interest expense	<u>\$ -</u>	<u>3,487</u>

(vi) Leases

The Group rented an office building from other related parties for headquarters use, and the rental fee was determined based on nearby office rental rates. For the years ended December 31, 2018 and 2017, the rental expenses was \$141,582 thousand and \$130,664 thousand, respectively. As of December 31, 2018 and 2017, the balance of Group' s unpaid rentals and rental security deposit to other related parties amounted to \$0 and \$215 thousand, \$8,952 thousand and \$9,115 thousand, respectively, which were accounted for as other payables and other financial asset—non-current.

(Continued)

# **FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES**

## **Notes to the Consolidated Financial Statements**

(vii) Others

- 1) The Group entered an agreement of house sales with Hubei Dayang Huayu Investment Co., Ltd. on August 22, 2016. The Group planned to purchase commercial real estate as department store business base in Shiyan International Finance Center . Later, the Group officially signed a contract of house sales in Shiyan city on January 18, 2017. The total amount of the contract was CNY\$421,200 thousand. The above real estate had been accepted in the fourth quarter of year 2017. As of December 31, 2018 and 2017, the unpaid amount was \$144,039 thousand (CNY\$32,180 thousand) and \$287,947 thousand (CNY\$63,180 thousand), which was accounted for as other payables.
- 2) The Group provided management consulting services and signed service contracts with other related parties. For the years ended December 31, 2018 and 2017, the revenue from consulting services was \$21,508 thousand and \$12,137 thousand, respectively.
- 3) The Group had signed an energy-saving reconstruction contract with other related parties. The total amount of the contract was CNY\$35,000 thousand. As of December 31, 2018, the pre-paid amount of energy saving projects was not suitable and re-assessed after the evaluation, and then was rejected due to the uncertainty of US-China trade war. The Group purchased energy-saving equipment at \$15,326 thousand from other related parties for the years ended December 31, 2018, and it was listed in the real estate, plants and equipment, which was accounted for as prepayment for equipment, and the amount to \$7,381 thousand were paid to other related parties as energy management fee.

(c) Key management personnel compensation

(i) Key management personnel compensation comprised:

	<b>For the years ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Short-term employee benefits	<b>\$ 51,937</b>	<b>62,389</b>

- (ii) The Group granted key management personnel rights to subscribe treasury shares as prepaid salaries. For the year ended December 31, 2018 and 2017, those prepaid salaries amounting to \$25,484 thousand (CNY\$5,693 thousand) and \$27,350 thousand (CNY\$6,001 thousand) were recognized under other current assets accounts.

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**FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

**(8) Pledged assets:**

The carrying amount of pledged assets were as follows:

Pledged assets	Object	December 31, 2018	December 31, 2017
Current financial assets at amortised cost	Securities payable	\$ 921,600	-
Inventories (for construction business)	Bank loans	117,552	275,776
Other financial assets — current and non-current (Note 1)			
Restricted deposit	Bank loans, bank depository funds, corporate bonds and guarantee to loans borrowed by other related parties	551,363	515,843
Property, plant and equipment (Note 2)	Bank loans and ordinary bonds payable	10,201,012	9,096,199
Investment Property (Goss amount)	Bank loans and ordinary bonds payable	144,982	393,595
Non-current assets held for sale	Bank loans	246,147	-
		<u><b>\$ 12,182,656</b></u>	<u><b>10,281,413</b></u>

Note 1: The credit line of the above pledged assets has been made, with some are actually appropriated.

Note 2: Including the land use rights, which are recognized as long-term prepaid rentals.

**(9) Significant commitments and contingencies:**

**(a) Unrecognized contractual commitments**

- (i) As of December 31, 2017 and 2018, the Group leased a number of offices and department stores with rental commitments in future years, please refer to note 6(q).
- (ii) The total amount of the Group's contracts to purchase commercial real estate as department store business office in December, 2017 was CNY\$148,487 thousand. As of December 31, 2018 and 2017, the unpaid amount were \$72,410 thousand (CNY\$16,177 thousand) and \$143,136 thousand (CNY\$31,406 thousand).
- (iii) The unrecognized contractual commitments of the Group were as follows:

	December 31, 2018	December 31, 2017
Acquisition of land and building	<u><b>\$ 665,331</b></u>	<u><b>-</b></u>
Prepaid of land and building	<u><b>\$ 108,309</b></u>	<u><b>-</b></u>
Purchase contract of vehicle for rent	<u><b>\$ 57,156</b></u>	<u><b>291,814</b></u>
Prepaid	<u><b>\$ 48,134</b></u>	<u><b>25,033</b></u>
Sales contract of land	<u><b>\$ 40,196</b></u>	<u><b>103,369</b></u>
Advance receipts	<u><b>\$ 5,173</b></u>	<u><b>20,710</b></u>

