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2018 Annual Report



中鴻鋼鐵股份有限公司
CHUNG HUNG STEEL CORPORATION

Printed on March 31, 2019

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5. Name of exchange house where overseas eligible securities are traded and method of inquiry on mentioned securities

N/A

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Note: This Annual Report is formulated in accordance with the “Regulations Governing Information to be Published in Annual Reports of Public Companies” of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan.

Chapter 1 Letter to Shareholders

Dear Shareholders,

The supply-side reforms in China have revived the steel industry since 2016 and contributed to continuous growth in 2017 and high-price fluctuations in 2018. The main reason is the capacity in China which accounts for approximately 50% of the global output and changes in production and sales in China would always remain the key factor in determining global steel prices. Chung Hung Steel achieved NT\$3.033 billion in net income after tax in 2018 through the leadership of the management and the hard work of all employees. It was the best performance in recent years.

As the marginal effects of supply-side reforms gradually decline and the impact of production cuts due to environmental protection in China's steel plants proved to be less effective, steel prices began to decline in Q4 2018 which is traditionally a busy quarter for steel. Amid uncertainties caused by the trade war between China and the United States as well as slower growth in China's economy, growth in steel demand in 2019 has become more difficult to predict. However, after the fluctuation of steel prices in Q4 2018, first-line steel plants in China began to signal cessation of price cuts or readiness to increase prices. Although overall steel demand and confidence in downstream industries would take time to recover, we expect steel prices in 2019 to progress at a stable rate.

The global economic growth forecast for 2019 was reduced to 3.3% in the "World Economic Outlook" recently published by the International Monetary Fund (IMF). When questioned about the main cause of the reduction, the IMF stated that the trade war between China and the United States is set to reduce China's growth rate in 2019 to 6.3% which would signal an early end to China's rapid growth period. With regard to global steel demand forecasts, the WSA predicted that global steel demand will increase by 1.3% from 1.712 billion tons in 2018 to 1.735 billion tons in 2019. The WSA also reduced its forecast of the growth rate. Global steel demand in 2019 will gradually slow mainly due to declining steel demand in China and the rise of protectionism in multiple areas. The momentum for future growth will come from Southeast Asia, Central and South America, India, and the Middle East. More crises including exacerbated trade disputes, geopolitical risks, and increased political uncertainties may disrupt the global industrial supply chain, reduce the spread of new technologies, and bring forth significant economic risks.

Iron prices have fluctuated between US\$66-91/ton and coal prices have fluctuated between US\$192-230/ton since Q4 2018. With the impact of trade disputes between China and the United States at the end of 2018, weakening demand has gradually spread from end users all the way upstream. In addition, car sales in China have declined and policies such as the prohibition on the separation of warm seasons have destabilized steel prices. Russian producers cut prices to gain

market share before their ports freeze in winter and Formosa Ha Tinh Steel in Vietnam significantly reduced wholesale prices to counter import steel. These factors have caused steel prices to decline at the end of 2018.

In 2019, the quotas for exempted countries based on the United States' Section 232 were reset. The European Union's final trade defense instrument will be implemented till the end of June 2021. The final measures for Turkey and Canada's provisional defense instruments will also be proposed this year. A mine dam collapsed in Vale's Corrego de Feijao in Brazil in late January caused a temporary rise in steel prices. In March, the Chinese government announced a target economic growth rate of 6-6.5% for 2019 which would be lower than the actual growth rate of 6.6% in the previous year. In the Two Meetings, China also announced the implementation of tax cuts of RMB 2 trillion and rate reduction policies starting in April. It will also expand the fiscal deficit to RMB 2.76 trillion, demonstrating China's active response to downward economic pressures. In addition, trade negotiations between China and the United States have continued. If the two sides can reach a formal agreement, it would help stabilize the economy and bring about a new balance in the economy and the steel market. Therefore, we maintain a positive outlook on the global steel market in 2019.

In the new year, we shall continue to strengthen our advantages in mobility and flexibility and actively develop new sources of revenue while controlling costs. We shall create product diversification and increase the added value in the upstream and downstream industrial chain while enhancing market segmentation. We shall expand development and deployment in overseas markets to maximize profit and establish Chung Hung as a small but refined, professional, and dedicated company.

The Company's business and financial performance in 2018 and the 2019 business plan are provided as follows.

I. 2018 business report

(I) Business policies

Vision: Chung Hung maintains ethical business operations and strives to become a sustainable, reliable, and approachable steel company.

Philosophy: Flexibility in response to changes, streamlined efficiency, development of niches, and value creation

Tangible actions: ◎Make full use of resources and equipment production capacity;

◎Flexible production and sales to reduce lead time;

◎Diverse career development to pass on knowledge;

◎Ensure environmental protection and occupational safety and fulfill social responsibilities.

(II) Implementation overview

1. The Company's consolidated operating revenue in 2018 was NT\$48.239 billion which was an increase of approximately 18.26% from the operating revenue of NT\$40.792 billion in 2017; Consolidated operating costs and consolidated operating expenses totaled NT\$45.363 billion which was an 18.69% increase from NT\$38.219 billion in 2017.
2. The following new products were developed in 2018: Development of hot-rolling SAE4130 products, hot-rolling QStE380TM products, development of cold-rolling SPCC-1D, and development of hot-dipped galvanized steel plates for the bottom of containers.
3. The Company continues to update various plant equipment, make improvements, and optimize the process control system to improve product quality and grade and expand the variety of steel types for production. The specific accomplishments in 2018 are as follows:
 - (1)Improvements in crowning of hot-rolling fineblanking materials.
 - (2)Continuous improvement for drilling marks on cold-rolled fineblanking materials.
 - (3)Improvement of continuous scratch marks on the surface of pickled steel coils of the Pickling and Galvanizing Department.
 - (4)Improvement for spark marks on pickled steel coils in the Pickling and Galvanizing Department.
4. The Company implements occupational safety systems such as OHSAS 18001 and TOSHMS and it received the following honors from related agencies for its outstanding performance:
 - (1)The Hot Rolling Department was recognized as an "Outstanding Unit in the

Advancement of Occupational Safety and Health Unit in Kaohsiung City in 2017" and received the "Five-Star Award" as a "2017 Outstanding Occupational Safety and Health Unit" from the Ministry of Labor, Executive Yuan on September 5, 2018.

(2)The engineer Meng-Pin Lin of the Hot Rolling Department was recognized as an "Excellent Employee for Promoting Occupational Safety and Health in Kaohsiung City in 2017" and received the "2017 Excellent Employee for Promoting Occupational Safety and Health Award" from the Ministry of Labor, Executive Yuan on September 5, 2018.

(3)Lukang Steel Pipe Plant received the "Excellence Award" for safety and health performance in 2017 from Taiwan Steel & Iron Industries Association on October 31, 2018.

5. The Company implements ISO 14001 and ISO 50001 to strengthen environment and energy management, actively conserve energy and reduce waste, and fulfill its corporate social responsibilities. It received recognition for inter-department greenhouse gas reduction and cooperation program in 2018 from the Environmental Protection Bureau of Kaohsiung City Government.

6. Certifications:

(1)The Hot Rolling Department and Dafa Steel Pipe Plant passed the three-year extension of the JIS Mark certification.

(2)The Hot Rolling Department, Cold Rolling Department, Dafa Steel Pipe Plant, and Lukang Steel Pipe Plant passed ISO 14001: 2015 certification review.

(3)Lukang steel pipe plant passed ISO 50001 certification.

(4)Lukang steel pipe plant obtained JIS Mark Certification.

(5)Awarded the silver medal certification in the Talent Quality-management System (TTQS) of the Ministry of Labor.

(6)The Company received the "Authorized Economic Operator" (AEO) certification from the Customs Administration of the Ministry of Finance.

(III) Business plan implementation results

1. Production plan implementation status:

Steel demand has continued to increase in the first three quarters of 2018 due to the status of supply and demand on the international market but a decline became apparent in the fourth quarter. The Company adjusted its production and sales plan in response and the product output compared to the previous year is listed as follows:

Item \ Year	2018 production (10,000 tons)	2017 production (10,000 tons)	Difference (10,000 tons)	Difference %
Hot-rolled products	225.25	223.46	1.79	0.80%
Cold-rolled products	39.98	40.25	-0.27	-0.67%
Steel pipe products	17.40	13.10	4.30	32.82%
Galvanized products	2.86	3.16	-0.30	-9.49%
Total	285.49	279.97	5.52	1.97%

2.Sales plan implementation status:

The price of steel products has continued to recover due to the reduced supply in the global steel market in 2018. Demand continues to grow but the increase in material prices and adjustments in upstream suppliers' production and sales contributed to the consolidated sales volume of 2.4793 million tons in 2018 which was a 6.73% increase from 2017.

(IV) Analysis of operating income/expenses and profitability

The after-tax net profit was NT\$3.033 billion in 2018. The operating revenue/expenses and profitability are as follows:

1.Revenue:

The Company's consolidated operating revenue in 2018 was NT\$48.239 billion which was an increase of approximately 18.26% from the operating revenue of NT\$40.792 billion in 2017.

2.Expenditures:

The Company's consolidated operating costs and consolidated operating expenses in 2018 totaled NT\$45.363 billion which was a 18.69% increase from NT\$38.219 billion in 2017.

3.Profitability:

The increase in sales price in 2018 was greater than the increase in costs and it increased pre-tax profit by NT\$427 million from 2017.

(V) Research and development status

The Company continues to update the hot rolling, cold rolling, galvanized products, and steel pipe equipment, refine the process, and advance personal quality accountability to improve product quality. It also actively expands the product line and

seeks to develop high add-value products with steel slab suppliers to improve the Company's overall competitiveness.

The Company's material R&D and improvement in 2018 are as follows:

1.Product development:

Development of hot-rolling SAE4130 products, hot-rolling QStE380TM products, development of cold-rolling SPCC-1D, and development of hot-dipped galvanized steel plates for the bottom of containers.

2.Product improvement:

Improved the break-off rust on hot-rolled API steel pipe materials, continuous improvement for tail stamp marks on hot-rolled products, continuous improvement for rust on high-quality PO materials, improvement for crowning on hot-rolled fineblanking materials, improvement for hot-rolled coiling form, continuous improvement for cold-rolled fineblanking drilling marks, continuous improvement for tearing of adhesives on cold-rolled products, improvement of cleanliness on cold-rolled steel coils, improvement of external press marks on cold-rolled products, improvement of continuous scratch marks on the surface of pickled steel coils of the Pickling and Galvanizing Department, and improvement for spark marks on pickled steel coils in the Pickling and Galvanizing Department.

3.Process research and improvement:

Establishment of the technology for controlling the difference in thickness of hot-rolling fineblanking materials.

4.Equipment technology establishment:

Establishment of horizontal setting technologies of the hot-rolling finishing mill, replacement of tube and skids in the No. 1 furnace boiler, update of No. 1 cold-rolling product line equipment, replacement of air compressor for cold rolling, replacement and update of the cleaning tank on the cold-rolling pickling line, replacement and update of the deviation correction system on the tension leveler for cold-rolling, installation of the welding brush roller at the exit of the pickling and galvanizing CPL welding machine, update of the pickling CGL galvanizing and film machine, energy efficiency improvement of the pickling and galvanizing chiller machine room, increase in the speed of the No. 1 process in Lukang Plant, supplementary welding

for incomplete welding during outages to reduce wear for the production of steel pipes, establishment of heat treatment simulation and test capabilities for the production of steel pipes, and additional crane for Building Q in the storage area in Lukang Plant.

II. Summary of 2019 Business Plan

(I) 2019 Business Strategy

Chung Hung shall uphold the business strategy of “Making full use of group resources and strengthening production management; gaining information on market trends and maintaining smooth production and sales through joint efforts; improving equipment efficiency and strengthening niche products; strengthening manpower revitalization to pass on knowledge; and commit to environmental safety and health to fulfill social responsibilities.” The Company maintains a positive outlook on the steel market and works with upstream and downstream partners to create optimal results.

The global economy is facing a decline in growth momentum as uncertainty and economic slowdown increase risks. The speed of growth in certain major economies may have peaked. The United States and China originally established March 1 as the deadline for imposing tariffs but the deadline was extended. The trade war between the United States and China remains the biggest reason for the slowed economic growth across the globe this year. The Eurozone is faced with political and economic upheavals and Brexit may cause the economy to shrink by 5-8% over the long term. The French government was also forced to make concessions in terms of its fiscal policies in response to the yellow vests movement. Japan's plans for increasing the sales tax in October 2019 is expected to cause tremendous pressure on economic growth in the fourth quarter. In many emerging markets and developing economies, the growth of many energy exporters has improved due to the increase oil prices. However, the economic growth forecasts for countries like Argentina, Brazil, Iran, and Turkey have decreased due to a tightened financial environment, geopolitical tension, and increase in the cost of oil imports.

(II) Summary of 2019 business plan

The Company's consolidated sales target for all products in 2018 was 2.1732 million tons and actual sales volume amounted to 2.4793 million tons. The achievement rate was 114.09%. In terms of product sales volume, domestic sales accounted for 52.85% and exports accounted for 47.15%. In terms of product sales, hot-rolled products accounted for the largest share with 71.78% while cold-rolled products placed second with 16.70%. Steel pipes accounted for 6.80% and galvanized products and others accounted for 4.72%.

The World Steel Association predicts that global steel demand will increase by 1.3% to 1.735 billion tons in 2019. Although growth is maintained, the growth rate has slowed compared to 2018 (4.9% growth) mainly due to the prospect of a long-term trade war between China and the United States and increased uncertainty in steel demand. The Company's consolidated sales target for all products this year (2019) is 2.3 million tons with 56.53% in domestic sales and 43.47% for exports. Hot-rolled products account for the largest share with 75.22% while cold-rolled products place second with 13.57%. Steel pipe products account for 7.30% and galvanized products account for 3.91%. The management team will dedicate full efforts on achieving and exceeding goals.

III. Future Corporate Development Strategy, External Competition, Legal Regulation, and Overall Business Environment

According to estimates of the International Monetary Fund (IMF), the global economic growth rate may reach 3.3% in 2019. The estimate is 0.4% lower than the estimate in October 2018. As the United States increased tariffs on Chinese products and the Chinese government tightened its fiscal policies, economic growth in China will decrease from 6.6% in 2018 to 6.3% in 2019. The estimated economic growth rate in the Eurozone was lowered to 1.3%, down 0.6% from the forecast in the fall of 2018. In the overall international steel market, despite a recovery in steel demand which continued to 2018, the exacerbation of trade tension and fluctuations in foreign exchange rates have increased uncertainty in the economy. However, the United States Federal Reserve's decision in 2019 to slow the increase in interest rates gradually relieved pressure on the emerging market which is set to bounce back in 2019.

The Company shall uphold the marketing strategy of "stable domestic sales and full dedication to exports" and use advantages in the flexibility and speed of the supply chain along with dynamic and flexible management to achieve full production and optimize product portfolio. The Company shall achieve or exceed customer expectations at the lowest cost and continue to improve quality, standards, and variety to create win-win for both the customers and the Company.

As a member of the China Steel Corporation Group, Chung Hung Steel upholds the business philosophy of "integrity, growth, excellence, and responsibility" and aims to become a first-rate company "worthy of respect, trust, and transactions". The Company remains

committed to compliance with new regulations and it does not expect to see negative impacts or major changes in the legal environment in the Company's operations.

Lastly, I would like to wish all our shareholders health and prosperity.

Chairperson of the Board I-Chung Han

President Tsung-Chang Lee

Chapter 2 Company Profile

I. Company Overview

Chung Hung Steel Corporation (hereinafter referred to as Chung Hung) is a member of the China Steel Corporation Group and it was established in Kaohsiung City in September 1983. It became listed on the Taiwan Stock Exchange Corporation in 1992 and its current paid-in capital is NT\$14.35 billion. Its main products include hot-rolled steel coils, cold-rolled steel coils, hot-dipped galvanized steel coils, JIS steel pipes, ASTM steel pipes, API steel pipes, and PE coated steel pipes.

Chung Hung has a total of five production plants including the Hot Rolling Department (designed annual capacity of 2.4 million tons), Cold Rolling Department (designed annual capacity of 450,000 tons), Dafa Steel Pipe Plant (designed annual capacity of 48,000 tons), and the Pickling and Galvanizing Department (incorporated from the subsidiary Hung Li in June 2018; the pickling production line has a designed annual capacity of 600,000 tons; the galvanizing production line has a designed annual capacity of 300,000 tons). All these four departments are located in Kaohsiung City and the Lukang steel pipe plant in Changhua Coastal Industrial Park in Changhua County (designed annual capacity of 200,000 tons).

II. Company Profile

(I) Chung Hung

- Sept. 1983 Yelong Enterprise Co., Ltd. was established with a capital of NT\$500,000.
- March 1986 Commencement of the construction of Kaohsiung Plant.
- April 1986 Dafa 1st Plant was established in the Dafa Industrial Park in Daliao Township, Kaohsiung County.
- Feb. 1987 Kaohsiung Plant was completed and production began.
- May 1987 Dafa 1st Plant was completed and production began.
- March 1989 Dafa 1st Plant was awarded Japanese Industrial Standards certification by the Ministry of Economy, Trade and Industry (METI) of Japan and it was the first steel manufacturer in Taiwan to pass the JIS review. Official commissioning and production of the hydrogen annealing furnace in Kaohsiung Plant.
- April 1989 Dafa 1st Plant received American Petroleum Institute (API) trademark approval.
- Oct. 1989 Dafa 1st Plant receives CNS Mark from the Bureau of Standards, Metrology and Inspection.
- Feb. 1992 Common stocks officially launched for trading on the market.
- Aug. 1994 Kaohsiung Plant received ISO 9002 certification.
- May 1995 Commencement of the construction of Kaohsiung Hot Rolling Department.
- Feb. 1996 Dafa 1st Plant received ISO 9002 certification.
- April 1997 Kaohsiung Hot Rolling Department was completed and production began.
- May 1997 Kaohsiung Plant underwent ISO 14001 certification by DNV GL and it was certified in the same month.
- July 1998 Bureau of Standards, Metrology and Inspection approved the CNS Mark

- for carbon steel pipes produced by Dafa 1st Plant.
- Nov. 1999 Kaohsiung Plant was assessed as “Excellent Enterprise in Labor Safety and Health Promotion” for 1999 by the Council of Labor Affairs.
- Dec. 1999 Entered strategic alliance with China Steel Corporation.
- Aug. 2001 Kaohsiung Plant received OHSAS 18001 certification.
- Nov. 2001 Dafa 1st Plant received ISO 14001 certification.
- March 2002 Kaohsiung Hot Rolling Department received ISO 14001 certification.
- May 2002 Kaohsiung Hot Rolling Department received ISO 9001 certification.
- Sept. 2002 Kaohsiung Hot Rolling Department received OHSAS 18001 certification.
- Jan. 2003 Dafa 1st Plant received OHSAS 18001 certification.
- May 2003 The Company entered a slab steel supply agreement with Sumitomo Metal Industries in Wakayama, Japan.
- Nov. 2003 The Hot Rolling Department received the “Enterprise Award of Excellence for Energy Conservation” from the Ministry of Economic Affairs.
- June 2004 The shareholders meeting passed the proposal for renaming the Company “Chung Hung Steel Corporation”.
- July 2004 The renaming was registered with the Department of Commerce, Ministry of Economic Affairs Approval. (MOEA’s official letter Shou-Shang-Zi No. 09301120280 dated July 14, 2004)
 “Yelong Enterprise Co., Ltd.” was renamed “Chung Hung Steel Corporation”.
 Renamed “Kaohsiung Plant” to “Cold Rolling Department”
 Renamed “Kaohsiung Hot Rolling Department” to “Hot Rolling Department”
 Renamed “Dafa 1st Plant” to “steel pipe plant”
- Sept. 2004 The stocks are issued under “Chung Hung Steel Corporation”.
- Sept. 2004 The Cold Rolling Department received the “13th Annual ROC Enterprise Environmental Protection Award” from the Environmental Protection Administration, Executive Yuan.
- Sept. 2005 The Hot Rolling Department received the “14th Annual ROC Enterprise Environmental Protection Award” from the Environmental Protection Administration, Executive Yuan.
- Sept. 2005 The Cold Rolling Department received the “Enterprise Award of Excellence for Energy Conservation” from the Ministry of Economic Affairs.
- Oct. 2005 Completion of the ERP system.
- Oct. 2006 The Hot Rolling Department and Cold Rolling Department were assessed as “Outstanding Cigarette-Free Workplace” in the 2006 Kaohsiung County Tobacco Hazard Prevention Outstanding Workplace Assessment.
- Nov. 2006 The Cold Rolling Department received the “Leaping Antelope Award” in the 2006 National Tobacco Hazard Prevention Outstanding Workplace Assessment.
- Nov. 2007 The Cold Rolling Department received the “Health Leadership” award for healthy workplace from the Department of Health in 2007. The steel pipe plant passed the Healthy Workplace Accreditation by the Bureau of Health Promotion and received the “Tobacco Hazard Prevention Mark” and “Health Promotion Mark”.

- Dec. 2007 The Hot Rolling Department received the “2005 Greenhouse Gas Inventory Statement” issued by the DNV.
- Jan. 2008 The Company launched the first corporate volunteer program and adopted the “Heping Juvenile Home for Boys” of Kaohsiung County to provide regular volunteer services.
- July 2008 To thank Chung Hung for its long-term assistance in promoting policies of the town and active participation in social welfare activities and care for the disadvantaged, Gangshan Township issued an “Honorary Town Citizen ID Card” to the Company to express the gratitude of the people.
- Aug. 2008 The company established an Energy-Saving Service Group and participated in the “2008 Ceremony for Flag Presentation to Energy-Saving Service Groups of Group Enterprises” hosted by the Bureau of Energy of the Ministry of Economic Affairs.
- Oct. 2008 The Company signed a 5-year (2009 to 2013) Memorandum of Understanding for Energy Conservation & Carbon Reduction Assistance for Chung Hung with the Taiwan Green Productivity Foundation.
- Nov. 2008 The Company received the two-star award (enterprise category) for high-quality groups of 2008 by the Chinese Society for Quality.
- Dec. 2008 The Hot Rolling Department received the “2007 Outstanding Enterprise in Industry Voluntary Greenhouse Gas Emissions Reduction”.
- Feb. 2009 The steel pipe plant passed the new “JIS” certification (JIS G3444, G3466 Carbon Steel Rectangular Tubes for General Structure, and JIS G3452 Carbon Steel Pipes for Ordinary Piping) of the Japan Quality Assurance Organization (JQA).
- March 2009 The Company organized a NT\$4 billion capital cash increase in 2009 and increased its paid-in capital to NT\$16.85 billion.
- May 2009 To thank Chung Hung for its long-term support for rural construction, active care for the disadvantaged, and participation in social welfare activities, Ciaotou Town Office issued an “Honorary Ciaotou Citizen ID Card” to the Company to express the gratitude of the people.
- Nov. 2009 The Hot Rolling Department, Cold Rolling Department, and steel pipe plant passed the Taiwan Occupational Safety and Health Management System (TOSHMS) certification.
- Nov. 2009 The Hot Rolling Department received the “2008 Outstanding Enterprise in Industry Voluntary Greenhouse Gas Emissions Reduction” from the Industrial Development Bureau, Ministry of Economic Affairs.
- Dec. 2009 The hot-rolled products received the Indonesian SNI product certification.
- June 2010 The Company received a Class A rating in the 2009 Information Disclosure Review conducted by the Securities & Futures Institute. (The Company was listed as a Class A company for three consecutive years from 2005 to 2007 and it was listed as a Class A+ company in 2008; it was also listed among companies with more transparent voluntary information disclosure.)
- June 2010 The Hot Rolling Department, Cold Rolling Department, and steel pipe plant received the “Steel and Iron Industry Radiation Detection Operations Certification” issued by the Atomic Energy Council, Executive Yuan. This certification improved the Company’s guarantee for its products and helped customers in winning construction tenders from government authorities.

- Aug. 2010 The Company received “Second Place for Growth Rate in Export Expansion in Key Markets” in the 2009 Award for International Trade presented by the Taiwan External Trade Development Council: No. 1 in growth rate in export expansion in the key market of Korea.
- Sept. 2010 The Company organized a capital reduction for the 2009 fiscal year to make up for losses and its paid-in capital was reduced from NT\$16.85 billion to NT\$13.8 billion.
- Nov. 2010 The Hot Rolling Department was certified for the “Health Promotion Mark for Healthy Workplace Voluntary Accreditation” by the Bureau of Health Promotion, Executive Yuan. The validity period is three years (November 1, 2010 to December 31, 2013).
- Nov. 2010 The Hot Rolling Department advanced the compressed air performance monitoring system update and received the “Energy Conservation Role Model” in the “Manufacturing Industry Energy Conservation & Carbon Reduction Outcome Announcement Conference” organized by the Industrial Development Bureau, Ministry of Economic Affairs.
- Jan. 2011 The Company was recommended by Kaohsiung County Government as an outstanding private charity and public welfare organization. It also received public commendation from Taiwan Provincial Government and received the “Love and Care” award and certification.
- April 2011 The Hot Rolling Department and Cold Rolling Department participated “Enterprise Energy Conservation Performance Contest” organized by the Environmental Protection Bureau of Kaohsiung City Government and were awarded for “Outstanding Energy Conservation Performance”.
- June 2011 The Company received a Class A rating in the 2010 Information Disclosure Review conducted by the Securities & Futures Institute; it was also listed among companies with more transparent voluntary information disclosure.
- Aug. 2011 The Company established the Remuneration Committee.
- Sept. 2011 The hot-rolled products received the SIRIM certification in Malaysia(MS 1705 SPHC, MS 1768 SPHT1, JIS G3101 SS400, SAE J403 1008).
- Nov. 2011 The groundbreaking ceremony of the new steel pipe construction was held by Chairman Kun-Mu Chen in Changhua Coastal Industrial Park in Changhua County in the morning of November 17.
- March 2012 The hot-rolled products and cold-rolled products received the JIS Mark certification in Japan(JIS G3131 SPHC, JIS G3101 SS400, JIS G3141 SPCC/SPCD).
- June 2012 The Company received a Class A rating in the 2011 Information Disclosure Review conducted by the Securities & Futures Institute.
- Sept. 2012 Hot-rolled products received FPC certification in Singapore(JIS G3101 SS400, BS EN 0025-2 S275JR, BS EN 10025-2 S275JO, BS EN 10025-2 S235JR, BS EN 10025-2 S235JO).
- Nov. 2012 The Company’s pursuit of quality and excellence received recognition and it received the “Asian Network for Quality Recognition for Excellence in Quality Practice” from the Chinese Society for Quality.
- Dec. 2012 The Company worked with the Industrial Development Bureau, Ministry of Economic Affairs in the advancement of the emissions reduction offset program and received the “Carbon Reduction Pioneer” award.
- Dec. 2012 The Company participated in the 2012 Workplace Safety Week program

and received the “Excellence Award”.

- Dec. 2012 The Company received the “Authorized Economic Operator” (AEO) certification from the Customs Administration of the Ministry of Finance. The validity period is three years (December 27, 2012 to December 26, 2015).
- Dec. 2012 ISO 50001 Energy Management System and Product Carbon Footprint and Environmental Product Declaration passed DNV inspection (certification).
- June 2013 The Company received a Class A rating in the 2012 Information Disclosure Review conducted by the Securities & Futures Institute.
- July 2013 The Cold Rolling Department was recognized as an “Outstanding Unit in the Advancement of Labor Safety and Health in Kaohsiung City in 2012” and received the “Outstanding Unit Award” as a “2012 Outstanding Labor Safety and Health Unit” from the Council of Labor Affairs, Executive Yuan.
- July 2013 Hot-rolled products received TIS certification in Thailand.
- Nov. 2013 The Cold Rolling Department received the 2013 “Enterprise Award of Excellence for Energy Conservation” from the Ministry of Economic Affairs.
- Nov. 2013 The Hot Rolling Department received the 2013 Outstanding Enterprise in Industry Voluntary Greenhouse Gas Emissions Reduction from the Industrial Development Bureau Ministry of Economic Affairs.
- Jan. 2014 The Company passed the certification for ISO/IEC 17025:2005 General requirements for the competence of testing and calibration laboratories and became a TAF-certified laboratory.
- April 2014 The Company’s purchase of products with environmental protection marks for Green Procurement exceeded NT\$5 million in 2013 and it received an honorary certificate from the Environmental Protection Bureau of Kaohsiung City Government.
- May 2014 The thesis promoting “Plant Regional Allied Defense” to improve the occupational management performance of steel plants received first prize for “Occupational Safety and Health Management Thesis” issued by Taichung City Government.
- June 2014 The cold-rolled products received the MS certification in Malaysia(JIS G3141: 2011 SPCC 1B and MS ISO 3574: 2009(P) CR1).
- June 2014 The Company received a Class A+ rating in the 11th Information Disclosure Review for Listed Companies conducted by the Securities & Futures Institute in 2013.
- July 2014 The hot-rolled products/PO, cold-rolled products, and galvanized products received the VN certification in Vietnam.
- July 2014 The Company was ranked 40th among outstanding import and export companies in 2013 by the Bureau of Foreign Trade, Ministry of Economic Affairs.
- Sept. 2014 The Hot Rolling Department, Cold Rolling Department, and Dafa steel pipe plant received the ISO14064-1 Greenhouse Gas Inventory Statement.
- Sept. 2014 The Company’s purchase of products with environmental protection marks for Green Procurement exceeded NT\$20 million and received an honorary certificate from the Environmental Protection Administration, Executive Yuan.

- Oct. 2014 The Lukang steel pipe plant passed American Petroleum Institute (API) certification.
- Oct. 2014 The Hot Rolling Department received the “Special Award” for safety and health performance in 2013 from Taiwan Steel & Iron Industries Association.
- Nov. 2014 The Cold Rolling Department was recognized as an “Outstanding Unit in the Advancement of Labor Safety and Health in Kaohsiung City in 2013” and received the “Outstanding Unit Award” as a “2013 Outstanding Labor Safety and Health Unit” from the Ministry of Labor, Executive Yuan.
- Nov. 2014 The Company (entered the contest with the Ciaotou Administration Building) won the “First Prize” in the electricity savings contest for small and medium enterprises organized by Taiwan Power Company.
- Dec. 2014 Chairman Mr. Yu-Sung Chen retired upon reaching retirement age and Mr. Tsung-Ying Huang took over as Chairman.
- Dec. 2014 The Hot Rolling Department received the “Industry Award of Excellence” for water conservation from the Water Resources Agency, Ministry of Economic Affairs.
- Jan. 2015 The steel pipe plant's new Lukang plant laboratory passed the certification for ISO/IEC 17025:2005 General requirements for the competence of testing and calibration laboratories and became a TAF-certified laboratory.
- April 2015 The Company's Green Procurement exceeded NT\$5 million in 2014 and it received an honorary certificate from the Environmental Protection Bureau of Kaohsiung City Government.
- April 2015 The Company received a Class A+ rating in the 12th Information Disclosure Review for Listed Companies conducted by the Securities & Futures Institute in 2014. It was also ranked among the top 6% to 20% of companies in the first Corporate Governance Review.
- June 2015 The Company established an Audit Committee.
- Sept. 2015 Lukang steel pipe plant passed ISO 14001 and OHSAS 18001 certification.
- Oct. 2015 The Hot Rolling Department received the “Excellence Award” in the 2015 Energy Conservation Contest organized by the Ministry of Economic Affairs.
- Oct. 2015 The Cold Rolling Department received the “Special Award” for safety and health performance in 2014 from Taiwan Steel & Iron Industries Association.
- Nov. 2015 Lukang steel pipe plant passed TOSHMS (CNS 15506) certification.
- Nov. 2015 Lukang steel pipe plant passed ISO 9001 certification.
- Nov. 2015 The Cold Rolling Department was recognized as an “Outstanding Unit in the Advancement of Occupational Safety and Health in Kaohsiung City in 2014 and received the “Five-Star Award” as a “2014 Outstanding Occupational Safety and Health Unit” from the Ministry of Labor, Executive Yuan.
- Jan. 2016 The Hot Rolling Department received the “Special Prize” for enterprise manufacturing plant in the 2015 Carbon Reduction Actions Award from the Environmental Protection Administration and the Ciaotou Administration Building received “Outstanding Award” for carbon emissions reduction in the office space.

- April 2016 The Company's purchase of products with environmental protection marks for Green Procurement exceeded NT\$10 million in 2015 and it received an honorary certificate from the Environmental Protection Bureau of Kaohsiung City Government.
- Aug. 2016 The Company was selected as an outstanding group enterprise in electricity savings in 2015 by the Ministry of Economic Affairs and received a "Electricity Savings Role Model" trophy.
- Sept. 2016 Hot-rolled products received EU's CE marking certification.
- Nov. 2016 Chairman Mr. Tsung-Ying Huang retired upon reaching retirement age and Mr. Juh-Shan Chiou took over as Chairman.
- Nov. 2016 The Hot Rolling Department and Cold Rolling Department both received the "Special Award" for occupational safety performance in 2015 from Taiwan Steel & Iron Industries Association.
- Nov. 2016 The Hot Rolling Department was recognized as an "Outstanding Unit in the Advancement of Occupational Safety and Health in Kaohsiung City in 2015" and received the "2015 Outstanding Occupational Safety and Health Unit Award" from the Ministry of Labor, Executive Yuan.
- Oct. 2017 The Hot Rolling Department received the "2016 Excellent Unit for Promoting Occupational Safety and Health" from the Labor Affairs Bureau of Kaohsiung City Government.
- Oct. 2017 The Company received recognition for inter-department greenhouse gas reduction and cooperation program in 2017 from the Environmental Protection Bureau of Kaohsiung City Government.
- Oct. 2017 The Hot Rolling Department and Cold Rolling Department both received the "Special Award" for occupational safety performance in 2016 from Taiwan Steel & Iron Industries Association.
- Nov. 2017 The Hot Rolling Department received the "2016 Excellent Unit for Promoting Occupational Safety and Health" from the Ministry of Labor.
- Dec. 2017 Lukang steel pipe plant received the "Health Management Award" for outstanding workplace health in 2017 from the Health Promotion Administration of the Ministry of Health and Welfare.
- Dec. 2017 The Hot Rolling Department received the CIDB certification in Malaysia.
- Jan. 2018 Chairman Mr. Juh-Shan Chiou retired upon reaching retirement age and Mr. I-Chung Han took over as Chairman.
- June. 2018 June 1 was adopted as the baseline date for the merger of the Company and the subsidiary Hung Li Steel Corporation which became the Company's "Pickling and Galvanizing Department".
- June. 2018 Official launch of the Company's new website in traditional Chinese and English.
- July. 2018 Lukang steel pipe plant passed ISO 50001 certification.
- July. 2018 The Hot Rolling Department organized the first energy conservation demonstration seminar for China Steel Corporation Group on behalf of the Company.
- Sept. 2018 Lukang steel pipe plant obtained JIS Mark Certification.
- Sept. 2018 The Hot Rolling Department was recognized as an "Outstanding Unit in

the Advancement of Occupational Safety and Health in Kaohsiung City in 2017" and received the "Five-Star Award" as a "2017 Outstanding Occupational Safety and Health Unit" from the Ministry of Labor.

Oct. 2018 Taiwan Ratings gave Chung Hung Steel Corporation a rating of "twA/twA-1" and "stable" outlook.

Oct. 2018 The Company received recognition for inter-department greenhouse gas reduction and cooperation program in 2018 from the Environmental Protection Bureau of Kaohsiung City Government.

Oct. 2018 The Company was awarded in 15th National Brand Yushan Award (Outstanding Enterprise Category).

Oct. 2018 Lukang Steel Pipe Plant received the "Excellence Award" for safety and health performance in 2017 from Taiwan Steel & Iron Industries Association.

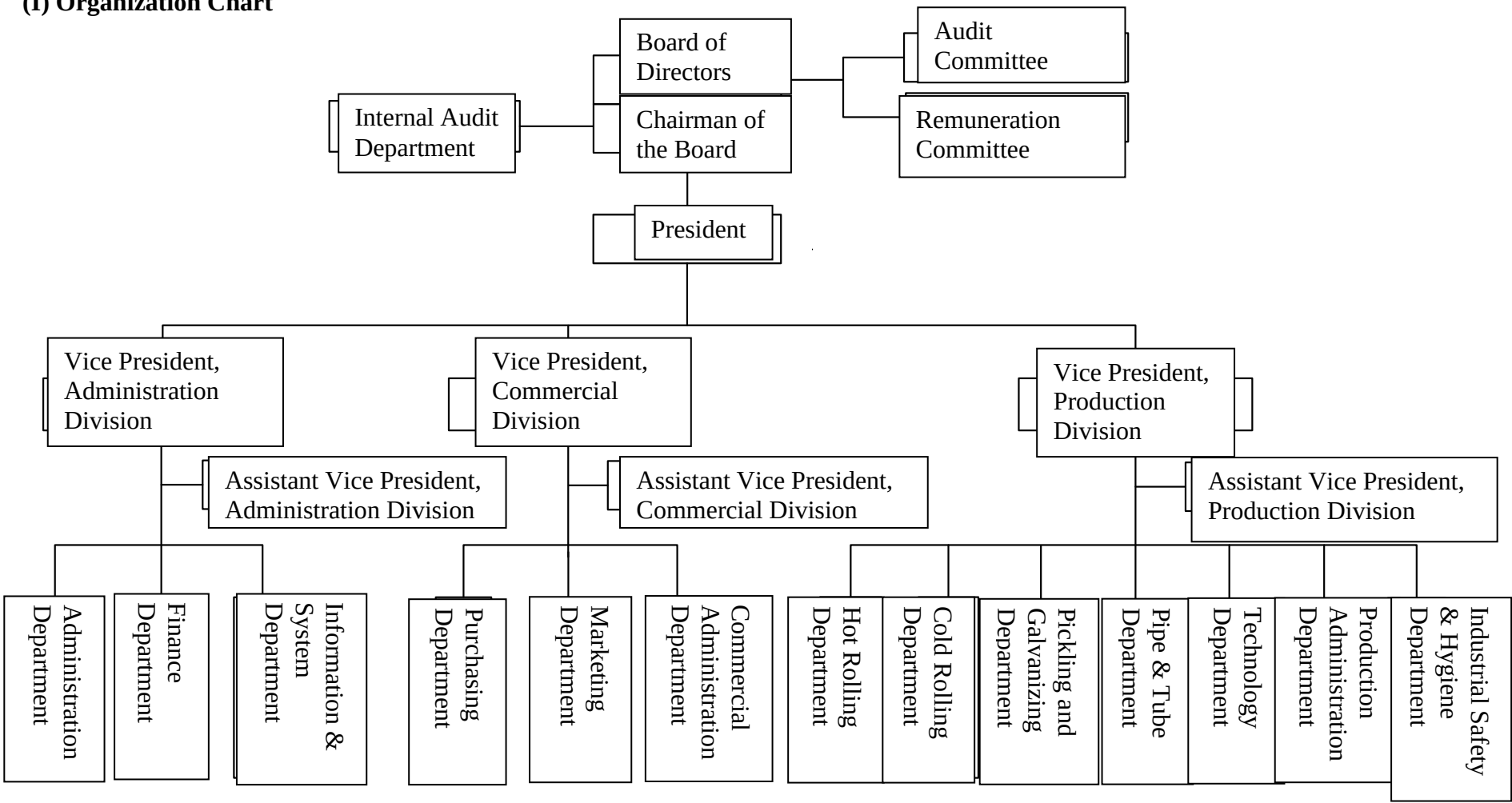
Dec. 2018 Awarded the silver medal certification in the Talent Quality-management System (TTQS) of the Ministry of Labor.

Dec. 2018 The Company received the "Authorized Economic Operator" (AEO) certification from the Customs Administration of the Ministry of Finance.

Chapter 3 Corporate Governance Report

I. Organization

(I) Organization Chart



(II) Responsibilities and functions major departments

Unit		Responsibilities
Internal Audit Department		Credit loan management, internal controls of the company, audit planning and execution, fraud prevention, and disclosure of business risks.
Administration Division	Administration Department	Human resources, organization planning, public relations, processing of affairs with foreign entities, company welfare, and establishment of management systems.
	Finance Department	Accounting affairs, finance, shareholders' meetings, board of directors, insurance, and related matters as well as procedures and management for costs, investments, and capital expenditures.
	Information & System Department	Overall information system and hardware planning, development, establishment, and maintenance as well as the rationalization, standardization, and institutionalization of the Company's overall information system.
Commercial Division	Purchasing Department	Establishment of raw materials and construction procurement system and materials, resources, construction procurement operations, management, market survey, and research.
	Marketing Department	Sales, delivery, and account management for business activities, customer credit investigation, responses to related feedback, after-sales services, and market development.
	Commercial Administration Department	Establishment of management systems, consolidation of market surveys, external business activities, and transportation management.
Production Division	Hot Rolling Department	Production of hot-rolled products, quality control, inventory management, equipment maintenance, environmental safety and sanitation management, etc.
	Cold Rolling Department	Production of cold-rolled products, quality control, inventory management, equipment maintenance, environmental safety and sanitation management, etc.
	Pickling and Galvanizing Department	Production of pickled and galvanized products, quality control, inventory management, equipment maintenance, environmental safety and sanitation management, etc.

Unit		Responsibilities
	Pipe & Tube Department	Production of pipe and tube products, quality control, inventory management, equipment maintenance, environmental safety and sanitation management, etc.
	Technology Department	Maintenance of ISO 9001, API, JIS, CNS, and ISO/IEC 17025 certification, establishment of a quality inspection system, execution of inspections and tests, and processing customer complaints for materials/products.
	Production Administration Department	Production plans, production and sales coordination, and coordination, cooperation, and integration of resources of different departments of the Production Division.
	Industrial Safety & Hygiene Department	Planning, and supervision of labor safety, health, environmental protection, and energy. Establishment, integration, and advancement of ISO 14001, OHSAS 18001, TOSHMS, and ISO 50001 management systems and the ISO 14064 greenhouse gas inventory and reduction.