(Continued)

# **FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES**

## **Notes to the Consolidated Financial Statements**

- (iv) The Group provided guarantees for banks loans as follows:

	December 31, 2018	December 31, 2017
Guarantees	<u>\$ -</u>	<u>822,000</u>

- (v) The Group signed the joint construction contracts with other companies as follows:

Item	Construction name
Joint construction with allocation of buildings, Joint construction with selling separately	Me island phase I
Joint investing and developing on construction site, Joint construction with allocation of buildings, construction on self-owned land	Me island phase II B3
Joint construction with allocation of buildings	Me island phase II B4
Joint construction with allocation of buildings	Me island phase III B1
Joint investing and developing on construction site	Nan Jing Jian Kang

### **(b) Contingencies**

- (i) The subsidiary, MFL purchased property from Changzhou HuiRun Asset Management Ltd. (CHAML) in 2016. The consideration was CNY\$100,000 thousand. Meanwhile, MFL had signed a lease contract with CHAML. The leasing fee would be collected in six installments with amount of CNY\$19,167 thousand for each nominal installment plus interest. CHAML had fulfilled payment obligations in 2016. However, in January 2018, CHAML requested MFL to return excess interest paid with amount of CNY\$7,928 thousand for the reason that the interest rate being charged was too high. As of April 24, 2018, MFL had signed a settlement agreement with CHAML. The agreement had been submitted to the court, and the Company had acquired the document of MFL and CHAML withdrawing the lawsuit.
- (ii) On July 16, 2018, Securities and Futures Investors Protection Center (SFIPC) filed a civil lawsuit against the ex-chairman of the subsidiary, Lion Shin Investment Co., (LSICL), and claimed \$24,153 thousand for violating Securities Exchange Act. LSICL shall be liable jointly and separately. In accordance with the lawyer's opinion, the ex-chairman was sentenced for violating insider-trading of Securities Exchange Act on criminal lawsuit. According to No. 473 of the Code of Criminal Procedure and other relevant regulations, within one year after the criminal judgment becomes irrevocable, SFIPC could motion the Procuratorate to return or pay the amount of proceeds, \$17,797 thousand, of the crime confiscated to cover the amount claimed from civil lawsuit.

After that, the company, the ex-chairman and the SFIPC have reached a settlement on January 18, 2019. The settlement amount was \$19,900 thousand and the agreement of \$17,797 thousand should be from the reimbursement that have been confiscated in criminal cases and to repay the investors, requesting by the SFIPC to the Taiwan Taipei District Prosecutors Office; and the remaining \$2,103 thousand shall be repaid by the company and the former responsible person of the company. The company had paid \$2,103 thousand on January 18, 2019.

# **FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES**

## **Notes to the Consolidated Financial Statements**

On the basis of Article 23 of the Company Act, and Articles 184 and 544 of the Civil Code, the company also claimed on January 4, 2019 that the ex-chairman to compensate the paid \$2,103 thousand by the company. The lawsuit was just filed, and the final outcome of the lawsuit will be based on the subsequent process and circumstances.

**(10) Losses Due to Major Disasters: None**

**(11) Subsequent Events:**

- (a) The board of directors of the Group resolved to purchase operational bulk ships on January 28, 2019, and it is expected to spend US\$ 32,600 thousand; the relevant ship purchase matters are still in the process.
- (b) The amortized costs of financial assets held by the merged company – the early redemption of some of the available corporate bonds by the company Tianyu Real Estate Co., Ltd. (hereinafter referred to as Tianyu) announced on February 4, 2019. Therefore, the merged company sold back some corporate bonds to Tianyu on February 19, 2019, and received a capital and interest of US\$ 13,397 thousand .
- (c) On the basis of case No.1080300222 issued by the Financial Supervisory Commission Republic of China (Taiwan), the Group completed the pricing of first european convertible bond on February 19, 2019, with a total of US\$ 50,000 thousand ; and it had completed the related procedures for securities issuance and funds raising on February 26, 2019.

**(12) Other:**

The nature employee benefits, depreciation, depletion and amortization charged to operating cost and expense was as follows:

By function By item	For the year ended December 31, 2018			For the year ended December 31, 2017		
	Operating Cost	Operating expense	Total	Operating Cost	Operating expense	Total
Employee benefits						
Salary	\$ 188,595	730,543	919,138	\$ 194,242	720,246	914,488
Health and labor insurance	1,130	4,022	5,152	1,171	3,925	5,096
Pension	1,557	73,001	74,558	1,695	75,063	76,758
Others	15,932	133,025	148,957	16,590	96,109	112,699
Depreciation	354,684	541,938	896,622	332,414	477,548	809,962
Depletion	-	-	-	-	-	-
Amortization	20,826	13,738	34,564	17,892	20,792	38,684

# FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### (13) Segment information:

#### (a) General information

The Group has four reportable segments: shipping business, investing department, retail business department and rental department.