II. Profile of Directors, Independent Directors, and Managerial Officers

(I) Directors and Independent Directors

March 31, 2019

Title	Nationality or place of registration	Name	Gender	Date elected (appointed)	Term	Date first elected	Shares held when elected		Shares currently held		Shares held by spouse and underage children		Shareholding by nominee arrangement		Education and work experience	Concurrent duties in the company and in other companies	Spouse or relatives of second degree or closer acting as Directors, Supervisors, or other department heads		
							Number of shares	Shareholding percentage (%)	Number of shares	Shareholding percentage (%)	Number of shares	Shareholding percentage (%)	Number of shares	Shareholding percentage (%)			Title	Name	Relationship
Chairman of the Board	Taiwan	China Steel Corporation Representative: Yi-Chung Han	Male	2018.6.22	3 years	2006.6.29	412,834,415	28.76	582,673,153	40.59	-	-	-	-	Master in Computer Science, University of Southern California Assistant Vice President of Commercial Division, China Steel Corporation	Chairman of the Company Pacific Harbor Stevedoring Corporation Supervisor	None	None	None

Title	Nationality or place of registration	Name	Gender	Date elected (appointed)	Term	Date first elected	Shares held when elected		Shares currently held		Shares held by spouse and underage children		Shareholding by nominee arrangement		Education and work experience	Concurrent duties in the company and in other companies	Spouse or relatives of second degree or closer acting as Directors, Supervisors, or other department heads		
							Number of shares	Shareholding percentage (%)	Number of shares	Shareholding percentage (%)	Number of shares	Shareholding percentage (%)	Number of shares	Shareholding percentage (%)			Title	Name	Relationship
Director	Taiwan	China Steel Corporation Representative: Chao-Tung Wong	Male	2018.6.22	3 years	2006.6.29	412,834,415	28.76	582,673,153	40.59	-	-	-	-	PhD in Resources Engineering, National Cheng Kung University President of China Steel Corporation	Does not hold positions in the Company Chairman of China Steel Corporation Chairman of China Prosperity Development Corporation Chairman of Shang Yang Venture Capital Co., Ltd. Director of Dragon Steel Corporation Director of China Steel Chemical Corporation Director of China Ecotek Corporation	None	None	None

Title	Nationality or place of registration	Name	Gender	Date elected (appointed)	Term	Date first elected	Shares held when elected		Shares currently held		Shares held by spouse and underage children		Shareholding by nominee arrangement		Education and work experience	Concurrent duties in the company and in other companies	Spouse or relatives of second degree or closer acting as Directors, Supervisors, or other department heads		
							Number of shares	Shareholding percentage (%)	Number of shares	Shareholding percentage (%)	Number of shares	Shareholding percentage (%)	Number of shares	Shareholding percentage (%)			Title	Name	Relationship
Director	Taiwan	China Steel Corporation Representative: Tsung-Chang Lee	Male	2018.6.22	3 years	2006.6.29	412,834,415	28.76	582,673,153	40.59	-	-	-	-	MBA, National Sun Yat-sen University Vice President, Production Division, Chung Hung Steel Corporation	President of the Company Chairman of Taiwan Steel Co., Ltd.	None	None	None
Director	Taiwan	China Steel Corporation Representative: Min-Hsiung Liu (Note 1)	Male	2018.6.22	3 years	2006.6.29	412,834,415	28.76	582,673,153	40.59	-	-	-	-	Department of Business Administration, National Cheng Kung University Marketing Department, China Steel Corporation Director	Does not hold positions in the Company Assistant Vice President of Commercial Division, China Steel Corporation Director of Dragon Steel Corporation	None	None	None
Independent Director	Taiwan	Juh-Shan Chiou	Male	2018.6.22	3 years	2015.6.26	-	-	-	-	-	-	-	-	MBA, National Sun Yat-sen University Chung Sun Certified Public Accountants	Does not hold positions in the Company Chung Sun Certified Public Accountants Accountant	None	None	None

Title	Nationality or place of registration	Name	Gender	Date elected (appointed)	Term	Date first elected	Shares held when elected		Shares currently held		Shares held by spouse and underage children		Shareholding by nominee arrangement		Education and work experience	Concurrent duties in the company and in other companies	Spouse or relatives of second degree or closer acting as Directors, Supervisors, or other department heads		
							Number of shares	Shareholding percentage (%)	Number of shares	Shareholding percentage (%)	Number of shares	Shareholding percentage (%)	Number of shares	Shareholding percentage (%)			Title	Name	Relationship
Independent Director	Taiwan	Hsien-Tang Tsai	Male	2018.6.22	3 years	2015.6.26	-	-	-	-	-	-	-	-	Ph.D. in Business Administration, Purdue University Dean of College of the Institute of Management, National Sun Yat-sen University	Does not hold positions in the Company Professor of the Department of Business Management, National Sun Yat-sen University	None	None	None
Independent Director	Taiwan	Lin-Lin Lee	Female	2018.6.22	3 years	2015.6.26	-	-	-	-	-	-	-	-	Master of Law, National Taiwan University Executive Director of Taiwan Bar Association	Does not hold positions in the Company Managing Partner, Ling Yun Attorneys-at-Law	None	None	None

Note 1: The corporate shareholder China Steel Corporation assigned Mr. Min-Hsiung Liu to replace Mr. Chi-Kang Liu as its representative on March 31, 2018.

Note 2: The Company has no employee subscription warrants and is not required to disclose employee subscription warrants held by Directors or managerial officers.

Table 1: Major shareholders of corporate shareholders

December 31, 2018

Name of Corporate Shareholder (Note 1)	Major Shareholders of Corporate Shareholders (Note 2)
China Steel Corporation	Ministry of Economic Affairs (MOEA) (20.00%), Employee' s Stock Trust of China Steel Corporation under the custody of Mega International Commercial Bank Co., Ltd. (4.22%), Transglory Investment Corporation (1.62%), Vanguard Emerging Markets Stock Index Fund under the custody of JP Morgan Chase Bank N.A. Taipei Branch (1.19%), Vanguard Total International Stock Index Fund under the custody of JP Morgan Chase Bank N.A. Taipei Branch (1.13%), Winning Investment Corporation (1.01%), Labor Insurance Fund (0.97%), Norges Bank Investment Management under the custody of Citibank (Taiwan) Limited (0.94%), Public Service Pension Fund Management Board (0.94%), Fubon Life Insurance Co., Ltd. (0.85%).

Note 1: For directors and supervisors who are the representatives of corporate shareholders, the names of the corporate shareholders shall be disclosed.

Note 2: Fill in the names of main shareholders of the corporate shareholder (the top ten shareholders in terms of shareholding ratio) and their shareholding ratio. If the major shareholder is a corporate shareholder, its name shall be filled in Table 2 below.

Note 3: Corporate shareholders whose major shareholders do not include corporate shareholders.

Table 2: Major shareholders of major corporate shareholders listed in Table 1

December 31, 2018

Name of corporate shareholder (Note 1)	Major shareholders of corporate shareholder (Note 2)
Transglory Investment Corporation	China Steel Express Corporation (49.89%), Chung Hung Steel Corporation (40.91%), and China Steel Chemical Corporation (9.20%).
Winning Investment Corporation	Gains Investment Corporation (49.00%), Maruichi Steel Tube Ltd. (42.00%), and Transglory Investment Corporation (9.00%).
Fubon Life Insurance Co., Ltd.	Fubon Financial Holding Co., Ltd. (100%).

Note 1: If the major shareholders in the preceding Table1 are corporate shareholders, the name of the corporate shareholder shall be disclosed.

Note 2: Fill in the names of main shareholders of the corporate shareholder (the top ten shareholders in terms of shareholding ratio) and their shareholding ratio.

Directors and Independent Directors

March 31, 2019

Name	Criteria	Has at least 5 years of work experience and meets one of the following professional qualifications			Meets the independence criteria (Note 1)										Number of companies the person serves as an independent director
		An Instructor or higher position in a department of commerce, law, finance, accounting, or other discipline related to the Company's business in a public or private College or University.	A judge, public prosecutor, attorney, accountant, or other professional or technical specialist related to the needs of the Company who has passed a national examination and received a certificate	Commercial, legal, financial, accounting or other work experiences required to perform the assigned duties	1	2	3	4	5	6	7	8	9	10	
Corporate director Representative: Yi-Chung Han			✓			✓	✓	✓	✓		✓	✓	✓		0
Corporate director Representative: Chao-Tung Wong			✓				✓	✓			✓	✓	✓		0
Corporate director Representative: Tsung-Chang Lee			✓				✓	✓	✓		✓	✓	✓		0
Corporate director Representative: Min-Hsiung Liu			✓			✓	✓	✓		✓	✓	✓	✓		0
Independent Director Juh-Shan Chiou		✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Independent Director Hsien-Tang Tsai	✓				✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Independent Director Lin-Lin Lee		✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0

Note 1: Please fill-in a “✓” in the empty spaces for the various directors and supervisors who fits the following conditions two years prior to their appointments or during their tenures.

(1) Not an employee of the company or its affiliates.

(2) Not serving as a director or supervisor of any of the Company's affiliated companies (this restriction does not apply to independent directors in the Company or its parent company or subsidiaries, which have been appointed in accordance with local laws or laws of the registered country).

(3) Not a natural-person shareholder whose shareholding, together with those of his/her spouse, minor children, and shares held under others' names, exceed 1% of the total number of outstanding shares of the Company, or ranks the person in the top ten shareholders of the Company.

(4) Not a spouse, relative of second degree or closer, or direct blood relative of third degree or closer to any person listed in the three preceding criteria.

(5) Not a director, supervisor or employee of a juristic-person shareholder that holds directly 5% or more of the total number of outstanding shares of the Company or ranks in the top five shareholders.

(6) Not a Director, Supervisor, manager, or a shareholder that holds more than 5% of shares at a company or institution that has financial or business exchanges with the Company.

(7) Not a professional who provides commercial, legal, financial, accounting, or consulting services to the Company or its affiliates, nor is an owner, partner, director, supervisor, or manager, or the spouse of any of the above, of a sole proprietorship, partnership, company, or organization that provides such services to the Company or its affiliates. Excluding members of the Remuneration Committee who exercise power in accordance

with Article 7 of the Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter.

(8)Not a spouse or a relative within the second degree of kinship with any director

(9)Does not meet the criteria listed in any Sections of Article 30 of the Company Act.

(10)Not an elect in the name of a government, institution, or its representative as defined in Article 27 of the Company Law.

(II) Main Managerial Officers

March 31, 2019

Title	Nationality	Name	Gender	Date Elected (Appointed)	Shares held		Shares Held by Spouse and Underage Children		Shareholding by Nominee Arrangement		Education/Work Experience	Other positions in other companies held currently	Has a spouse or a relative within the second degree of kinship who are the Company's managers		
					Number of shares	Shareholding Percentage (%)	Number of shares	Shareholding Percentage (%)	Number of shares	Shareholding Percentage (%)			Title	Name	Relationship
President	Taiwan	Tsung-Chang Lee	Male	2017.10.01	0	0	0	0	0	0	MBA, National Sun Yat-sen University Vice President, Production Division, Chung Hung Steel Corporation	Chairman of Taiwan Steel Co., Ltd.	None	None	None
Vice President, Administration Division	Taiwan	Chia-Wen Luo	Male	2018.01.01	0	0	0	0	0	0	MBA, National Sun Yat-sen University Deputy Director of Accounting Department, China Steel Corporation	Chairman of Hung Kao Investment Corporation	None	None	None
Vice President, Commercial Division	Taiwan	Kai-Min Huang (Dismissed on September 1, 2018)	Male	2017.10.01	145,831	0	0	0	0	0	Department of Business Administration, National Chengchi University Section Chief, Fourth Section, Marketing Department, China Steel Corporation	None	None	None	None
	Taiwan	Wen-Chou Li (Appointed on September 1, 2018)	Male	2018.09.01	0	0	0	0	0	0	Department of Business Administration, National Cheng Kung University Section Chief, Second Section, Marketing Department, China Steel Corporation	Supervisor of Pacific Harbor Stevedoring Corporation	None	None	None

Vice President of Production	Taiwan	Shao-Jung Lu (Dismissed on March 1, 2019)	Male	2017.10.01	0	0	0	0	0	0	MBA, National Sun Yat-sen University Plant Director of Dragon Steel Corporation	None	None	None	None
	Taiwan	Chien-Chou Chen (Appointed on March 1, 2019)	Male	2019.03.01	0	0	0	0	0	0	Department of Industrial Engineering, National Tsing Hua University Deputy Director of Production Planning Department, China Steel Corporation	None	None	None	None
Assistant Vice President, Administration Division	Taiwan	Shu-Cheng Yen	Male	2017.09.01	0	0	0	0	0	0	Southern Taiwan Junior College of Technology Director of Administration Division, Chung Hung Steel Corporation	None	None	None	None
Assistant Vice President, Commercial Division	Taiwan	Ming-Ju Yang	Male	2012.04.01	0	0	0	0	0	0	EMBA, National Cheng Kung University Plant Director of the Hot Rolling Department, Chung Hung Steel Corporation	None	None	None	None
Assistant Vice President, Production Division	Taiwan	Chin-Ming Hsu	Male	2016.01.01	0	0	0	0	0	0	Department of Industrial Engineering, Feng Chia University Director of Marketing Department, Chung Hung Steel Corporation	None	None	None	None
Assistant Vice President, Production Division	Taiwan	Chien-Hsiung Tung	Male	2018.08.15	0	0	0	0	0	0	Department of Shipbuilding Engineering, National Taiwan University Deputy Director, Batch Annealing Refinement Workshop, China Steel Corporation	None	None	None	None

Director of the Finance Department (Chief Accounting Officer)	Taiwan	Pei-Yu Lee	Female	2017.09.01	0	0	0	0	0	0	Master's degree, Department of Public Finance, National Chengchi University Section Chief, Accounting Department, China Steel Corporation	None	None	None	None

Note: All shares specified in the table are ordinary shares.

(III) Remuneration of Directors, Independent Directors, President and Vice Presidents

Remuneration for directors (including independent directors)

Unit: NTD, December 31 2018

Title	Name	Directors' remuneration								Total Remuneration (A+B+C+D) as a % of Net Income%		Remuneration received as the Company's employee								Total Remuneration (A+B+C+D+E+F+G) as a % of Net Income%		Whether or not remuneration of investees was received from outside the subsidiaries
		Remuneration (A)		Pension (B)		Directors' remuneration (C) (Note 1)		Business execution expenses (D)				Salary, Bonus and Special Fees etc. (E)		Pension (F)		Employee remuneration (G)						
		This Company	All companies in the financial report	This Company	All companies in the financial report	This Company	All companies in the financial report	This Company	All companies in the financial report	This Company	All companies in the financial report	This Company	All companies in the financial report	This Company	All companies in the financial report	This Company		All companies in the financial report		This Company	All companies in the financial report	
Cash amount	Stock amount															Cash amount	Stock amount					
Chairman of the Board	I-Chung Han (Note 2) Representative of China Steel Corporation	0	0	0	0	890,497	890,497	101,500	101,500	0.03	0.03	1,902,890	1,902,890	261	261	65,093	0	65,093	0	0.10	0.10	Yes, 48,129 (Collected by the corporate representative)
Director	Chao-Tung Wong Representative of China Steel Corporation	0	0	0	0	890,496	890,496	174,000	174,000	0.04	0.04	0	0	0	0	0	0	0	0	0.04	0.04	0
Director	Chi-Kang Liu (Note 3) Representative of China Steel Corporation	0	0	0	0	890,496	890,496	46,000	46,000	0.03	0.03	0	0	0	0	0	0	0	0	0.03	0.03	0
	Min-Hsiung Liu (Note 3) Representative of China Steel Corporation	0	0	0	0	890,496	890,496	128,000	128,000	0.03	0.03	0	0	0	0	0	0	0	0	0.03	0.03	0
Director	Tsung-Chang Lee Representative of China Steel Corporation	0	0	0	0	890,496	890,496	30,000	30,000	0.03	0.03	3,896,645	3,896,645	73,609	73,609	103,300	0	103,300	0	0.16	0.16	0
Independent Director	Juh-Shan Chiou	600,000	600,000	0	0	0	0	224,000	224,000	0.03	0.03	0	0	0	0	0	0	0	0	0.03	0.03	0

Independent Director	Hsien-Tang Tsai	600,000	600,000	0	0	0	0	224,000	224,000	0.03	0.03	0	0	0	0	0	0	0	0	0.03	0.03	0
Independent Director	Lin-Lin Lee	600,000	600,000	0	0	0	0	224,000	224,000	0.03	0.03	0	0	0	0	0	0	0	0	0.03	0.03	0

Note 1: The Company's remuneration for directors are all collected by corporate directors

Note 2: The corporate shareholder China Steel Corporation assigned Mr. I-Chung Han to replace Mr. Juh-Shan Chiou as its representative on December 31, 2017. Mr. Han was elected as the Chairman by the Board of Directors on January 2, 2018.

Note 3: The corporate shareholder China Steel Corporation assigned Mr. Min-Hsiung Liu to replace Mr. Chi-Kang Liu as its representative on March 31, 2018.

Remuneration Range Table

Unit: NTD, December 31 2018

Remuneration range for each director in this Company	Name of director			
	Total amount of the 4 preceding remunerations (A+B+ C+D)		Total amount of the 7 preceding remunerations (A+B+ C+D+E+F+G)	
	This Company	All companies in the financial report	This Company	All companies in the financial report
Less than NT\$2,000,000	I-Chung Han, Chao-Tung Weng, Chi-Kang Liu Min-Hsiung Liu, Tsung-Chang Lee, Juh-Shan Chiou Hsien-Tang Tsai, Lin-Lin Lee	I-Chung Han, Chao-Tung Weng, Chi-Kang Liu Min-Hsiung Liu, Tsung-Chang Lee, Juh-Shan Chiou Hsien-Tang Tsai, Lin-Lin Lee	Chao-Tung Weng, Chi-Kang Liu, Min-Hsiung Liu Juh-Shan Chiou, Hsien-Tang Tsai, Lin-Lin Lee	Chao-Tung Weng, Chi-Kang Liu, Min-Hsiung Liu Juh-Shan Chiou, Hsien-Tang Tsai, Lin-Lin Lee
NT\$2,000,000 (inclusive) to NT\$5,000,000 (exclusive)	0	0	I-Chung Han, Tsung-Chang Lee	I-Chung Han, Tsung-Chang Lee
NT\$5,000,000 (inclusive) to NT\$10,000,000 (exclusive)	0	0	0	0
NT\$10,000,000 (inclusive) to NT\$15,000,000 (exclusive)	0	0	0	0
NT\$15,000,000 (inclusive) to NT\$30,000,000 (exclusive)	0	0	0	0
NT\$30,000,000 (inclusive) to NT\$50,000,000 (exclusive)	0	0	0	0
NT\$50,000,000 (inclusive) to NT\$100,000,000 (exclusive)	0	0	0	0
Higher than NT\$100,000,000	0	0	0	0
Total	8	8	8	8

Remunerations to President and Vice President

Unit: NTD, December 31 2018

Title	Name	Salary (A)		Pension (B)		Bonuses and Allowances, etc. (C)		Employee remuneration (D)				Total Remuneration (A+B+C+D) as a % of Net Income (%)		Remuneration received from Investees other than subsidiaries
		This Company	All companies in the financial report	This Company	All companies in the financial report	This Company	All companies in the financial report	This Company		All companies in the financial report		This Company	All companies in the financial report	
								Cash amount	Stock amount	Cash amount	Stock amount			
President	Tsung-Chang Lee	13,581,326	13,581,326	401,248	401,248	6,081,150	6,081,150	561,202	0	561,202	0	0.68	0.68	None
Vice President, Administration Division	Chia-Wen Luo													None
Vice President, Commercial Division	Kai-Min Huang (2018.09.01 dismissed)													Yes 32,000 (Collected by the corporate representative)
	Wen-Chou Li(2018.09.01 newly appointed)													Yes 16,000 (Collected by the corporate representative)
Vice President of Production	Shao-Jung Lu													None
Assistant Vice President, Administration Division	Shu-Cheng Yen													Yes 28,000 (Collected by the corporate representative)
Assistant Vice President, Commercial Division	Ming-Ju Yang													None
Assistant Vice President, Production Division	Chin-Ming Hsu													None
	Chien-Hsiung Tung (2018.08.15 newly appointed)													None

Note 1: All companies mentioned in the financial report including the Company.

Remuneration Range Table

Unit: NTD, December 31 2018

Range of Remuneration Paid to the President and Vice Presidents of the Company	Name of President and Vice Presidents	
	This Company	All companies in the financial report
Less than NT\$2,000,000	Kai-Min Huang, Wen-Chou Li, Chien-Hsiung Tung	Kai-Min Huang, Wen-Chou Li, Chien-Hsiung Tung
NT\$2,000,000 (inclusive) to NT\$5,000,000 (exclusive)	Tsung-Chang Lee, Chia-Wen Luo, Shao-Jung Lu, Shu-Cheng Yen, Ming-Ju Yang, Chin-Ming Hsu	Tsung-Chang Lee, Chia-Wen Luo, Shao-Jung Lu, Shu-Cheng Yen, Ming-Ju Yang, Chin-Ming Hsu
NT\$5,000,000 (inclusive) to NT\$10,000,000 (exclusive)	0	0
NT\$10,000,000 (inclusive) to NT\$15,000,000 (exclusive)	0	0
NT\$15,000,000 (inclusive) to NT\$30,000,000	0	0

(exclusive)		
NT\$30,000,000 (inclusive) to NT\$50,000,000 (exclusive)	0	0
NT\$50,000,000 (inclusive) to NT\$100,000,000 (exclusive)	0	0
Higher than NT\$100,000,000	0	0
Total	9	9

Note: The range of remuneration of the aforementioned managerial officers in all companies mentioned in the consolidated financial report.

Names of managers who received employee bonus and the details (proposed distribution for the 2018 fiscal year)

Unit: NTD, December 31 2018

	Title	Name	Stock amount	Cash amount	Total	Ratio accounted compared to the total net income (%)
Managerial Officer	President	Tsung-Chang Lee	0	621,937	621,937	0.021
	Vice President, Administration Division	Chia-Wen Luo				
	Vice President, Commercial Division	Kai-Min Huang (Dismissed on September 1, 2018)				
		Wen-Chou Li (Appointed on September 1, 2018)				
	Vice President of Production	Shao-Jung Lu				
	Assistant Vice President, Administration Division	Shu-Cheng Yen				
	Assistant Vice President, Commercial Division	Ming-Ju Yang				
	Assistant Vice President, Production Division	Chin-Ming Hsu				
		Chien-Hsiung Tung (Appointed on August 15, 2018)				
	Head of Accounting	Pei-Yu Lee				

(IV) Comparison of compensation paid by the Company and all the consolidated entities in the last two years to the company's Directors (including Independent Directors), President and Vice Presidents as a percentage to the net income after tax. Explanation on remuneration policies, standards and combination of the procedures in determining remuneration, and association with business performance and future risks.

1. Remuneration for Directors (including Independent Directors)

The Company's remuneration for Directors in 2018 amounted to NT\$7,403,981 (NT\$2,640,000 in 2017). The salary and transportation allowances were established by the Board of Directors based on standards adopted by the industry and listed companies in accordance with Article 22 of the Company's Articles of Incorporation. According to Article 28 of the Company's Articles of Incorporation, the remuneration for Directors shall not exceed 1% of the profits.

2. Remunerations for the President and Vice Presidents

The Company's remuneration for the President and Vice Presidents in 2018 amounted to NT\$20,624,926 (NT\$20,557,506 in 2017) which accounted for 0.68% of the net income after taxes. It consisted mainly of salaries, year-end bonuses, and allocated pension benefits. The salary for the President and Vice Presidents of the Company are processed in accordance with the "Duties Division Table of the Board of Directors, Chairman, and President". The salary for the President and Vice Presidents shall be approved by the Board of Directors and the salary for Assistant Vice Presidents shall be approved by the Chairman. The employee remuneration shall be approved by the Board of Directors.

3. Linkage of the remuneration of Directors (including Independent Directors), President and Vice Presidents to business performance and future risks: None.

III. Implementation of Corporate Governance

(I) Operation of Board of Directors

A total of 8 (A) meetings of the Board of Directors were held in 2018. The attendance of Directors was as follows:

2018.01.01~2018.12.31

Title	Name	Attendance in person (B)	Attendance by proxy	Attendance in person rate (%) 【 B / A 】	Note
Chairman of the Board	Representative of China Steel Corporation I-Chung Han	8	0	100	None
Director	Representative of China Steel Corporation Chao-Tung Wong	7	1	87.5	None
Director	Representative of China Steel Corporation Chi-Kang Liu	2	0	100	The Director Chi-Kang Liu retired on March 31, 2018 and he attended 2 meetings in person with an actual attendance rate of 100%.
	Representative of China Steel Corporation Min-Hsiung Liu	5	1	87.5	The Director Min-Hsiung Liu was appointed on March 31, 2018 and he attended 5 meetings in person with an actual attendance rate of 87.5%.
Director	Representative of China Steel Corporation Tsung-Chang Lee	8	0	100	None
Independent Director	Juh-Shan Chiou	8	0	100	None
Independent Director	Hsien-Tang Tsai	8	0	100	None
Independent Director	Lin-Lin Lee	8	0	100	None

Other matters that should be recorded:

I.The items included in Article 14-3 of the Securities and Exchange Act and other comments objected or retained by other Independent Directors in record or the resolutions of the Board of directors in a written statement should indicate the date, period, content of the motion, opinions of all Independent Directors and how the company handles the opinion of the Independent Directors: Independent Directors issued no objections or retained opinions on material issues.

II.The directors' avoidance of interest motion should indicate the names of the directors, content of the motion and reasons of avoidance of interest as well as the involvement in voting:

1.20th meeting of the 13th Board of Directors on March 22, 2018: Results of the performance evaluation on the Company's President and Vice Presidents of the departments in 2017. The Director Tsung-Chang Lee recused himself in accordance with laws (Mr. Tsung-Chang Lee is the President of the Company).

2.2nd meeting of the 14th Board of Directors on August 7, 2018:

- (1) Results of the performance evaluation by the Company's President and Vice Presidents of the departments in the first half of 2018: The Director Tsung-Chang Lee recused himself in accordance with laws.
- (2) Proposal for the 2018 salary adjustment for the Company's President Mr. Tsung-Chang Lee: The Director Tsung-Chang Lee recused himself in accordance with laws.
- (3) Proposal for the salary of the Company's Chairman Mr. I-Chung Han: The Director of I-Chung Han recused himself in accordance with laws.
- (4) Proposal for the monthly salary of each Independent Director of the Company: Independent Directors Lin-Lin Lee, Juh-Shan Chiou, and Hsien-Tang Tsai recused themselves in accordance with laws.
- (5) Proposal for the attendance fees of members of the Remuneration Committee and standards for attendance fees for Directors and external experts and scholars' attendance in the Committee: Independent Directors Lin-Lin Lee, Juh-Shan Chiou, and Hsien-Tang Tsai recused themselves in accordance with laws.
- (6) Proposal for the attendance fees of members of the Audit Committee and standards for attendance fees for Directors and external experts and scholars' attendance in the Committee: Independent Directors Lin-Lin Lee, Juh-Shan Chiou, and Hsien-Tang Tsai recused themselves in accordance with laws.

III. Programs this year and in the most recent year in strengthening the functionality of the Board (for example, set up an auditing committee, improve transparency, etc.) and execution evaluation:

1. The Company established the Audit Committee starting from the 13th Board of Directors in June 2015. Four meetings of the Audit Committee were convened on March 16, May 8, August 7, and November 8 in 2018 and the resolutions of the Audit Committee were reported to the Board of Directors.
2. The Remuneration Committee was established under the Board of Directors in September 2011 in accordance with laws. Operations of the Remuneration Committee in 2018: The Company convened four meetings of the Remuneration Committee on March 16, May 30, August 7, and August 27 in 2018 in accordance with Article 14-6 of the Securities and Exchange Act and the "Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter" announced by the Financial Supervisory Commission on March 18, 2011. The resolutions of the Committee were compiled into meeting minutes and reported to the Board of Directors.
3. The Company announces material resolutions of the Board of Directors and the operations of functional committees on its website.
4. The attendance, continuing education of Directors, current posts, experience, and concurrent posts of Independent Directors are disclosed on the Market Observation Post System.
5. The Company has purchased D&O liability insurance for all Directors (including Independent Directors) and managerial officers and reported to the Board of Directors in the meeting on August 7, 2018. The information were reported on the Market Observation Post System in accordance with regulations.

(II) State of operations of the audit committee:

The Audit Committee met 4 times (A) in 2018. The attendance of Independent Directors was as follows:

2018.01.01~2018.12.31

Title	Name	Number of attendances in person (B)	Attendance by proxy	Actual attendance rate (%) (B/A)	Note
Independent Director (Convener)	Juh-Shan Chiou	4	0	100	None
Independent Director	Lin-Lin Lee	4	0	100	None
Independent Director	Hsien-Tan g Tsai	4	0	100	None

Annual Key Work Items of Audit Committee :

- 1.Review of financial statements and communication regarding key audit matters.
- 2.Audit and accounting policies and procedures
- 3.Internal control system and relevant policies and procedures
- 4.Company risk management
- 5.Material asset transactions or derivatives
- 6.Material loaning of funds, making of endorsements or provision of guarantees
- 7.Appointment, dismissal, compensation, evaluation of the independence and performance of the certifying CPAs
- 8.Derivative financial instruments and cash investments
- 9.Appointment and removal of the financial, accounting, or internal auditing officers
- 10.Legal and regulatory compliance

Operations of the Audit Committee and Agenda in 2018

- 1.11th meeting of 13th Board of Directors on March 16, 2018: The Internal Audit Department provided the Annual Business Report
 - (1) 2017 Business Report and Financial Report.
 - (2) The Company's 2017 loss makeup proposal.
 - (3) The appointment and remuneration for the Company's certifying CPA.
 - (4) Report on the 2017 Internal Control Self-Assessment Report and Internal Control System Statement.
- 2.12th meeting of 13th Board of Directors on May 8, 2018:
 - (1) Draft of the Consolidated Financial Statements and Independent Auditors' Review Report for the first quarter of 2018.
 - (2) Evaluation of the independence and performance of the certifying CPAs.
 - (3) Removal of the non-compete clause for the 14th-term Directors of the Company.
- 3.1st meeting of 14th Board of Directors on August 7, 2018:

(1) Nomination of the Director Juh-Shan Chiou as the convener for the Audit Committee of the Company's 14th Board of Directors.

(2) Draft of the Consolidated Financial Statements and Independent Auditors' Review Report for the second quarter of 2018.

4.2nd meeting of 14th Board of Directors on November 8, 2018:

(1) Draft of the Consolidated Financial Statements and Independent Auditors' Review Report for the third quarter of 2018.

Other matters that should be recorded:

I. Items listed in Article 14-5 of the Securities and Exchange Act and other resolutions that have not been approved by the Audit Committee but have been passed by a vote of two-thirds or more of the entire Board of Directors: None.

II. The Independent Directors' avoidance of interest motion should indicate the names of the Independent Directors, content of the motion and reasons of avoidance of interest as well as the involvement in voting: None.

III. Communication between Independent Directors and internal audit supervisor and accountants:

The Company convened the 2018 financial report close meeting on March 14, 2019. Attendees included Independent Directors, audit supervisor, accountants, business units, and supervisors of the finance unit. The contents of the meeting mainly included reports on the Company's financial and business status in 2018 and discussions of plans for 2019. Material items discussed in the meeting are as follows:

1. Review of the Financial Report.
2. Communication regarding key audit matters in the audit report.
3. Communication with the governance unit.

The communication between Independent Directors, the Company's internal audit supervisor, and the CPAs in 2018 were good.

Other matters that require explanation:

1. Adjustments with material impact on the financial statements of the audited unit regardless of whether they are accounted for by the audited unit: None.
2. Material uncertainties that may cast doubt on whether the audited unit can continue as a going concern: None.
3. Items inconsistent with the opinions of the management that may, from an individual or overall perspective, cause material impact on the audited unit's financial statements or the accountant's audit report. Have such items been resolved in the communication and the severity level: None.
4. The categories and contents of audit reports other than unqualified opinions: None.
5. Other matters that should be noted by the governance unit such as material deficiencies in internal

controls, doubts on the ethics of the management, and involvement of the management in fraud: None.

6. Status of the Company's internal audit supervisor's attendance in routine Board of Directors meetings and reports on internal audits; status of the attendance in the Audit Committee meeting in March each year to report on the implementation status of the annual audit plan; The internal audit reports are delivered to the Independent Directors for review each month.

IV. Resolutions of the Audit Committee for important agenda and the Company's handling of such opinions:

1. 11th meeting of 13th Board of Directors on March 16, 2018: Discussion of the Company's 2017 Business Report and Financial Report.

Opinions of the Audit Committee: Many of the awards in the Business Report were achievements in 2016. Can the award time be provided to clarify the honors the Company received in 2017?

The Company's explanation and measures taken: The items shall be processed in accordance with the instructions of the committee member.

Opinions of the Audit Committee: What is the reasonable level of inventory for materials, finished products, and semi-finished products?

The Company's explanation and measures taken: The Company pays close attention to inventory. Related statistics are reported in the weekly management meeting which reviews the cause of the deviation. Chung Hung currently maintains that a reasonable inventory is approximately 320,000 tons.

Resolution: Passed by all members of the Committee in attendance.

2. 1st meeting of 14th Board of Directors on August 7, 2018: Discussed the draft of the Consolidated Financial Statements and Independent Auditors' Review Report for the second quarter of 2018.

Opinions of the Audit Committee: What is the achievement rate of the annual budget? What is the impact of the cost of materials in the second half of the year on earnings? As the Company's revenue from exports is in USD, can the foreign exchange gains be increased?

The Company's explanation and measures taken: The annual budget is NT\$2.35 billion and the budget achievement rate is approximately 67%. The price of materials in the second half of the year appears to remain the same and may even decline slightly. Earnings are mainly determined by sales prices. The exchange rate fluctuations are high and once NTD depreciates to a certain level, fluctuations will continue. The management team has always carefully responded to exchange rate issues.

Opinions of the Audit Committee: Are the accounting codes 1120 and 1125 in balance sheet reclassifications? What caused the changes in losses to be made up and other equity in the two periods?

The Company's explanation and measures taken: The codes 1120 and 1125 are "available-for-sale financial assets" which were reclassified to "financial assets at fair value through

other comprehensive income" in accordance with IFRS9. The increase in losses to be made up is mainly due to an adjustment of approximately NT\$109 million in defined benefit liabilities for pension in the actuarial report. The decrease in other equities is mainly caused by losses in the appraisal of CSC stocks recognized by Chung Hung and the subsidiaries Hung Kao and Transglory Investment Corp.

Resolution: Passed by all members of the Committee in attendance.

(III) Corporate governance implementation status and deviations from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons

Assessed area	Operating status			Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No	Summary	
1. Does the company establish and disclose its corporate governance principles in accordance with the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies?	V		The Company has established the "Corporate Governance Best-Practice Principles" and disclosed them on the Market Observation Post System and the Company's website.	No deviation from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies.
2. Company stock equity structure and shareholder equity				
(1) Did the company establish internal procedures for addressing shareholder suggestions, doubts, disputes, and litigation matters and implement the procedures accordingly?	V		(1) The Company has appointed a spokesperson, acting spokesperson, and other dedicated personnel and emails to process shareholder suggestions and other issues.	No deviation from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies.
(2) Does the company have in possession the list of major shareholders that have actual control over the company as well as the list of major shareholders with final control?	V		(2) The Company has commissioned the stock agency KGI Securities to handle related shareholder services.	
(3) Did the company establish and execute risk control mechanism for affiliates, and firewall methods?	V		(3) The Company and affiliate companies operate independent of each other and related financial and business transaction conditions are processed in accordance with procedures for regular customers. With regard to information management, the companies have established independent firewalls.	
(4) Did the company establish internal regulations stipulating that employees shall not use undisclosed information to engage in the transaction of marketable securities?	V		(4) The Company has established the "Management Procedures for Handling Internal Major Information and Prevention of Inside Trading", "Code of Ethical Conduct for Supervisors and Senior Managerial Officers", and "Code of Ethical Conduct for Directors" as basis for compliance for insiders to prevent insiders from using undisclosed information for securities transactions.	
3. Board compositions and responsibilities				
(1) Has the Board of Directors developed and implemented a diversified policy for the composition of its members?	V		(1) Article 3.4.1 of the Company's "Corporate Governance Best Practice Principles" requires diversity in board composition and the establishment of diversity policies for the Company's operations, business model, and development requirements.	No deviation from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies.

Assessed area	Operating status			Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No	Summary	
			The Board of Directors includes 7 members including 3 Independent Directors (1 female) with different professional backgrounds, genders, or work. They have the knowledge, skills, and quality necessary for the performance of their duties and they implement effective supervision and oversight of the Company's compliance, prompt disclosure of material information, and ethical management. They maintain sound communication channels and good interactions with the management team and they provide guidance for the Company's business operations and resolutions for material decisions to ensure the Company's development and safeguard shareholder equity.	
(2) Does the company voluntarily establish other functional committees in addition to Remuneration Committee and Audit Committee?		V	(2) The Company has not voluntarily established other functional committees other than the Remuneration committee and Audit committee that are established in accordance with the law.	No deviation from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies but no other functional committees are currently established.
(3) Does the Company have Board of Directors performance assessment guidelines and assessment methods in place and perform the assessments periodically on a yearly basis?		V	(3) The Company has not yet established regulations for the performance evaluation of the Board of Directors. Each Director is required to supervise and understand the implementation of the Company's business plan.	No deviation from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies but the Board of Directors performance assessment regulations have not yet been established.
(4) Does the Company regularly implement assessments on the independence of CPA?	V		(4) The Company's Board of Directors reviews the assessment questionnaire for the independence of the CPA each year to ensure the reliability of the Company's	No deviation from the Corporate Governance Best Practice Principles for TWSE/TPEX

Assessed area	Operating status			Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No	Summary	
			financial reports (reported to the Audit Committee and Board of Directors on May 8, 2018). The Company also requires the certifying CPAs to provide Statements of Independence. The certifying CPAs do not serve other roles in the Company or have direct or indirect interest in the Company's other business transactions. They have not violated the independence criteria and they maintain high levels of professionalism in providing taxation, auditing, and consulting services. The Company is satisfied with their performance based on its evaluation. With the exception of expenses for auditing and taxation cases, the certifying CPAs and the Company have no other common financial interests or business relations. The certifying CPAs' spouses and underage children also do not violate requirements for independence.	Listed Companies.
4. Has the publicly-listed company set up a dedicated unit or appointed designated personnel to handle governance related affairs (including but not limited to supplying information requested by the directors, processing company registration and change of registration and preparing minutes of the board meetings and shareholder meetings)?	V		The Company established the position of the "Chief Governance Officer" in the 7th meeting of the 14th Board of Directors on March 19, 2019. The role is filled by an Executive Vice President. The Company also established the "Shareholder Service and Assets Section" under the Finance Department to take charge of related corporate governance affairs. The Director of the Finance Department (administers the Finance and Accounting Department) serve concurrently as corporate governance personnel and is a certified public accountant. The unit processes related affairs of the Board of Directors (including the production of meeting minutes of board meetings), related	No deviation from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies.

Assessed area	Operating status			Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No	Summary	
			affairs for convening shareholders' meetings (including the production of meeting minutes of shareholders' meetings), processing company registration and change of registration, assisting Directors (including Independent Directors) in related affairs and continuing education, and providing Directors (including Independent Directors) with information required for executing businesses and reminders for compliance with related regulations. The corporate governance operations and the status of implementation in 2018 were as follows: (1) The Company convened a total of 8 meetings of the Board of Directors in 2018. The meeting notices, agenda, and meeting minutes were mailed to the attendees and uploaded to the Market Observation Post System within the period required by laws. (2) The Company convened a general shareholders meeting on June 22, 2018 and uploaded related information within the period required by laws. (3) The continuing education courses taken by Directors in 2018 have been disclosed on the Market Observation Post System.	
5. Has the Company set up channels of communication for stakeholders (including but not limited to shareholders, employees, customers and suppliers), dedicated a section of your company's website for	V		(1) The Company has established a stakeholders' section on the corporate website to disclose the contact methods of the stock agency, spokesperson (acting spokesperson), Finance Department, Marketing Department, and Purchasing Department. Shareholders,	No deviation from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies.

Assessed area	Operating status			Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No	Summary	
stakeholder affairs and adequately responded to stakeholders' inquiries on significant corporate social responsibility issues?			employees, customers, and suppliers can use the telephone or email to communicate with the Company and provide feedback. (2) The Company convenes the shareholders' meeting in the second quarter each year. Proposals are voted on a case-by-case basis and shareholders can also exercise their voting rights electronically to fully participate in the voting process. (3) The Annual Report and Business Report are distributed each year to investors. (4) The Company was invited to the investor seminar to communicate with investors. The Company will attend such seminars in the future if necessary. (5) The Company communicates with banks, customers, suppliers, and communities through related business units. (6) The Company communicates with employees through the quarterly Labor-Management Meetings and the Employee Welfare Committee.	
6. Does the company designate a professional shareholder service agency to deal with shareholder affairs?	V		The Company appointed the KGI Securities Co., Ltd. to take charge of related affairs for shareholders meetings and shareholder services.	No deviation from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies.
7. Information Disclosure (1) Has the company established a corporate website to disclose information regarding the company's financial, business and corporate governance status?	V		(1) The Company has established an official website in traditional and simplified Chinese and English. URL: http://www.chsteel.com.tw to provide related financial and business information. The Administration Department was assigned to take charge of updating information.	No deviation from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies.
(2) Did the company adopt other information disclosure methods (such as establishing English websites, assign dedicated	V		(2) The Company organizes investor seminars in accordance with laws and it uploads related information to the Market Observation Post System and the	

Assessed area	Operating status			Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No	Summary	
personnel to collect and disclose company data, implement the spokesperson system, upload the investor conference processes to the company's website, etc.)?			Company's website. The Company has assigned dedicated personnel to take charge of the collection of related information and disclosure of material information. A spokesperson is assigned to manage all external announcements.	
8. Is there any other important information to facilitate a better understanding of the company's corporate governance practices (including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, continuing education of directors and supervisors, the implementation of risk management policies and risk evaluation standards, the implementation of customer relations policies, and purchasing insurance for directors and supervisors)?	V		(1) Employee rights and benefits: The Company has established the Employee Work Rules in accordance with laws and submitted the Work Rules to the competent authority for registration. Items such as the salaries, leaves, and insurance for employees have been specified in the Work Rules. (2) Care for employees: 1. The Company implements staff education and training to facilitate smooth channels of communication. In addition to legally required leaves, the Company offers regular sick leave, marital leave, and bereavement leave with special approval that are superior to regulatory requirements to take care of employees. 2. The advance employee health management, the Company organizes employee health examinations that are superior to regulatory requirements. It also invites doctors to explain results of health inspections at each plant. For employees with irregularities in health examinations, the Company notifies the employees' supervisors to provide care. 3. In addition to periodic large-scale family events for employees organized by the Company, each unit also organizes independent activities to allow all employees to relax and have fun and	No deviation from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies.

Assessed area	Operating status			Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No	Summary	
			strengthen the cohesion of all employees. The Company organizes regular employee seminars each year for management units to communicate with employees directly. The Employee Welfare Committee also provides benefits such as group insurance, education subsidies, and scholarships. (3) Investor relations: The Company has appointed the stock transfer agency to process affairs related to communication with shareholders. The Company also established a spokesperson system and provides appropriate responses to comments from shareholders' calls or letters. The Company also established an Investor Relations section on the Company's website to communicate with investors. The Company also discloses related information on the Market Observation Post System in accordance with regulations for general investors. (4) Supplier relations: The Company maintains good relations with suppliers of raw materials and requires each unit to complete purchasing and acceptance in accordance with the specified schedule. It also follows up on the performance of the units in each quarter to expedite payment procedures. In response, the suppliers are able to offer more reasonable prices to achieve mutual trust and mutual prosperity. The Company also established the "Contractor and Supplier Assessment Regulations" to improve the quality of supplies and obtain raw materials at reasonable prices. (5) Rights of stakeholders: (5) The Company performs all due obligations to banks, customers, suppliers, and communities. The Company repays bank loans and interest in a timely manner and it also pays suppliers in a timely manner in accordance with internal regulations. It delivers products to customers in accordance with contracts and facilitate good interactions with the communities by sponsoring events and giving back to the community. The Company has	

Assessed area	Operating status			Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No	Summary	
			established a dedicated stakeholders' section on its website for communication.	

(6) Status of continuing education of Directors and Independent Directors:							
As of December 31, 2018							
Title	Name	Date of Appointment	Date of Studies		Organizer	Course Title	Duration of the Course
			Starting Date	Ending Date			
Representative of Corporate Director	Yi-Chung Han	2017/12/31	2018/06/04	2018/06/04	Taiwan Corporate Governance Association	Director Responsibilities and Risk Management Based on the Latest Corporate Governance Roadmap	3.0
			2018/08/03	2018/08/03	Securities and Futures Institute	Seminar on Legal Compliance for Stock Transactions by Internal Personnel	3.0
			2018/12/03	2018/12/03	Taiwan Corporate Governance Association	Trends and Analysis of Recent Changes to the Company Act	3.0
Representative of Corporate Director	Chao-Tung Wong	2016/11/15	2018/06/04	2018/06/04	Taiwan Corporate Governance Association	Director Responsibilities and Risk Management Based on the Latest Corporate Governance Roadmap	3.0
			2018/12/03	2018/12/03	Taiwan Corporate Governance Association	Trends and Analysis of Recent Changes to the Company Act	3.0
Representative of Corporate Director	Tsung-Chang Lee	2017/10/01	2018/04/27	2018/04/27	Securities and Futures Institute	2018 Insider Trading Prevention Seminar	3.0
			2018/06/04	2018/06/04	Taiwan Corporate Governance Association	Director Responsibilities and Risk Management Based on the Latest Corporate Governance Roadmap	3.0
			2018/08/03	2018/08/03	Securities and Futures Institute	Seminar on Legal Compliance for Stock Transactions by Internal Personnel	3.0
			2018/12/03	2018/12/03	Taiwan Corporate Governance Association	Trends and Analysis of Recent Changes to the Company Act	3.0
Representative of Corporate Director	Min-Hsiung Liu	2018/03/31	2018/06/04	2018/06/04	Taiwan Corporate Governance Association	Director Responsibilities and Risk Management Based on the Latest Corporate Governance Roadmap	3.0
			2018/08/03	2018/08/03	Securities and Futures Institute	Seminar on Legal Compliance for Stock Transactions by Internal Personnel	3.0
			2018/09/04	2018/09/04	Taiwan Institute of Directors	Remaking Corporate Value and Competitiveness and Governance Challenges in Transformation	3.0
			2018/12/03	2018/12/03	Taiwan Corporate Governance Association	Trends and Analysis of Recent Changes to the Company Act	3.0
Independent Director	Juh-Shan Chiou	2015/06/26	2018/04/27	2018/04/27	Securities and Futures Institute	2018 Insider Trading Prevention Seminar	3.0

			2018/06/04	2018/06/04	Taiwan Corporate Governance Association	Director Responsibilities and Risk Management Based on the Latest Corporate Governance Roadmap	3.0
			2018/12/03	2018/12/03	Taiwan Corporate Governance Association	Trends and Analysis of Recent Changes to the Company Act	3.0
Independent Director	Hsien-Tang Tsai	2015/06/26	2018/04/27	2018/04/27	Securities and Futures Institute	2018 Insider Trading Prevention Seminar	3.0
			2018/06/04	2018/06/04	Taiwan Corporate Governance Association	Director Responsibilities and Risk Management Based on the Latest Corporate Governance Roadmap	3.0
Independent Director	Lin-Lin Lee	2015/06/26	2018/06/04	2018/06/04	Taiwan Corporate Governance Association	Director Responsibilities and Risk Management Based on the Latest Corporate Governance Roadmap	3.0
			2018/08/03	2018/08/03	Securities and Futures Institute	Seminar on Legal Compliance for Stock Transactions by Internal Personnel	3.0
			2018/12/03	2018/12/03	Taiwan Corporate Governance Association	Trends and Analysis of Recent Changes to the Company Act	3.0

(7) Status of continuing education of managerial officers:

As of December 31, 2018

Title	Name	Date of Appointment	Date of Studies		Organizer	Course Title	Duration of the Course
			Starting Date	Ending Date			
President	Tsung-Chang Lee	2017/10/01	2018/04/27	2018/04/27	Securities and Futures Institute	2018 Insider Trading Prevention Seminar	3.0
			2018/06/04	2018/06/04	Taiwan Corporate Governance Association	Director Responsibilities and Risk Management Based on the Latest Corporate Governance Roadmap	3.0
			2018/08/03	2018/08/03	Securities and Futures Institute	Seminar on Legal Compliance for Stock Transactions by Internal Personnel	3.0
			2018/12/03	2018/12/03	Taiwan Corporate Governance Association	Trends and Analysis of Recent Changes to the Company Act	3.0
Vice President, Administration Division	Chia-We n Luo	2018/01/01	2018/06/04	2018/06/04	Taiwan Corporate Governance Association	Director Responsibilities and Risk Management Based on the Latest Corporate Governance Roadmap	3.0
			2018/12/03	2018/12/03	Taiwan Corporate Governance Association	Trends and Analysis of Recent Changes to the Company Act	3.0

Vice President, Commercial Division	Kai-Min Huang	2017/10/01 2018/09/01	2018/06/04	2018/06/04	Taiwan Corporate Governance Association	Director Responsibilities and Risk Management Based on the Latest Corporate Governance Roadmap	3.0
	Wen-Chou Li	2018/09/01	2018/05/15	2018/05/16	China Steel Corporation	Corporate Governance Management Game (M.G.)	12.0
			2018/12/03	2018/12/03	Taiwan Corporate Governance Association	Trends and Analysis of Recent Changes to the Company Act	3.0
Vice President of Production	Shao-Jun Lu	2017/10/01	2018/06/04	2018/06/04	Taiwan Corporate Governance Association	Director Responsibilities and Risk Management Based on the Latest Corporate Governance Roadmap	3.0
			2018/12/03	2018/12/03	Taiwan Corporate Governance Association	Trends and Analysis of Recent Changes to the Company Act	3.0
Assistant Vice President, Administration Division	Shu-Cheng Yen	2017/09/01	2018/06/04	2018/06/04	Taiwan Corporate Governance Association	Director Responsibilities and Risk Management Based on the Latest Corporate Governance Roadmap	3.0
			2018/12/03	2018/12/03	Taiwan Corporate Governance Association	Trends and Analysis of Recent Changes to the Company Act	3.0
Assistant Vice President, Commercial Division	Ming-Ju Yang	2012/04/01	2018/06/04	2018/06/04	Taiwan Corporate Governance Association	Director Responsibilities and Risk Management Based on the Latest Corporate Governance Roadmap	3.0
			2018/07/20	2018/07/20	Securities and Futures Institute	Seminar on Legal Compliance for Stock Transactions by Internal Personnel	3.0
Assistant Vice President, Production Division	Chin-Ming Hsu	2016/01/01	2018/06/04	2018/06/04	Taiwan Corporate Governance Association	Director Responsibilities and Risk Management Based on the Latest Corporate Governance Roadmap	3.0
			2018/12/03	2018/12/03	Taiwan Corporate Governance Association	Trends and Analysis of Recent Changes to the Company Act	3.0
Assistant Vice President, Production Division	Chien-Hsiung Tung	2018/08/15	2018/12/03	2018/12/03	Taiwan Corporate Governance Association	Trends and Analysis of Recent Changes to the Company Act	3.0

(8) Implementation of risk management policy and risk measurement standards: Not applicable (applicable to securities brokerages).

(9) Status of protection of consumer or customer interests: Not applicable (applicable to securities brokerages).

(10) Recusals of Directors due to conflicts of interests: The Company's Directors maintain high levels of self-discipline and they do not vote on cases that pose conflicting interests between them and the Company.

(11) Status of purchase of liability insurance by the Company for Directors (including Independent Directors): The

Company has purchased liability insurance for Directors (including Independent Directors) and reported to the Board of Directors in the 2nd meeting of the 14th Board of Directors on August 7, 2018.

- (12) Related certifications obtained from the relevant competent authorities by personnel associated with the transparency of financial information: The Company's accounting manager meets qualifications and criteria specified by the competent authority and continues to attend professional studies. In addition, 3 internal auditors have qualified in the Basic Proficiency Test on Enterprise Internal Control organized by the Securities & Futures Institute.

- (13) Implementation status of the diversity policy:

Core Diversification Item Name of Director	Gender	Business management	Leadership and decision making	Industry knowledge	Financial accounting	Business	Legal Affairs
I-Chung Han, Chairman	Male	V	V	V			
Director Chao-Tung Weng	Male	V	V	V			
Director Tsung-Chang Lee	Male	V	V	V			
Director Min-Hsiung Liu	Male	V	V	V			
Independent Director Juh-Shan Chiou	Male	V			V		
Independent Director Hsien-Tang Tsai	Male	V				V	
Independent Director Lin-Lin Lee	Fem ale	V					V

9. Improvements made in the most recent fiscal year in response to the results of corporate governance evaluation conducted by the Corporate Governance Center of the Taiwan Stock Exchange Corporation, and improvement measures and plans for items yet to be improved:

1. Improvements in 2018: Uploaded the Proceedings Manual and English meeting notice 30 days before the general shareholders' meeting, established the "Corporate Governance Best-Practice Principles" and "Corporate Social Responsibility Best Practice Principles", and disclosed the corporate governance

personnel and implementation status on the website.

2. Priorities for improvements in 2019: Organize at least two investor conferences each year, upload the Proceedings Manual in both Chinese and English 30 days before the general shareholders' meeting, report material information in English at the same time, and establish the "Regulations Governing the Evaluation of the Performance of the Board of Directors".

Established on April 10, 2006	Code of Ethical Conduct for Supervisors and Senior Managerial Officers	Code: CHS-AA4-03
Amended on December 22, 2005		Promulgated on December 22, 2005
1. Objective: The Code of Ethical Conduct is established to guide supervisors of the Company to meet ethical standards in their conduct and prevent illegal and unlawful activities. The Code also aims to ensure that stakeholders of the Company gain a deeper understanding of the Company's Code of Ethical Conduct. 2.Scope of application: The supervisors and senior managerial officers specified in the Code refer to the President, Vice Presidents, Assistant Vice Presidents, Plant Directors, Deputy Plant Directors, senior consultants, professional consultants, and senior professional managers (engineers). 3. This Code and its amendments shall be enforced after approval by the Board of Directors and presented to the shareholders' meeting. 4. The unit responsible for the maintenance and management of the Code is the Administration Department. 5. Code of ethical conduct: 5.1 Honest and ethical conduct: Supervisors shall perform their duties with honesty and compliance with professional standards including processing de facto or obvious conflicts of interest between their personal interests and their duties in a fair manner. 5.2Prevention of conflicts of interest: Supervisors shall process business affairs in an objective and efficient manner and they shall avoid using their positions in the Company to obtain illicit benefits for the following individuals or companies: (1) Themselves, their spouse, parents, children, or relatives within the second degree of kinship; (2) Companies in which the individuals in the subparagraph above directly or indirectly enjoy significant financial benefits; (3) Companies in which they serve as the chairman, executive director, or senior managerial officers. Company shall pay attention to loans, major asset transactions, purchase (sales) transactions, or extensions of guarantee with the aforementioned individuals or companies. 5.3 Avoid opportunities for personal gain: When the Company has an opportunity for profit, it is the responsibility of the supervisors to maximize the reasonable and legitimate benefits that can be obtained by the Company. The following actions shall be avoided: (1) Seeking opportunities to pursue personal gain for themselves or others by using company property or information or taking advantage of their positions; (2) Obtaining personal gain for themselves or others by using company property or information or taking advantage of their positions; (3) Competing with the Company.		

5.4 Confidentiality of trade secrets:

Supervisors shall be bound by the obligation to maintain confidentiality of any information regarding the Company itself or its suppliers and customers, except when authorized or required by law to disclose such information. Confidential information includes any undisclosed information that, if exploited by a competitor or disclosed, could result in damage to the Company and customers.

5.5 Fair trade:

The Company shall not use illegal or unethical actions to achieve results. Supervisors shall deal fairly with the Company's customers, suppliers, competitors and employees. They shall not obtain illicit benefits through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other unfair dealing practices.

5.6 Protection and proper use of company assets:

Company assets shall be protected and they may only be used for legitimate business objectives of the Company. Supervisors shall be responsible for protecting company assets and ensuring their effective and legal use in business activities. They shall avoid affecting the profitability of the Company due to theft, negligence, or waste.

5.7 Legal compliance:

Supervisors shall abide by and educate employees on the Securities and Exchange Act and other laws and regulations that govern company activities. They may not deliberately violate any law or intentionally mislead, manipulate, or obtain benefits from suppliers or customers through improper means, or make false statements regarding company products or services.

5.8 Compliance with related insider trading prevention regulations:

Supervisors shall abide by related insider trading prevention regulations and other regulations for processing securities transactions and trade secrets. If they obtain material undisclosed information, they may not conduct related securities transactions. Insider trading is illegal and unethical and the Company shall resolutely refuse such transactions.

5.9 Encouraging reporting of illegal or unethical activities:

The Company shall raise ethical awareness and encourage employees to report to auditors upon suspicion or discovery of any activity in violation of laws, regulations, or the Code of Ethical Conduct. The Company shall endeavor to protect the identity and safety of the whistleblower against retaliation and any form of reprisal or threats.

6. Supplementary provisions

6.1 Procedures for exemption:

6.1.1 If a supervisor wishes to be exempted from the application of Article 5.2, he/she shall fully disclose the conflict of interest between the individuals or companies listed in Article 5.2 and the legal activity as well as the reason that such transaction shall not harm the interests of the Company and meets regular business practices. The exemption shall require approval of a resolution of the Board of Directors.

6.1.2 If a supervisor wishes to be exempted from the application of Article 5.3, he/she shall fully explain to the Board of Directors the specific contents of the opportunity, information, or competition with the Company as well as the reason that such transaction shall not harm the interests of the Company. The exemption shall require approval of a resolution of the Board of Directors.

6.1.3 After the Board of Directors passes the exemption specified in Article 6.1.1 and Article 6.1.2 in a resolution, the Company shall immediately disclose information on the exempted individual, the date on which the Board of Directors adopted the resolution for exemption, objections or qualified opinions of Independent Directors, and the period of, reasons for, and principles behind the application of the exemption,

6.2 Disciplinary measures:

Where a supervisor violates the regulations on ethical conduct specified in the Code, gross violations shall be reported to the Board of Directors and violators shall be disciplined in accordance with the Company's "Regulations on Reward and Punishment".

Where the disciplined employee believes that the Company failed to process the matter correctly and causes damage to his/her legal rights, the employee may file a complaint in accordance with the "Employee Grievance Processing Regulations" for remedial measures.

6.3 The code of ethical conduct applicable to supervisors shall be based on the provisions herein as well as other relevant regulations of the Company.

6.4 The Code shall be disclosed in the Company's website, annual report, prospectus, and Market Observation Post System. The same shall apply to all amendments.

Established on April 10, 2006	Code of Ethical Conduct for Directors	Code: CHS-AA4-04
Amended on December 22, 2005		Promulgated on December 22, 2005
1. Objective: The Code of Ethical Conduct for Directors is established to promote honest and ethical conduct of directors and improve corporate governance. 2. Scope of application: This Code is applicable to the Company's Directors. 3. This Code and its amendments shall be enforced after approval by the Board of Directors and presented to the shareholders' meeting. 4. The unit responsible for the maintenance and management of the Code is the Administration Department. 5. Code of ethical conduct: 5.1 Directors shall abide by the following basic principles when performing their duties: (1) Protect shareholder equity; (2) Reinforce the role of the Board of Directors; (3) Respect the interests of stakeholders; (4) Improve information transparency. 5.2 When Directors execute their duties, they shall aim to pursue overall interests of the Company and they may not damage the Company's interest for the interests of specific individuals or groups. They shall also treat all shareholders fairly in the performance of their duties. 5.3 Directors shall exercise due care as a good administrator when performing their duties. They must pay attention to integrity, the principles of fairness, and high levels of discipline and abide by regulations, the Company's Articles of Incorporation, and resolutions of the shareholders' meeting. 5.4 Directors shall faithfully carry out their duties for the interest of all shareholders. When there is a conflict between personal interests and the interests of the Company, Directors shall place the interests of the Company first and avoid using their positions in the Company to obtain illicit benefits for the following individuals or companies: (1) Themselves, their spouse, parents, children, or relatives within the second degree of kinship; (2) Companies in which the individuals in the subparagraph above directly or indirectly enjoy significant financial benefits; (3) Companies in which they serve as the chairman, executive director, or senior managerial officers. Company shall pay particular attention in loans, major asset transactions, purchase (sales) transactions, or provision of guarantee with the aforementioned individuals or companies. 5.5 Information on procurement, supplies, cooperation, strategic alliances, mergers and acquisitions, or other business opportunities or opportunities for generating profits related to the Company's business obtained by Directors in the performance of their duties shall be provided to the Company first to protect company interests. They may not be used for		

personal gain for Directors or third parties.

5.6 Where a Director conducts actions that compete against the Company, he/she shall report to the shareholders' meeting first in accordance with Article 209, Paragraph 1 of the Company Act.

5.7 Directors shall be bound by the obligation for maintaining confidentiality of the Company's confidential information except when authorized or required by law to disclose such information. They may not use such confidential information for personal gain for themselves or third parties.

5.8 Directors shall safeguard shareholder equity and respect the rights of partner banks, creditors, employees, consumers, suppliers, affiliate companies, communities, and other stakeholders.

5.9 Directors shall abide by related insider trading prevention regulations and other regulations for processing securities transactions and trade secrets. If they obtain material undisclosed information, they may not conduct related securities transactions.

5.10 Where agendas in board meetings involve the Director or where conflicts of interest specified in Article 5.4 and Article 5.5 may be detrimental to the Company's interests, the Director shall recuse himself/herself and may not vote or cast votes on behalf of other Directors.

6. Supplementary provisions

6.1 Natural persons appointed by corporate shareholders to exercise their right shall adhere to the Code.

The provisions herein shall apply mutatis mutandis to corporate shareholders represented by Directors appointed by corporate shareholders.

6.2 Procedures for exemption:

6.2.1 If a Director wishes to be exempted from the application of Article 5.4, he/she shall fully disclose the conflict of interest between the individuals or companies listed in Article 5.4 and the legal activity as well as the reason that such transaction shall not harm the interests of the Company and meet regular business practices. The exemption shall require approval of a resolution of the Board of Directors. However, legal actions between Directors and the Company specified in Article 223 of the Company Act shall be processed by Independent Directors on behalf of the Company.

6.2.2 If a Director wishes to be exempted from the application of Article 5.5, he/she shall fully explain to the Board of Directors the specific contents of the opportunity to the Company as well as the reason that such transaction shall not harm the interests of the Company. The exemption shall require approval of a resolution of the Board of Directors.

6.2.3 After the Board of Directors passes the exemption specified in Article 6.2.1 and Article 6.2.2 in a resolution, the Company shall immediately disclose information on the exempted individual, the date on which the Board of Directors adopted the resolution

for exemption, objections or qualified opinions of Independent Directors, and the period of, reasons for, and principles behind the application of the exemption.

6.3 The Code shall be disclosed in the Company's website, annual report, prospectus, and Market Observation Post System. The same shall apply to all amendments.

(IV) Composition, duties, and operation of Remuneration Committee:

(1) Members of the Remuneration Committee:

Remuneration Committee member profiles

Criteria	Has at least 5 years of work experience and meets one of the following professional qualifications			Compliance of independence (Note)								Number of other public companies in which the member also serves as a member of their remuneration committee	Note
	An Instructor or higher position in a department of commerce, law, finance, accounting, or other discipline related to the Company's business in a public or private College or University.	A judge, public prosecutor, attorney, accountant, or other professional or technical specialist related to the needs of the Company who has passed a national examination and received a certificate	Commercial, legal, financial, accounting or other work experiences required to perform the assigned duties	1	2	3	4	5	6	7	8		
Name	Independent Director Lin-Lin Lee	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	N/A
	Independent Director Juh-Shan Chiou	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	N/A
	Independent Director Hsien-Tang Tsai	✓		✓	✓	✓	✓	✓	✓	✓	✓	1	N/A

Note: If the committee member meets any of the following criteria in the two years before being appointed or during the term of office, please check "✓" the corresponding boxes:

- (1) Not an employee of the company or its affiliates.
- (2) Not a Director or Supervisor at the Company or its affiliates. However, this restriction does not apply to independent directors in the Company or its parent company or subsidiaries, which have been appointed in accordance with local laws or laws of the registered country.
- (3) Not a natural-person shareholder whose shareholding, together with those of his/her spouse, minor children, and shares held under others' names, exceed 1% of the total number of outstanding shares of the Company, or ranks the person in the

top ten shareholders of the Company.

- (4)Not a spouse, relative within the second degree of kinship, or lineal relative within the fifth degree of kinship, of any of the above persons described in the preceding three subparagraphs.
- (5)Not a director, supervisor or employee of a juristic-person shareholder that holds directly 5% or more of the total number of outstanding shares of the Company or ranks in the top five shareholders.
- (6)Not a Director, Supervisor, manager, or a shareholder that holds more than 5% of shares at a company or institution that has financial or business exchanges with the Company.
- (7)Not a professional who provides commercial, legal, financial, accounting, or consulting services to the Company or its affiliates, nor is an owner, partner, director, supervisor, or manager, or the spouse of any of the above, of a sole proprietorship, partnership, company, or organization that provides such services to the Company or its affiliates.
- (8)Does not meet the criteria listed in any Sections of Article 30 of the Company Act.

(2) Operations of the Remuneration Committee:

1. The Company's Remuneration Committee consists of 3 members.
2. Current term for the members: June 22, 2018 to June 21, 2021. 4 (A) meetings of the Remuneration Committee were held in 2018. The attendance was as follows:

Term	Title	Name	Attendance in person (B)	Attendance by proxy	Attendance in person rate (%) 【 B / A 】	Note
13. 14th Term	Convener	Lin-Lin Lee	4	0	100%	Each member attended two meetings of both the 13th and 14th Remuneration Committee
	Committee Member	Juh-Shan Chiou	4	0	100%	
		Hsien-Tang Tsai	4	0	100%	

Other matters that should be recorded:

I. If the board meeting does not adopt or revise the remuneration committee's proposals, the board meeting's date, period, motion contents, and resolution decisions as well as the method in which the company handles the remuneration committee's opinions shall be disclosed in detail (e.g. if the salary rate adopted by the board committee is superior to that proposed by the remuneration committee, the differences and reasons shall be explained): None.

II. If there are objections or reservations by the members that have been recorded in writing during the remuneration committee resolution, the remuneration committee meeting's date, period, motion content, the opinions of all members, and treatment of the member's opinions must be disclosed in detail : None.

III.

Discussions and results of resolutions of the Remuneration Committee:

1.12th meeting of 13th Remuneration Committee on March 16, 2018: The results of the performance evaluation of the President and Vice Presidents of the departments in 2017.

Resolution: Passed by all members of the Committee in attendance.

2.13th meeting of 13th Remuneration Committee on May 30, 2018: Proposal for salary adjustments for Vice Presidents of Departments in 2018.

Resolution: Passed by all members of the Committee in attendance.

3.1st meeting of 14th Remuneration Committee on August 7, 2018:

(1)Salary of the Company's Chairman Mr. I-Chung Han.

Resolution: Passed by all members of the Committee in attendance.

(2)2018 salary adjustment for the Company's President Mr. Tsung-Chang Lee.

Resolution: Passed by all members of the Committee in attendance.

(3)Results of the performance evaluation of the President and Vice Presidents of the departments in the first half of 2018.

Resolution: Passed by all members of the Committee in attendance.

(4)Monthly transportation allowance of each Independent Director of the Company.

Resolution: Passed by all members of the Committee in attendance.

(5)Proposal for the monthly salary of each Independent Director of the Company.

Resolution: Passed by all members of the Committee in attendance.

(6) Attendance fees of members of the Remuneration Committee and standards for attendance fees for Directors and external experts and scholars' attendance in the Committee.

Resolution: Passed by all members of the Committee in attendance.

(7) Attendance fees of members of the Audit Committee and standards for attendance fees for Directors and external experts and scholars' attendance in the Committee.

Resolution: Passed by all members of the Committee in attendance.

4.2nd meeting of 14th Remuneration Committee on August 27, 2018: Salary for the newly-appointed Vice President of the Commercial Division Mr. Wen-Chou Li.

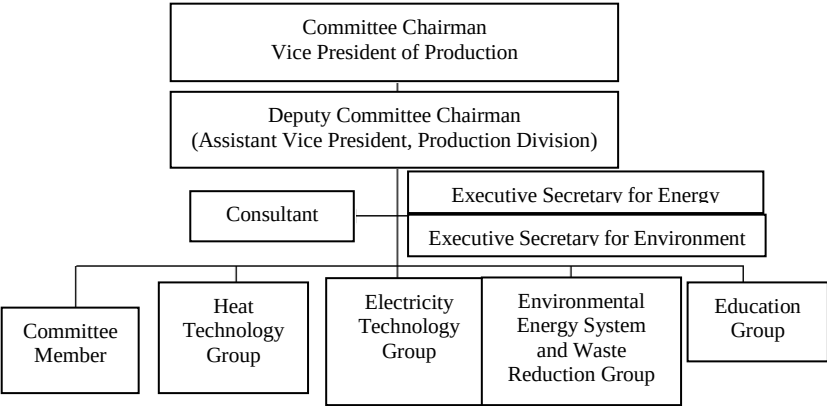
Resolution: Passed by all members of the Committee in attendance.

(V) Implementation of corporate social responsibility:

Item	Operating status			Deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEX listed companies and reasons for deviation
	Yes	No	Summary	
I. Implementation of Corporate Governance Practices (I) Has the company established CSR policies or systems and reviewed their effectiveness? (II) Did the company provide social responsibility training on a regular basis? (III) Did the company establish full (part) time corporate social responsibility promotional units, and did the board of directors authorize high-level managements to handle such units and report to the board regarding handling status? (IV) Did the company formulate reasonable remuneration policies, integrate employee performance appraisal systems with CSR policies and establish effective reward and punishment systems?	V		(I) The Company established the "Corporate Social Responsibility Best Practice Principles" in March 2018 and reported them to the 2018 general shareholders' meeting. They are now disclosed the Market Observation Post System and the Company's website. The Company details the establishment of related systems or management approaches and reviews the implementation plan and effectiveness in the annual Corporate Social Responsibility Report and the CSR section on the company website. The Company also established the Green Life Implementation and Evaluation Regulations based on the policies of the Group. Evaluations are conducted in March each year to review the effectiveness of the green life measures implemented by the Company's employees. (II) The Company shall organize courses for new employees on their rights and interests, environmental safety and health, energy conservation, and environmental protection issues. The Company shall, from time to time, assign personnel to participate in related education and training courses organized by professional CSR institutions. (III) The Administration Department is assigned to carry out such tasks on a part-time basis. The Company has established the "Environment and Energy Management Committee" to oversee and ensure effective environment and energy management as well as to report the performance of environment and energy management to the President. (IV) Supervisors of all levels request employees to maintain ethical conduct and regulatory compliance in all meetings and they place related regulations in the Company's internal website for employees to verify. They also include ethics and safety awareness under the annual assessment item of "safety and discipline" and established rewards and penalties regulations.	No deviation.

Item	Operating status			Deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEX listed companies and reasons for deviation
	Yes	No	Summary	
II. Development of environmental sustainability (I) Is the company committed to improving the efficiency of the various resources and using recycled materials which have a low impact on the environment?	V		(I)The Company maintains control over usage of energy, water resources, and waste and the controls are described as follows: 1. Energy: (1)The Company implements the ISO 50001 Energy Management System to continue to improve energy usage efficiency. (2)The Company establishes electricity conservation targets (electricity savings $\geq 1\%$) each year. The electricity savings achieved by the plants in 2018 are as follows: a.Hot Rolling Department: 2.72% b.Cold Rolling Department: 2.22% c.Pickling and Galvanizing Department: 2.33% d.Dafa Steel Pipe Plant: 1.06% e.Lukang Steel Pipe Plant: 2.24% (3)In addition, the Company fully adopts the low-pollutant "natural gas" as the main fuel starting from 2012 to effectively reduce emissions of pollutants. 2. Water resources: To strengthen water resource conservation, the Company adopts water resource management measures including rainwater recovery, wastewater recycling in the Hot Rolling Department process (recovery rate of more than 99.9%), recovery of effluent from the Cold Rolling Department for reuse in the pickling scrub columns, reusing wastewater from pure water regeneration, reusing process water from steel pipe plants, replacement of shaft seals with wear rings in public water pumps to reduce leaks, and using water conservation taps. Each plant of the Company establishes targets for "total unit	No deviation.

Item	Operating status			Deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEX listed companies and reasons for deviation
	Yes	No	Summary	
			energy/water savings" each year. The targets and performance of each plant in 2018 are as follows: (1)Hot Rolling Department: ≤ 0.447 kWh/ton (actual performance: 0.443). Objective reached. (2)Cold Rolling Department: ≤ 0.460 kWh/ton (actual performance: 0.435). Objective reached. (3)Pickling and Galvanizing Department: ≤ 0.610 kWh/ton (actual performance: 0.652). The failure to reach the objective was due to leaks in the water pipelines. (4)Dafa Steel Pipe Plant: ≤ 0.240 kWh/ton (actual performance: 0.160). Objective reached. (5)Lukang Steel Pipe Plant: ≤ 0.198 kWh/ton (actual performance: 0.182). Objective reached. (6)The Company's actual performance in 2018 was 0.45 kWh/ton. 3. Waste: The Company uses comprehensive planning and management to recycle and reuse large amounts of general industrial waste (e.g. scrap iron, mill scale, waste acid, hot-rolling clay, inorganic sludge, waste active carbon, waste lubricant oil, waste fireproof materials, waste oil mixtures, etc.). The waste recycling rate in 2018 was 99.24% [waste management target: waste recycling $\geq 99\%$]. The waste recycling rate in the most recent 5 years have exceeded 99%. The large waste recycling items are as follows: (1)Waste acid: Recycling and reuse. (2)Hot-rolling clay/inorganic sludge: Materials for cement factories or use in road gradation or production of interlocking bricks.	

Item	Operating status			Deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEX listed companies and reasons for deviation
	Yes	No	Summary	
(II) Has the company established an appropriate environmental management system based on the characteristics of the industry to which it belongs?	V		(II)The Company has established the ISO 14001 and ISO 50001 systems. In addition, the Company integrated ISO 14001 and ISO 50001 systems into the "Environment and Energy Management System" to fully implement overall plans. The Company also established the "Environment and Energy Management Committee" to oversee and ensure effective environmental protection and energy management as well as to report the performance of environmental protection and energy management regularly to the President. The Environment and Energy Management Committee is chaired by the Vice President of Production and it operates in functional teams. The Committee is organized as follows:  <pre> graph TD A["Committee Chairman Vice President of Production"] --> B["Deputy Committee Chairman (Assistant Vice President, Production Division)"] B --> C["Consultant"] B --> D["Executive Secretary for Energy"] B --> E["Executive Secretary for Environment"] E --> F["Committee Member"] E --> G["Heat Technology Group"] E --> H["Electricity Technology Group"] E --> I["Environmental Energy System and Waste Reduction Group"] E --> J["Education Group"] </pre>	
(III) Did the company monitor the impact of climate change on business operations, implement greenhouse gas audit and formulate energy conservation and carbon reduction as well as greenhouse gas cutback strategy?	V		(III)The Company is deeply aware of the impact of climate change on business operations. It implements greenhouse gas audit and formulates energy conservation and carbon reduction strategies as well as	

Item	Operating status			Deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEX listed companies and reasons for deviation
	Yes	No	Summary	
			greenhouse gas cutback strategies. The implementation status of the operations is described below: 1. Greenhouse gas inventory: The Company has conducted greenhouse gas inventory since 2005. A third-party verification institution is appointed to obtain the emissions verification statement. The greenhouse gas emissions in 2017 amounted to 363,230.1165 ton-CO₂e/year (verified; verification completed in May 2018); greenhouse gas emissions in 2018 amounted to 387,992.865 ton-CO₂e/year (not verified; verification is set to be completed in May 2019) 2. The Company's energy conservation and carbon reduction as well as greenhouse gas cutback strategy: The Company's environmental safety and health policy was implemented following the approval of the Chairman and it is the highest guiding principle for the advancement of environmental safety and health. The strategy for energy conservation and carbon emissions reduction and greenhouse gas emission reduction can be summarized as "advancement of energy conservation and waste reduction: care for the environment, implement energy review, cherish and make full use of energy, continue to advance energy conservation and waste reduction tasks, and fulfill corporate responsibilities". The energy conservation plans advanced in 2018 were as follows: (1)Energy conservation with the hydraulic motor in the auxiliary damper of the boiler	

Item	Operating status			Deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEX listed companies and reasons for deviation
	Yes	No	Summary	
			(2)Installation of variable speed controllers (second set) in No. 2 heating furnace blowers (3)Relocated the ignition switch of the scale conveyor belt in the heating furnace to the operations room for power conservation (4)Adopted high-efficiency transformers for power conservation (5)Converted basement corridor lighting in Building A to LED light tubes for energy conservation (6)Lighting energy conservation in the machinery room of the hot rolling process (7)Converted corridor lighting in FM&DC areas of Building B to LED light tubes for energy conservation (8)Replaced traditional lights with LED lighting equipment for cranes in the Hot Rolling Department (9)Replaced traditional lights with ceramic composite metal lights in finished product storage area Q (10)Hygromaster (cooling tower) dryer construction project (11)Installed variable frequency controllers in cooling tower air fans (2 fans) (12)Replacement of the air compressor (one with variable frequency) (13)Upgraded the efficiency of cooling water pumps (4 pumps) (refurbishment + coating) (14)No. 1 chillers replacement project (15)Chiller room overall energy efficiency improvement project (16)Air compressor energy efficiency replacement project	

Item	Operating status			Deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEX listed companies and reasons for deviation
	Yes	No	Summary	
			(17) Replaced old lighting equipment in the packaging area with LED lighting equipment (18) Air compressor power conservation measures (19) Replaced lighting in the steel coil separating section with energy-efficient LED lights (20) Replaced plant lighting (#1 steel pipe process) with energy-efficient LED lights during internal inspections (21) Replaced plant lighting (#4 steel pipe process) with energy-efficient LED lights during internal inspections (22) Reduced the use of motors in the public area during nighttime and switched the electric chiller air-conditioner system to split air-conditioners (23) Reduced the use of motors in the public area during daytime (24) Replaced lighting in Building A with energy-efficient LED lights (25) Replaced lighting in Building C with energy-efficient LED lights 3. Energy conservation and carbon emissions reduction performance: The Company received a certificate for "cooperation with the 2018 inter-department collaboration on emissions reduction promoted by the Environmental Protection Bureau of Kaohsiung City Government" from the Environmental Protection Bureau of Kaohsiung City Government in October 2018. 4. Greenhouse gas reduction objectives: The Company's greenhouse gas emissions reduction objectives are set to meet the national greenhouse gas emissions reduction objectives. It plans to reduce	

Item	Operating status			Deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEX listed companies and reasons for deviation
	Yes	No	Summary	
			greenhouse gas emissions by an additional 50% in 2050 from 2005 levels. The objectives for each phase are as follows: (1)First phase (2016 to 2020) objectives: Reduce emissions in 2020 by 2% from the baseline year of 2005. (2)Second phase (2021 to 2025) objectives: Reduce emissions in 2025 by 10% from the baseline year of 2005. (3)Third phase (2026 to 2030) objectives: Reduce emissions in 2030 by 20% from the baseline year of 2005.	
III. Safeguarding public welfare (I) Has the company referred to relevant laws and international human rights instruments to stipulate relevant management policies and procedures? (II) Does the company have means through which employees may raise complaints? Are employee complaints being handled properly?	V		(I) The Company has established the Employee Work Rules in accordance with laws and submitted the Work Rules to the competent authority for registration. Items such as the salaries, leaves, and insurance for employees have been specified in the Work Rules. The Company also offers regular sick leave, marital leave, and bereavement leave with special approval that are superior to regulatory requirements to take care of employees. The Company schedules annual training programs for employees of all levels to fully implement employee education and training. (II) The Company has established the “Employee Grievance Processing Regulations” which shall be applicable to cases where employees’ legal rights in the Company are infringed or inappropriately processed, or where the employee is wrongfully accused or suffers business setbacks. The President shall serve as the arbiter and the supervisor of the Administration Department shall serve as the mediator to take charge of processing complaint cases, investigations, and reporting to the arbiter for decision. The Company also implements the “Prevention of Illegal Infringement at Work Plan” which is announced on the Company's internal website. It also established a complaint hotline and email and conducts	No deviation.

Item	Operating status			Deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEX listed companies and reasons for deviation
	Yes	No	Summary	
(III) Has the company provided a safe and healthy working environment and provided employees with regular safety and health training? (IV) Has the company set up a channel for communicating with employees on a regular basis, and reasonably inform employees of any significant changes in operations that may have an impact on them? (V) Has the company set up effective career development and training programs for its employees? (VI) Has the company established any consumer protection mechanisms and complaint procedures regarding R&D, purchasing, production, operation and service?			investigations in a confidential manner after receiving complaints. Punishments shall be imposed if infringements are proven true in investigations. (III) The Company pays attention to the employees' work environment and continues to make improvements: The Company also implements annual safety and health education and training programs. (IV) The Company maintains smooth communication channels and organizes regular employee seminars each year for management units to communicate with employees directly. The Company organizes periodic labor-management meetings and employees can fully express their opinions through labor representatives and during the meetings. The Company also explains the business status to employees. (V) The Company arranges management and common courses for employees of different levels to improve supervisors' management capacity and professional skills of non-management personnel. It also maintains control over professional skills and arranges appropriate education and training courses to fill in gaps in professional skills so that employees can obtain skill required for career development. The Company has established a knowledge management system to encourage employees to share and absorb knowledge the gained from different sectors to develop their skills for analyzing and solving issues from a macro perspective. (VI) The Company has established the "Green Procurement Operating Standards" and contractors for the purchase of raw materials, supplies, and construction projects of the Company shall be prioritized if they have the following environmental protection records: 1. Environmental protection products; 2. Products with environmental protection marks;	

Item	Operating status			Deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEX listed companies and reasons for deviation
	Yes	No	Summary	
(VII) Has the company advertised and labeled its goods and services according to relevant regulations and international standards? (VIII) Has the company evaluated the records of suppliers' impact on the environment and society before doing business with the supplier? (IX) Do the contracts between the company and its major suppliers include termination clauses which come into force once the suppliers breach the corporate social responsibility policy and cause significant impact on the environment and society?			3. Products with energy conservation marks; 4. Products with water efficiency marks; 5. Products with green building marks; 6. Companies that passed ISO -14001 certification; 7. Companies that passed ISO -50001 certification; 8. Products compliant with efficiency marks of the Bureau of Energy, Ministry of Economic Affairs. (VII) The Company's products are labeled in accordance with existing Taiwanese and international standards and regulations and the Company issues quality assurance certificates. Chung Hung maintains ethical business operations and strives to become a sustainable, reliable, and approachable company to improve the Company's service quality and conduct regular reviews for improvements. (VIII) The Company currently evaluates vendors based on the "Contractor and Supplier Assessment Regulations" and conducts evaluations for cases that involve safety, environmental, or health issues or the Company's image and reputation. According to the "Green Procurement Policy", suppliers with good environmental protection or energy conservation performance may be prioritized for consideration. (IX) 1. Where quality issues, contract performance capacity, or environmental protection incidents are discovered in the contract period, the Company shall impose penalties in accordance with actual conditions. In cases of severe violations, the Company may terminate or rescind the contract and suspend the contractor. 2. It has been established in procurement contracts that if a supplier or contractor has violated the Company's corporate social responsibility policy and have caused significant impact upon the environment and society, it shall be deemed as a severe breach of contract and the Company may terminate or rescind the contract at any time.	