Shipping business departments' main operating activities are international transportation and shipping agency; investing departments' main operating activities are investments; retail business departments' main operating activities are trading of cosmetics, furnishings and etc.; rental business departments' main operating activities are providing services of financial leasing. The reportable segments are the Group's strategic divisions. They offer different products and services, and are managed separately because they require different technology and marketing strategies.

#### (b) The Group's operating segment information and reconciliation were as follows:

	shipping	investing	department and retail	Rental	Other	reconciliation and elimination	Total
<b>For the year ended December 31, 2018</b>							
Revenue:							
Revenue from external customers	\$ 1,102,036	59,049	6,457,831	322,624	102,335	-	8,043,875
Intersegment revenues	67,293	-	-	1,057	-	(68,350)	-
Interest income	19,237	41,337	64,316	9,291	148	(57,700)	76,629
Total revenue	<u>\$ 1,188,566</u>	<u>100,386</u>	<u>6,522,147</u>	<u>332,972</u>	<u>102,483</u>	<u>(126,050)</u>	<u>8,120,504</u>
Interest expenses	\$ 229,599	60,021	147,907	1,375	19,798	(16,709)	441,991
Depreciation and amortization	352,182	3,263	542,408	31,683	1,650	-	931,186
Share of profit (loss) of associates accounted for using equity method	(30,657)	(91,310)	(12,067)	-	-	-	(134,034)
Other material non-cash items:							
Impairment of assets	-	(99,228)	267,361	-	-	-	(366,589)
Reportable segment profit or loss	<u>\$ (48,104)</u>	<u>(255,292)</u>	<u>759,622</u>	<u>(19,911)</u>	<u>3,853</u>	<u>-</u>	<u>440,168</u>
Investments accounted for using equity method	<u>\$ 108,985</u>	<u>1,215,113</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,324,098</u>
Reportable segment assets	<u>\$ 8,778,115</u>	<u>2,510,736</u>	<u>20,934,675</u>	<u>1,934,672</u>	<u>317,850</u>	<u>(955)</u>	<u>34,475,093</u>
Reportable segment liabilities	<u>\$ 7,084,285</u>	<u>1,771,872</u>	<u>11,104,775</u>	<u>1,282,417</u>	<u>152,987</u>	<u>(955)</u>	<u>21,395,381</u>

# FIRST STEAMSHIP COMPANY LTD. AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### For the year ended December 31, 2017

Revenue:								
Revenue from external customers	\$	1,006,156	18,154	6,041,927	230,720	490	-	7,297,447
Intersegment revenues		66,113	-	-	1,371	-	(67,484)	-
Interest income		6,215	5,504	142,123	19,623	6	(45,303)	128,168
Total revenue	\$	<u>1,078,484</u>	<u>23,658</u>	<u>6,184,050</u>	<u>251,714</u>	<u>496</u>	<u>(112,787)</u>	<u>7,425,615</u>
Interest expenses	\$	249,113	16,678	121,801	44,866	11,560	(45,303)	398,715
Depreciation and amortization		350,572	3,310	434,908	58,299	1,557	-	848,646
Share of profit (loss) of associates accounted for using equity method		657	(10,765)	(6,178)	-	-	-	(16,286)
Other material non-cash items:								
Impairment of assets		-	10,961	74,296	9,691	-	-	94,948
Reportable segment profit or loss	\$	<u>264,483</u>	<u>146,211</u>	<u>615,764</u>	<u>5,080</u>	<u>(24,156)</u>	<u>-</u>	<u>1,007,382</u>
Investments accounted for using equity method	\$	<u>125,593</u>	<u>1,294,187</u>	<u>45,537</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,465,317</u>
Reportable segment assets	\$	<u>10,052,233</u>	<u>2,402,738</u>	<u>22,007,383</u>	<u>2,415,965</u>	<u>624,248</u>	<u>(2,483,836)</u>	<u>35,018,731</u>
Reportable segment liabilities	\$	<u>9,010,024</u>	<u>1,121,269</u>	<u>12,252,541</u>	<u>1,729,927</u>	<u>462,164</u>	<u>(2,483,836)</u>	<u>22,092,089</u>

(c) Product and service information

For the revenue from the external customers of the Group, please refer to note 6(v).

(d) Geographic information

The segment revenue based on the geographical location of customers were as follows:

<u>Geographical information</u>	<u>For the years ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Revenue from external customers:		
Mainland China	\$ 6,772,821	6,264,553
Taiwan	113,953	12,815
Other countries	1,157,101	1,020,079
Total	<u>\$ 8,043,875</u>	<u>7,297,447</u>

(e) Major customers

For the years ended December 31, 2018 and 2017, the major customers of the Group were less than 10% of the operating revenue.