Item	Operating status			Deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEX listed companies and reasons for deviation
	Yes	No	Summary	
IV. Enhancing information disclosure (I) Has the company disclosed relevant and reliable information regarding its corporate social responsibility on its website and the Market Observation Post System?	V		(I) The Company has published the Corporate Social Responsibility Report each year since 2011 and disclosed related information on the Company's website and the Market Observation Post System. The Company launched a comprehensive CSR section on the website in June 2018 to disclose the Company's implementation of corporate governance, environmental issues, and issues of concern to stakeholders. In addition, the company has established a designated section on its website for stakeholders to enhance transparency, integrity, and interactions and help the Company understand about stakeholders' issues of concern and respond appropriately. The feedback from all stakeholders are adopted as the basis for continuous improvement wherever possible. The Company places the CSR Report and the files on the company website by the end of June every year, and uploads them to the Market Observation Post System for investors.	No deviation.
V. If the Company has established the corporate social responsibility principles based on "Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies", please describe any discrepancy between the principles and their implementation: The Company has established Corporate Social Responsibility Best Practice Principles in accordance with the "Corporate Social Responsibility Best Practice Principles for TWSE/TPEX-Listed Companies". Our actual operations meet all requirements in the "Corporate Social Responsibility Best Practice Principles".				
VI. Other important information that facilitates the understanding of the implementation of corporate social responsibility (such as systems and measures adopted by the company with regard to environmental protection, community engagement, contributions to the society, social services, social welfare, consumer rights, human rights, safety and health, as well as other social responsibilities, and their implementation): 1.Environmental protection: The Company spares no efforts in environmental protection and fulfills its corporate social responsibilities. All four plant areas of the Hot Rolling Department, Cold Rolling Department, and Steel Pipe Plant (hereinafter referred to as the three plants) have passed ISO 14001 environmental management and ISO 50001 energy management system certification. The Company implements energy conservation and waste reduction operations through the systems. The Company's performance received recognition for inter-department greenhouse gas reduction and cooperation program in 2018 from the Environmental Protection Bureau of Kaohsiung City Government in 2018. 2. Workplace safety and health: The Company provides a safe work environment and continues to make improvements to take care of employees. All four plant areas of the three plants have passed obtained OHSAS 18001 Occupational Health and Safety Assessment Series and Taiwan Occupational Safety and Health Management System (TOSHMS)				

Item	Operating status			Deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEx listed companies and reasons for deviation
	Yes	No	Summary	
certification. The implementation status and related honors in 2018 are as follows:				
(1) The Hot Rolling Department was recognized as an "Outstanding Unit in the Advancement of Occupational Safety and Health in Kaohsiung City in 2017" and received the "Five-Star Award" as a "2017 Outstanding Occupational Safety and Health Unit" from the Ministry of Labor.				
(2) Lukang Steel Pipe Plant received the "Excellence Award" for safety and health performance in 2017 from Taiwan Steel & Iron Industries Association.				
(3) Awarded the silver medal certification in the Talent Quality-management System (TTQS) of the Ministry of Labor.				
(4) The Company received the "Authorized Economic Operator" (AEO) certification from the Customs Administration of the Ministry of Finance.				
3. Social welfare:				
(1) By upholding the two main goals of “life” and “education”, Chung Hung makes use of limited resources to sponsor social welfare programs. In 2018, it continues to sponsor the “Independent Poverty Eradication Program” of Kaohsiung City (since 2004), funding for the Greater Kaohsiung Lifeline Association Suicide Prevention Program (since 2004), and Syin-Lu Social Welfare Foundation's Syin-Lu Love Healthy Walk Plan (since 2012).				
(2) Helping others when we can is a truly happy thing. Chung Hung continues to advance volunteer services to achieve happiness and the activities in 2018 are as follows:				
a. The Company cleans the environment at the Home of Love of the Bureau of Social Affairs, Kaohsiung City Government regularly each month and we invite colleagues and their relatives to provide services. A total of 292 participants were recorded in the entire year (average 24.3 participants/month).				
b. The Company cleans and organizes the outdoor environment at Jing Zhong Village in Baishu Community and 27 employees and relatives participated in the activity.				
c. The Company organizes joint beach clearing activities at Keliao Southern Beach with Ziguan District Office and 34 employees and relatives participated in the activity.				
d. The Company organizes "volunteer training" each year and a total of 26 participants completed training in 2018. A total of 256 employees have obtained the "volunteer service record book" from 2008 to 2018.				
(3) With regard to community care, Chung Hung participates in local activities as a member of the community by providing assistance in local development, cooperating with local events, and assistance for community schools to continue to contribute to the development of communities near the plants. The activities in 2017 were as follows:				
a. Scholarship sponsorship for outstanding students selected by Ziguan District Office (starting from 2004).				
b. Sponsorship of the publication of diary education drawing books for Xing Tang Elementary School in Ciaotou District (starting from 2008).				
c. Sponsorship of lunch expenses for students from financially-challenged families of Gangshan Senior High School (starting from 2010).				
d. Sponsorship of the 2018 District Specialty events organized by Ciaotou District Office.				
e. Sponsorship of the 2018 Gangshan Lamb Festival events organized by Gangshan District Office.				
(4)Other activities:				

Item	Operating status			Deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEX listed companies and reasons for deviation
	Yes	No	Summary	
The Company has held second-hand item donation activities each year since 2012 for employees to show their care. The donated items were given to the Syin-Lu Social Welfare Foundation's Nanzi Syin-Lu workshop. The Company cooperated with the Animal Protection Association and organized an event at Yongan Zhongzheng Hall for neutering, chip implant, rabies vaccination, and pet adoption and 19 employees and relatives participated in the event.				
VII. If the company's product or corporate social responsibility report has passed the verification standards provide by the relevant certification organizations, said product or report must be specified. 1. The Company's hot-rolled, cold-rolled, and steel pipe products have passed ISO 9001 certification; hot-rolled and steel pipe products have passed Japan's JIS Mark certification; steel pipe products have passed certification by the American Petroleum Institute (API), Japan's JIS Mark, and Chinese National Standards (CNS).To remove trade barriers in related countries and expand export purchase orders, the Company continues to advance international certification. Hot-rolled products have obtained certification in Malaysia (MS and CIDB), Singapore (FPC), Thailand (TIS), Vietnam (VN), European Union's CE Mark, and Japan's JIS Mark certifications;Cold-rolled products received the MS certification in Malaysia and VN certification in Vietnam. 2. Laboratories of the Hot Rolling Department, Cold Rolling Department, and Steel Pipe Plant (Dafa and Lukang) passed the certification for ISO/IEC 17025:2005 General requirements for the competence of testing and calibration laboratories and became TAF-certified laboratories. 3. The three plants received the “Steel and Iron Industry Radiation Detection Operations Certification” issued by the Atomic Energy Council, Executive Yuan. This certification improved the Company’s guarantee for its products and helps customers in winning construction tenders from government authorities. 4. The Company began publishing the CSR Report since 2012. The contents and framework of the 2017 CSR Report are based on the latest G4.0 Guidelines (Core Indicators) and Mining and Metals Sector Supplement published by the Global Reporting Initiative (GRI), and AA 1000 Accountability Principles. The Company also referenced the ISO 26000 Social Responsibility Guidance Standard. The digital files of the Report are placed on the Company’s website for download.				

(VI) Ethical corporate management and measures adopted:

Item	Operating status			Deviation from "Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies" and reasons for deviation
	Yes	No	Summary	
1. Establishment of integrity policies and solutions (1) Has the company declared its ethical corporate management policies and procedures in its rules and external documents, as well as the commitment of its Board of Directors and management to implementing the management policies? (2) Has the company established policies to prevent unethical conduct with relevant procedures, guidelines of conduct, punishment for violation, rules of appeal clearly stated in the policies, and implemented the policies?	V		(1) The Company's vision is to "maintain ethical business operations and strive to become a sustainable, reliable, and approachable steel company." The vision expressly states that ethical business operations constitute the strategy and policy for the Company's operations. To establish the Company's corporate culture and healthy development for ethical corporate management and provide a reference framework for good business operations, the Company established the "Ethical Corporate Management Best Practice Principles" and the "Ethical Corporate Operating Procedures and Code of Conduct" based on the Principles. In addition, regulations are also established in the "Code of Ethical Conduct for Directors", "Code of Ethical Conduct for Supervisors and Senior Managerial Officers", and "Employee Code of Ethics" to prevent unethical conduct. We also expressly stipulate anti-bribery or anti-kickback clauses in all engineering, procurement, and cooperation agreements. (2) The "Code of Ethical Conduct for Supervisors and Senior Managerial Officers" and "Management Procedures for Handling Internal Major Information and Prevention of Inside Trading" were established to guide supervisors of the Company to meet ethical standards in their conduct and prevent illegal and unlawful activities. The Company also established the "Employee Code of Ethics" for general employees. The Company promotes ethical conduct, discipline, and related company regulations in various internal activities and meetings to encourage	No deviation.

Item	Operating status			Deviation from "Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies" and reasons for deviation
	Yes	No	Summary	
(3) Has the company established appropriate precautionary measures for operating activities with higher risk of unethical conducts provided in Paragraph 2, Article 7 of the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies or within its scope of business?			employees to conduct careful business operations and establish a culture of ethical business practices. The Internal Audit Department proposes improvement recommendations and enter them into the Company's audit management system for computerized management and continuous follow-up on improvement progress. Improvement measures shall be completed for each audit item in a timely manner and submitted to Independent Directors for review in accordance with regulations. This is an important mechanism for the supervision of ethical corporate management policies by the Board of Directors. (3) The Company has established the "Operating Standards for Processing Gifts, Banquets, and Requests" to achieve a high-quality corporate culture, protect the Company's image, and provide a basis for employees to process gifts, banquets, and requests. Unless otherwise specified, gifts from interested parties with conflicts of interests in the employee's position shall be refused or returned. Where the gifts cannot be returned, the recipient shall fill out the gift report form, submit the form to a supervisor of the plant or department or above, and deliver the gifts to the General Affairs Section of the Administration Department to process.	
2. Implementation of ethical corporate management				
(1) Has the company evaluated the ethical records of parties it does business with and stipulated ethical conduct clauses in business contracts?	V		(1) The Company's "Contractor and Supplier Assessment Regulations" and "Customer Credit Extension Management Regulations" have specified that the Company should avoid dealings with any persons having any record of unethical conduct when engaging in commercial activities.	No deviation.
(2) Has the company established a dedicated (concurrent) unit			(2) The Administration Department is responsible for advancing the	

Item	Operating status			Deviation from "Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies" and reasons for deviation
	Yes	No	Summary	
under the board of directors to promote ethical corporate management, and reported the status of implementation to the Board of Directors? (3) Has the company established policies to prevent conflict of interests, provided appropriate channels for filing related complaints and implemented the policies accordingly? (4) Did the company establish effective accounting system and internal control systems and designate its internal audit units or commission an accountant to regularly review such systems? (5) Has the company held internal and external educational trainings on operational integrity regularly?			establishment of related regulations and each unit complies with related regulations to ensure the full implementation of ethical corporate management. The Company also uses internal audit mechanisms, special audits, and follow-up for improvements and the Internal Audit Department periodically reports the defects found to the Board of Directors. (3) Regulations for the prevention of conflicts of interest and personal gains have been established in the Company's "Code of Ethical Conduct for Supervisors and Senior Managerial Officers" and "Employee Code of Ethics". The Company also encourages reporting of any illegal or unethical activities. (4) The Company follows related regulations on duties and obligations and implements the "Internal Control Systems" and "Instruction for Self-Evaluation of Internal Control Systems" for internal auditors to conduct periodic audits. (5) The Company has established the "Employee Code of Ethics" and requires all new employees to attend anti-corruption training after reporting for duties.	
3. Operation of whistle-blowing system in the Company (1) Has the company established a specific whistleblowing and reward system, set up convenient whistleblowing channels and designated appropriate personnel to handle investigations against wrongdoers?	V		(1) According to the Company's Ethical Corporate Management Best Practice Principles, the Company established the Regulations on Violation of Ethical Conduct Reports and established hotlines, emails, and reporting system on the Company's website as reporting channels to protect the Company's core value for ethical corporate management, implement corporate governance, and provide channels for internal and external entities to report violations of ethical conduct by employees and representatives of the Company. The unit responsible for processing reports is the Internal Audit Department. The Regulations on Violation of Ethical Conduct Reports stipulate that once reported incidents are proven true in investigations, whistleblowers may be	No deviation.

Item	Operating status			Deviation from "Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies" and reasons for deviation
	Yes	No	Summary	
(2) Did the company establish standard operating procedures for investigating reported issues as well as relevant confidential mechanisms? (3) Has the Company set up protection for whistleblowers to prevent them from being subjected to inappropriate measures as a result of reporting such incidents?			given appropriate rewards based on the severity of the case. If the whistleblower is an employee of the Company, the reward shall be processed in accordance with the Company's "Rewards and Penalties Regulations". There were no occurrences of penalties or complaints regarding violations of ethical corporate management at the Company in 2018. (2) The Company has established the Regulations on Violation of Ethical Conduct Reports which expressly provided the reporting channels, reporting items, unit responsible for processing reports, incident investigation and processing procedures, protection of personal information and whistleblowers, regulations on rewards and penalties, confidentiality of reported information, and record retention periods. Unless otherwise specified in laws, personal information provided by whistleblowers shall be kept confidential by the Company and the Company shall adopt appropriate protection measures in accordance with laws to protect the personal information and privacy of whistleblowers. (3) The Regulations on Violation of Ethical Conduct Reports stipulate that the Company shall take measures to protect whistleblowers from inappropriate disciplinary actions due to their whistleblowing.	
4. Strengthen information disclosure (1) Did the company disclose the content and effectiveness of its integrity management principles on the company's website and the Market Observation Post System?	V		(1) The Company has disclosed information related to ethical management including the "Code of Ethical Conduct" and "Ethical Corporate Management Best Practice Principles" in the "Corporate Governance Regulations" on the company website (www.chsteel.com.tw) under "Investor Relations" and "Corporate Governance" and the Market Observation Post System. Internal units are responsible for enhancing ethical corporate management. The Internal Audit Department is responsible for supervision and implementation as well as reporting the	No deviation.

Item	Operating status			Deviation from "Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies" and reasons for deviation
	Yes	No	Summary	
			results regularly to the Board of Directors. Related conditions are disclosed in "Internal Auditing" on the website.	
5. If the Company has established Ethical Corporate Management Principles in accordance with the "Ethical Corporate Management Best Practice Principles for TWSE/TPEX-Listed Companies", describe any discrepancy between the principles and their implementation: No deviation.				
6. Provide critical data that can help others to understand the company's business integrity operations (e.g., the company shall declare the company's business integrity execution and policy to its business counterparts, and invite them to participate in the education training and review the revisions of the company's code of integrity management):				
1. Establishment of general penal provisions for suppliers:				
(1) Establishment of the Company's general safety and environmental regulations for construction, operations, and machinery: Where Chung Hung personnel or their spouses, or immediate family members serve as the operator of suppliers or related personnel in contracted operations, the suppliers shall actively notify the contract signing unit and contract execution unit in writing.				
In the event of violation, the contractor shall be imposed with a fine of between NT\$3,000 and NT\$60,000 in accordance with penal provisions for safety and health issues of contractors in provision No. 6.2 of the Company's "Contractor Safety and Health Management Regulations".				
(2) Establishment of the Company's general safety and environmental regulations for construction, operations, machinery, safety and environmental/materials repairs, supplies, and transportation suppliers: Penalties shall be imposed on suppliers that provide bribes, gifts, commissions, compensation, interest in exchange for benefits, or other illegitimate benefits to Chung Hung's managerial officers, employees, or part-time employees, their spouses, direct blood relatives, consultants, or design and planning companies once such violations are verified.				
In the event of a violation, Party A's contract execution unit shall, based on the severity of the violation, file a report and consult the opinions of the Purchasing Department. It shall submit the report to the President for approval and the Purchasing Department shall modify the contract to suspend the execution of all or parts of the contract of the supplier before its expiry, temporarily suspend operations, or blacklist the supplier permanently.				
2. Establishment of the Company's procurement contracts: Where the contractor bribes, provides gifts, or threatens personnel of the owner's company, in addition to legal procedures, the bribe or gift shall be regarded as discounts for the owner based on the price established in the contract. The owner shall request compensation or deduct the bribe or gift from payments to the contractor. The owner may rescind or terminate the contract, request default penalties, and blacklist the contractor permanently. In addition, the owner may unconditionally rescind or terminate other procurement contracts signed with the contractor without notice.				

(VII) If the company has established corporate governance principles and related guidelines, disclose the means of accessing this information:

1. Corporate governance principles and related guidelines:

- (1) The Company, pursuant to related regulations of the Financial Supervisory Commission, Executive Yuan, established the following procedures: Procedures for Asset Acquisition and Disposal, Procedures for Making Endorsements and Guarantees, Operating Procedures for Fund Lending, Board of Directors' Meeting Procedure, and Remuneration Committee Charter.
- (2) The Company, pursuant to related regulations of Taiwan Stock Exchange Corporation, established the following procedures: Procedure for the Shareholders' Meeting, Code of Ethical Conduct for Directors, Code of Ethical Conduct for Supervisors and Senior Managerial Officers, Employee Code of Ethics, Rules Governing the Election of Directors, Related Party Transaction Management Regulations, Ethical Corporate Management Best Practice Principles, Audit Committee Charter, Management Procedures for Handling Internal Major Information and Prevention of Inside Trading, Corporate Governance Best-Practice Principles, and Corporate Social Responsibility Best Practice Principles.

2. Query Method:

- (1) Public companies: Download from the Market Observation Post System (<http://mops.twse.com.tw/mops/web/index>) in "Establishment of related corporate governance regulations and rules" under "Corporate Governance".
- (2) Download from the Company's corporate website (<http://www.chsteel.com.tw>) in "Investor Relations" → "Corporate Governance" → "Corporate Governance Regulations".

(VIII) Other important information to facilitate better understanding of the company's corporate governance activities: The Company's accounting manager retains an accountant's license and completes sufficient hours of continuing education in accordance with laws.

(IX) Implementation of Internal Control System

1. Statement of Internal Control

Chung Hung Steel Corporation

Internal Control System Statement

Date: March 19, 2019

This Statement of Internal Control System is issued based on the self-assessment results of the Company for year 2018.

1. The Company takes cognizance of the fact that the establishment, execution, and maintenance of its internal control policies are the responsibilities of the Company's Board of Directors and managers; such policies have been implemented throughout the Company. The objective is to provide reasonable assurances that the goals of operational effectiveness and efficiency (including profitability, performance, asset security, etc.), financial report reliability, timeliness, transparency, and regulatory compliance will be achieved.
2. There are inherent limitations to even the most well-designed internal control system. As such, an effective internal control system can only reasonably ensure the achievement of the aforementioned goals. Moreover, the effectiveness of the internal control system may vary due to changes in the environment and circumstances. However, self-supervision measures were implemented within the Company's internal control policies to facilitate immediate rectification once procedural flaws have been identified.
3. The Company determines the effectiveness of the design and implementation of its internal control system in accordance with the items in "Regulations Governing Establishment of Internal Control Systems by Public Companies" (hereinafter called "Governing Regulations") that are related to the effectiveness of internal control systems. The criteria introduced by the "Governing Regulations" cover the process of management control and consist of five major elements, each representing a different stage of internal control: 1. Control environment, 2. Risk assessment, 3. Control operations, 4. Information and communication, 5. Monitoring operations. Each component also comprised several items. Please refer to "Governing Regulations" for details.
4. The Company has adopted the items for determining internal control systems in order to evaluate the effectiveness of its internal control system design and implementation.
5. Based on the aforementioned evaluation results, the company believes that the design and execution of its December 31, 2018 internal control system (including those adopted for supervision and management of subsidiary branches) are effective in terms of understanding of operational effectiveness, level of efficiency fulfillment, financial reporting reliability, timeliness, transparency, and regulatory compliance-related internal control system items; and that the company can reasonably achieve the aforementioned goals.
6. This statement of declaration shall be the primary content of annual report and prospectus, and shall be made available to the public. Should any of the aforementioned disclosure contents be fictitious or concealed in an illegal manner, the company shall bear legal responsibilities pursuant to Articles 20, 32, 171, and 174 of the Securities Exchange Act.
7. This Statement was approved by the Board on March 19, 2019 where 0 of the 6 attending directors expressed dissenting opinions, and the remainder all affirmed the content of this Statement.

Chung Hung Steel Corporation

Chairman: Yi-Chung Han

Signature and Seal

President: Tsung-Chang Lee

Signature and Seal

2. If the internal control system review is conducted by commissioned accountants, the said accountant's review report shall be disclosed: None.

(X) The company's major deficiencies improvement status for internal personnel who have received penalties for violating provisions provided by the internal control system in recent years and up to the publication date of this annual report: None.

(XI) Critical resolutions made during shareholders and Board of Directors' meetings in 2018 and up to the publication date of this annual report:

●**Shareholder meetings**

1. Critical resolutions adopted at the 2018 general shareholders' meeting:

- (1) Approval of the Company's 2017 Business Report and Financial Report.
- (2) Approval of the Company's 2017 loss makeup proposal.
- (3) Approval of the amendments to the Company's "Rules Governing the Election of Directors".
- (4) Election of seven 14th-term Directors (including 3 Independent Directors).
The elected Directors were as follows:

Representative of China Steel Corporation	Chao-Tung Weng
Representative of China Steel Corporation	I-Chung Han
Representative of China Steel Corporation	Tsung-Chang Lee
Representative of China Steel Corporation	Min-Hsiung Liu
Independent Director	Lin-Lin Lee
Independent Director	Juh-Shan Chiou
Independent Director	Hsien-Tang Tsai
- (5) Approval of the removal of non-compete clause for the Company's 14th-term Directors.

2. Report on execution of resolutions adopted at the 2018 general shareholders' meeting:

- (1) Approval of the Company's 2017 Business Report and Financial Report: Passed as proposed.
- (2) Approval of the Company's 2017 loss makeup proposal: Passed as proposed.
- (3) Approval of the amendments to the Company's "Rules Governing the Election of Directors": Passed as proposed and announced on the company website.
- (4) Election of seven 14th-term Directors (including 3 Independent Directors). The results were approved for registration by the Ministry of Economic Affairs on July 26, 2018 and announced on the company website.
The elected Directors were as follows:

Representative of China Steel Corporation	Chao-Tung Weng
Representative of China Steel Corporation	I-Chung Han
Representative of China Steel Corporation	Tsung-Chang Lee
Representative of China Steel Corporation	Min-Hsiung Liu
Independent Director	Lin-Lin Lee
Independent Director	Juh-Shan Chiou
Independent Director	Hsien-Tang Tsai
- (5) Approval of the removal of non-compete clause for the 14th-term Directors of the Company: Passed as proposed and fully implemented.

● **Important resolutions of the Board of Directors in 2018 and 2019:**

1. Important resolutions of the Board of Directors passed in the 19th meeting of the 13th Board of Directors on January 2, 2018:

- (1) Election of the Company's Chairman. (The Director I-Chung Han was elected as the Chairman in the meeting)

2. Important resolutions of the Board of Directors passed in the 20th meeting of the 13th Board of Directors on March 22, 2018:

- (1) Approval of the Company's 2017 Business Report and Financial Report.
- (2) Approval of the Company's 2017 loss makeup proposal.
- (3) Approval of the Company's "Corporate Governance Best-Practice Principles".
- (4) Approval of the Company's "Corporate Social Responsibility Best Practice Principles".
- (5) Approval of the amendments to the Company's "Board of Directors' Meeting Procedure".
- (6) Approval of the amendments to the Company's "Rules Governing the Election of Directors".
- (7) Approval of the amendments to the "Audit Committee Charter".
- (8) Approval of the amendments to the "Related Party Transaction Management Regulations".
- (9) Approval of the election of seven 14th-term Directors (including 3 Independent Directors).
- (10) Approval of the proposal for convening the Company's 2018 general shareholders' meeting.
- (11) Approval of the Company's 2017 Internal Control Self-Assessment Report and Internal Control System Statement.
- (12) Approval of the remuneration for the Company's certifying CPA.
- (13) Approval of the preliminary assessment results of the Company's IFRS 16 "Leases" which does not constitute material issues and shall not require the establishment of an IFRS 16 introduction team or formulation of the introduction plan.
- (14) Approval of the medium-term unsecured credit extension contract for NT\$1 billion signed with the Land Bank of Taiwan Tainan Branch.
- (15) Approval of the medium-term unsecured credit extension contract for NT\$1.2 billion signed with Mega International Commercial Bank Kaohsiung Metropolitan Branch.
- (16) Approval of the results of the performance evaluation on the Company's President and Vice Presidents of the departments in 2017.

3. Important resolutions of the Board of Directors passed in the 21st meeting of the 13th Board of Directors on May 8, 2018:

- (1) Approval of the NT\$300,000 donation to the CSC Group Education Foundation's 2018 operating funds.
- (2) Approval of the list of candidates for the Company's 14th-term Directors (including Independent Directors).

- (3) Approval of the removal of the non-compete clause for the 14th-term Directors of the Company.
- (4) Approval of the revisions of the agenda for the Company's 2018 general shareholders' meeting.

4. Important resolutions of the Board of Directors passed in the 1st meeting of the 14th Board of Directors on June 22, 2018:

- (1) Election of the Company's Chairman. (The Director I-Chung Han was elected as the 14th Chairman in the meeting)
- (2) Approval of the appointment of Mr. Tsung-Chang Lee to stay on as the Company's President.
- (3) Appointment of Ms. Lin-Lin Lee, Mr. Juh-Shan Chiou, and Mr. Hsien-Tang Tsai as members of the Remuneration Committee of the Company's 14th Board of Directors.

5. Important resolutions of the Board of Directors passed in the 2nd meeting of the 14th Board of Directors on August 7, 2018:

- (1) Approval of the amendments to the Company's "Employee Stock Ownership Trust Committee Charter".
- (2) Approval of the proposal for the monthly transportation allowance of each Director of the Company.
- (3) Approval of the proposal for the monthly salary of each Independent Director of the Company.
- (4) Approval of the proposal for the attendance fees of members of the Remuneration Committee and standards for attendance fees for Directors and external experts and scholars' attendance in the Committee.
- (5) Approval of the proposal for the attendance fees of members of the Audit Committee and standards for attendance fees for Directors and external experts and scholars' attendance in the Committee.
- (6) Approval of the results of the performance evaluation by the Company's President and Vice Presidents of the departments in the first half of 2018.

6. Important resolutions of the Board of Directors passed in the 3rd meeting of the 14th Board of Directors on August 27, 2018:

- (1) Approval of the appointment and dismissal of the Company's Vice President of the Commercial Division.

7. Important resolutions of the Board of Directors passed in the 4th meeting of the 14th Board of Directors on November 8, 2018:

- (1) Approval of the Company's 2019 audit plan.
- (2) Approval of the comprehensive credit limit of NT\$3.1 billion signed with Mega International Commercial Bank Kaohsiung Metropolitan Branch.

8. Important resolutions of the Board of Directors passed in the 5th meeting of the 14th Board of Directors on December 20, 2018:

- (1) Approval of the Company's 2019 budget.

- (2) Approval of the Fixed Rate Commercial Paper (FRCP) Circular Issuance Agreement for a credit limit of NT\$600 million signed with Mega Bills Kaohsiung Branch.
- (3) Approval of the medium and long-term credit extension signed with MUFG Bank (Japan).

9. Important resolutions of the Board of Directors passed in the 6th meeting of the 14th Board of Directors on February 25, 2019:

- (1) Dismissal of the Vice President of Production Mr. Shao-Jung Lu.
- (2) Appointment of Mr. Chien-Chou Chen as the Vice President of Production.

10. Important resolutions of the Board of Directors passed in the 7th meeting of the 14th Board of Directors on March 19, 2019:

- (1) Approval of the Company's 2018 Business Report and Financial Report.
- (2) Approval of the Company's 2018 earnings distribution proposal.
- (3) Approval of the report on the 2018 distribution of remuneration to employees and Directors.
- (4) Approval of the amendments to the "Audit Committee Charter".
- (5) Approval of the amendments to the Company's "Procedures for Asset Acquisition and Disposal".
- (6) Approval of the 2018 Internal Control Self-Assessment Report and Internal Control System Statement.
- (7) Approval of the proposal for convening the Company's 2019 general shareholders' meeting.
- (8) Approval of the three-year Fixed Rate Commercial Paper (FRCP) Circular Issuance Agreement signed with China Bills Finance Corporation Kaohsiung Branch.
- (9) Approval of the medium-term loan credit limit contract signed with Hua Nan Commercial Bank Kaohsiung Branch.
- (10) Approval of the candidate for the Chief Governance Officer as detailed in the description.
- (11) Approval of the NT\$300,000 donation to the CSC Group Education Foundation's 2019 operating funds.
- (12) Approval of the amendments to the grades given in the performance evaluation on the Company's President and Vice Presidents.
- (13) Approval of the amendments to the number of performance evaluations on the Company's President and Vice Presidents.
- (14) Approval of the salary for the newly-appointed Vice President of Production Mr. Chien-Chou Chen.
- (15) Approval of the results of the performance evaluation on the Company's President and Vice Presidents of the departments in 2018.

(XII) The primary content of directors or independent directors who have dissented on critical resolutions passed by the Board of Directors, where such dissents have been recorded or documents in recent years up to the annual report publication date:
None.

(XIII) Summary of resignation or dismissal in recent years up to the annual report publication date:

2018/1/1-2019/3/31

Title	Name	Date Appointed	Date Dismissed	Reasons for resignation or dismissal
Vice President, Commercial Division	Kai-Min Huang	2017.10.01	2018.09.01	Reassigned to China Steel Corporation
Vice President of Production	Shao-Jung Lu	2017.10.01	2019.03.01	Reassigned to China Steel Corporation

Note: Related individuals of the Company refer to the Chairman, President, head of accounting, chief finance officer, chief internal auditor and chief R&D officer etc.

IV. Information on fees to CPA

Table on the range of professional charge of the CPA

Name of the accounting firm	CPA name	Audit period	Notes
Deloitte, Taiwan	Jui-Hsuan Hsu	2018.01.01~2018.12.31	None
	Yu-Hsiang Liu	2018.01.01~2018.12.31	

Note: If this company has changed the company accountant or accounting firm during this year, please list the audit periods and explain the reasons for the replacement in the remarks section.

Unit: NT\$1,000

Public expense item Amount bracket		Audit fees	Non-audit fees	Total
1	Lower than 2,000	-	410	410
2	2,000 (inclusive)–4,000	-	-	-
3	4,000 (inclusive)–6,000	5,742	-	5,742
4	6,000 (inclusive)–8,000	-	-	-
5	8,000 (inclusive)–10,000	-	-	-
6	Over 10,000 (inclusive)	-	-	-

(I) When the non-audit fees paid to the Certified Public Accountants, their firm, and its affiliated companies account for 25% or more to the audit fees, the amount of audit fees and non-audit fees and the content of non-audit service must be disclosed:

Unit: NT\$1,000

Name of the accounting firm	CPA name	Public expenses for audit	Non-public expenses for audit					Audit period	Remarks
			System design	Business registration	Human Resources	Other (Note)	Subtotal		
Deloitte, Taiwan	Jui-Hsuan Hsu	5,742	0	50	0	360	410	2018.01.01~2018.12.31	Other fees mainly consisted of transfer pricing services.
	Yu-Hsiang Liu							2018.01.01~2018.12.31	

Note 1: If this company has not changed the company accountant or accounting firm during this year, please list the audit and non-audit public expenses in sequence.

Note 2: Non-audit fees shall be listed by service item. If the Others column under Non-Audit Fees reaches 25 percent of the total non-audit fees, the service items associated with this column shall be listed in the Remark column.

(II) If the accounting firm has been changed and the annual audit public expenses were lower for the year of the firm change compared to that of the previous year, then audit public expenses and the reason for such changes should be disclosed: None.

(III) Where accounting fee paid for the year was more than 15% less than that of the previous year, the sum, proportion, and cause of the reduction shall be disclosed: None.

The audit fees specified in Item 1 refer to the fees paid to the accountant with regards to the services of financial report auditing, verification, review, and tax certification.

V. Information on Change of Accountants: None

(The Company did not replace CPAs in the two most recent fiscal years)

VI. Company's Chairman, President, financial or accounting affairs manager who has served in the certifying CPA firm or its affiliates in the most recent year: None.

VII. Share transfer by Directors, Independent Directors, Managerial Officers and shareholders holding more than 10% equity and changes to their pledged shares in the past year and up to the publication date of this annual report.

Share equity change status for Directors, Independent Director, managerial officers, and major shareholders

Title	Name	2018		2019 up to March 31		Note
		Number of shares held added (subtracted)	Number of pledged shares added (subtracted)	Number of shares held added (subtracted)	Number of pledged shares added (subtracted)	
Director	China Steel Corporation	0	0	0	0	
	Representative: Chao-Tung Wong	0	0	0	0	
	Representative: Chi-Kang Liu	0	0	N/A	N/A	2018.03.31 dismissed
	Representative: Min-Hsiung Liu	0	0	0	0	2018.03.31 newly appointed
	Representative: Yi-Chung Han	0	0	0	0	
	Representative: Tsung-Chang Lee	0	0	0	0	
Independent Director	Juh-Shan Chiou	0	0	0	0	
	Hsien-Tang Tsai	0	0	0	0	
	Lin-Lin Lee	0	0	0	0	
Chairman of the Board	Yi-Chung Han	0	0	0	0	2018.01.02 newly appointed
President	Tsung-Chang Lee	0	0	0	0	
Vice President, Administration Division	Chia-Wen Luo	0	0	0	0	2018.01.01 newly appointed
Vice President, Commercial Division	Kai-Min Huang	0	0	N/A	N/A	2018.09.01 dismissed
	Wen-Chou Li	0	0	0	0	2018.09.01 newly appointed
Vice President of Production	Shao-Jung Lu	0	0	N/A	N/A	2019.03.01 dismissed
	Chien-Chou Chen	0	0	0	0	2019..03.01 newly appointed

Assistant Vice President, Administration Division	Shu-Cheng Yen	0	0	0	0	
Assistant Vice President, Commercial Division	Ming-Ju Yang	0	0	0	0	
Assistant Vice President, Production Division	Chin-Ming Hsu	0	0	0	0	
	Chien-Hsiung Tung	0	0	0	0	2018.08.15 newly appointed
Head of Accounting	Pei-Yu Lee	0	0	0	0	

Note 1: There were no cases where the counterparty of equity pledge is a related party of the Company's Director, Independent Director, managerial officer, or major shareholder.

Note 2: The number of shares held by the outgoing Directors at the end of the period refers to the number of shares held in the current month of the dismissal; the number of shares held by the newly-appointed Directors at the beginning of the period refers to the number of shares held in the current month of the appointment.

VIII. Information on relationship between any of the top ten shareholders (related party, spouse, or kinship within the second degree).

Mutual relationship information among shareholders with the top 10 shareholding ratios (information from the period after the book closure date in April 2018)

Unit: shares; %, April 30, 2018

Name (Note 1)	Personal Shareholding		Shares Held by Spouse and Underage Children		Total Shareholding by Nominee Arrangement		Shareholders with the top 10 shareholding ratios who are related, or their spouses and second-degree relatives' names and their respective relationships. (Note 3)		Note
	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Title (or Name)	Relationship	
1. China Steel Corporation	582,673,153	40.59	0	0	0	0	None	None	
Legal representative: Chao-Tung Wong	0	0	0	0	0	0	None	None	
2. Taiwan Life Insurance Co., Ltd.	25,225,000	1.76	0	0	0	0	None	None	
Legal representative: Ssu-Kuo Huang	0	0	0	0	0	0	None	None	
3. DFA Emerging Markets Core Equity Portfolio under the custody of Citibank (Taiwan) Limited	12,549,926	0.87	0	0	0	0	None	None	
4. Employee's Stock Trust of Chung Hung Steel Corporation under the custody of Mega International Commercial Bank Co., Ltd.	11,983,993	0.83	0	0	0	0	None	None	
5. New Labor Pension Fund	11,702,000	0.82	0	0	0	0	None	None	
6. CTBC Bank Co., Ltd.	11,005,000	0.77	0	0	0	0	None	None	
Legal representative: Chao-Chin Tung	0	0	0	0	0	0	None	None	
7. Merrill Lynch International investment account under the custody of HSBC Bank (Taiwan) Limited	8,482,320	0.59	0	0	0	0	None	None	
8. DAF Investment Trust Company under the custody of Citibank (Taiwan) Limited	7,637,979	0.53	0	0	0	0	None	None	

9. First Trust Emerging Markets Small Cap AlphaDEX Fund under the custody of Standard Chartered Bank (Taiwan) Limited	5,722,238	0.40	0	0	0	0	None	None	
10. DFA Emerging Markets Value Portfolio under the custody of Citibank (Taiwan) Limited	5,577,000	0.39	0	0	0	0	None	None	

Note 1: All the top 10 shareholders shall be listed. The names of corporate shareholders and the name of their representatives shall be listed separately.

Note 2: The shareholding percentage is calculated separately based on the number of shares held in the name of the person, his/her spouse and minors, and through nominee arrangements.

Note 3: Relationships between the aforementioned shareholders, including corporate shareholders and natural person shareholders, shall be disclosed based on the financial reporting standards adopted by the issuer.

Note 4: Item 4 is a trust account and Items 3, 5, 7, 8, 9, and 10 are fund accounts without person in charge.

IX. Consolidated shareholding percentage

The number of shares held by the Company, directors, independent directors, managerial officers, and enterprises that are directly or indirectly controlled by the Company in the investee company shall be calculated together.

Unit: shares; %, December 31 2018

Investee business	Investment by the Company		Investments by directors, independent directors, managerial officer and directly or indirectly controlled enterprises		Comprehensive investment	
	Number of Shares	Shareholding Percentage	Number of Shares	Shareholding Percentage	Number of Shares	Shareholding Percentage
Taiwan Steel Corporation	100,000	100%	0	0	100,000	100%
Hung Kao Investment Corporation	2,600,000	100%	0	0	2,600,000	100%
Transglory Investment Corporation	289,620,871	40.91%	0	0	289,620,871	40.91%

Note: The equity method was employed for the Company's investments.

Chapter 4 Fundraising Conditions

I. Capital and shareholding

(I) Sources of capital:

March 31, 2019

Type of Shares	Authorized Capital			Note
	Shares issued and outstanding	Unissued shares	Total	
Ordinary shares	1,435,544,446	607,615,554	2,043,160,000	Listed stocks

*All shares issued by the Company are listed stocks.

Year Month	Issuing Price	Authorized Capital		Paid-Up Capital		Note		
		Number of Shares (1,000 shares)	Amount (NT\$1,000)	Number of Shares (1,000 shares)	Amount (NT\$1,000)	Source of Capital	Subscriptions paid with property other than cash	Others
1996.06	14	1,143,160	11,431,600	600,000	6,000,000	Cash capital increase of NT\$1,345,025,600 Earned surplus turned capital increase of NT\$232,589,280 Capital increase shares by capital surplus of 99,681,120	None	Note 1
1997.06	16	1,143,160	11,431,600	750,000	7,500,000	Cash capital increase of NT\$1,500,000,000	None	Note 2
1997.12	10	1,143,160	11,431,600	757,507	7,575,074	Corporate bonds converted to shares of NT\$75,073,950	None	Note 3
1998.02	10	1,143,160	11,431,600	772,380	7,723,805	Corporate bonds converted to shares of NT\$148,731,490	None	Note 4
1998.06	10	1,143,160	11,431,600	794,336	7,943,361	Corporate bonds converted to shares of NT\$219,556,020	None	Note 5
2000.06	10	2,043,160	20,431,600	1,144,336	11,443,361	Cash capital increase of NT\$3,500,000,000	None	Note 6
2004.09	10	2,043,160	20,431,600	1,206,983	12,069,834	Earned surplus turned capital increase of NT\$626,472,690	None	Note 7
2005.10	10	2,043,160	20,431,600	1,284,571	12,845,706	Earned surplus turned capital increase of NT\$775,872,050	None	Note 8
2009.04	9.5	2,043,160	20,431,600	1,684,571	16,845,706	Cash capital increase of NT\$4,000,000,000	None	Note 9
2010.09	10	2,043,160	20,431,600	1,380,331	13,803,311	Reduced capital by NT\$3,042,394,220 to make up for losses	None	Note 10
2011.07	10	2,043,160	20,431,600	1,435,544	14,355,444	Earned surplus turned capital increase of NT\$552,132,480	None	Note 11

Note 1: Tai-Cai-Zheng (I) No. 21847 dated April 12, 1996

Note 2: Tai-Cai-Zheng (I) No. 29725 dated May 1, 1997

Note 3: Tai-Cai-Zheng (I) No. 80508 dated November 3, 1997

Note 4: Tai-Cai-Zheng (I) No. 14139 dated January 26, 1998

Note 5: MOEA Jing (1998)-Shang No. 113778 dated June 9, 1998

Note 6: Tai-Cai-Zheng (I) No. 27800 dated April 29, 2000

Note 7: Jin-Guan-Zheng-I No. 0930132019 dated July 19, 2004

Note 8: Jin-Guan-Zheng-I No. 0940131295 dated August 2, 2005

Note 9: Jin-Guan-Zheng-I No. 0980002363 dated February 10, 2009

Note 10: Jin-Guan-Zheng-Fa No. 0990042786 dated August 20, 2010

Note 11: Jin-Guan-Zheng-Fa No. 1000030352 dated July 1, 2011

(II) Shareholder structure:

(information from the period after the book closure date in April 2018)

Date: April 30, 2018

Shareholders Quantity	Government Agencies	Financial Institutions	Other Institutions	Individual Investors	Foreign Institutions and Foreigners	Total
Number of people	0	7	124	92,292	160	92,583
Number of shares held	—	39,262,000	638,433,924	660,478,504	97,370,018	1,435,544,446
Shareholding percentage	—	2.74%	44.47%	46.01%	6.78%	100%

(III) Dispersion of equity ownership:

(information from the period after the book closure date in April 2018)

Date: April 30, 2018; each share has a nominal value of NT\$10

Shareholding classification	Number of shareholders	Number of shares held	Shareholding percentage %
1 - 999	37,311	10,453,573	0.73
1,000 - 5,000	33,643	81,711,312	5.69
5,001 - 10,000	10,182	79,801,145	5.56
10,001 - 15,000	3,425	41,541,499	2.89
15,001 - 20,000	2,493	45,530,606	3.17
20,001 - 30,000	1,943	48,697,259	3.39
30,001 - 40,000	944	33,223,902	2.31
40,001 - 50,000	679	31,363,035	2.18
50,001 - 100,000	1,095	80,151,675	5.58
100,001 - 200,000	498	69,321,452	4.83
200,001 - 400,000	194	55,717,650	3.88
400,001 - 600,000	70	34,081,813	2.37
600,001 - 800,000	30	21,426,561	1.49
800,001 - 1,000,000	21	19,239,020	1.34
Over 1,000,001	55	783,283,944	54.59
Total:	92,583	1,435,544,446	100

(IV) Main shareholders list (contains shareholders with 5% or more shareholding ratio or the shareholders with top ten shareholding ratio):

(information from the period after the book closure date in April 2018)

Date: April 30, 2018

Name of the Main Shareholder	Shares	Number of Shares Held	Shareholding Percentage
China Steel Corporation		582,673,153	40.59%
Taiwan Life Insurance Co., Ltd.		25,225,000	1.76%
DFA Emerging Markets Core Equity Portfolio under the custody of Citibank (Taiwan) Limited		12,549,926	0.87%
Employee's Stock Trust of Chung Hung Steel Corporation under the custody of Mega International Commercial Bank Co., Ltd.		11,983,993	0.83%
New Labor Pension Fund		11,702,000	0.82%
CTBC Bank CO., Ltd		11,005,000	0.77%
Merrill Lynch International investment account under the custody of HSBC Bank (Taiwan) Limited		8,482,320	0.59%
DAF Investment Trust Company under the custody of Citibank (Taiwan) Limited		7,637,979	0.53%
First Trust Emerging Markets Small Cap AlphaDEX Fund under the custody of Standard Chartered Bank (Taiwan) Limited		5,722,238	0.40%
DFA Emerging Markets Value Portfolio under the custody of Citibank (Taiwan) Limited		5,577,000	0.39%

(V) Stock price, net worth, earnings, dividends and related information for the previous two years:

Item		Year	2018	2017	Current fiscal year up to March 31, 2019 (Note 8)
Market value per share (Note 1)	Highest		16.15	13.15	12.50
	Lowest		10.3	8.22	10.20
	Average		12.49	10.72	11.76
Net value per share (Note 2)	Pre-distribution		10.28	8.31	10.44
	Post-distribution		N/A	—	N/A
Earnings per share (Note 3)	Weighted average shares	Before adjustment	1,435,544 thousand shares	1,435,544 thousand shares	1,435,544 thousand shares
		After adjustment	1,435,544 thousand shares	1,435,544 thousand shares	1,435,544 thousand shares
	Earnings per share	Before adjustment	2.11	1.82	0.05
		After adjustment	—	—	—
Dividends per share	Cash dividends		0.1	—	N/A
	Stock dividends	—	—	—	—
		—	—	—	—
	Cumulative undistributed dividends (Note 4)		—	—	—
Return on investment analysis	Price-to-earnings ratio (Note 5)		5.92	5.89	235.20
	Price-to-dividend ratio (Note 6)		124.9	—	—
	Cash dividend yield (Note 7)		0.0080	—	—

*If retained earnings or capital reserves were used for capital increase, market prices and cash dividends that were retroactively adjusted based on the number of shares after distribution shall be disclosed.

Note 1: List the highest and lowest market price of common shares for each fiscal year and calculate the average market price for each fiscal year based on trading value and volume in each fiscal year.

Note 2: Please fill these rows based on the number of shares that have been issued at the end of the fiscal year and the distribution plan approved at the Shareholders' Meeting in the subsequent fiscal year.

Note 3: If there are any retroactive adjustments needed due to stock grants, the earnings per share before and after the adjustment should be listed.

Note 4: If there are any conditions in issuing equity securities that allow for unpaid out dividend for the year to be accumulated to subsequent years in which there is profit, the Company should separately disclose the accumulated unpaid out dividend up to that year.

Note 5 Price to earnings ratio = average closing price per share for the year / earnings per share.

Note 6 Price to dividend ratio = average closing price per share for the year / cash dividends.

Note 7: Cash dividend yield = cash dividends / average closing price per share for the year.

Note 8 Data on net asset value per share and earnings per share from the latest quarter that has been verified by CPAs up to the date of publication of this annual report shall be filled. For all other columns, the Company shall fill information for the current fiscal year until the publication date of this annual report.

(VI) Company Dividend Policy and Implementation:

1. Dividend policy (Article 28-1 of the Company's Articles of Incorporation):

The dividend policy specified in Article 28-1 of the Company's Articles of Incorporation is as follows: In the event of surplus earnings after closing of annual accounts, due taxes shall be paid in accordance with the law, and losses incurred in previous years shall be compensated. Upon completion of the preceding actions, 10% of the remainder surplus shall be allocated as statutory reserve. However, in the event that the accumulated statutory reserve is equivalent to or exceeds the Company's total paid-in capital, such allocation may be exempted. The remainder may be set aside or reversed as special surplus reserve in accordance with laws and regulations. The Board of Directors shall draft the proposal for shareholder dividend allocation based on the remaining profit, if any, along with the accumulated undistributed earnings for the previous year, and submit the draft to the shareholder's meeting which shall determine whether to distribute dividends or retain the earnings.

The development of the Company's industry has matured. Therefore, the distribution of the shareholder dividends specified above shall be distributed with appropriate ratios of cash dividends and stock dividends. Cash dividends shall be no lower than 50%.

2. Current year dividend distribution proposal to the shareholders meeting

- (1) Processed in accordance with Article 228 of the Company Act and Article 28-1 of the Company's Articles of Incorporation.
- (2) After making up for losses and appropriating special reserve, the Company plans to distribute shareholder bonuses in common stocks at NT\$0.1 per share.
- (3) The Company plans to authorize the Chairman to determine the ex-dividend date for the cash dividends after the shareholder's meeting passes the earnings distribution proposal. Cash dividends shall be issued to the "NTD" to each shareholder. The decimals shall be rounded up to the nearest NTD and the difference shall be listed as company expenses.

Earnings Distribution Statement

2018

Unit: NT\$

Item	Amount
Balance of losses to be made up at the beginning of the year	(2,083,776,774)
Effects of retrospective application and retrospective restatement	84,398,330
Balance of losses to be made up at the beginning of the year after adjustment	(1,999,378,444)
Remeasurement of defined benefit plan converted	(128,800,271)

into retained earnings	
Disposal of investments in equity instruments measured at fair value through other comprehensive gain and loss with accumulated profit or loss transferred directly to retained earnings	(539,151)
Balance of losses to be made up after adjustment	(2,128,717,866)
After-tax net profit of 2018	3,033,223,430
Minus: Statutory surplus reserves	(90,450,556)
Minus: Appropriation for special reserve	(497,607,149)
Distributable earnings	316,447,859
Common stock bonus available for distribution - 1,435,544,446 common stocks at NT\$0.1 per share (cash NT\$0.1)	(143,554,445)
Undistributed earnings at the end of the period	172,893,414

Chairman: I-Chung Han

Managerial Officer: Tsung-Chang Lee

Chief Accounting Officer: Pei-Yu Lee

(VII) Effects of the stock dividends proposed by the shareholders' meeting on the company's business performance and earnings per share: The Company did not distribute stock dividends and this item is therefore not applicable.

(VIII) Employee and director remuneration:

1. Percentage or range of rewards distributed to employees and directors as stipulated in the Company's Articles of Incorporation:

Provisions related to the distribution of remuneration for employees and Directors in the Company's Articles of Incorporation are as follows: "If the Company has profit for the year, the Board of Directors shall resolve to allocate no less than 0.1% as remuneration for employees and no more than 1% as remuneration for Directors. A sum shall be set aside in advance to pay down any outstanding cumulative losses of the Company before employee bonus and director remuneration can be allocated according to the above percentage. Employee bonus and director remuneration proposals shall be submitted to the Board of Directors for resolution and presented to the shareholders' meeting."

2. Accounting treatment if the actual allocated amount is different than the estimated amount for the current accrued remuneration for employees and Directors and the share calculation for bonus shares allocations:

The Company's remuneration for employees and Directors shall be no lower than 0.1% and under 1% of the earnings before tax of the year and before deducting remuneration for employees and Directors. The board of directors shall decide to distribute the remuneration as shares or cash. The remuneration for employees and directors estimated for the 2018 fiscal year were estimated based on this principle. If there are changes made to the amount before the issuance of the individual annual financial statements, the changes shall be

adjusted and accounted for as annual expenses. If there are changes made to the amount after the issuance of the individual annual financial statements, the changes shall be accounted for as changes in accounting estimates and recognized in the financial statements of the following year.

3. Employees' remuneration resolved by the board of directors: None.

(1) Employee remuneration: NT\$22,262,406.

(2) Directors' remuneration: NT\$4,452,481.

(3) The aforementioned amounts shall be distributed in cash and there is no discrepancy has found the amounts and the estimates in 2018.

4. If there is any discrepancy between the actual amount of rewards distributed to employees and directors (including number and dollar amount of shares distributed, as well as share price), the recognized amount of rewards for employees and directors in the 2017 fiscal year, the amount, causes and treatment of such discrepancies shall be stated: The Company did not distribute remuneration for employees or Directors in the 2017 fiscal year and therefore there were no discrepancies.

(IX) Status of company share buyback

March 31, 2018

Times of buyback	1st Buyback in 2000	Remarks
Objective of share buyback	Transfer to employees	All shares repurchased in this round were have been transferred to employees in May 2002.
Buyback Period	October 12, 2000 to November 10, 2000	
Price range of shares to be bought back	NT\$2.55-5.15 per share	
Stock type and quantities repurchased	Ordinary shares: 19,791,000 shares	
Amount of shares repurchased	56,439,252	
Retired and transferred shares	0	
Cumulative number of shares of the Company	19,791,000 shares	
Percentage of cumulative number of shares of the Company of the total issued shares (%)	0	

II. Issuance of corporate bonds: None.

III. Issuance of preferred stocks: None.

IV. Issuance of global depositary receipts (GDR): None.

V. Issuance of employees' stock option certificate and new restricted employee shares: None.

VI. Mergers, acquisitions or issuance of new shares for acquisition of shares of other companies: None.

VII. Implementation status of the capital utilization plan: Not applicable.

Chapter 5 Status of Operations

I. Business activities

(1) Scope of Business: The Company's principal business activities, revenue distribution, current products (services) and new products (services) under development shall be listed.

1. Operations of animal husbandry business.
2. Manufacturing, processing, and import/export of timber, agricultural products (excluding mushrooms and asparagus) and iron wire (under 12mm).
3. Manufacturing, processing, wholesale, retail, and domestic sales/export of slotted angle iron, iron pipes, fish net, Tetoron fiber, plastic fiber, and iron plate.
4. Processing, manufacturing, domestic sales/export of steel coils, steel, steel mold, steel wire, stainless steel plate, stainless steel pipe, iron wire, galvanized iron plate and painted iron plate.
5. Appointment of construction contractors to build public housing and commercial buildings for lease and sale and appointment of construction contractors to build general plants on industrial land for lease and sale.
6. Processing, manufacturing, and domestic sale/export of aluminum products and materials.
7. Processing, manufacturing, and domestic sale/export of steel and non-iron metal furniture.
8. Processing, manufacturing, and domestic sale/export of wood and plastic furniture.
9. Processing, manufacturing, and domestic sale/export of silicon steel sheets.
10. Processing, manufacturing, and domestic sale/export of sports equipment (exercise bikes, rowing machines, golf clubs, strollers, trolleys, jogging strollers, jumpers, kick scooters, surfboards, tennis rackets, and ball equipment).
11. Processing, manufacturing, and domestic sale/export of transportation equipment (automobile, motorcycle, and bicycle parts) and jacks.
12. Design, manufacturing, processing, and domestic sale/export of mechanical bodies and machinery parts.
13. Processing, manufacturing, and domestic sale/export of oxidized soft and hard iron powder, magnets, magnetic materials, metallurgy powder, and ceramic materials.
- 14.(1)F107100 Wholesale of basic chemical raw materials.
(2)F207100 Retail sale of basic chemical materials.
(3)C801010 Basic chemical manufacturing industry.
15. All business items that are not prohibited or restricted by law, except those that are subject to special approval.

The Company's businesses consist mainly of the production and sale of carbon steel products. Its main products include hot-rolled steel coils, cold-rolled steel coils, galvanized steel coils, and carbon steel pipes. The Company plans to develop products with higher added value in the future such as high-strength and thin cold and hot-rolled steel coils and ultra-thick and ultra-high-strength large-scale structural steel pipes.

The planned sales volume percentages of main products in 2019 are as follows:

Primary Product	Percentage (%)
Hot-rolled steel coils	75.22
Cold-rolled steel coils	13.57
Galvanized steel coils	3.91
Steel pipes	7.30
Total	100

(II) Industry overview

1. Current status and development

(1) Global economy

The International Monetary Fund (IMF) lowered its forecast of global economic growth in its latest report and lowered the growth rate forecast for 2019 to 3.3%, which is 0.4% lower than the forecast in October 2018. The IMF also predicted that the global economic growth rate would hold steady at 3.6% in 2020. Economic growth will decline in developed countries and the decline will be made up by growth in emerging and developing economies. The IMF forecast identified the United States as the country with the fastest economic growth but the economic growth rate forecast of the US economy is still being reduced mainly due to tightening monetary policies and trade tensions. Its economy grew by 2.9% in 2018 and will grow by 2.3% in 2019. Despite China's "stable growth" policy, its economic forecast was also lowered and its growth rate will decline to 6.3% in 2019 which would signal an end to China's rapid growth period. The Eurozone remains affected by trade disputes, slowdown in internal and external demands, Brexit, and member countries' disagreement regarding the budget. The economic growth rate will continue to slow from 1.8% in 2018 to 1.3% in 2019. Due to typhoons, earthquakes, and other natural disasters, Japan's economy only grew by 0.8% in 2018 and is only expected to grow by 1.0% in 2019. More factors that may be triggered in 2019 including exacerbated trade disputes and conflicts, geopolitical risks, and increased political uncertainties may disrupt the global industrial supply chain, reduce the spread of new technologies, and brought forth significant economic risks.

(2) Global steel supply and demand and development trends

The World Steel Association stated that steel demand in 2018 benefited from continuous investment in developed countries and growth in emerging economies. The demand increased by 4.9% from the previous year to 1.712 billion tons. The trade disputes and exchange rate fluctuations have increased uncertainty in 2019. The United States Federal Reserve's balance sheet reduction and Europe's termination of a loose monetary policy may cause fluctuations in currencies of emerging economies. China's steel demand is predicted to fall due to lack of stimulus. Demand in developed countries may hold steady but would only experience moderate growth. Demand continues to recover in developing

countries but they face uncertainties such as trade disputes, currency fluctuation pressure, and a fragile financial system. Growth in construction and the automobile industry remains unknown. Demand is projected to remain positive and it will increase by 1.3% to 1.735 billion tons in 2019.

(3) Domestic steel supply and demand and development trends

According to the statistics on the apparent consumption of steel products from January to October 2018 provided by the Taiwan Steel & Iron Industries Association, consumption of hot-rolled products grew only by 4% from the previous year while consumption of cold-rolled products declined by 15% and consumption of hot dipped galvanized products increased by 2%. However, there had been no obvious increase in production while import declined by more than 30%. It demonstrated weak domestic steel demand and operators prioritize the reduction of inventory. According to the "Special Act for Forward-Looking Infrastructure" promulgated by the President on July 7, 2017, the government has set aside NT\$420 billion in the four-year plan for the construction of major infrastructure projects and they are expected to increase demand in the domestic steel market in 2019-2021.

(4) Recent development trends in the global steel market

Iron prices have fluctuated between US\$66-91/ton and coal prices have fluctuated between US\$192-230/ton since Q4 2018. Faced with the trade war between China and the United States and defense mechanisms initiated by the European Union and other countries, steel exporters have begun to actively develop emerging markets. Meanwhile, China continues to replace excess production capacity, actively control pollution, and improve atmospheric conditions. These measures would help bring balance to supply and demand. The trade war appears to be subsiding. If the China and the United States can reach an agreement, it would improve steel demand and bring about a new balance in the global steel market.

2. Relationship with upstream, midstream, and downstream industries

Chung Hung is a single-roll plant that produces hot-rolled steel coils, cold-rolled steel coils, carbon steel pipes, and hot-dipped galvanized steel coils. It is a midstream producer in the steel industry. Its main materials consist of slabs and hot-rolled steel coils and upstream materials are sourced from integrated steel mills. Suppliers include steel mills in Japan and CSC Group. The steel products produced by the Company are supplied to downstream single cold-rolling plants, galvanization plants, and pipe production plants. Other industries that require the Company's products include construction, transportation vehicles (automobiles, motorcycles, and bicycles), industrial machinery, and electrical/electronic machinery (home appliances and personal computers). Based on the characteristics of the steel industry, the uniqueness of the material contributed to high levels of dependency between upstream, midstream, and downstream producers due to products in the same industry that are fully interchangeable. Companies maintain close relations with suppliers

and customers and they extend partnerships and strategic alliances upward and downward to obtain greater synergy in production and sale.

3. Product trends and competition

(1) Hot-rolled products:

A. Amid the rapid growth of the automobile and automotive electronics industries in China, automobile and automotive electronics components with pricing advantages have become the key in steel technology transformation. The main applications of fineblanking steel products include gearbox, gear clutch, seat angle adjustor, seat slides, seatbelt buckles, brake linings, and voice coil motors. Suitable materials include stamping and forming steel (SPHD), low-carbon steel (S15C and S20C), medium to high-carbon steel (S35C-S55C), chromium-manganese steel (16MnCr5), chromium-molybdenum steel (SCM415 and SAE 4130), and fine-grain strengthening and precipitation hardening (QStE380 TM and QStE460 TM). The applicable thickness is 2.0-8.0mm.

B. The production of ultra-thin plates is relatively difficult for hot rolling mills due to equipment and technology constraints. To replace parts of the products and improve market competition, we actively seek to develop ultra-thin plates.

C. High-grade pickling and oiling products may replace certain cold-rolled products to reduce the cost of customers' materials and improve competitiveness.

(2) Cold-rolled products:

A. The production of ultra-thin plates is extremely challenging for cold rolling mills due to equipment and technology constraints as well as the thickness of the final products. Customers must use small rollers to produce 0.08-0.30mm products with high overall costs and low benefits. The development of ultra-thin plates is mainly targeted at products with 0.13-0.149mm in 1B thickness and medium to high-carbon steel products SB50C, SB65C, SK85M, and SK95M with a thickness of 0.25-0.30mm.

B. Cold-rolled fineblanking and formed products retain higher spherical rates, precision in thickness, and surface quality suitable for automobile components with requirements for high-surface quality and complicated punching forms, particularly seatbelt components, gearboxes, and clutches.

C. The high-strength thin cold-rolled plates 2B and 4B with a thickness of 0.25-0.50mm pose challenges to the cold rolling process and products are suitable for stationery, LED cable racks, and IC components.

(3) Steel pipes:

A. Expand to markets outside the United States and continue to develop oil pipelines suitable for low-temperature environments such as: CSA Z245.1 Gr.359 M45C, API 5L X70M PSL2, API 5L X80M PSL2, and other high-grade products.

B. Due to changes in oil well design, the demand for J55 Upgradable has increased significantly while demand for regular J55 has gradually declined. The oil well production pipes (4½" and 5½") mainly consist of J55 Upgradable and 80% of them are

upgraded to P110.

C.Integrate group resources (China Steel, China Steel Structure, etc.) and use Chung Hung's structural pipes in public infrastructure and construction projects to expand the scope of use.

(4) Galvanized products:

A.Use CH SGC590 high-strength galvanized steel plates (thickness of 1.80mm) to replace plywood (thickness of 30.0mm or above) as the bottom of containers, reduce customer cost, and conserve energy.

B.High-strength galvanized products are highly versatile and it is relatively difficult for thin plates in the hot rolling process. The SGH540 is suitable for making racks in stores. Thick boards are extremely challenging for the galvanizing process. HATM300-400 are suitable for railings used for railway intersections.

(III) Overview of Technology and R&D

The material R&D and improvement in 2018 are as follows:

1. Product development

- (1) Hot-rolled steel coils- SAE4130 product development.
- (2) Hot-rolled steel coils- QStE380TM product development.
- (3) Cold-rolled steel coils - SPCC-1D product development.
- (4) Galvanized steel coils - development of hot-dipped galvanized steel plates for the bottom of containers.

2. Product improvement

- (1) Hot rolling - continuous improvement for break-off rust on hot-rolled API steel pipe materials.
- (2) Hot rolling - continuous improvement for hot-rolled tail pinch.
- (3) Hot rolling - continuous improvement for high quality PO materials.
- (4) Hot rolling - improvements in crowning of fineblanking materials.
- (5) Hot rolling - coiling improvements.
- (6) Cold rolling - continuous improvement for drilling marks fineblanking materials.
- (7) Cold rolling - continuous improvement for tearing of adhesives.
- (8) Cold rolling - cleanliness improvement for the steel coil surface on the washing line.
- (9) Cold rolling - improvement for press marks left by foreign objects.
- (10) Pickling and galvanizing - improvement of continuous surface scratch marks in the continuous pickling line (CPL).
- (11) Pickling and galvanizing - improvement for spark marks in the continuous pickling line (CPL).

3. Process research and improvement

Hot rolling - establishment of the technology for controlling the difference in thickness of fineblanking materials (improve the stability in the crowning of fineblanking materials).

4. Equipment technology establishment

- (1) Hot rolling - establishment of the technology for controlling horizontal settings for the hot rolling finishing mill (improve fineblanking stability).
- (2) Hot rolling - No. 1 furnace boiler tube and skid replacement project (increase equipment stability and reduce the risks of suspension of operations).
- (3) Cold rolling - replacement of the air compressor (reduce energy consumption).
- (4) Cold-rolling - replacement and update of the cleaning tank on the pickling line (improve the quality of pickled steel coils).
- (5) Cold-rolling - replacement and update of the deviation correction system on the tension leveler (prevent deviation of steel plates that may cause quality defects).
- (6) Pickling and galvanizing - installation of the welding brush roller at the exit of the CPL welding machine (reduce spark marks).
- (7) Pickling and galvanizing - update of the pickling CGL galvanizing and film machine (increase measurement precision, reduce unnecessary zinc consumption, and lower costs).
- (8) Pickling and galvanizing - chiller room energy efficiency improvement project (reduce the cost of electricity for the chillers).

- (9)Steel pipes - improvement in production speed for 60.3mm steel pipes in Lukang Plant (improve IBC structure and increase the production speed of J55U steel pipes).
- (10)Steel pipes - supplementary welding for incomplete welding during outages to reduce wear (reduce excess losses of pipes and increase steel pipe production rate).
- (11)Steel pipes - establish steel pipe heat treatment simulation and test capabilities (ensure the quality of PCTJ55U steel pipe output).
- (12)Steel pipes - additional crane for Building Q in the storage area in Lukang Steel Pipe Plant (increase the shipping speed of steel pipes).

(IV) Long-term and Short-term Business Development Plans

1. Short-term plans

The Company shall uphold the marketing strategy of "stable domestic sales and full dedication to exports" and use advantages in the flexibility and speed of the supply chain along with dynamic and flexible management to achieve full production and optimize product portfolio. The Company shall implement internal management to reduce operating costs and improve quality and standards to create product diversification. The Company shall also leverage comprehensive group performance, effectively control the cost of materials, and continue to improve its competitiveness. The Company shall intensify global niche markets for steel pipes and establish a brand image for Chung Hung to maintain advantages of the Company's products on the market. All employees shall work hard to continuously improve the quality, standards, and variety of our products and achieve or exceed customer expectations at the lowest cost to create win-win for both the customers and the Company.

2. Long-term plans

In response to the current steel market, the Company formulated positive response measures and the management team is required to leverage advantages in flexibility and mobility to operate production and sale strategies with more flexibility and form strategic alliances with friendly manufacturers. The Company must also integrate resources of the group top achieve synergy. It must also dedicate itself to the analysis of product and production line costs and marginal contributions to quickly adjust the product portfolio. All employees of the Company shall dedicate all efforts on opening up channels and uphold the highest guiding principles for “mutual prosperity and coexistence with domestic and foreign customers to become the optimal partner”. The Company shall continue to diversify products and work hard to develop niche products to separate the market. The Company shall provide customized manufacturing services and work hard on technology quality to satisfy customer requirements. It shall focus on the fundamentals and embrace changes with flexibility to stabilize development and generate profits.

II. Market, production and sales

(I) Market analysis

1. Sales region for the main products:

The Company's product sales in 2018 were mainly focused on domestic demand which accounted for 52.85% of the total sales volume of 2.4793 million tons (60.55% in 2017). Exports accounted for 47.15% and export regions include China, Japan, Korea, Southeast Asia, South Asia, Middle East, Australia, Europe and the Americas. Regions such as Southeast Asia (16.18%), South Asia (10.74%), United States and Canada (6.80%), Europe (6.34%), Japan and Korea (3.51%), Hong Kong and China (1.19%), and the Middle East (1.13%) accounted for a larger proportion of export sales.

2. Market share: The market share of the Company's products on the domestic market (based on sales in the domestic market).

- (1) Hot-rolled products (including imports): 17.8% ◦
- (2) Cold-rolled products (including imports): 17.6% ◦
- (3) Steel pipe products (including imports): 3.5% ◦
- (4) Galvanized products (including imports): 7.3% ◦

3. Future market supply/demand and growth:

The Company formulated positive response measures in response to the current steel market. The Company shall implement internal management to reduce costs and improve quality and standards to create product diversification. The company shall maintain flexible external sales strategies to strengthen cooperation with customers, stabilize sales channels, and continue to improve the Company's competitiveness.

The Company plans to produce approximately 2.25 million tons of hot-rolled steel products in 2019 and purchase 168,000 tons of steel coils from external sources. The products, deducted by the self-usage volume, equals approximately 1.73 million tons of hot-rolled steel coils for external sales.

4. Positive and negative factors affecting competitive niches and long-term Market development, as well as response strategies:

(1) Favorable factors for long-term market development:

- **Stable supply of materials**

The stability of material supplies has profound implications for single-roll plants. The Company and China Steel began purchasing slab from Nippon Steel & Sumitomo Metal in 2015 at the quantity of 1.2 million tons per year. With a stable supply of materials, fair pricing, and short lead time, the Company is less affected by market price fluctuations in the international slab spot market.

- Product strategy that focuses on continuous improvement of product quality

The Company remains committed to improvements in product quality and process technology and it continues to work on product diversification and improvement of niche products to separate the market and strengthen the competitiveness of the Company's products on the market.

- Versatile and flexible sales policy

The Company uses monthly reviews of sales volume and prices to quickly respond to market changes and ensure product supplies are more flexible in terms of lead time and more competitive in terms of prices. In addition, the Company facilitates flexible adjustments to the production plan to reduce lead time and it helps the Company obtain rush orders and respond to changes in market demand.

(2) Unfavorable factors for future market development and response strategies

- Overcapacity crisis of global steel plants

Response strategies

A. Improve the management and control capacity for processing costs.

Improve production process capacity such as: Simplify process, improve equipment maintenance, improve work efficiency and performance of production personnel, and implement effective management.

B. Retain flexible sales policy.

The Company' sales Strategy is one with "main focus on domestic sales and supplemented by exports". The Company reviews the sales volume and prices each month to increase flexibility in overall sales. The Company adjusts the product portfolio based on market demand to stabilize the domestic sales market and reduce the impact of foreign steel products. The Company improves niche products for exports to strengthen market segregation.

- Responses to strong competition in domestic sales and exports

Response strategies

A. Continue to improve and upgrade product and technology.

The Company continues to improve product quality and upgrade process capacity to maintain the competitiveness of the Company's products on the market and improve market competitiveness.

B. Strengthen cooperation with customers to stabilize sales channels.

The Company focuses on improving product quality and process technology to improve the Company's competitiveness. It also actively develops and improve steel quality to achieve market segmentation and create a brand image for the Company. The Company shall continue to improve the added value of the product and develop niche products to maintain the advantages of the Company's products on the market.

- Access to resources has led to intensified competition.

Response strategies

A. Make full use of the Group's vertical integration and synergy

The Company is an investee of China Steel Corporation which holds 40.59% of shares. It purchases high-quality slabs from Nippon Steel & Sumitomo Metal and uses high-quality materials and R&D technologies of the CSC group to strengthen the Company. It retains access to market demands and adjusts the production capacity of various products and its product portfolio to maintain flexible implementation of the sales strategy and improve the Company's overall competitiveness on the market.

B. Maintain advantages in product quality.

The Company's main materials consist of high-quality slabs which greatly assist in improving yield rates and reducing usage of materials and aging of equipment. In addition, the Company continues to cultivate demand for high quality products and expand its capacity for producing highgrade products. It also advances upstream and downstream strategic alliances to form flexible and versatile strategies to compete against imports.

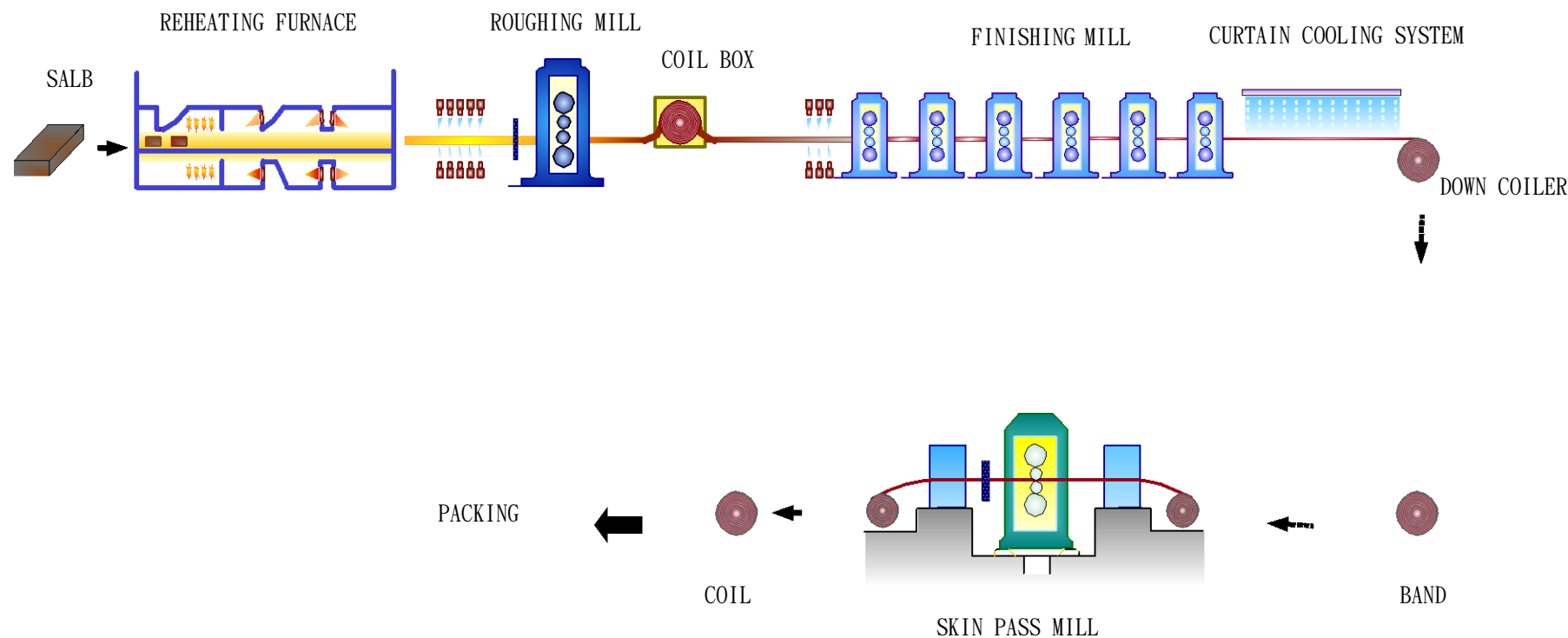
(II) Major product manufacturing processes

1. Applications main products

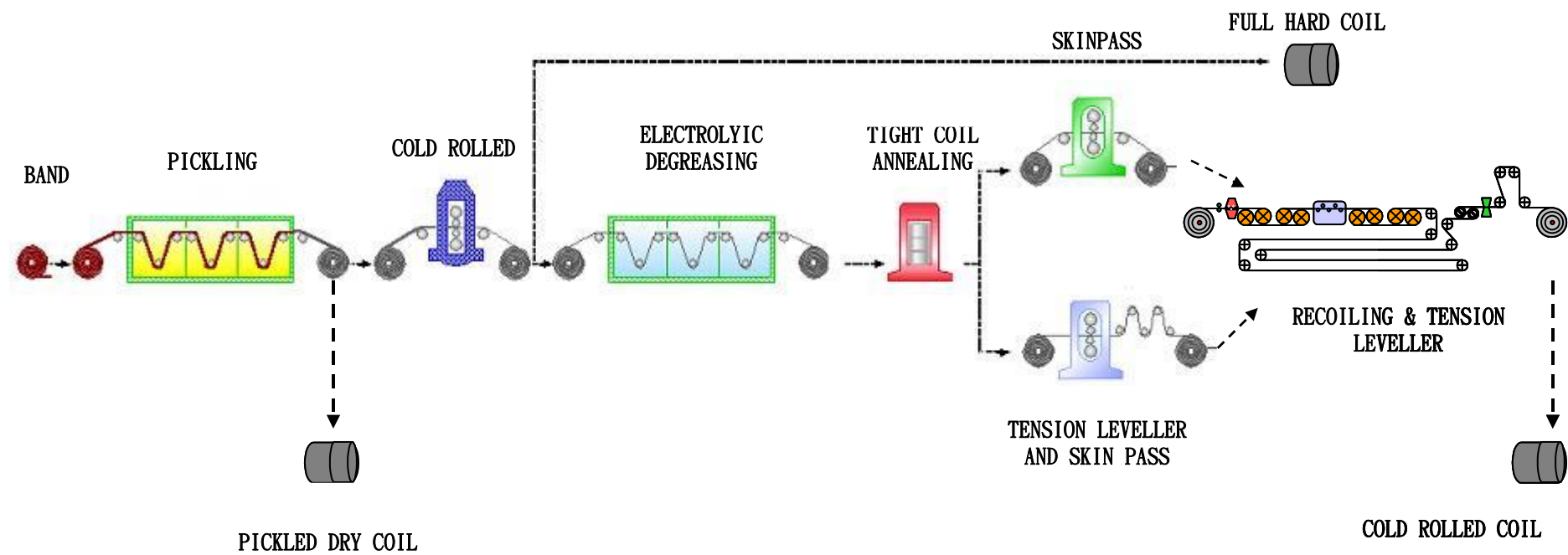
Product	Applications
Hot-rolled steel coils	● Re-rolling steel coils such as processing into cold-rolled steel plates and galvanized (coated) steel plates. ● Soft steel for processing into products such as containers, tools, and agricultural machinery. ● Structural steel plates for processing into products such as structural steel for buildings, bridges, and vessels, automobile components, containers, oil tanks, and crane beams. ● Production steel materials such as production of steel pipes for various purposes.
Cold-rolled steel coils	Steel products such as chains, umbrella runners, stationery, wheel rims, galvanized products, pipes, furniture, paint, container panels, panel tube bending, electroplating, stamping, electrical appliances, household products, and parts for the automotive industry.
Galvanized steel coils	Widely adopted in household appliances, construction materials, transportation, pre-galvanized steel pipes, and office furniture.
Steel pipes	Civil engineering construction materials such as API steel pipes, structural steel pipes, high and low-pressure ducts, galvanized steel pipes, drainage, gas transportation, and railings.

2. Production process

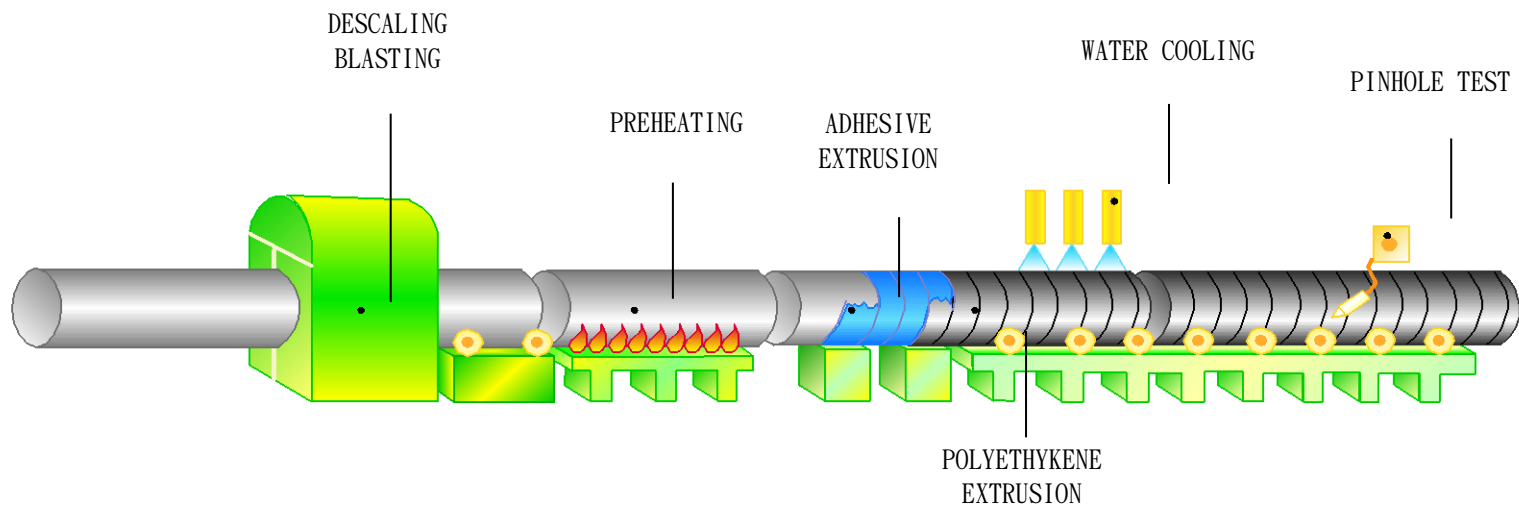
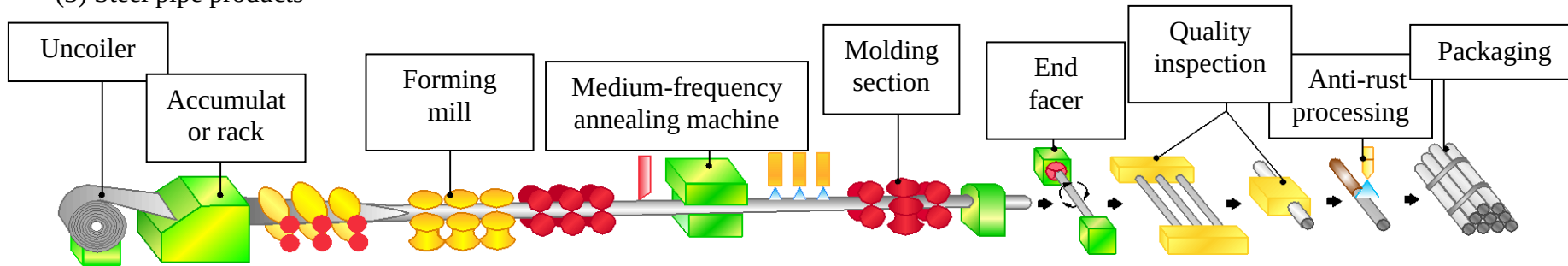
(1) Hot-rolled steel coils



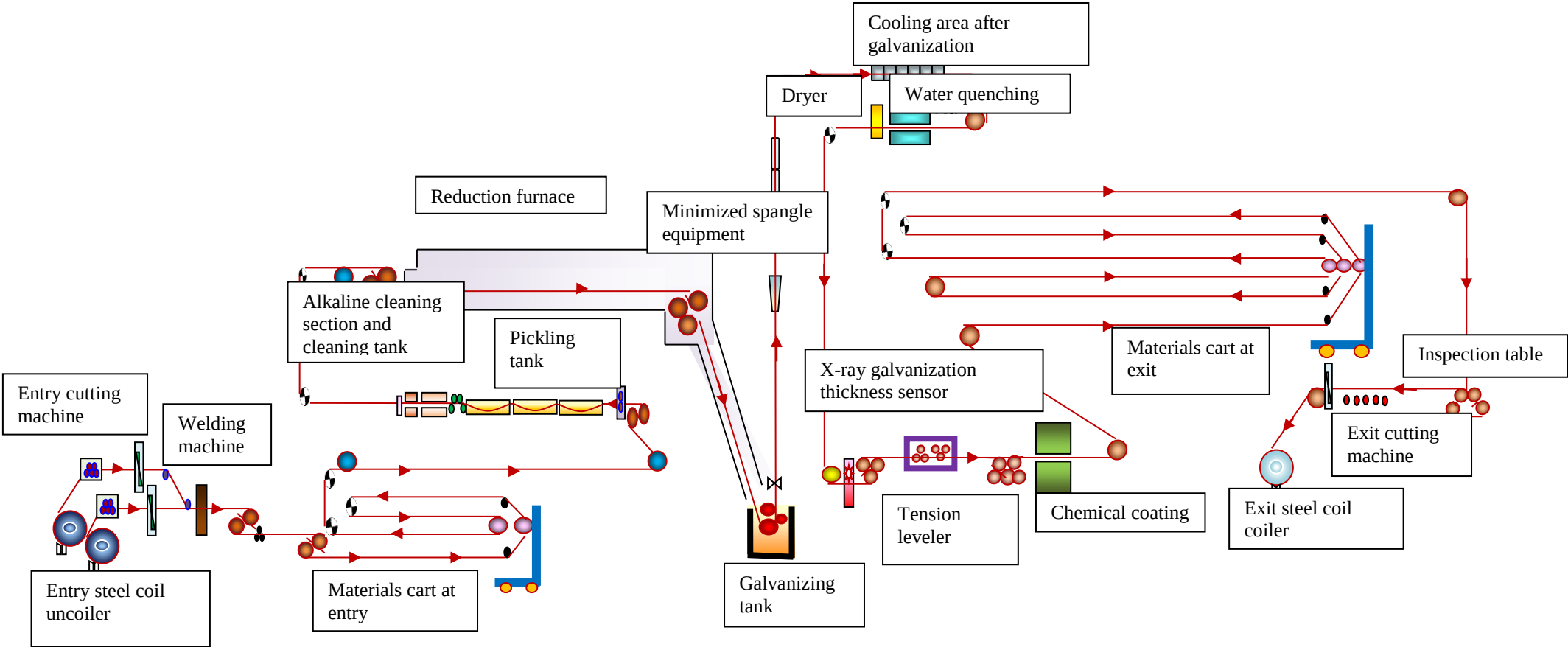
(2) Cold-rolled steel coils



(3) Steel pipe products



(4) Consecutive pickling of galvanized products



(III) State of supply of chief raw materials

The hot-rolled steel coils produced by the Company are mainly provided for its own consumption and external sales. The Company relies on imports for most of the materials, including slabs which are currently sourced from areas such as Japan. Certain supplies are sourced from China Steel, Dragon Steel, Russia, and Vietnam. The supply and quality of slab materials are stable. The materials used for cold-rolling and steel pipes are hot-rolled steel coils and the main source is hot-rolled steel coils produced by the Company. Certain supplies are sourced from China Steel and Dragon Steel and the material supplies are stable.

(IV) Names of customers who accounted for more than 10% of the sales in any of the last two years, and sales as a percentage of total sales:

1. Purchase (excluding returns and discounts):

Unit: NT\$

	2018				2017				2019 up to the end of the first quarter
Item	Name	Amount	Total annual net purchase ratio (%)	Relationship with the issuer	Name	Amount	Total annual net purchase ratio (%)	Relationship with the issuer	Information at the end of the quarter before the publication date of the 2019 Annual Report is information from 2018. Therefore, the information is the same as the information on the left.
1	China Steel	25,257,677	61	Related party	China Steel	20,345,694	64	Related party	
2	Dragon Steel	10,349,774	25	Related party	Dragon Steel	9,404,310	29	Related party	
3	Others	5,894,985	14	N/A	Others	2,222,007	7	N/A	
	Net amount for purchases	41,502,436	100		Net amount for purchases	31,972,011	100		

2. Sales (excluding returns and discounts):

Unit: NT\$

	2018				2017				2019 up to the end of the first quarter
Item	Name	Amount	Proportion of total net sales value for the entire year (%)	Relationship with the issuer	Name	Amount	Proportion of total net sales value for the entire year (%)	Relationship with the issuer	Information at the end of the quarter before the publication date of the 2019 Annual Report is information from 2018. Therefore, the information is the same as the information on the left.
1	Hong-Ye Steel	6,045,004	13	Non-related party	Hong-Ye Steel	5,693,645	14	Non-related party	
2	Others	41,520,820	87	N/A	Others	33,999,452	86	N/A	
	Net sales	47,565,824	100		Net sales	39,693,097	100		

(V) Table of consolidated production volume in the 2 most recent years

Unit: NT\$1000; tons

Output Volume Primary Product	Year	2018			2017		
		Production capacity	Production volume	Production value	Production capacity	Production volume	Production value
Hot-rolled products		2,400,000	2,252,510	35,756,817	2,400,000	2,234,642	29,672,132
Cold-rolled products		450,000	399,776	7,999,733	450,000	402,458	7,380,582
Steel pipes		248,000	174,007	3,783,018	248,000	130,993	2,736,892
Galvanized products		300,000	28,554	458,765	300,000	31,550	103,010
Total		3,398,000	2,854,847	47,998,333	3,398,000	2,799,643	39,892,616

Note 1: Production capacity refers to the volume of product that can be produced by a company using existing production equipment and under normal operation, after taking into consideration factors such as necessary downtime, holiday, etc.

Note 2: Substitutable production capacity may be included in the production capacity and be stated in the note.

Note 3: The production volume value of galvanized products from outsourced production is not included.

Note 4: The production capacity is the annual production capacity (Lukang Plant began official operations in October 2015).

(VI) Consolidated sales volume in the most recent two fiscal years

Unit: NT\$1000; tons

Volume Value Primary Product	Year	2018				2017			
		Domestic sales		Export sales		Domestic sales		Export sales	
		Volume	Value	Volume	Value	Volume	Value	Volume	Value
Hot-rolled steel coils		933,370	16,653,150	846,402	15,415,346	970,330	15,586,236	670,132	10,785,156
Cold-rolled steel coils		273,242	5,525,906	140,824	2,982,111	318,045	5,875,402	106,740	2,070,674
Steel pipes		11,035	271,607	157,525	4,229,366	10,058	224,430	119,935	2,696,110
Galvanized steel coils		90,872	1,957,610	24,235	523,953	103,362	2,066,287	19,532	371,806
Others		1,824	6,775	0	0	4,756	16,996	-	-
Total		1,310,343	24,415,048	1,168,986	23,150,776	1,406,551	23,769,351	916,339	15,923,746

Note: Galvanized steel coils were from outsourced production.

(VII) Key performance indicators unique to the steel industry

The steel industry is a capital-intensive industry which has not experienced major innovations or changes in terms of equipment, technology, and resources. Therefore, the financial ratios and profitability are more representative of the operational and management performance in the steel industry. They are used as key performance indicators due to the uniqueness of the industry.

The Company's financial ratios and profitability analysis in 2018 and 2017 can be referenced in the Financial analysis of the most recent 5 years in Chapter 6 Financial Conditions of this

Annual Report. Global steel prices experienced high-price fluctuations in 2018. The main reason is the capacity in China which accounts for approximately 50% of the global output and changes in production and sales in China would always remain the key factor in determining global steel prices. In 2018, our liability to asset ratio amounted to 55.82% and long-term funds to fixed assets ratio amounted to 158.43%; current ratio was 93.83% and interest protection multiples was 22.68; return on assets was 9.70% and return on shareholder's equity was 22.73%; earnings per share was NT\$2.11.

Faced with severe challenges in the environment, the Company maintains capital liquidity and works hard to enhance performance, improve processes, improve quality, and reduce cost. It aims to adopt a stable financial structure to achieve sustainable operations and development.

III. Human Resources

Number of employees, average years of, average age, and education of employees for the last two years until the public date of this report

March 31, 2019

Year		2018	2017	2019 till March 31
The Company and subsidiaries of the Company				
Number of employees		1,233	1,233	1,233
Average Age		47.6	46.98	47.6
Average years of services		17.9	17.02	18.00
Education Background Distribution %	Doctorate	0.16	0.24	0.16
	Master's	10.22	9.41	10.30
	College	53.85	54.10	53.85
	High school (vocational high school)	33.09	33.33	33.09
	High School and below	2.68	2.92	2.60

IV. Spending on environmental protection

The Company upholds the spirit of respect for life, care for the environment, energy conservation and carbon emissions reduction, and continuous improvement. It gradually improves various safety, health, and environmental and energy management performance, passed various certifications, and won awards. All three plants have passed ISO 14001,

OHSAS 18001, TOSHMS, ISO 50001, and ISO 14064-1 certification as well as the product carbon footprint inventory. The Company's performance is as follows:

1. The Hot Rolling Department received the "Enterprise Award of Excellence for Energy Conservation" from the Ministry of Economic Affairs in November 2003.
2. The Cold Rolling Department received the 13th "ROC Enterprise Environmental Protection Excellence Award" in September 2004.
3. The Hot Rolling Department received the 14th "ROC Enterprise Environmental Protection Excellence Award" in September 2005.
4. The Cold Rolling Department received the "Enterprise Award of Excellence for Energy Conservation for 2005" from the Ministry of Economic Affairs in November 2005.
5. The Hot Rolling Department received the "2005 Greenhouse Gas Inventory Statement" issued by the DNV in December 2007.
6. The Hot Rolling Department received the "2007 Outstanding Enterprise in Industry Voluntary Greenhouse Gas Emissions Reduction" from the Industrial Development Bureau, Ministry of Economic Affairs in December 2008.
7. The Hot Rolling Department, Cold Rolling Department, and steel pipe plant passed the DNV's Taiwan Occupational Safety and Health Management System (TOSHMS) certification in November 2009.
8. The Hot Rolling Department received the "2009 Outstanding Enterprise in Industry Voluntary Greenhouse Gas Emissions Reduction" from the Industrial Development Bureau, Ministry of Economic Affairs in November 2009.
9. The Hot Rolling Department advanced the compressed air performance monitoring system update and received the "Energy Conservation Role Model" in the "Manufacturing Industry Energy Conservation & Carbon Reduction Outcome Announcement Conference" from the Industrial Development Bureau, Ministry of Economic Affairs in November 2010.
10. The Hot Rolling Department and Cold Rolling Department received the "Outstanding Energy Conservation Performance Award" presented by the Environmental Protection Bureau of Kaohsiung City Government.
11. The Cold Rolling Department and steel pipe plant received awards in the "New Environmental Protection Good Life Energy Conservation and Carbon Emissions Reduction Assessment" in the enterprises division from the Environmental Protection Bureau of Kaohsiung City Government in January 2012. The Cold Rolling Department won third place and the steel pipe plant won fourth place.
12. The Hot Rolling Department, Cold Rolling Department, and steel pipe plant passed the DNV's ISO 50001 Management System Verification in December 2012.
13. The Hot Rolling Department, Cold Rolling Department, and steel pipe plant passed the DNV's product carbon footprint inventory in December 2012.
14. The Company's purchase of green mark products exceeded NT\$5 million in 2012 and it received an honorary certificate for "Passionate Advancement of Green Consumption Through Green Procurement" from the Environmental Protection Bureau of Kaohsiung City Government.
15. The Company's purchase of green mark products exceeded NT\$20 million in 2012 and it received an honorary certificate for "Outstanding Performance for Passionate Advancement of Green Consumption Through Green Procurement in 2012" from the Environmental Protection Administration, Executive Yuan.

16. The Cold Rolling Department received the “Enterprise Award of Excellence for Energy Conservation for 2013” from the Ministry of Economic Affairs in November 2013.
17. The Hot Rolling Department received the “2013 Outstanding Enterprise in Industry Voluntary Greenhouse Gas Emissions Reduction” from the Industrial Development Bureau, Ministry of Economic Affairs in November 2013.
18. The Hot Rolling Department, Cold Rolling Department, and steel pipe plant received the ISO14064-1 Greenhouse Gas Inventory Statement for the greenhouse gas emissions inventory from 2005 to 2012.
19. The Company advanced the Workplace Safety Week program and received the “Excellence Award” from the Council of Labor Affairs, Executive Yuan in 2012.
20. The Cold Rolling Department was recognized as an “Outstanding Unit in the Advancement of Labor Safety and Health in Kaohsiung City in 2012” and received the “Outstanding Unit Award” as a “2012 Outstanding Labor Safety and Health Unit” from the Council of Labor Affairs, Executive Yuan in July 2013.
21. The Company organized the 2013 Kaohsiung City Workplace Safety Week program and received the trophy for “Excellence in Labor Safety” from the Labor Affairs Bureau of Kaohsiung City Government in September 2013.
22. The Company served as the core company in the 2013 Kaohsiung City “Chung Hung Safety and Health Registration Family” and received a trophy for efforts in support of occupation health public welfare events from the Council of Labor Affairs of the Executive Yuan in November 2013.
23. The steel pipe plant received the “Special Award” for safety and health performance in 2012 from Taiwan Steel & Iron Industries Association in November 2013.
24. The Hot Rolling Department received the “Excellence Award” for safety and health performance in 2012 from Taiwan Steel & Iron Industries Association in November 2013.
25. The Company served as the core company in Kaohsiung City's Chung Hung Safety and Health Family from 2011 to 2013 and was awarded a trophy for “Outstanding Performance for Reducing Occupational Disasters” from the Labor Affairs Bureau of Kaohsiung City Government in December 2013.
26. The Cold Rolling Department was recognized as an “Outstanding Unit in the Advancement of Labor Safety and Health in Kaohsiung City in 2013” and received the “Outstanding Unit Award” as a “2013 Outstanding Labor Safety and Health Unit” from the Ministry of Labor, Executive Yuan in November 2014.
27. The Hot Rolling Department received the “Special Award in the Steel Rolling Category” for results in the 2013 comprehensive safety performance survey by Taiwan Steel & Iron Industries Association in November 2014.
28. The Hot Rolling Department organized the “2014 Occupational Health and Safety Promotion Observation Conference” with the Labor Affairs Bureau of Kaohsiung City Government and received the trophy for “Promotion of Occupational Safety”.
29. The Company’s purchase of green mark products exceeded NT\$5 million in 2013 and it received an honorary certificate for “Passionate Advancement of Environmental Protection” from the Environmental Protection Bureau of Kaohsiung City Government.
30. The Company’s purchase of green mark products exceeded NT\$20 million in 2013 and it received an honorary certificate for “Outstanding Performance for Passionate Advancement of Environmental Protection Through Green Procurement in 2013” from the Environmental Protection Administration, Executive Yuan.

31. The improvement in the efficiency of the air compressor systems in the Hot Rolling Department and Cold Rolling Department passed the DNV's certification in January 2014.
32. The conversion of fuel from heavy oil to natural gas in the heating furnace project of the Hot Rolling Department passed DNV certification in August 2014.
33. The Hot Rolling Department, Cold Rolling Department, and steel pipe plant (Dafa Plant) received the 2013 ISO14064-1 Greenhouse Gas Inventory Statement for the greenhouse gas emissions inventory in September 2014.
34. The Administration Building won the "First Prize" in the electricity savings contest for small and medium enterprises organized by Taiwan Power Company in November 2014.
35. The Hot Rolling Department received the "2014 Water Conservation Excellence Award" from the Water Resources Agency, Ministry of Economic Affairs in December 2014.
36. The Company's purchase of green mark products exceeded NT\$5 million in 2014 and it received an honorary certificate for Green Procurement from the Environmental Protection Bureau of Kaohsiung City Government.
37. Lukang Steel Pipe Plant advanced the "Healthy Workplace Accreditation and Health Promotion Mark" in January 2015 and received a certificate from the Bureau of Health Promotion.
38. Lukang Steel Pipe Plant passed the DNV's ISO 14001 and OHSAS 18001 Management System Verification in October 2015.
39. The Cold Rolling Department received the "Special Award" for safety and health performance in 2014 from Taiwan Steel & Iron Industries Association.
40. The Hot Rolling Department, Cold Rolling Department, and steel pipe plant (Dafa Plant) obtained the 2014 ISO14064-1 Greenhouse Gas Inventory Statement for the greenhouse gas emissions inventory in June 2015.
41. The Cold Rolling Department was recognized as an "Outstanding Unit in the Advancement of Occupational Safety and Health in Kaohsiung City in 2014" and received the "Five-Star Award" as a "2014 Outstanding Occupational Safety and Health Unit" from the Ministry of Labor, Executive Yuan in November 2015.
42. The Hot Rolling Department organized a workplace quit smoking service contest in 2015 and won a certificate of gratitude from the Department of Health of Kaohsiung City Government.
43. The Hot Rolling Department received the highest honors with the "Excellence Award" in Group A in the 2015 Energy Conservation Contest organized by the Ministry of Economic Affairs in October 2015.
44. The Hot Rolling Department received the "Special Prize" for manufacturing plants in the 2015 Carbon Reduction Actions Award from the Environmental Protection Administration in January 2016.
45. The Administration Building received "Outstanding Award" for carbon emissions reduction in the office space in the 2015 Carbon Reduction Actions Award from the Environmental Protection Administration in January 2016.
46. The Company's purchase of green mark products exceeded NT\$10 million in 2015 and it received an honorary certificate from the Environmental Protection Bureau of Kaohsiung City Government in April 2016.
47. The Hot Rolling Department, Cold Rolling Department, and steel pipe plants (Dafa Plant and Lukang Plant) obtained the 2015 ISO14064-1 Greenhouse Gas Inventory Statement for the greenhouse gas emissions inventory in June 2016.

48. The Company was selected as an outstanding group enterprise in electricity savings in 2015 by the Ministry of Economic Affairs and received a “Electricity Savings Role Model” trophy in August 2016.
49. The application for carbon rights offsetting (improvement of the performance of the air compressors and replacement of heavy oil with natural gas as fuel in the furnace) was registered by the Environmental Protection Administration.
50. The Hot Rolling Department and Cold Rolling Department both received the “Special Award” for occupational safety performance in 2015 from Taiwan Steel & Iron Industries Association
51. The hot rolling mill was recognized as an “Outstanding Unit in the Advancement of Occupational Safety and Health in Kaohsiung City in 2015” and received the “2015 Outstanding Occupational Safety and Health Unit Award” from the Ministry of Labor, Executive Yuan.
52. The Cold Rolling Department received the “Health Vibrancy Award” for outstanding workplace health promotion in 2016 from the Health Promotion Administration of the Ministry of Health and Welfare.
53. The Hot Rolling Department was recognized as an “Outstanding Unit in the Advancement of Occupational Safety and Health in Kaohsiung City in 2016” and received the “2016 Occupational Safety and Health Unit Award” from the Ministry of Labor, Executive Yuan.
54. The Company received recognition for inter-department greenhouse gas reduction and cooperation program in 2017 from the Environmental Protection Bureau of Kaohsiung City Government in October 2017.
55. In October 2017, the Hot Rolling Department and Cold Rolling Department both received the “Special Award” for occupational safety performance in 2016 from Taiwan Steel & Iron Industries Association
56. In November 2017, the Company responded to the charity event “Computer Recycling for Hope Project” advanced by Asustek Computer and participated in the “Computer Recycling Tea Party for Sustainable Development”. The Company received a certificate of gratitude.
57. Lukang steel pipe plant received the “Health Management Award” for outstanding workplace health in 2017 from the Health Promotion Administration of the Ministry of Health and Welfare in December 2017.
58. The Cold Rolling Department received a certificate of gratitude from the “Toxic Chemicals Allied Defense Team” of the Environmental Protection Bureau of Kaohsiung City Government in December 2017.
59. The Hot Rolling Department, Cold Rolling Department, and steel pipe plants (Dafa Plant and Lukang Plant) obtained the 2016 ISO14064-1 Greenhouse Gas Inventory Statement for the greenhouse gas emissions inventory in June 2017.
60. The inventory certificate for the “conversion of fuel from heavy oil to natural gas in the heating furnace project” of the Hot Rolling Department passed ISO 14064-2 certification in December 2017.
61. The Hot Rolling Department, Cold Rolling Department, Dafa Steel Pipe Plant, and Lukang Steel Pipe Plant passed ISO 14001:2015 certification review in May 2018.
62. The Hot Rolling Department, Cold Rolling Department, and steel pipe plants (Dafa Plant and Lukang Plant) obtained the 2017 ISO 14064-1 Greenhouse Gas Inventory Statement for the greenhouse gas emissions inventory in July 2018.
63. Lukang steel pipe plant passed ISO 50001 certification in July 2018.

64. The Hot Rolling Department organized the first energy conservation demonstration seminar for China Steel Corporation Group on behalf of the Company in July 2018.
65. The Company received a certificate for "voluntary participation in the 2018 summer electricity saving and lights off event promoted by the Environmental Protection Bureau" from the Environmental Protection Bureau of Kaohsiung City Government in August 2018.
66. The Hot Rolling Department was recognized as an "Outstanding Unit in the Advancement of Occupational Safety and Health in Kaohsiung City in 2017" and received the "Five-Star Award" as a "2017 Outstanding Occupational Safety and Health Unit" from the Ministry of Labor in September 2018.
67. The Company received a certificate for "cooperation with the 2018 inter-department collaboration on emissions reduction promoted by the Environmental Protection Bureau of Kaohsiung City Government" from the Environmental Protection Bureau of Kaohsiung City Government.
68. Lukang Steel Pipe Plant received the "Excellence Award" for safety and health performance in 2017 from Taiwan Steel & Iron Industries Association in October 2018.
69. The Labor Inspection Office of the Department of Labor, Taipei City Government visited the Hot Rolling Department to observe the occupational safety technology in November 2018.

(I) Total amount of losses and penalties incurred due to environmental pollution in the most recent fiscal year up to the publication date of this annual report:

There were no records of losses or penalties due to environmental pollution from January 2018 to December 2018.

(II) Future response strategies and potential expenditures

1. Periodic inspections of pollutant emissions, appointment of qualified companies to properly process waste, external audit of the management system, and greenhouse gas special assistance and inspection (verification) expenses.

2. Environmental protection expenditure in 2018 amounted to NT\$152,573 thousand.

Item	Amount (NT\$1000)
1. Air pollution prevention expenses	5,803
2. Water pollution prevention expenses	35,651
3. Industrial waste disposal expenses	45,821
4. Soil pollutant expenses, land restoration, and soil and groundwater inspections	58,664
5. Toxic chemical (statutory expenses, review, and certification expenses)	2
6. Drinking water inspection expenses (including the cost of repairs)	231
7. Energy conservation investment, employee training, consultation, and verification expenses	6,401
Total	152,573

3. Total estimated environmental protection expenditures in 2019 is approximately NT\$256,643 thousand.

Item	Amount (NT\$1000)
1. Air pollution prevention expenses	16,154
2. Water pollution prevention expenses	50,858
3. Industrial waste disposal expenses	77,886
4. Soil pollutant expenses, land restoration, and soil and groundwater inspections	80,593
5. Toxic chemical (statutory expenses, review, and certification expenses)	2
6. Drinking water inspection expenses (including the cost of repairs)	198
7. Energy conservation investment, employee training, consultation, and verification expenses	30,952
Total	256,643

(III) Protection measures for work environment and employees' personal safety

1. Continue to promote regional allied defense for occupational safety and inspections by senior managers: For high-risk operations in the plants (falling from heights, tripping, clamping hazards, collisions, and cross-management of personnel and vehicles), plants have implemented self-inspections and allied defense measures to continue to uncover potential risks and allow operating personnel to clearly understand the hazards of their work sites. The Company improves inherent issues, continues to reduce operating risks, and raises personal occupational safety awareness and accountability. Approximately 9,166 issues were discovered in the occupational safety regional allied defense measures in the eight years from 2011 to 2018. The improvement rate is 100%.

2. Constant safety observations by supervisors:

To control and alleviate potential hazards in high-risk operations, the Company implements dynamic safety observations for "high-risk operations" and requires units to list topics for annual observation. The observations are carried out in accordance with the plan to control high-risk operations and review the compliance of high-risk operations and the corresponding SJP to reduce the risks in hazard management and control.

3. Occupational safety audits and communication meetings with occupational safety personnel of contractors: The Company uses occupational safety audits to inspect managers' regular observation and dynamic observation of high-risk operations and compliance in SJP revision discussions to verify actual onsite implementation and improve the autonomous inspections and hazard identification capacity for occupational safety of plant managers and safety and health personnel (including safety and health personnel of contractors). The Company also organizes periodic communication meetings with occupational safety personnel of contractors to improve the management skills of occupational safety personnel of contractors.

4. 12 basic occupational safety regulations:

The Company converts results of material incidents in the past and related regulations into 12 basic regulations and tests employees and contractors' employees during occupational safety audits on the contents. A total of 369 personnel have passed the recital of the 12 basic regulations from 2015 to 2018.

5. Employee health inspection management and promotion: The Company provides all employees with general health examinations each year which is superior to legal requirements. We also provide special health examinations for employees who work in special work sites to screen high-risk groups based on inspection results. The Company organizes health care and health promotion activities to increase employees' awareness of their health management and prevent diseases.

6. Four major plans for preventing human-factor hazards, irregular work load, acts of infringements, and maternal health: Screen potential risks in the workplace and use software and hardware improvement to provide a good work environment and atmosphere. Provide employees who had given birth with breastfeeding rooms, work suitability assessment, workload assessment, and related protection measures.

7. Occupational safety awareness of all employees: Allow employees to understand the risks and potential hazards in all operations by letting them personally experience "mechanical operations", "electrical engineering operations", "crane operations", "confined-space operations", "elevated operations", and "hydraulic operations" so that they may increase their awareness for safety in future operations.

8. The Company implements the "Key Environmental Protection Records and Inspection Audit" and compiles a Key Record Inspection Form based on the requirements in environmental protection permits (stationary sources of pollution, wastewater, waste, and toxic chemicals) and common discrepancies. The onsite operating units of the plants reports the inspection results of independent monthly and quarterly inspections to the Company's environmental protection unit for verification. These measures ensure that onsite personnel develop active self-inspection operations and provide them with training that increases the awareness of regulatory requirements.

9. The Company carries out the "environmental protection and energy operations audit" each quarter to verify the compliance and execution through environmental protection and energy audits in order to improve environmental protection and energy efficiency performance.

10. The Company carries out the "environmental protection regulations discussion meeting" each quarter for related personnel responsible for execution and environmental protection operations in all plants to learn about trends and key points in environmental protection regulations and to ensure that all environmental protection operations in plants comply with regulatory requirements.

11. Meetings of the “Environment and Energy Management Committee” are convened once every two months to discuss the implementation status of electric power technologies, thermal energy technologies, environment and energy systems, and energy conservation and waste reduction. The Company is committed to the advancement of a circular economy and energy conservation and carbon emissions reduction in response to the government’s environmental and energy policies.
12. Continue to conserve electricity by 1% each year. Follow up on the progress of energy conservation improvement projects each month. The Company has achieved more than 1% electricity savings from 2015 to 2018 which meets regulatory requirements.

(IV) In response to the European Union's Restriction of Hazardous Substances Directive (RoHS):

1. The Company's products are RoHS compliant.
2. Impact of compliance with RoHS on the Company's financial operations: None.

V. Employees-employer relations

(I) The company's employee welfare policies, continuing education, training, retirement systems and implementation status, the agreement between employees and employer and employees' rights and interests:

1. Employee welfare

- (1) The Company established the Employee Welfare Committee to take charge of welfare affairs of all employees. All budgets and expenditures of the welfare fund are discussed and supervised through regular meetings of the Employee Welfare Committee (once every 3 months).
- (2) Welfare items include subsidies for birthdays, national holidays, unit tourism activities, club activities, occupational injuries, hospitalization, funerary subsidies, emergency conciliatory funds for deaths, marriage, childbirth, children education, and children (employee) scholarships. The Company also organizes large-scale company-wide outdoor activities to improve employees' morale and advance community engagement activities.
- (3) Emergency loans for employees: Full-time employees of the Company may request emergency loans from the Welfare Committee in the event of emergencies.
- (4) The Employee Welfare Committee organizes group insurance for employees. Beneficiaries include the employee, parents, spouses, and children. Insurance benefits include periodic life insurance, accident insurance, hospitalization and medical insurance, and cancer insurance. Employees also enjoy a 20-year life insurance coverage.
- (5) The Committee provides employees with information on contracted stores and updates the information periodically.

2. Employee studies and training

Employee training are one of the key work items of the Company. The Company schedules annual training programs for personnel on all levels based on the Company's operational policies, business objectives, and requirements of the departments. In addition, employees of various departments require professional training based on the nature of their work to improve the quality of human resources and advantages for development.

The Company provides employees with an open and diverse learning environment and employees can continue to challenge themselves through internal/external training, OJT, and guidance from supervisors/peers. In addition, the Company also provides employees with maximum satisfaction through training for new employees/professional skills/management skills/general knowledge courses. These measures allow them to experience the joy of growth in knowledge for a brighter future. The Company has

established the “Regulations on the Advancement of Education and Training” to provide related training courses based on requirements for jobs and professional skills. The courses aim to improve the overall quality of employees and improve business performance. Employees receive an average of 23.4 hours of internal/external training. Total expenditures amounted to NT\$4,557 thousand.

3. Employee retirement system

The Company’s employee retirement system is based on the Labor Standards Act and the Company’s retirement regulations. In addition, the Company has set regulations to allow employees whose combined years of service and age is greater than 60 to apply for retirement. The Company also pays the pension in accordance with the pension payment standards set forth in the Labor Standards Act.

The Company has established a Labor Pension Preparatory Fund Supervision Commission in accordance with laws and sets aside labor pension preparatory funds each month. The Company also contributes 6% of employees’ salaries as pension to the Bureau of Labor Insurance for personnel applicable to the new labor pension system in accordance with the Labor Pension Statutes which entered into force on July 1, 2005.

4. Employees’ code of conduct and ethics policy

The Company has established the “Employee Work Rules” to stipulate rules on services and established the “Rewards and Penalties Regulations” to govern employees’ conduct. The Company has established the “Code of Ethical Conduct for Directors” and “Code of Ethical Conduct for Supervisors and Senior Managerial Officers” to improve corporate governance performance. The Company established the “Chung Hung Steel Employee Code of Ethics” to ensure that all employees’ conduct meet ethical standards and to prevent illegal and unlawful actions. Please refer to the Company’s website (<http://www.chsteel.com.tw>).

5. Employer-employee relations and employee rights maintenance measures

The Company organizes periodic employees-employer meetings and employees can express their opinions through labor representatives and during the meetings. The opinions are processed in accordance with procedures after employees-employer negotiations. The Company enjoys harmonious employees-employer relations. To improve the Company’s employees’ cohesiveness with the Company, the Company has established an awareness for “employees equal shareholders” to provide employees with additional protection for their life after retirement. The Company began implementing employee shareholding trusts in July 2004 and employees may freely apply for membership to set aside funds from their salaries to the trust. The Company provides a 20% incentive fund based on the amount set aside by each member every month and all appropriated funds are sent to the trust account of the appointed financial institution to acquire and manage the Company’s shares.

(II) Losses arising as a result of labor disputes in the recent year up until the publication date of this annual report: None.

(III) Estimations for possible losses in the future and response measures:

Employee-employer relations have remained harmonious. Officers of all levels work hard to take care of employees and resolve issues as quickly as possible. Internal management regulations are also processed in accordance with the Labor Standards Act. The Company organizes employee seminars and employee-employer meetings regularly to maintain smooth communication channels between employees and management. There have been no disputes between employees and management.

VI. Important contracts

Contracting parties, main content, restrictive clauses, and contract commencement date/expiration date of important supply/sales contracts, technology cooperation contracts, engineering contracts, long-term loan contracts, and other important contracts with material impact on shareholder equity that continue to be valid as of the publication date of the Annual Report or expiry in the most recent fiscal year.

Nature of the Contract	Contracting Party	Commencement Date/Expiration Date	Main Content	Restrictive Provisions
Material supply contract	Nippon Steel & Sumitomo Metal	2015.07.01 - 2020.06.30	Supply of slabs	None.
Natural gas Long-term supply contract	Nan Jehn Natural Gas Co., Ltd.	2018.10.11- 2021.10.31	Nan Jehn provide fuel required for the annealing furnace of the Cold Rolling	None.
Equipment contract	Infochamp Systems Corporation	2018.11.02- 2020.12.31	Continuous pickling line (CPL) of the Pickling and Galvanizing Department Update of electrical control equipment	None.
Steam Long-term supply contract	China Steel Corporation	2018.12.28- 2023.12.31	Steam is used for heating on the production line of the Pickling and Galvanizing Department	None.
Land lease contract	Costco President Taiwan Inc.	2010.06.30 - 2031.08	Land lease	1.. The lessee retains the right to issue a written notice to the lessor regarding the intended contract renewal period 18 to 24 months prior to the expiry of the operations period. The maximum contract renewal

				period shall be ten years but it may not be lower than five years. 2. The lessee may terminate the Contract at any time after a period of ten years from the first day of the lease for any reason, provided that it shall be required to issue a written notice to the lessor no less than six months in advance to explain the reason for its failure to continue the lease (hereinafter referred to as the “termination notice period”) and it shall be required to obtain the lessor’s written approval. The lessor may not refuse the request without a legitimate reason. However, where the lessee suffers more than two years (inclusive) of consecutive losses in the operations on the base/building and cannot continue the lease, it shall not be required to obtain the lessor's written approval (however, it shall be required to provide certification documents from an accountant).

Chapter 6 Financial Conditions

I. Condensed balance sheets, statements of comprehensive income, names of accountants, and audit opinions in the most recent five years

(I) Condensed balance sheet

1. Individual condensed balance sheet — International Financial Reporting Standards

Unit: NT\$1000

Year Item		Financial information for the most recent 5 fiscal years (Note 1)				
		2018 (Note 2)	2017 (Note 3)	2016	2015	2014
Current assets		11,654,994	8,847,559	7,211,872	6,025,763	9,897,259
Property, plant and equipment		13,249,030	14,031,648	12,074,761	13,250,036	13,012,517
Intangible assets		0	0	0	0	0
Other assets		8,515,140	8,496,333	10,585,269	9,624,914	9,861,332
Total assets		33,419,164	31,375,540	29,871,902	28,900,713	32,771,108
Current liabilities	Pre-distribution	12,428,299	10,617,891	13,578,273	10,602,139	11,916,038
	Post-distribution	Note 4	10,617,891	13,578,273	10,602,139	11,916,038
Non-current liabilities		6,227,619	8,831,990	6,883,815	11,660,319	11,810,570
Total liabilities	Pre-distribution	18,655,918	19,449,881	20,462,088	22,262,458	23,726,608
	Post-distribution	Note 4	19,449,881	20,462,088	22,262,458	23,726,608
Capital stock		14,355,444	14,355,444	14,355,444	14,355,444	14,355,444
Capital reserve		903	903	903	903	903
Retained earnings	Pre-distribution	904,506	(2,083,776)	(4,581,010)	(6,400,684)	(5,179,417)
	Post-distribution	Note 4	(2,083,776)	(4,581,010)	(6,400,684)	(5,179,417)
Other equity		(497,607)	(346,912)	(365,523)	(1,317,408)	(132,430)
Treasury stock		0	0	0	0	0
Total equity	Pre-distribution	14,763,246	11,925,659	9,409,814	6,638,255	9,044,500
	Post-distribution	Note 4	11,925,659	9,409,814	6,638,255	9,044,500

Note 1: The financial data from 2014 to 2018 have been audited by CPAs.

Note 2: The Company's Annual Report is published on March 31, 2019. Therefore, the information at the end of the quarter before the publication date is the information from 2018.

Note 3: Based on the recompiled Financial Report.

Note 4: The 2018 earning distribution proposal is to be approved by the shareholders meeting.

2. Consolidated condensed balance sheet — International Financial Reporting Standards

Unit: NT\$1000

Year Item		Financial data for the recent 5 years (Note 1)				
		2018 (Note 2)	2017	2016	2015	2014
Current assets		11,663,757	8,853,782	7,604,143	6,524,665	10,531,193
Property, plant, and equipment		13,249,030	14,031,648	15,056,749	16,453,974	16,429,842
Intangible assets		0	0	0	0	0
Other assets		8,508,126	8,491,421	8,361,386	7,624,184	8,018,959
Total assets		33,420,913	31,376,851	31,022,278	30,602,823	34,979,994
Current liabilities	Pre-distribution	12,430,048	10,619,202	13,890,741	11,066,341	12,787,016
	Post-distribution	Note 3	10,619,202	13,890,741	11,066,341	12,787,016
Non-current liabilities		6,227,619	8,831,990	7,721,723	12,898,227	13,148,478
Total liabilities	Pre-distribution	18,657,667	19,451,192	21,612,464	23,964,568	25,935,494
	Post-distribution	Note 3	19,451,192	21,612,464	23,964,568	25,935,494
Equity attributed to the owners of the parent company		14,763,246	11,925,659	9,409,814	6,638,255	9,044,500
Capital stock		14,355,444	14,355,444	14,355,444	14,355,444	14,355,444
Capital reserve		903	903	903	903	903
Retained earnings	Pre-distribution	904,506	(2,083,776)	(4,581,010)	(6,400,684)	(5,179,417)
	Post-distribution	Note 3	(2,083,776)	(4,581,010)	(6,400,684)	(5,179,417)
Other equity		(497,607)	(346,912)	(365,523)	(1,317,408)	(132,430)
Treasury stock		0	0	0	0	0
Non-controlling equity		0	0	0	0	0
Total equity	Pre-distribution	14,763,246	11,925,659	9,409,814	6,638,255	9,044,500

	Post-distribution	Note 3	11,925,659	9,409,814	6,638,255	9,044,500

Note 1: The financial data from 2014 to 2018 have been audited by CPAs.

Note 2: The Company's Annual Report is published on March 31, 2019. Therefore, the information at the end of the quarter before the publication date is the information from 2018.

Note 3: The 2018 earning distribution proposal is to be approved by the shareholders meeting.

(II) Condensed income statement

1. Individual condensed consolidated income statement — International Financial Reporting Standards

Unit: NT\$1000

Item \ Year	Financial information for the most recent 5 fiscal years (Note 1)				
	2018 (Note 2)	2017 (Note 3)	2016	2015	2014
Operating revenue	48,233,721	40,788,590	32,618,511	29,349,527	36,177,800
Operating margin (loss)	4,379,722	3,885,249	2,880,470	(1,909,545)	965,584
Operating profit (loss)	2,871,898	2,571,306	1,779,313	(2,912,361)	69,409
Non-operating income and expenses	161,325	34,822	133,961	1,748,232	146,710
Net profit (loss) before tax	3,033,223	2,606,128	1,913,274	(1,164,129)	216,119
Current period net income from continuing operations	3,033,223	2,606,273	1,913,119	(1,162,198)	214,777
Loss from discontinued operations	0	0	0	0	0
Current period net profit (loss)	3,033,223	2,606,273	1,913,119	(1,162,198)	214,777
Income (loss) from discontinued operations	0	0	0	0	0
Other comprehensive income for the period (net income after-tax)	(195,636)	(90,428)	858,440	(1,244,047)	(69,605)
Total comprehensive income for the period	2,837,587	2,515,845	2,771,559	(2,406,245)	145,172
Basic earnings (net loss) per share (NT\$) (Note 4)	2.11	1.82	1.33	(0.81)	0.15

Note 1: The financial data from 2014 to 2018 have been audited by CPAs.

Note 2: The Company's Annual Report is published on March 31, 2019. Therefore, the information at the end of the quarter before the publication date is the information from 2018.

Note 3: Based on the recompiled Financial Report.

Note 4: Calculated by weighted average number of shares issued and outstanding.

2. Consolidated condensed consolidated income statement — International Financial Reporting Standards

Unit: NT\$1000

Item \ Year	Financial data for the recent 5 years (Note 1)				
	2018 (Note 2)	2017	2016	2015	2014
Operating revenue	48,238,885	40,792,444	33,440,122	29,992,331	37,132,669
Operating margin (loss)	4,384,886	3,889,103	3,285,724	(1,604,515)	1,299,886
Operating profit (loss)	2,875,777	2,573,740	2,044,877	(2,733,272)	272,446
Non-operating income and expenses	158,071	32,563	(131,399)	1,569,176	(56,265)
Net profit (loss) before tax	3,033,848	2,606,303	1,913,478	(1,164,096)	216,181
Current period net income from continuing operations	3,033,223	2,606,273	1,913,119	(1,162,198)	214,777
Loss from discontinued operations	0	0	0	0	0
Current period net profit (loss)	3,033,223	2,606,273	1,913,119	(1,162,198)	214,777
Income (loss) from discontinued operations	0	0	0	0	0
Other comprehensive income for the period (net income after-tax)	(195,636)	(90,428)	858,440	(1,244,047)	(69,605)
Total comprehensive income for the period	2,837,587	2,515,845	2,771,559	(2,406,245)	145,172
Net profit (loss) attributable to owners of the parent company	3,033,223	2,606,273	1,913,119	(1,162,198)	214,777
Net profit attributable to non-controlling equity	0	0	0	0	0
Total comprehensive income attributed to the owners of the parent company	2,837,587	2,515,845	2,771,559	(2,406,245)	145,172
Total comprehensive income attributed to non-controlling equity	0	0	0	0	0
Basic earnings (net loss) per share (NT\$) (Note 3)	2.11	1.82	1.33	(0.81)	0.15

Note 1: The financial data from 2014 to 2018 have been audited by CPAs.

Note 2: The Company's Annual Report is published on March 31, 2019. Therefore, the information at the end of the quarter before the publication date is the information from 2018.

Note 3: Calculated by weighted average number of shares issued and outstanding.

(III) Names of accountants and audit opinions:

Year	Name of the accounting firm	Certifying CPA	Audit opinion
2018	Deloitte, Taiwan	Jui-Hsuan Hsu and Yu-Hsiang Liu	Unqualified opinion with emphasis of matter
2017	Deloitte, Taiwan	Jui-Hsuan Hsu and Yu-Hsiang Liu	Unqualified opinion
2016	Deloitte, Taiwan	Jui-Hsuan Hsu and Yu-Hsiang Liu	Unqualified opinion
2015	Deloitte, Taiwan	Jui-Hsuan Hsu and Li-Yuan Kuo	Modified unqualified opinion
2014	Deloitte, Taiwan	Jui-Hsuan Hsu and Li-Yuan Kuo	Unqualified opinion

II. Financial analysis for the last 5 years:

(I) Financial analysis

1. Individual financial analysis — International Financial Reporting Standards

Analysis Item (Note 5)		Financial analysis of the last 5 years (Note 1)				
		2018 (Note 3)	2017 (Note 4)	2016	2015	2014
Financial structure	Debt-to-assets ratio (%)	55.82	61.99	68.50	77.03	72.40
	Long-term fund to property, plant, and equipment ratio (%)	158.43	147.93	134.94	138.10	160.27
Solvency	Current ratio (%)	93.77	83.32	53.11	56.84	83.06
	Quick ratio (%)	21.79	29.37	15.74	20.63	17.28
	Interest protection multiples	22.68	15.40	10.47	(3.83)	1.93
Operating performance	Receivables turnover ratio (times)	37.21	34.94	39.46	37.98	56.57
	Average collection period	9.80	10.44	9.25	9.61	6.45
	Inventory turnover ratio (times)	6.54	7.64	7.85	6.27	5.19
	Payables turnover ratio (times)	45.76	28.02	38.41	65.64	32.34
	Average days of sales	55.81	47.77	46.50	58.21	70.33
	Property, plant, and equipment turnover ratio (times)	3.53	3.12	2.58	2.24	2.69
	Total assets turnover ratio (times)	1.48	1.33	1.11	0.95	1.09
Profitability	Return on assets (%)	9.70	8.98	7.08	(3.12)	1.23
	Return on equity (%)	22.73	24.43	23.84	(14.82)	2.39
	Net profit before taxes as a percentage of paid-in capital (%) (Note 9)	21.12	18.15	13.33	(8.11)	1.51
	Net profit margin (%)	6.28	6.39	5.87	(3.96)	0.59
	Earnings Per Share (NT\$) (Note 2)	2.11	1.82	1.33	(0.81)	0.15
Cash flow	Cash flow ratio (%)	5.65	27.32	28.98	18.47	-
	Cash flow adequacy ratio (%)	99.75	151.94	67.28	35.38	41.13
	Cash reinvestment ratio (%)	1.55	6.60	10.60	5.19	-
Leverage	Operating leverage	1.41	1.55	1.94	0.41	25.26
	Financial leverage	1.05	1.07	1.13	0.92	(0.43)
Please explain reasons for changes in financial ratios in the last two years. (Analysis can be omitted for the change is less than 20%)						
1.The quick ratio decreased by 26% from the previous year mainly due to an increase in current liabilities.						
2.Interest protection multiples rose by 47% from the previous year mainly due to an increase in pre-tax profit and a decrease in interest expenses.						
3.The payables turnover ratio rose by 63% from the previous year mainly due to the decrease in the average accounts payable in all periods in 2018.						
4.The cash flow ratio declined by 79% from the previous year mainly due to a reduction in net cash inflow from operating activities in the current period from the previous year.						
5.The cash flow adequacy ratio declined by 34% from the previous year mainly due to a reduction in cumulative net cash inflow from operating activities in the five preceding years.						
6.The cash reinvestment ratio declined by 77% from the previous year mainly due to a reduction in net cash inflow from operating activities in the current period from the previous year.						

2. Consolidated financial analysis — International Financial Reporting Standards

Analysis Item (Note 5)		Year	Financial analysis of the last 5 years (Note 1)				
			2018 (Note 3)	2017	2016	2015	2014
Financial structure	Debt-to-assets ratio (%)		55.82	61.99	69.67	78.31	74.14
	Long-term fund to property, plant, and equipment ratio (%)		158.43	147.93	113.78	118.73	135.27
Solvency	Current ratio (%)		93.83	83.38	54.74	58.96	82.36
	Quick ratio (%)		21.86	29.43	15.68	20.19	17.61
	Interest protection multiples		22.68	12.95	9.77	(3.40)	1.83
Operating performance	Receivables turnover ratio (times)		37.21	33.69	37.45	36.49	54.28
	Average collection period		9.80	10.83	9.75	10.00	6.72
	Inventory turnover ratio (times)		6.54	7.56	7.55	5.97	4.91
	Payables turnover ratio (times)		45.76	27.80	38.19	64.83	32.37
	Average days of sales		55.81	48.28	48.34	61.14	74.34
	Property, plant, and equipment turnover ratio (times)		3.53	2.80	2.12	1.82	2.19
	Total assets turnover ratio (times)		1.48	1.31	1.09	0.91	1.04
Profitability	Return on assets (%)		9.70	8.93	6.80	(2.87)	1.21
	Return on equity (%)		22.73	24.43	23.84	(14.79)	2.38
	Net profit before taxes as a percentage of paid-in capital (%) (Note 9)		21.13	18.16	13.33	(8.11)	1.51
	Net profit margin (%)		6.28	6.39	5.72	(3.87)	0.58
	Earnings Per Share (NT\$) (Note 2)		2.11	1.82	1.33	(0.81)	0.15
Cash flow	Cash flow ratio (%)		5.67	27.32	32.68	20.95	2.89
	Cash flow adequacy ratio (%)		117.67	169.50	91.28	52.92	45.86
	Cash reinvestment ratio (%)		1.56	6.61	11.58	5.80	0.91
Leverage	Operating leverage		1.41	1.55	1.93	0.28	7.98
	Financial leverage		1.05	1.09	1.12	0.91	25.49

Please explain reasons for changes in financial ratios in the last two years. (Analysis can be omitted for the change is less than 20%)

- 1.The quick ratio decreased by 26% from the previous year mainly due to an increase in current liabilities.
- 2.Interest protection multiples rose by 75% from the previous year mainly due to an increase in pre-tax profit and a decrease in interest expenses.
- 3.The payables turnover ratio rose by 65% from the previous year mainly due to the decrease in the average accounts payable in all periods in 2018.
- 4.The PP&E turnover ratio rose by 26% from the previous year mainly due to increase in net sales value.
- 5.The cash flow ratio declined by 79% from the previous year mainly due to a reduction in net cash inflow from operating activities in the current period from the previous year.
- 6.The cash flow adequacy ratio declined by 31% from the previous year mainly due to a reduction in cumulative net cash inflow from operating activities in the five preceding years.
- 7.The cash reinvestment ratio declined by 77% from the previous year mainly due to a reduction in net cash inflow from operating activities in the current period from the previous year.

Note 1: The financial data from 2014 to 2018 have been audited by CPAs.

Note 2: Calculated by the weighted average number of shares retroactively adjusted after the capital increase from earnings.

Note 3: The Company's Annual Report is published on March 31, 2019 Therefore, the information at the end of the quarter before the publication date is the information from 2018

Note 4: Based on the recompiled Financial Report.

Note 5: The end of Annual Report should include the following formulas:

1. Financial structure

(1)Debt-to-assets ratio = total liabilities / total assets.

(2)Long-term fund ratio for property, plant, and equipment = (total equity + non-current liabilities) / net for property, plant, and equipment.

2. Solvency

(3)Current ratio = current assets / current liabilities.

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

(5)Interest coverage ratio = earnings before interest expense and net income / interest expense.

3. Operating ability

(1)Receivables (including accounts receivable and notes receivable arising from operation) turnover ratio = net sales / average receivables (including accounts receivable and notes receivable arising from operation) balances.

(2)Average collection period = 365 / receivables turnover.

(3)Inventory turnover = cost of goods sold / average inventory.

(4)Payable (including accounts payable and notes payable arising from operation) turnover ratio = cost of goods sold / average payables (including accounts payable and notes payable arising from operation) balances.

(5)Average days of sales = 365 / inventory turnover.

(6)Property, plant, and equipment turnover ratio = net sales / average net for property, plant, and equipment.

(7)Total assets turnover ratio = net sales / average total assets.

4. Profitability

(1)Return on assets = (net income + interest expenses × (1 - tax rate)) / average total assets.

(2)Return on shareholder's equity = net income / average shareholders' equity.

(3)Net profit margin = net income / net sales.

(4)Earnings per share = (profit or loss attributable to owners of the parent company - preferred stock dividends) / weighted average number of shares issued. (Note 5)

5. Cash flows

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

(2)Net cash flow adequacy ratio = net cash flow from operating activities for the last 5 years / most recent five years (capital expenditure + inventory + cash dividend).

(3)Cash reinvestment ratio = (net cash flow from operating activities - cash dividend) / (gross profit for property, plant, and equipment + long-term investments + other non-current assets + working capital). (Note 6)

6. Leverage:

(1)Operating leverage = (net operating income – variable operating cost and expenses) / operating income (Note 7).

(2)Financial leverage = operating income / (operating income - interest expenses).

Note 6: Special attention should be paid to the following items when using the aforementioned calculation formula for the earnings per share:

1. The calculations shall be based on the average number of the weighted common shares rather than shares issued at the end of the year.
2. The circulation period shall be considered for cash capital increase or treasury stock traders when calculating the weighted average number of shares.
3. When calculating annual or semi-annual earnings per share for those with capitalization of retained earnings or capital reserves, capital ratio shall be adjusted retrospectively and the replenishment period issues need not be considered.
4. If the preferred stock is non-convertible cumulative preferred stock, the dividend of the current year (whether it is distributed) should be deducted from net income or added to net loss. If the preferred shares are not cumulative in nature, the preferred stock dividends shall be deducted from the net income under after-tax net profit conditions. If it is a loss, no adjustment is needed.

Note 7: Special attention should be paid to the following items when doing cash flow analysis:

1. Net cash flow from operating activities shall refer to the net cash inflow from operating activities listed in the cash flow statement.
2. Capital expenditure shall refer to the annual capital investment cash outflow.
3. If the inventory increase only during the closing is greater than that during the opening and the inventory decreased at the end of the year, it should be calculated as zero.
4. Cash dividends include common stock and preferred stock cash dividends.
5. Gross profit for property, plant, and equipment shall refer to the total amount for property, plant, and equipment before accumulated depreciation is deducted.

Note 8: The issuer should divide the operating costs and operating expenses into fixed and variable ones depending on the nature. If it involves estimation or subjective judgment, attention should be paid to rationality and the consistency should be maintained.

Note 9: For company shares with no face value or with face value per share not equaling NT\$10, the aforementioned calculation for paid-in capital ratio should be changed to calculation for the equity ratio attributable to owners of parent in the balance sheet instead.

III. Audit Committee's Audit Report for the 2018 fiscal year

Chung Hung Steel Corporation

Audit Committee's Audit Report

Hereby approves

The Company's 2018 Individual Financial Report and Consolidated Financial Report (audited and certified by CPAs Jui-Hsuan Hsu and Yu-Hsiang Liu of Deloitte, Taiwan), Business Report, and Earnings Distribution Proposal prepared by the Board of Directors were audited by the Audit Committee, who found them to be compliant with regulations. The Audit Report is therefore provided in accordance with Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act and filed for approval.

Please review and assess the preceding items.

Respectfully submitted to

The Company's 2019 General Shareholders Meeting

Audit Committee, Chung Hung Steel Corporation

Convener: Juh-Shan Chiou

March 19, 2019

IV. Financial statements of 2018

INDEPENDENT AUDITORS' REPORT

The Board of Directors and the shareholders
Chung Hung Steel Corporation

Opinion

We have audited the accompanying standalone financial statements of Chung Hung Steel Corporation (the "Corporation"), which comprise the standalone balance sheets as of December 31, 2018 and 2017, and the standalone statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the standalone financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying standalone financial statements present fairly, in all material respects, the standalone financial position of the Corporation as of December 31, 2018 and 2017, and its standalone financial performance and its standalone cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

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

Emphasis of Matter

As disclosed in Note 3 to the standalone financial statements, in 2018 the Corporation adopted the revised Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the FSC.

As disclosed in Note 15 to the standalone financial statements, in 2018 the Corporation merged the subsidiary Hung Li Steel Corporation, which is classified as structure reorganizations under joint control, pursuant to EITF 101-301 of the Accounting Research and Development Foundation, R.O.C. and questions and answers of IFRSs issued by Accounting Research and Development Foundation, R.O.C. In the comparative financial statements are regarded it as the initial merger and restating the prior years' standalone financial statements. Our opinion is not modified in respect of this matter.

Key Audit Matters

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

Key audit matters for the Corporation's standalone financial statements for the year ended December 31, 2018 are stated as follows:

Measurement of Inventories

Inventories are one of the significant assets in the balance sheet. As of December 31, 2018 the carrying amount of inventories held by the Corporation, amounted to NT\$8,240,151 thousand, which accounted for 25% of total assets. Due to the fluctuations in the prices of raw materials and finished goods in steel industry and due to the use of accounting estimates, inventory valuation is deemed to be a key audit matter.

For the accounting policies on inventories and critical accounting estimates and judgments on inventories, refer to Note 4 and Note 5 to the standalone financial statements, respectively.

We focused on the inventory valuation, including valuation of obsolete inventory and the measurement of inventories. Our main audit procedures performed included the following:

1. We observed year-end inventory counts and assessed the condition of inventory to evaluate the adequacy of inventory provisions for obsolete goods;
2. We obtained the year-end inventory aging profile and tested whether its accuracy based on supporting documents and we evaluated the provision for slow-moving and obsolete inventory was made according to the Corporation's policy;
3. We evaluated the appropriateness of the methodology used to value the inventory at the year end.
4. We checked the calculation of inventory provisions, the market value of inventory from supporting documentation and the amounts of inventory.

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

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

In preparing the standalone financial statements, management is responsible for assessing the Corporation'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 Corporation, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Standalone Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the standalone 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 Corporation'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 Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the standalone financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the standalone financial statements, including the disclosures, and whether the standalone financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Corporation to express an opinion on the standalone financial statements. We are responsible for the direction, supervision, and performance of the Corporation 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 standalone financial statements for the year ended December 31, 2018 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Jui-Hsuan Hsu and Yu-Hsiang Liu.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 19, 2019

Notice to Readers

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

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

CHUNG HUNG STEEL CORPORATION

STANDALONE BALANCE SHEETS (In Thousands of New Taiwan Dollars)

ASSETS	December 31, 2018		December 31, 2017		LIABILITIES AND EQUITY	December 31, 2018		December 31, 2017	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash (Notes 4 and 6)	\$ 195,675	1	\$ 214,788	1	Short-term borrowings (Notes 18, 30 and 31)	\$ 6,381,773	19	\$ 7,464,815	24
Financial assets at fair value through profit or loss - current (Notes 3, 4 and 7)	217,281	1	215,464	1	Short-term bills payable (Note 18)	3,198,953	10	669,849	2
Financial assets at fair value through other comprehensive income - current (Notes 3,4 and 8)	802,899	2	-	-	Contract liabilities - current (Notes 3, 4, 13 and 23)	96,445	-	-	-
Available-for-sale financial assets - current (Notes 3, 4 and 9)	-	-	819,454	3	Accounts payable (Note 19)	45,304	-	56,160	-
Accounts receivable (Notes 4, 10 and 23)	948,932	3	1,291,784	4	Accounts payable to related parties (Notes 19 and 30)	595,764	2	1,219,265	4
Accounts receivable from related parties (Notes 4, 10, 23 and 30)	183,440	-	168,187	-	Other payables (Note 20)	1,013,366	3	874,129	3
Other receivables (Note 10)	16,002	-	10,433	-	Current portion of long-term bank borrowings (Notes 18 and 31)	950,000	3	150,000	-
Other receivables from related parties (Notes 10 and 30)	344,560	1	398,509	1	Refund liabilities - current (Note 3)	115,720	-	-	-
Current tax assets (Note 25)	392	-	279	-	Other current liabilities (Note 20)	<u>30,974</u>	<u>-</u>	<u>183,673</u>	<u>1</u>
Inventories (Notes 4, 5 and 11)	8,240,151	25	5,019,625	16	Total current liabilities	<u>12,428,299</u>	<u>37</u>	<u>10,617,891</u>	<u>34</u>
Prepayments (Note 12)	373,650	1	202,644	1	NONCURRENT LIABILITIES				
Non-current assets held for sale (Notes 4 and 13)	22,525	-	-	-	Long-term bank borrowings (Notes 18 and 31)	3,900,000	12	5,097,450	16
Other financial assets - current (Notes 13, 14 and 31)	302,897	1	500,000	1	Long-term bills payable (Note 18)	1,679,558	5	3,149,062	10
Other current assets	<u>6,590</u>	<u>-</u>	<u>6,392</u>	<u>-</u>	Deferred tax liabilities (Notes 4 and 25)	182,222	1	182,222	1
Total current assets	<u>11,654,994</u>	<u>35</u>	<u>8,847,559</u>	<u>28</u>	Net defined benefit liabilities (Notes 4, 5 and 21)	430,719	1	365,756	1
NONCURRENT ASSETS					Guarantee deposits received (Note 27)	35,120	-	35,120	-
Financial assets at fair value through other comprehensive income - noncurrent (Notes 3, 4 and 8)	51,219	-	-	-	Other noncurrent liabilities (Notes 3 and 13)	<u>-</u>	<u>-</u>	<u>2,380</u>	<u>-</u>
Available-for-sale financial assets - noncurrent (Notes 3, 4 and 9)	-	-	54,563	-	Total noncurrent liabilities	<u>6,227,619</u>	<u>19</u>	<u>8,831,990</u>	<u>28</u>
Investments accounted for using equity method (Notes 4 and 15)	2,493,577	7	2,455,462	8	Total liabilities	<u>18,655,918</u>	<u>56</u>	<u>19,449,881</u>	<u>62</u>
Property, plant and equipment (Notes 4, 16, 30 and 31)	13,249,030	40	14,031,648	45	EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION				
Investment properties (Notes 4, 13, 17 and 24)	5,907,018	18	5,940,891	19	(Notes 4 and 22)				
Prepayments for equipment	57,694	-	37,185	-	Ordinary shares	14,355,444	43	14,355,444	46
Refundable deposits	5,632	-	5,847	-	Capital surplus	903	-	903	-
Other financial assets - noncurrent (Notes 13 and 14)	<u>-</u>	<u>-</u>	<u>2,385</u>	<u>-</u>	Retained earnings (Accumulated deficit)	904,506	3	(2,083,776)	(7)
Total noncurrent assets	<u>21,764,170</u>	<u>65</u>	<u>22,527,981</u>	<u>72</u>	Other equity	<u>(497,607)</u>	<u>(2)</u>	<u>(346,912)</u>	<u>(1)</u>
TOTAL	<u>\$ 33,419,164</u>	<u>100</u>	<u>\$ 31,375,540</u>	<u>100</u>	Total equity	<u>14,763,246</u>	<u>44</u>	<u>11,925,659</u>	<u>38</u>
					TOTAL	<u>\$ 33,419,164</u>	<u>100</u>	<u>\$ 31,375,540</u>	<u>100</u>

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

(With Deloitte & Touche audit report dated March 19, 2019)

CHUNG HUNG STEEL CORPORATION

STANDALONE STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Year Ended December 31			
	2018		2017	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4, 23 and 30)				
Sales	\$ 47,565,824	99	\$ 39,693,097	97
Service revenue	600,922	1	1,039,390	3
Other operating revenue	<u>66,975</u>	<u>-</u>	<u>56,103</u>	<u>-</u>
Total operating revenue	48,233,721	100	40,788,590	100
OPERATING COSTS (Notes 11, 24 and 30)	<u>43,853,999</u>	<u>91</u>	<u>36,903,341</u>	<u>91</u>
GROSS PROFIT	<u>4,379,722</u>	<u>9</u>	<u>3,885,249</u>	<u>9</u>
OPERATING EXPENSES (Note 24)				
Selling and marketing expenses	1,117,746	2	940,718	2
General and administrative expenses	<u>390,078</u>	<u>1</u>	<u>373,225</u>	<u>1</u>
Total operating expenses	<u>1,507,824</u>	<u>3</u>	<u>1,313,943</u>	<u>3</u>
PROFIT FROM OPERATIONS	<u>2,871,898</u>	<u>6</u>	<u>2,571,306</u>	<u>6</u>
NON-OPERATING INCOME AND EXPENSES (Notes 15, 24, 27 and 30)				
Other income	129,822	-	143,588	-
Other gains and losses	79,374	-	(12,152)	-
Finance costs	(139,883)	-	(180,936)	-
Share of profit of subsidiaries and associates	<u>92,012</u>	<u>-</u>	<u>84,322</u>	<u>-</u>
Total non-operating income and expenses	<u>161,325</u>	<u>-</u>	<u>34,822</u>	<u>-</u>
PROFIT BEFORE INCOME TAX	3,033,223	6	2,606,128	6
INCOME TAX (Notes 4, 5 and 25)	<u>0</u>	<u>-</u>	<u>(145)</u>	<u>-</u>
NET PROFIT FOR THE YEAR	<u>3,033,223</u>	<u>6</u>	<u>2,606,273</u>	<u>6</u>
OTHER COMPREHENSIVE INCOME (LOSS) (Notes 4, 5, 21 and 22)				
Items that will not be reclassified subsequently to profit or loss				

(Continued)

CHUNG HUNG STEEL CORPORATION

STANDALONE STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Year Ended December 31			
	2018		2017	
	Amount	%	Amount	%
Remeasurement of defined benefit plans	\$ (128,800)	-	\$ (109,039)	-
Unrealized gains and losses on investments in equity instruments at fair value through other comprehensive income	(13,975)	-	-	-
Share of the other comprehensive income of subsidiaries and associates	<u>(52,861)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>(195,636)</u>	<u>-</u>	<u>(109,039)</u>	<u>-</u>
Items that may be reclassified subsequently to profit or loss				
Unrealized gains on available-for-sale financial assets	-	-	7,700	-
Share of the other comprehensive income of subsidiaries and associates	<u>-</u>	<u>-</u>	<u>10,911</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>18,611</u>	<u>-</u>
Other comprehensive income (loss) for the year, net of income tax	<u>(195,636)</u>	<u>-</u>	<u>(90,428)</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 2,837,587</u>	<u>6</u>	<u>\$ 2,515,845</u>	<u>6</u>
EARNINGS PER SHARE (Note 26)				
Basic	<u>\$ 2.11</u>		<u>\$ 1.82</u>	
Diluted	<u>\$ 2.11</u>		<u>\$ 1.82</u>	

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

(Concluded)

(With Deloitte & Touche audit report dated March 19, 2019)

CHUNG HUNG STEEL CORPORATION

STANDALONE STATEMENTS OF CHANGES IN EQUITY (In Thousands of New Taiwan Dollars)

	Issued and Outstanding Ordinary Shares	Capital Surplus	Retained Earnings (Accumulated Deficit)	Other Equity		Total	Total Equity
				Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Unrealized Gain (Loss) on Available-for-sale Financial Assets		
BALANCE AT JANUARY 1, 2017	\$ 14,355,444	\$ 903	\$ (4,581,010)	\$ -	\$ (365,523)	\$ (365,523)	\$ 9,409,814
Net profit for the year ended December 31, 2017	-	-	2,606,273	-	-	-	2,606,273
Other comprehensive loss for the year ended December 31, 2017, net of income tax	-	-	(109,039)	-	18,611	18,611	(90,428)
Total comprehensive income for the year ended December 31, 2017	-	-	2,497,234	-	18,611	18,611	2,515,845
BALANCE AT DECEMBER 31, 2017	14,355,444	903	(2,083,776)	-	(346,912)	(346,912)	11,925,659
Effect of retrospective application (Note 3)	-	-	84,398	(431,310)	346,912	(84,398)	-
BALANCE AFTER ADJUSTMENT AT JANUARY 1, 2018	14,355,444	903	(1,999,378)	(431,310)	-	(431,310)	11,925,659
Net profit for the year ended December 31, 2018	-	-	3,033,223	-	-	-	3,033,223
Other comprehensive loss for the year ended December 31, 2018, net of income tax	-	-	(128,800)	(66,836)	-	(66,836)	(195,636)
Total comprehensive income for the year ended December 31, 2018	-	-	2,904,423	(66,836)	-	(66,836)	2,837,587
Disposal of investments in equity instruments at fair value through other comprehensive income	-	-	(539)	539	-	539	-
BALANCE AT DECEMBER 31, 2018	\$ 14,355,444	\$ 903	\$ 904,506	\$ (497,607)	\$ -	\$ (497,607)	\$ 14,763,246

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

(With Deloitte & Touche audit report dated March 19, 2019)

CHUNG HUNG STEEL CORPORATION

STANDALONE STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars)

	For the Year Ended December 31	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	\$ 3,033,223	\$ 2,606,128
Adjustments for:		
Depreciation expense	1,181,132	1,418,660
Net gain on financial assets at fair value through profit or loss	(3,057)	(7,059)
Finance costs	139,883	180,936
Interest income	(4,154)	(3,749)
Dividend income	(41,894)	(61,399)
Share of profit of subsidiaries and associates	(92,012)	(84,322)
Gain on disposal of property, plant and equipment	-	(290)
Write-downs (reversal) of inventories	417,871	(148,046)
Changes in operating assets and liabilities		
Financial instruments held for trading	-	23,548
Financial assets mandatorily classified as at fair value through profit or loss	1,240	-
Accounts receivable	342,852	(574,617)
Accounts receivable from related parties	(15,253)	76,346
Other receivables	(5,579)	(2,820)
Other receivables from related parties	53,949	(256,322)
Inventories	(3,638,397)	(281,275)
Prepayments	(171,006)	104,263
Other current assets	(198)	(3,087)
Contract liabilities	(67,300)	-
Accounts payable	(10,856)	7,640
Accounts payable to related parties	(623,501)	(111,561)
Other payables	309,457	38,210
Other current liabilities	8,666	39,136
Net defined benefit liabilities	(63,837)	(59,384)
Refund liabilities	(47,715)	-
Cash generated from operations	703,514	2,900,936
Income taxes refund(paid)	(113)	112
Net cash generated from operating activities	703,401	2,901,048
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of financial assets at fair value through other comprehensive income	962	-
Proceeds from the capital reduction on financial assets at fair value through other comprehensive income	4,962	-
Proceeds from the capital reduction on available-for-sale financial assets	-	4,489
Proceeds from the capital reduction on investments accounted for using equity method	-	25,000
Acquisition of property, plant and equipment	(412,440)	(553,808)
Proceeds from disposal of property, plant and equipment	-	12,233

(Continued)

CHUNG HUNG STEEL CORPORATION

STANDALONE STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars)

	For the Year Ended December 31	
	2018	2017
Decrease in refundable deposits	\$ 215	\$ 543
Decrease(increase) in other financial assets	199,488	(2)
Interest received	4,164	3,749
Dividends received from subsidiaries and associates	1,036	1,169
Dividends received from others	<u>41,894</u>	<u>61,399</u>
Net cash used in investing activities	<u>(159,719)</u>	<u>(445,228)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	109,451,453	118,734,081
Repayments of short-term borrowings	(110,534,495)	(119,686,547)
Increase (decrease) in short-term bills payable	2,529,104	(1,249,028)
Proceeds from long-term borrowings	3,500,000	2,300,000
Repayments of long-term borrowings	(3,900,000)	(3,272,308)
Proceeds from long-term bills payable	1,600,496	1,200,283
Repayments of long-term bills payable	(3,070,000)	(100,000)
Interest paid	<u>(139,353)</u>	<u>(179,688)</u>
Net cash used in financing activities	<u>(562,795)</u>	<u>(2,253,207)</u>
NET INCREASE (DECREASE) IN CASH	(19,113)	202,613
CASH AT THE BEGINNING OF THE YEAR	<u>214,788</u>	<u>12,175</u>
CASH AT THE END OF THE YEAR	<u>\$ 195,675</u>	<u>\$ 214,788</u>

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

(Concluded)

(With Deloitte & Touche audit report dated March 19, 2019)

CHUNG HUNG STEEL CORPORATION

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

1. GENERAL INFORMATION

Chung Hung Steel Corporation (the “Corporation”) was incorporated in September 1983 and started operations in September 1985. It mainly manufactures and sells steel products, such as cold and hot rolled coils and steel pipes.

The Corporation’s shares have been listed on the Taiwan Stock Exchange since February 1992.

As of December 31, 2018, and 2017, China Steel Corporation (“CSC”), the Corporation’s parent and major shareholder (41%), controls the Corporation’s management and operations.

The standalone financial statements are presented in the Corporation’s functional currency, the New Taiwan Dollar.

2. APPROVAL OF FINANCIAL STATEMENTS

The standalone financial statements were approved by the Corporation’s board of directors and authorized for issue on March 19, 2019.

3. APPLICATION OF NEW AND AMENDED STANDARDS AND INTERPRETATIONS

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

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

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

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

Classification, measurement and impairment of financial assets

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

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

	Measurement Category		Carrying Amount		Remark		
	IAS 39	IFRS 9	IAS 39	IFRS 9			
Financial Assets							
Cash	Loans and receivables	Amortized cost	\$ 214,788	\$ 214,788	a)		
Equity investment	Held-for-trading	Mandatorily at FVTPL	215,464	215,464			
	Available-for-sale	Mandatorily at FVTPL	-	-	c)		
	Available-for-sale	Fair value through other comprehensive income (FVTOCI) - equity instrument	874,017	874,017	b)		
Accounts receivable, other receivables, other financial assets and refundable deposits	Loans and receivables	Amortized cost	2,377,145	2,377,145	a)		
	IAS 39 Carrying Amount as of January 1, 2018	Reclassifi - cations	Remea - surements	IFRS 9 Carrying Amount as of January 1, 2018	Retained Earnings Effect on January 1, 2018	Other Equity Effect on January 1, 2018	Remark
Fair value through profit or loss	\$ 215,464	\$ -	\$ -	\$ 215,464	\$ -	\$ -	
From available for sale (IAS 39)	-	-	-	-	-	-	
Required reclassification	215,464	-	-	215,464	-	-	c)
Fair value through other comprehensive income - equity instrument	-	-	-	-	-	-	
From available for sale (IAS 39)	-	874,017	-	874,017	84,398	(84,398)	b)
	-	874,017	-	874,017	84,398	(84,398)	
Amortized cost	-	-	-	-	-	-	
From loans and receivables (IAS 39)	-	2,591,933	-	2,591,933	-	-	
	-	2,591,933	-	2,591,933	-	-	a)
	\$ 215,464	\$ 3,465,950	\$ -	\$ 3,681,414	\$ 84,398	\$ (84,398)	

- a) Cash, accounts receivable (including related parties), other receivables (including related parties), other financial assets and refundable deposits that were previously classified as loans and receivables under IAS 39 were classified as at amortized cost with an assessment of expected credit losses under IFRS 9.
- b) The Corporation elected to designate some of its investments in equity securities previously classified as available-for-sale under IAS 39 as at FVTOCI under IFRS 9, because these investments are not held for trading. As a result, the related other equity - unrealized gain (loss) on available-for-sale financial assets of \$346,912 thousand was reclassified to other equity - unrealized gain (loss) on financial assets at FVTOCI. The Corporation recognized under IAS 39 impairment loss on certain investments in equity securities previously classified as available-for-sale and the loss was accumulated in retained earnings. Since those investments were designated as at FVTOCI under IFRS 9 and no impairment assessment is required, an adjustment was made that resulted in an increase of \$84,398 thousand in other equity - unrealized gain (loss) on financial assets at FVTOCI and an increase of \$84,398 thousand in retained earnings on January 1, 2018.
- c) The Corporation elected to classify some of its investments in equity securities previously classified as available-for-sale under IAS 39 as at FVTPL under IFRS 9. Losses recognized that resulted zero the carrying value.

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

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

In identifying performance obligations, IFRS 15 and the related amendments provide that a good or service is distinct if it is capable of being distinct (for example, the Corporation regularly sells it separately) and the promise to transfer it is distinct within the context of the contract (i.e. the nature of the promise in the contract is to transfer each of the good or service individually rather than to transfer a combined output).

For the manufacturing of customer-specific goods, if the customer controls the goods while they are created or enhanced and the customer would compensate the Corporation to recover the costs incurred plus a reasonable profit margin whenever the contract is terminated by the customer, revenue is recognized over time under IFRS 15. Prior to the application of IFRS 15, the Corporation recognized revenue when the goods were delivered.

Under IFRS 15, the net effect of revenue recognized and consideration received and receivable is recognized as a contract asset or a contract liability. Prior to the application of IFRS 15, receivables were recognized when revenue was recognized for the relevant contract under IAS 18.

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

Impact on assets, liabilities and equity for current year

	As Originally Stated as of January 1, 2018	Adjustments Arising from Initial Application	Restated as of January 1, 2018
Other payables	\$ 874,129	\$ (163,435)	\$ 710,694
Refund liabilities - current	-	163,435	163,435
Other current liabilities	183,673	(161,365)	22,308
Contract liabilities - current	-	161,365	161,365
Other noncurrent liabilities	2,380	(2,380)	-
Contract liabilities - noncurrent	<u>-</u>	<u>2,380</u>	<u>2,380</u>
Total effect on liabilities	<u>\$ 1,060,182</u>	<u>\$ -</u>	<u>\$ 1,060,182</u>

Had the Corporation applied IAS 18 in 2018, the following adjustments would have been made to reflect the line items and balance under IFRS 15:

Impact on assets, liabilities and equity

	December 31, 2018
Decrease in contract liabilities - current	\$ (96,445)
Increase in other current liabilities	96,445
Decrease in refund liabilities - current	(115,720)
	(Continued)

	December 31, 2018
Increase in other current liabilities	\$ <u>115,720</u>
Total effect on liabilities	\$ <u>-</u> (Concluded)

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

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

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

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

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

IFRS 16 “Leases”

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessee and lessor. It supersedes IAS 17 “Leases”, IFRIC 4 “Determine whether an Arrangement contains a Lease”, and a number of related interpretations.

1) Definition of a lease

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

2) The Corporation as lessee

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

straight-line basis. Cash flows for operating leases are classified within operating activities on the standalone statements of cash flows.

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

The Corporation expect to apply the following practical expedients:

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

For leases currently classified as finance leases under IAS 17, the carrying amount of right-of-use assets and lease liabilities on January 1, 2019 will be determined as the carrying amount of the leased assets and finance lease payables as of December 31, 2018.

3) The Corporation as lessor

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

Anticipated impact on assets, liabilities and equity

	Carrying Amount as of December 31, 2018	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2019
Prepayment for leases - current	\$ 2,031	\$ (947)	\$ 1,084
Right-of-use assets	<u>-</u>	<u>70,755</u>	<u>70,755</u>
Total effect on assets	<u>\$ 2,031</u>	<u>\$ 69,808</u>	<u>\$ 71,839</u>
Lease liabilities - current	\$ -	\$ 9,117	\$ 9,117
Lease liabilities - non-current	<u>-</u>	<u>60,691</u>	<u>60,691</u>
Total effect on liabilities	<u>\$ -</u>	<u>\$ 69,808</u>	<u>\$ 69,808</u>

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

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

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

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

Statement of Compliance

The standalone financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis of Preparation

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

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

- a. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- b. Level 2 inputs are 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); and
- c. Level 3 inputs are unobservable inputs for the asset or liability.

The subsidiaries and associates are incorporated in the standalone financial statements under the equity method. To make net profit for the year, other comprehensive income and equity in the standalone financial statements equal to those attributed to owners of the Corporation on consolidated financial statements, the effect of the differences between basis of standalone and basis of consolidation are adjusted in the

investments accounted for using equity method, the related share of the profit or loss, the related share of other comprehensive income of subsidiaries, associates and joint ventures and related equity.

Classification of Current and Noncurrent Assets and Liabilities

Current assets include:

- a. Assets held primarily for the purpose of trading;
- b. Assets expected to be realized within twelve months after the balance sheet date; and
- c. Cash unless the asset is restricted from being used for an exchange or used to settle a liability for more than least 12 months after the reporting period.

Current liabilities include:

- a. Liabilities held primarily for the purpose of trading;
- b. Liabilities expected to be settled within 12 months after the reporting period; and
- c. Liabilities without an unconditional right to defer settlement for at least twelve months after the reporting period.

Assets and liabilities that are not classified as current are classified as noncurrent.

Business Combinations

The Company didn't use the acquisition method to deal with the business combination under the organizational restructuring, but adopted the book value method and regarded it as the initial merger and restating the previous comparison information.

Foreign Currencies

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

At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the closing rates. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise except for exchange differences on transactions entered into in order to hedge certain foreign currency risks.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

Inventories

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

Investment in Subsidiaries

The Corporation uses the equity method to account for its investments in subsidiaries.

A subsidiary is an entity that is controlled by the Corporation.

Under the equity method, an investment is initially recognized at cost and adjusted thereafter to recognize the Corporation's share of the profit or loss and other comprehensive income of the subsidiary. The Corporation also recognizes the changes in the share of other equity of subsidiaries.

Changes in the Corporation's ownership interests in subsidiaries that do not result in the Corporation losing of control over the subsidiary are equity transactions. Differences between the carrying amounts of the investment and the fair value of consideration paid or received are directly recognized in equity.

When the Corporation's share of losses of a subsidiary equals or exceeds its interest in that subsidiary (which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Corporation's net investment in the subsidiary), the Corporation continues recognizing its share of further losses.

Unrealized profits or losses on downstream transactions with subsidiaries are eliminated in the standalone financial statements. Profits and losses on transactions with subsidiaries other than downstream are recognized in standalone financial statements only to the extent of interests in the subsidiary that are not related to the Corporation.

Investment in Associates

An associate is an entity over which the Corporation has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The operating results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognized at cost and adjusted thereafter to recognize the Corporation's share of the profit or loss and other comprehensive income of the associate. The Corporation also recognizes the changes in the share of equity of associates.

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

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

When impairment loss is evaluated, the entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is deducted from investment and the carrying amount of investment is net of impairment loss. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment has subsequently increased.

When the Corporation transacts with their associates, profits and losses on these transactions are recognized in

the consolidated financial statements only to the extent of interests in the associate that are not related to the Corporation.

Property, Plant, and Equipment

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

Properties in the course of construction for production, supply or administrative purposes are carried at cost. Cost includes professional fees and borrowing costs eligible for capitalization. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use and depreciated accordingly.

Freehold land is not depreciated.

Except that depreciation of the rollers (spare parts) that belong to the cold rolling departments and the hot rolling departments is calculated based on their level of wear, other depreciation is recognized so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method; each major part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at each balance sheet date, with the effect of any changes in estimate accounted for on a prospective basis.

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

Investment Properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties also include land held for a currently undetermined future use.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss. Depreciation is recognized using the straight-line method.

For a transfer from property, plant and equipment classification to investment properties, the deemed cost of property for subsequent accounting is its carrying amount at the end of owner-occupation.

On derecognition of the property, the difference between the net disposal proceeds and the carrying amount of the asset and is included in profit or loss.

Impairment of Tangible Assets

At each balance sheet date, the Corporation reviews the carrying amounts of their tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Corporation estimate the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the individual cash-generating units on a reasonable and consistent basis of allocation.

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

When an impairment loss subsequently is reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that

would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Non-current assets held for sale

Non-current assets (or disposal groups) are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. To meet the criteria for the sale being highly probable, the appropriate level of management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within 1 year from the date of classification.

Financial Instruments

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

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

a. Financial assets

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

1) Measurement category

2018

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

a) Financial asset at FVTPL

Financial asset is classified as at FVTPL when such a financial asset is mandatorily classified as at FVTPL.

Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designed as at FVTOCI.

Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. Fair value is determined in the manner described in Note 29.

b) Financial assets at amortized cost

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

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

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

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

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

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

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

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

2017

Financial assets held by the Corporation include financial assets at fair value through profit or loss, available-for-sale financial assets and loans and receivables.

a) Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial asset is held for trading.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. Fair value is determined in the manner described in Note 29.

b) Available-for-sale financial assets

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

Available-for-sale financial assets are measured at fair value. Dividends on available-for-sale equity investments are recognized in profit or loss. Other changes in the carrying amount of

available-for-sale financial assets are recognized in other comprehensive income and reclassified in profit or loss when the investment is disposed of or is determined to be impaired.

Dividends on available-for-sale equity investments are recognized when the Corporation's right to receive the dividends is established.

c) Loans and receivables

Loans and receivables (including cash, accounts receivable, other receivables, refundable deposits and other financial assets) are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

2) Impairment of financial assets

2018

The Corporation recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including accounts receivables).

The Corporation always recognizes lifetime Expected Credit Loss (i.e. ECL) for accounts receivables. For other financial assets, the Corporation recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Corporation measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

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

The Corporation recognizes an impairment loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

2017

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

Financial assets carried at amortized cost, such as accounts receivable, are assessed for impairment on a collective basis even if there is no objective evidence of impairment individually. Objective evidence of impairment for a portfolio of receivables could include the Corporation's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables. The amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

If, in the subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss shall be reversed either directly or by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the

amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the securities below its cost is considered to be objective evidence of impairment. For all other financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, breach of contract, such as a default or delinquency in interest or principal payments, the disappearance of an active market for that financial asset because of financial difficulties, or it is becoming probable that the borrower will enter bankruptcy or financial re-organization.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period. In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss is not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account.

3) Derecognition of financial assets

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

2018

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

2017

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

b. Equity instruments

Equity instruments issued by the Corporation are recognized at the proceeds received, net of direct issue costs.

c. Derivative financial instruments

The Corporation enters into a foreign exchange forward contracts to manage exposure to foreign exchange rate risks.

Derivatives are initially recognized at fair value at the date on which the derivative contracts are entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognized in profit or loss immediately. When the fair value of a derivative financial instrument is

positive, the derivative is recognized as a financial asset; when the fair value of a derivative financial instrument is negative, the derivative is recognized as a financial liability.

Revenue Recognition

2018

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

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

a. Sale of goods

Revenue is recognized when the control of products are transferred to customers. Domestic sales are recognized when products are delivered to and accepted by the customers, and export sales are recognized when products are loaded onto shipping vessels in accordance with the sales terms. The customer has full discretion over the manner of distribution and price to sell the goods and bears the risks of obsolescence. Transaction price received is recognized as a contract liability until performance obligations are satisfied.

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

b. Providing of services

Service revenue is recognized when services are provided by reference to the stage of completion of services provided.

2017

a. Sale of goods

Revenue is recognized when the titles to products and evident risks of ownership are transferred to customers, primarily upon shipment. Domestic sales are recognized when products are delivered to and accepted by the customers, and export sales are recognized when products are loaded onto shipping vessels in accordance with the sales terms.

Sales are measured at fair value, which is a price (net of trade discounts and sales discounts) agreed by the Corporation and customers. However, if the related receivables are due within one year, the differences between their fair values and receivable amounts are immaterial and sales transactions are frequent, the fair values of related receivables are not calculated using the discounted imputed interest rate.

b. Providing of services

Service revenue is recognized when services are provided.

Leasing

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

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

Borrowing Costs

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

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

All borrowing costs other than those stated above are recognized in profit or loss in the period in which they are incurred.

Employee Benefits

a. Short-term employee benefits

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

b. Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

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

Net defined benefit liability represents the actual deficit in the Corporation's defined benefit plan.

Taxation

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

Current tax

Current tax is the amount of tax at statutory rate calculated on the taxable profit at the balance sheet date. According to the Income Tax Law, an additional tax of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

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

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the standalone financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused loss carryforwards and unused tax credits for purchases of machinery and equipment and technology to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in

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

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

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

Current and deferred taxes for the year

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Measurement of inventories

Inventories are stated at the lower of cost or net realizable value, and the Corporation uses judgment and estimate to determine the net realizable value of inventory at the balance sheet date. Since the net realizable value of inventory is mainly determined on the basis of future selling price, it might be adjusted significantly.

Realizability of deferred tax assets

The realizability of deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. Considering climate change in the steel industry and unpredictability of future profit, deferred tax assets were not recognized.

Recognition and measurement of defined benefit plan

The resulting pension expense and accrued pension liabilities under defined benefit pension plans are calculated using the Projected Unit Credit Method. Actuarial assumptions comprise the discount rate, employee turnover rate and long-term average future salary rate. Changes in economic circumstances and market conditions will affect these assumptions and may have a material impact on the amount of the expense and the liability.

6. CASH

	December 31	
	2018	2017
Cash on hand	\$ 700	\$ 820
Checking accounts and demand deposits	<u>194,975</u>	<u>213,968</u>
	<u>\$ 195,675</u>	<u>\$ 214,788</u>

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2018	2017
Financial assets at FVTPL - current		
Financial assets mandatorily as at FVTPL		
Emerging market shares	<u>\$ 217,281</u>	<u>\$ -</u>
Financial assets held for trading - current		
Emerging market shares	<u>\$ -</u>	<u>\$ 215,464</u>

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	December 31, 2018
Current	
Domestic Listed shares	<u>\$ 802,899</u>
Noncurrent	
Domestic unlisted shares	<u>\$ 51,219</u>

These investments in equity instruments are not held for trading; instead, they are held for strategic purposes. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI. These investments in equity instruments were classified as available-for-sale under IAS 39. Refer to Notes 3 and 9 for information relating to reclassification and comparative information for 2017.

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31, 2017
Current	
Domestic listed shares	<u>\$ 819,454</u>
Noncurrent	

Domestic unlisted shares

\$ 54,563

Riselink Venture Capital Corp. conducted capital reduction and refunded NT\$4,962 thousand and NT\$4,489 thousand in August 2018 and August 2017, respectively.

10. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

	December 31	
	2018	2017
Accounts receivable		
Accounts receivable - non-related parties	\$ <u>948,932</u>	\$ <u>1,291,784</u>
Accounts receivable - related parties	\$ <u>183,440</u>	\$ <u>168,187</u>
Other receivables (including related parties)		
Discount receivable	\$ 302,720	\$ 363,920
Receivables from disposal of scrap	57,676	43,348
Others	<u>166</u>	<u>1,674</u>
	\$ <u>360,562</u>	\$ <u>408,842</u>

a. Accounts receivable

2018

The Corporation allows an average credit period of 30 days (the aging of receivables from sales of goods is based upon the date of examination and acceptance of the goods settlement is monthly or 60 days after shipment date). Refer to Note 29 for credit risk management policies.

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

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

2018

	Not Past Due	1 to 30 Days	31 to 60 Days	61 to 180 Days	181 to 365 Days	Over 365 Days	Total
Expected credit loss rate (%)	-	-	-	-	-	100	
Gross carrying amount	\$ 1,132,372	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,132,372
Loss allowance (Lifetime ECL)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Amortized cost	<u>\$ 1,132,372</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,132,372</u>

2017

The Corporation applied the same credit policy in 2018 and 2017. Allowance for impairment loss was recognized by reference to past default experience with counterparties and an analysis of their current financial position. As of December 31, 2017, there was no allowance for doubtful accounts.

The aging of accounts receivable was as follows:

	December 31, 2017
Up to 30 days	\$ 1,459,775
31-60 days	<u>196</u>
	<u><u>\$ 1,459,971</u></u>

The above aging schedule was based on the invoice date.

As of December 31, 2017, the Corporation did not have overdue accounts receivable.

The amounts of accounts receivable from single customer that exceed 10% of total accounts receivable were as follows:

	December 31	
	2018	2017
A company	\$ 121,361	\$ -
B company	91,812	191,338
C company	-	184,954
D company	<u>-</u>	<u>163,962</u>
	<u>\$ 213,173</u>	<u>\$ 540,254</u>

The Corporation entered into accounts receivable factoring contract (without recourse). Under the contract, the Corporation is authorized to sell accounts receivable to Bank upon the delivery of products to customers and is required to complete related formalities on the next banking day. Under this contract, the Corporation does not bear the risk of the uncollectability of the accounts receivable. The receivables sold and the related credit lines, which may be used on a revolving basis, were as follows:

Buyer of Accounts Receivable	Advances Received at Year - Beginning	Receivables Sold	Amounts Collected	Advances Received at Year-end	Interest Rates on Advances Received (%)	Credit Line
For the year ended December 31, 2018						
Mega Bank	\$ 1,088,226	\$ 3,114,212	\$ 3,169,251	\$ 1,033,187	1.19	NT\$3 billion
Bank of Taiwan	62,805	534,050	396,895	199,960	3.52	USD20 million
	<u>\$ 1,151,031</u>	<u>\$ 3,648,262</u>	<u>\$ 3,566,146</u>	<u>\$ 1,233,147</u>		
For the year ended December 31, 2017						
Mega Bank	\$ 1,099,546	\$ 3,137,353	\$ 3,148,673	\$ 1,088,226	1.19	NT\$3 billion
Bank of Taiwan	106,911	356,052	400,158	62,805	2.58	USD30 million
Taishin International Bank	-	726,453	726,453	-	2.61	USD10 million
	<u>\$ 1,206,457</u>	<u>\$ 4,219,858</u>	<u>\$ 4,275,284</u>	<u>\$ 1,151,031</u>		

b. Other receivables

2018

The Corporation applies the approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provision for other receivable. The expected credit losses on other receivables are estimated using expected credit loss rate based on the other receivables overdue days. As of December 31, 2018, there was no allowance for doubtful accounts.

2017

Allowance for doubtful accounts is estimated by reference to the historical experience and the current financial position of the counterparties. As of December 31, 2017, there was no allowance for doubtful accounts.

11. INVENTORIES

	December 31	
	2018	2017
Raw materials	\$ 3,352,627	\$ 1,537,686
Supplies	421,614	426,656
Work in progress	569,161	782,309
Finished goods	3,653,262	2,268,470
Others	7,056	4,504
Raw materials and supplies in transit	<u>236,431</u>	<u>-</u>
	<u>\$ 8,240,151</u>	<u>\$ 5,019,625</u>

The cost of inventories recognized as operating costs for the years ended December 31, 2018 and 2017 was NT\$43,403,860 thousand and NT\$36,306,647 thousand, respectively, including loss on inventory value decline of NT\$417,871 thousand and reversal of loss of \$148,046 thousand, respectively.

12. PREPAYMENTS

	December 31	
	2018	2017
Input tax	\$ 342,442	\$ 162,775
Prepayments for purchases	22,209	26,800
Others	<u>8,999</u>	<u>13,069</u>
	<u>\$ 373,650</u>	<u>\$ 202,644</u>

13. NON-CURRENT ASSETS HELD FOR SALE

	December 31, 2018
Freehold land held for sale	<u>\$ 22,525</u>

The Group joined China Prosperity Development Corporation's (CPDC) contract titled "Qianzhen Residential Building Project", and bought the land from CPDC recognized as investment property. After acquiring the building use permit in November 2018, the Qianzhen Residential Building Project was reclassified to non-current assets held for sale. The Corporation then signed contracts with employees for the sale of the land. The proceeds of the sale are deposited in the Bank of Taiwan. At December 31, 2018, the proceeds of the sale were recognized as other financial assets-current and contract liabilities. At December 31, 2017, the proceeds of the sale were recognized as other financial assets-noncurrent and other noncurrent liability. When the transfer of ownership of the land has been completed in 2019, the Corporation will recognize gain on disposal of land.

14. OTHER FINANCIAL ASSETS

	December 31	
	2018	2017
Current		
Pledged time deposits (Note 31)	\$ 300,000	\$ 500,000
Deposits for project (Note 13)	<u>2,897</u>	<u>-</u>
	<u>\$ 302,897</u>	<u>\$ 500,000</u>
Noncurrent		
Deposits for projects (Note 13)	<u>\$ -</u>	<u>\$ 2,385</u>

15. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31	
	2018	2017
Investments in subsidiaries	\$ 31,360	\$ 29,760
Investments in associates	<u>2,462,217</u>	<u>2,425,702</u>
	<u>\$2,493,577</u>	<u>\$2,455,462</u>

a. Investments in subsidiaries

	December 31, 2018		December 31, 2017	
	Amount	Share-holding (%)	Amount	Share-holding (%)
Unlisted Companies				
Hong Kao Investment Corporation	\$ 30,427	100	\$ 28,821	100
Taiwan Steel Corporation	933	100	939	100
	<u>\$ 31,360</u>		<u>\$ 29,760</u>	

Subsidiary Companies Name	Percentage of Ownership Interests and Voting Rights (%)	
	December 31, 2018	December 31, 2017
Taiwan Steel Corporation	100	100
Hong Kao Investment Corporation	100	100

The investments accounted for by the equity method and the share of profit or loss and other comprehensive loss of those investments for the years ended December 31, 2018 and 2017 was based on the audited financial statements for the same years.

Based on Corporation's resource integration, reducing operating costs and promoting operational efficiency, the Board of Directors resolved to conduct a short-form merger with subsidiary Hung Li Steel Corporation on November 2, 2017. The reference date of merger was June 1, 2018. After the merger, the Corporation is the surviving company.

The Corporation merged the subsidiary Hung Li Steel Corporation, which is classified as structure reorganizations under joint control, pursuant to EITF 101-301 of the Accounting Research and Development Foundation, R.O.C. and questions and answers of IFRSs issued by Accounting Research and Development Foundation, R.O.C. In the comparative financial statements are regarded it as the initial merger and restating the prior years' standalone financial statements.

b. Investments in associates

	December 31	
	2018	2017
Transglory Investment Corp. (TIC)	<u>\$ 2,462,217</u>	<u>\$ 2,425,702</u>

Name of Associate	Nature of Activities	Proportion of Ownership and Voting Rights		
		Principal Place of Business	December 31	
			2018	2017
TIC	General investment	Taiwan	40.91%	40.91%

The investments accounted for by the equity method and the share of profit or loss and other comprehensive loss of those investments for the years ended December 31, 2018 and 2017 was based on the audited financial statements for the same years.

The summarized financial information below represents amounts shown in the associates' financial statements prepared in accordance with IFRSs adjusted by the Corporation for equity accounting purposes.

TIC

	December 31	
	2018	2017
Current assets	\$ 1,018	\$ 644
Noncurrent assets	6,439,578	6,429,601
Current liabilities	<u>(421,976)</u>	<u>(500,883)</u>
Equity	<u>\$ 6,018,620</u>	<u>\$ 5,929,362</u>
Proportion of the Corporation ownership (%)	40.91	40.91
Equity attributable to the Corporation	<u>\$ 2,462,217</u>	<u>\$ 2,425,702</u>
Carrying amount	<u>\$ 2,462,217</u>	<u>\$ 2,425,702</u>
	For the Year Ended December 31	
	2018	2017
Operating revenue	<u>\$ 236,539</u>	<u>\$ 223,577</u>
Net profit for the year	\$ 217,245	\$ 203,611
Other comprehensive income	<u>(127,987)</u>	<u>26,426</u>
Total comprehensive income for the year	<u>\$ 89,258</u>	<u>\$ 230,037</u>
Comprehensive income attributable to the Corporation	<u>\$ 36,516</u>	<u>\$ 94,108</u>

16. PROPERTY, PLANT AND EQUIPMENT

For the year ended December 31, 2018

	Land	Buildings	Machinery and Equipment	Other Equipment	Spare Parts	Construction in Progress and Equipment to be Inspected	Total
Cost							
Balance at January 1, 2018	\$ 3,974,121	\$ 4,989,193	\$ 21,946,483	\$ 4,340,985	\$ 1,553,194	\$ 366,162	\$ 37,170,138
Additions	-	-	564,602	77,808	34,537	(287,262)	389,685
Disposals	-	-	-	(3,452)	(139,208)	-	(142,660)
Reclassification	11,554	(1,454)	-	-	-	-	10,100
Other	-	(2,519)	-	-	-	-	(2,519)
Balance at December 31, 2018	<u>\$ 3,985,675</u>	<u>\$ 4,985,220</u>	<u>\$ 22,511,085</u>	<u>\$ 4,415,341</u>	<u>\$ 1,448,523</u>	<u>\$ 78,900</u>	<u>\$ 37,424,744</u>

(Continued)

	Land	Buildings	Machinery and Equipment	Other Equipment	Spare Parts	Construction in Progress and Equipment to be Inspected	Total
<u>Accumulated depreciation</u>							
Balance at January 1, 2018	\$ -	\$ 1,613,606	\$ 17,112,026	\$ 3,725,590	\$ 687,268	\$ -	\$ 23,138,490
Depreciation expense	-	133,176	702,264	140,286	204,566	-	1,180,292
Disposals	-	-	-	(3,452)	(139,208)	-	(142,660)
Reclassification	-	(408)	-	-	-	-	(408)
Balance at December 31, 2018	<u>\$ -</u>	<u>\$ 1,746,374</u>	<u>\$ 17,814,290</u>	<u>\$ 3,862,424</u>	<u>\$ 752,626</u>	<u>\$ -</u>	<u>\$ 24,175,714</u>
Carrying amount at December 31, 2018	<u>\$ 3,985,675</u>	<u>\$ 3,238,846</u>	<u>\$ 4,696,795</u>	<u>\$ 552,917</u>	<u>\$ 695,897</u>	<u>\$ 78,900</u>	<u>\$ 13,249,030</u>

(Concluded)

For the year ended December 31, 2017

	Land	Buildings	Machinery and Equipment	Other Equipment	Spare Parts	Construction in Progress and Equipment to be Inspected	Total
<u>Cost</u>							
Balance at January 1, 2017	\$ 3,989,661	\$ 4,968,868	\$ 22,075,191	\$ 4,322,471	\$ 1,542,186	\$ 244,701	\$ 37,143,078
Additions	1,496	20,325	68,771	45,416	152,988	121,461	410,457
Disposals	(11,258)	-	(197,479)	(26,902)	(141,980)	-	(377,619)
Items reclassified to investment properties	(5,778)	-	-	-	-	-	(5,778)
Balance at December 31, 2017	<u>\$ 3,974,121</u>	<u>\$ 4,989,193</u>	<u>\$ 21,946,483</u>	<u>\$ 4,340,985</u>	<u>\$ 1,553,194</u>	<u>\$ 366,162</u>	<u>\$ 37,170,138</u>
<u>Accumulated depreciation</u>							
Balance at January 1, 2017	\$ -	\$ 1,481,430	\$ 16,404,867	\$ 3,575,303	\$ 624,729	\$ -	\$ 22,086,329
Depreciation expense	-	132,176	903,953	177,190	204,518	-	1,417,837
Disposals	-	-	(196,794)	(26,903)	(141,979)	-	(365,676)
Balance at December 31, 2017	<u>\$ -</u>	<u>\$ 1,613,606</u>	<u>\$ 17,112,026</u>	<u>\$ 3,725,590</u>	<u>\$ 687,268</u>	<u>\$ -</u>	<u>\$ 23,138,490</u>
Carrying amount at December 31, 2017	<u>\$ 3,974,121</u>	<u>\$ 3,375,587</u>	<u>\$ 4,834,457</u>	<u>\$ 615,395</u>	<u>\$ 865,926</u>	<u>\$ 366,162</u>	<u>\$ 14,031,648</u>

Depreciation of the rollers that belong to the cold-rolling departments, the hot rolling department and the skin pass mill of the pickling & galvanizing mill department is calculated based on their level of wear; depreciation of other assets is recognized based on the following useful lives:

Buildings	
Facility	8-50 years
Main structure	31-60 years
Machinery and equipment	
Power equipment	3-30 years
High-temperature equipment	5-18 years
Other equipment	
Computer equipment	3-10 years
Office, air condition and extinguishment equipment	3-20 years
Transportation equipment	5-16 years
Others	3-18 years
Tank	8-10 years

The Corporation bought farmlands for warehouse at the Jia Xing Section and Quing Shui Section of the Gangshan District in Kaohsiung City. However, certain regulations prohibit the Corporation from registering the title of these farmlands in the Corporation's name; thus, the registration was made in the name of an individual person. The individual person consented to fully cooperate with the Corporation in changing the land title in the future and pledged the land to the Corporation as collateral. As of December 31, 2018 and 2017, the book value of those remaining farmlands recognized as land were both NT\$55,433 thousand, respectively.

Refer to Note 31 for the carrying amount of property, plant and equipment that are pledged by the Corporation to secure borrowings.

17. INVESTMENT PROPERTIES

For the year ended December 31, 2018

	Land	Buildings	Total
<u>Cost</u>			
Balance at January 1, 2018	\$ 5,993,141	\$ 39,218	\$ 6,032,359
Transferred from (to) property, plant and equipment	(11,554)	1,454	(10,100)
Reclassified as held for sale (Note 13)	<u>(22,525)</u>	<u>-</u>	<u>(22,525)</u>
Balance at December 31, 2018	<u>\$ 5,959,062</u>	<u>\$ 40,672</u>	<u>\$ 5,999,734</u>
<u>Accumulated depreciation</u>			
Balance at January 1, 2018	\$ -	\$ 13,936	\$ 13,936
Depreciation expense	-	840	840
Transferred from property, plant and equipment	<u>-</u>	<u>408</u>	<u>408</u>
Balance at December 31, 2018	<u>\$ -</u>	<u>\$ 15,184</u>	<u>\$ 15,184</u>
<u>Accumulated impairment</u>			
Balance at January 1, and December 31, 2018	<u>\$ 77,532</u>	<u>\$ -</u>	<u>\$ 77,532</u>
Carrying amount at December 31, 2018	<u>\$ 5,881,530</u>	<u>\$ 25,488</u>	<u>\$ 5,907,018</u>

For the year ended December 31, 2017

	Land	Buildings	Total
<u>Cost</u>			
Balance at January 1, 2017	\$ 5,987,363	\$ 39,218	\$ 6,026,581
Transferred from property, plant and equipment	<u>5,778</u>	<u>-</u>	<u>5,778</u>
Balance at December 31, 2017	<u>\$ 5,993,141</u>	<u>\$ 39,218</u>	<u>\$ 6,032,359</u>
<u>Accumulated depreciation</u>			
Balance at January 1, 2017	\$ -	\$ 13,113	\$ 13,113
Depreciation expense	<u>-</u>	<u>823</u>	<u>823</u>
Balance at December 31, 2017	<u>\$ -</u>	<u>\$ 13,936</u>	<u>\$ 13,936</u>
<u>Accumulated impairment</u>			
Balance at January 1, and December 31, 2017	<u>\$ 77,532</u>	<u>\$ -</u>	<u>\$ 77,532</u>
Carrying amount at December 31, 2017	<u>\$ 5,915,609</u>	<u>\$ 25,282</u>	<u>\$ 5,940,891</u>

The above buildings of investment properties are depreciated on a straight-line basis over 31-55 years useful lives.

The fair value of the investment properties was arrived at on the basis of valuations carried out in March, December 2017 and April, September and November 2015, by independent appraisers and on the basis of information at the Ministry of the Interior's real estate transaction database website. Appraised lands and buildings were evaluated using Level 3 inputs under market approach, income approach, and land development analysis approach. The important assumptions and fair value were as follows:

	December 31	
	2018	2017
Fair value	<u>\$ 8,952,560</u>	<u>\$ 9,055,408</u>
Expense rate (%)	19.61-25.61	19.61-25.61
Depreciation rate (%)	1.90-2.57	1.90-2.57

All investment properties are owned by the Corporation and had not been pledged to secure borrowings.

18. BORROWINGS

a. Short-term borrowings and bank overdrafts

	December 31	
	2018	2017
Unsecured loans - interest at 0.86%-0.90% p.a. and 0.88%-1.03% p.a. as of December 31, 2018 and 2017, respectively	\$ 2,120,000	\$ 5,965,000
Letters of credit - interest at 0.88%-0.99% p.a. and 0.98% p.a. as of December 31, 2018 and 2017, respectively	1,599,305	1,054,484
Loans from related parties - interest at 0.54% p.a.(Note 30)	2,450,000	-
Bank overdrafts - interest at 0.35% p.a. and 0.35%-0.54% p.a. as of December 31, 2018 and 2017 (Note 31)	<u>212,468</u>	<u>445,331</u>
	<u>\$ 6,381,773</u>	<u>\$ 7,464,815</u>

b. Short-term bills payable

	December 31	
	2018	2017
Commercial paper		
Band of Taiwan	\$ 3000,000	\$ -
Mega Bills Finance Corporation	200,000	460,000
Grand Bills Finance Corp.	-	100,000
Taiwan Cooperative Bills Finance Corporation	-	100,000
China Bills Finance Corporation	<u>-</u>	<u>10,000</u>
	3,200,000	670,000
	<u>1,047</u>	<u>151</u>
Less: Unamortized discounts	<u>\$ 3,198,953</u>	<u>\$ 669,849</u>
Interest rate (%)	0.68-0.74	0.87-0.90

On December 31, 2018, commercial paper was non-guarantee commercial paper. On December 31, 2017, commercial paper was secured by Mega Bills Finance Corporation, Grand Bills Finance Corp., Taiwan Cooperative Bills Finance Corporation and China Bills Finance Corporation.

c. Long-term borrowings

	December 31	
	2018	2017
Credit bank loans		
Due on various dates through June 2021, interest at 1.18%-1.28% p.a. and 1.11%-1.32% p.a. as of December 2018 and 2017.	\$ 4,850,000	\$ 3,000,000
Syndicated bank loans		
Bank of Taiwan and other banks		
Repaid in March 2018, interest at 1.58% p.a.	-	2,250,000
	4,850,000	5,250,000
Less: Current portion	950,000	150,000
Syndicated loan fee	-	2,550
	<u>\$ 3,900,000</u>	<u>\$ 5,097,450</u>

In December 2011, the Corporation entered into a syndicated credit facility agreement with Bank of Taiwan and 11 other banks, which is as follows:

- 1) The credit line is NT\$16 billion, which consists of two types of loans, namely Type A for NT\$7 billion and Type B for NT\$9 billion. The first drawdown of the Corporation was on March 20, 2012. The loan balance was repaid in December 2017 and March 2018.
- 2) Under the agreement, China Steel Corporation and its related parties should collectively hold at least 30% of the Corporation's issued shares and control the Corporation's operations. From January 1, 2012, the net tangible assets of the Corporation should not be less than half of the capital, and the ratio of financial liabilities to net tangible assets should not exceed 350%.

The amounts referred to in the above restrictions should be based on the Corporation's audited annual standalone financial statements.

As of December 31, 2017, the Corporation was in compliance with this syndicated credit facility agreement.

d. Long-term bills payable

	December 31	
	2018	2017
Mega Bills Finance Corporation		
Repayable in December 2021 with a credit of NT\$600 million	\$ 600,000	\$ -
Repayable in March 2021 with a credit of NT\$1.3 billion, Repaid in December 2018	-	1,300,000
China Bills Finance Corporation		
Repayable in January 2020 with a credit of NT\$600 million	300,000	600,000
Repayable in September 2021 with a credit of NT\$500 million	300,000	500,000
Grand Bills Finance Corporation		
Repayable in January 2020 with a credit of NT\$600 million	300,000	450,000
International Bills Financial Corporation		
Repayable in December 2021 with a credit of NT\$300 million	<u>180,000</u>	<u>300,000</u>
	1,680,000	3,150,000

(Continued)

	December 31	
	2018	2017
Less: Unamortized discount	\$ 442	\$ 938
	<u>\$ 1,679,558</u>	<u>\$ 3,149,062</u>
Interest rate (%)	0.99-1.20	1.04-1.16 (Concluded)

On December 31, 2018, Mega Bills was non-guarantee commercial paper. The other commercial paper was secured by Agricultural Bank of Taiwan, Taishin International Bank, Hua Nan Commercial Bank and Bangkok Bank. On December 31, 2017, commercial paper was secured by Mega Bank, Agricultural Bank of Taiwan, Taishin International Bank, Hua Nan Commercial Bank and Bangkok Bank.

19. ACCOUNTS PAYABLE

	December 31	
	2018	2017
<u>Accounts payable</u>		
Operating - non related parties	<u>\$ 45,304</u>	<u>\$ 56,160</u>
Operating - related parties	<u>\$ 595,764</u>	<u>\$ 1,219,265</u>

The Corporation has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

20. OTHER LIABILITIES

	December 31	
	2018	2017
<u>Current</u>		
Other payables		
Salaries and incentive bonus	\$ 401,312	\$ 349,322
Outsourced repair and construction	120,532	53,091
Export fees	101,107	65,457
Utilities	64,820	71,104
Employees' compensation and remuneration of directors and supervisors (Note 24)	26,714	-
Sales discounts	-	163,435
Others	<u>298,881</u>	<u>171,720</u>
	<u>\$ 1,013,366</u>	<u>\$ 874,129</u>
Other current liabilities		
Unearned receipts	\$ 5,907	\$ 167,296
Others	<u>25,067</u>	<u>16,377</u>
	<u>\$ 30,974</u>	<u>\$ 183,673</u>

21. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Corporation adopted a pension plan under the Labor Pension Act (the “LPA”), which is a state-managed defined contribution plan. Based on the LPA, the Corporation makes monthly contributions to employees’ individual pension accounts at 6% of monthly salaries and wages.

b. Defined benefit plans

The Corporation adopted the defined benefit plan under the Labor Standards Law, under which pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Corporation makes contributions, equal to 12.9% of total monthly salaries, to a pension fund, which is deposited in the Bank of Taiwan in the name of and administered by the pension fund monitoring committee. Before the end of each year, the Corporation assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Corporation is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (“the Bureau”); the Corporation has no right to influence the investment policy and strategy.

The amounts included in the standalone balance sheets in respect of the Corporation’s defined benefit plans were as follows:

	December 31	
	2018	2017
Present value of defined benefit obligation	\$ 1,445,603	\$ 1,282,008
Fair value of plan assets	<u>(1,014,884)</u>	<u>(916,252)</u>
Net defined benefit liabilities	<u>\$ 430,719</u>	<u>\$ 365,756</u>

Movements of net defined benefit liabilities (assets) were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities
Balance at January 1, 2018	<u>\$ 1,282,008</u>	<u>\$ (916,252)</u>	<u>\$ 365,756</u>
Service cost			
Current service cost	20,060	-	20,060
Interest expense (income)	<u>16,025</u>	<u>(11,850)</u>	<u>4,175</u>
Recognized in profit or loss	<u>36,085</u>	<u>(11,850)</u>	<u>24,235</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(24,839)	(24,839)
Actuarial loss - changes in demographic assumptions	18,050	-	18,050

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities
Actuarial loss - changes in financial assumptions	\$ 54,247	\$ -	\$ 54,247
Actuarial loss - experience adjustments	<u>81,342</u>	<u>-</u>	<u>81,342</u>
Recognized in other comprehensive income	<u>153,639</u>	<u>(24,839)</u>	<u>128,800</u>
Contributions from the employer	<u>-</u>	<u>(86,350)</u>	<u>(86,350)</u>
Benefits paid	<u>(26,129)</u>	<u>24,407</u>	<u>(1,722)</u>
Balance at December 31, 2018	<u>\$ 1,445,603</u>	<u>\$ (1,014,884)</u>	<u>\$ 430,719</u>
Balance at January 1, 2017	<u>\$ 1,182,038</u>	<u>\$ (865,937)</u>	<u>\$ 316,101</u>
Service cost			
Current service cost	20,694	-	20,694
Interest expense (income)	<u>14,775</u>	<u>(11,247)</u>	<u>3,528</u>
Recognized in profit or loss	<u>35,469</u>	<u>(11,247)</u>	<u>24,222</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	2,611	2,611
Actuarial loss - changes in demographic assumptions	16,585	-	16,585
Actuarial loss - experience adjustments	<u>89,843</u>	<u>-</u>	<u>89,843</u>
Recognized in other comprehensive income	<u>106,428</u>	<u>2,611</u>	<u>109,039</u>
Contributions from the employer	<u>-</u>	<u>(80,260)</u>	<u>(80,260)</u>
Benefits paid	<u>(41,927)</u>	<u>38,581</u>	<u>(3,346)</u>
Balance at December 31, 2017	<u>\$ 1,282,008</u>	<u>\$ (916,252)</u>	<u>\$ 365,756</u>

(Concluded)

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

	For the Year Ended December 31	
	2018	2017
Operating costs	\$ 20,571	\$ 20,733
Operating expenses	<u>3,664</u>	<u>3,489</u>
	<u>\$ 24,235</u>	<u>\$ 24,222</u>

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

1) Investment risk

The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau of Labor Funds, Ministry of Labor or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.

2) Interest risk

A decrease in the government and the corporate bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.

3) Salary risk

The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

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

	December 31	
	2018	2017
Discount rate (%)	1.125	1.25
Expected rate of salary increase (%)	2.25	2.00
Turnover rate (%)	0-7	0-8

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

	December 31	
	2018	2017
Discount rate		
0.25% increase	<u>\$ (37,335)</u>	<u>\$ (34,176)</u>
0.25% decrease	<u>\$ 38,750</u>	<u>\$ 35,507</u>
Expected rate of salary increase		
0.25% increase	<u>\$ 37,644</u>	<u>\$ 34,607</u>
0.25% decrease	<u>\$ (36,462)</u>	<u>\$ (33,482)</u>

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

	December 31	
	2018	2017
The expected contributions to the plan for the next year	<u>\$ 90,640</u>	<u>\$ 63,600</u>
The average duration of the defined benefit obligation	10.7 years	11.1 years

22. EQUITY

a. Ordinary shares

	December 31	
	2018	2017
Numbers of shares authorized (in thousands)	<u>2,043,160</u>	<u>2,043,160</u>
Shares authorized	<u>\$ 20,431,600</u>	<u>\$ 20,431,600</u>
Numbers of shares issued and fully paid (in thousands)	<u>1,435,544</u>	<u>1,435,544</u>
Shares issued	<u>\$ 14,355,444</u>	<u>\$ 14,355,444</u>

In June 2009, the Corporation revised the number of its authorized shares to 3,000,000 thousand shares upon obtaining the approval in the shareholders' meeting. However, because the Company Law prohibits the Corporation from revising the number of authorized shares before the full issuance of the original authorized shares, the number of authorized shares remained unchanged.

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

b. Capital surplus

	December 31	
	2018	2017
Additional paid-in capital	<u>\$ 903</u>	<u>\$ 903</u>

In 2009, CSC had transferred its treasury stocks to its employees and subsidiaries. The Corporation recognized a compensation cost and capital surplus of NT\$743 thousand. In July 2011, CSC issued ordinary shares for cash capital. Under the Company Law, CSC should reserve 10% of the stocks for its employees and subsidiaries. The Corporation recognized NT\$160 thousand of compensation cost and capital surplus.

Such capital surplus may be used only to offset deficits.

c. Retained earnings and dividend policy

The Corporation's Articles of Incorporation provide that 10% of the annual net income less any deficit should be appropriated as a legal reserve; a certain percentage should be appropriated as special reserve; the remainder may be declared as dividends or retained as proposed by the Corporation's board of directors and approved in the shareholders' meetings.

The Corporation is in a mature steel industry. Thus, dividends will be appropriated in cash or in stock at an appropriate ratio, with cash dividends to be at least 50% of total dividends.

Under the Company Law, legal reserve should be appropriated from retained earnings until its balance equals the Corporation's paid-in capital. Legal reserve may be used to offset a deficit. If the Corporation has no deficit and the legal reserve has exceeded 25% of the Corporation's paid-in capital, the excess may be transferred to capital or distributed in cash.

Items referred to under Rule No. 1010012865, Rule No. 1010047490 and Rule No. 1030006415 issued by the FSC and in the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs" should be appropriated to or reversed from a special reserve by the Corporation.

The use of NT\$2,606,273 thousand of net profit for 2017 to offset the accumulated deficit was proposed by the board of directors and approved in the shareholders' meeting in June 2018. The appropriations of earnings for 2018 had been proposed by the Corporation's board of directors on March 19, 2019. The appropriation and dividends per share were as follows:

	Appropriation of Earnings	Dividend Per Share (NT\$)
Legal reserve	\$ 90,451	
Special reserve	497,607	
Cash dividends	143,554	<u>\$ 0.1</u>

The appropriations of earnings for 2018 are subject to the resolution in the shareholders' meeting to be held in June, 2019.

Information about the appropriation of earnings and offsetting deficits, proposed by the shareholders' meetings and the Corporation's board of directors, is available on the Market Observation Post System website of the Taiwan Stock Exchange.

d. Unrealized gain and loss on available-for-sale financial assets

	For the Year Ended December 31, 2017
Balance, beginning of year	<u>\$ (365,523)</u>
Unrealized gain or loss on available-for-sale financial assets	7,700
Share of unrealized loss on available-for-sale financial assets of associates accounted for using the equity method	<u>10,911</u>
	<u>18,611</u>
Balance, end of year	<u>\$ (346,912)</u>
Balance at January 1, 2018 (IAS 39)	\$ (346,912)
Adjustment on initial application of IFRS 9	<u>346,912</u>
Balance at January 1, 2018 (IFRS 9)	<u>\$ -</u>

e. Unrealized gains and losses on financial assets at fair value through other comprehensive income

	For the Year Ended December 31, 2018
Balance at January 1, 2018 (IAS 39)	\$ -
Adjustment on initial application of IFRS 9	<u>(431,310)</u>
Balance at January 1, 2018 (IFRS 9)	<u>(431,310)</u>
Recognized during the period	
Unrealized gains and losses - equity instruments	(13,975)
Share from associates accounted for using the equity method	<u>(52,861)</u>
Other comprehensive income recognized in the year	<u>(66,836)</u>
	(Continued)

**For the Year
Ended
December 31,
2018**

Cumulative unrealized gain of equity instruments transferred to retained earnings due to disposal	\$ <u>539</u>
Balance end of year	<u>\$ (497,607)</u> (Concluded)

23. OPERATING REVENUES

a. Contract balances

**December 31,
2018**

Accounts receivable (Note 10)	<u>\$ 1,132,372</u>
Contract liabilities	
Sale of goods	\$ 93,555
Advances received	<u>2,890</u>
	<u>\$ 96,445</u>

The change in contract liabilities is mainly due to differences in customer payment timing and there is no significant change in contract liabilities in 2018.

b. Disaggregation of revenue

Refer to Statement 14.

24. PROFIT BEFORE INCOME TAX

Profit before income tax consisted of following items:

a. Other income

For the Year Ended December 31

	2018	2017
Rental income	\$ 74,629	\$ 70,214
Dividend income	41,894	61,399
Interest income	4,154	3,749
Others	<u>9,145</u>	<u>8,226</u>
	<u>\$ 129,822</u>	<u>\$ 143,588</u>

b. Other gains and losses

	For the Year Ended December 31	
	2018	2017
Net foreign exchange gain (loss)	\$ 91,264	\$ (686)
Gain arising on financial assets at fair value through profit or loss	3,057	7,059
Fees	(14,523)	(18,214)
Gain on disposal of property, plant and equipment	-	290
Other losses	<u>(424)</u>	<u>(601)</u>
	<u>\$ 79,374</u>	<u>\$ (12,152)</u>

The components of net foreign exchange gain (loss) were as follows:

	For the Year Ended December 31	
	2018	2017
Foreign exchange gain	\$ 157,840	\$ 64,004
Foreign exchange loss	<u>(66,576)</u>	<u>(64,690)</u>
Net exchange gain (loss)	<u>\$ 91,264</u>	<u>\$ (686)</u>

c. Finance costs

	For the Year Ended December 31	
	2018	2017
Interest on bank overdrafts and loans	\$ 129,806	\$ 170,187
Interest on loans from related parties (Note 30)	<u>12,548</u>	<u>14,483</u>
Total interest expense financial liabilities measured at amortized cost	142,354	184,670
Less: Amounts included in the cost of qualifying assets	<u>2,471</u>	<u>3,734</u>
	<u>\$ 139,883</u>	<u>\$ 180,936</u>

Information about capitalized interest was as follows:

	For the Year Ended December 31	
	2018	2017
Capitalized amounts	\$ 2,471	\$ 3,734
Capitalized annual rates (%)	0.77-1.04	1.01-1.15

d. Depreciation

	For the Year Ended December 31	
	2018	2017
Property, plant and equipment	\$ 1,180,292	\$ 1,417,837
Investment properties	<u>840</u>	<u>823</u>
	<u>\$ 1,181,132</u>	<u>\$ 1,418,660</u>
Analysis of depreciation by function		
Operating costs	\$ 1,092,116	\$ 1,332,810
Operating expenses	88,176	85,027
Deduction of other income	<u>840</u>	<u>823</u>
	<u>\$ 1,181,132</u>	<u>\$ 1,418,660</u>

e. Operating expenses directly related to investment properties

	For the Year Ended December 31	
	2018	2017
Direct operating expenses of investment properties that generated rental income	\$ 17,348	\$ 16,857
Direct operating expenses of investment properties that did not generate rental income	<u>1,940</u>	<u>2,163</u>
	<u>\$ 19,288</u>	<u>\$ 19,020</u>

f. Employee benefits

	For the Year Ended December 31	
	2018	2017
Short-term employee benefits		
Salaries	\$ 1,194,080	\$ 1,097,875
Labor and health insurance	88,005	83,815
Others	<u>207,097</u>	<u>142,593</u>
	<u>1,489,182</u>	<u>1,324,283</u>
Post-employment benefits		
Defined contribution plans	23,987	22,556
Defined benefit plans (Note 21)	<u>24,235</u>	<u>24,222</u>
	<u>48,222</u>	<u>46,778</u>
	<u>\$ 1,537,404</u>	<u>\$ 1,371,061</u>
Analysis of employee benefits expense by function		
Operating costs	\$ 1,272,890	\$ 1,114,861
Operating expenses	<u>264,514</u>	<u>256,200</u>
	<u>\$ 1,537,404</u>	<u>\$ 1,371,061</u>

g. Employees' compensation and remuneration of directors

In accordance with the Corporation's Articles of Incorporation, the Corporation distributes employees' compensation and remuneration of directors and supervisors at rates of no less than 1‰ and no higher than 1%, respectively, of net profit before income tax less any deficit, employees' compensation, and remuneration of directors and supervisors. There was no bonus to employees and remuneration to directors and supervisors in 2017 because the Corporation had accumulated deficits.

The appropriations of employees' compensation and remuneration of directors for the year ended December 31, 2018, which were approved by the board of directors on March 19, 2019, respectively, were as follows:

	For the Year Ended December 31, 2018
<u>Accrual rate</u>	
Employees' compensation (%)	2.1
Remuneration of directors (%)	0.42
<u>Amount</u>	
Employees' compensation	\$ 22,262
Remuneration of directors	4,452

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

Information on employees' compensation and remuneration of directors resolved by the Corporation's board of directors are available on the Market Observation Post System website of the Taiwan Stock Exchange.

25. INCOME TAX

a. Income tax recognized in profit or loss

The major components of income tax expense were as follows:

	<u>For the Year Ended December 31</u>	
	2018	2017
Current tax		
In respect of the current year	\$ -	\$ 10
Deferred tax		
In respect of the current year	-	(155)
	<u>\$ -</u>	<u>(\$ 145)</u>

The reconciliation of accounting profit and income tax expense was as follows:

	For the Year Ended December 31	
	2018	2017
Profit before income tax	<u>\$ 3,033,223</u>	<u>\$ 2,606,128</u>
Income tax expense at the statutory rate	\$ 606,645	\$ 443,042
Permanent differences		
Profit on investments under equity method	(18,402)	(14,335)
Others	(5,444)	(7,915)
Unrecognized deductible temporary differences	52,922	(54,192)
Loss carryforwards	(635,721)	(366,755)
Land value increment tax	<u>-</u>	<u>10</u>
	<u>\$ -</u>	<u>\$ 30</u>

The Income Tax Act in the ROC was amended in 2018, and the corporate income tax rate was adjusted from 17% to 20%, effective in 2018. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings will be reduced from 10% to 5%. As the status of the 2019 appropriation of earnings is uncertain, the potential income tax consequences of the 2018 unappropriated earnings are not reliably determinable.

- b. No income tax was recognized in other comprehensive loss.
- c. Current tax assets

	December 31	
	2018	2017
Current tax assets		
Tax refund receivable	<u>\$ 392</u>	<u>\$ 279</u>

- d. Deferred tax liabilities

The movements of deferred tax liabilities were as follows:

For the year ended December 31, 2018

	Balance, Beginning of Year	Recognized in Profit or Loss	Balance, End of Year
<u>Deferred Tax Liabilities</u>			
Temporary differences			
Land value increment tax	<u>\$ (182,222)</u>	<u>\$ -</u>	<u>\$ (182,222)</u>

For the year ended December 31, 2017

	Balance, Beginning of Year	Recognized in Profit or Loss	Balance, End of Year
<u>Deferred Tax Liabilities</u>			
Temporary differences			
Realized foreign exchange gain	\$ (155)	\$ 155	\$ -
Land value increment tax	<u>(182,222)</u>	<u>-</u>	<u>(182,222)</u>
	<u>\$ (182,377)</u>	<u>\$ 155</u>	<u>\$ (182,222)</u>

e. Items for which no deferred tax assets have been recognized

	December 31	
	2018	2017
Loss carryforwards		
2021 maturity	\$ -	\$ 61,050
2022 maturity	1,460,084	4,641,513
2023 maturity	187,880	187,880
2025 maturity	<u>2,655,245</u>	<u>2,655,245</u>
	<u>\$ 4,303,209</u>	<u>\$ 7,545,688</u>
Deductible temporary differences		
Gain on disposal of nonperforming loans	\$ -	\$ 575,992
Amortization of deferred credits	509,636	-
Sales discount payable	109,982	163,174
Net defined benefit liabilities	430,719	365,756
Provision for inventory loss	423,614	5,743
Others	<u>90,672</u>	<u>60,389</u>
	<u>\$ 1,564,623</u>	<u>\$ 1,171,054</u>

f. Income tax assessments

The Corporation's income tax returns through 2016 have been assessed by the tax authorities.

26. BASIC EARNINGS PER SHARE

	For the Year Ended December 31	
	2018	2017
Basic earnings per share	<u>\$ 2.11</u>	<u>\$ 1.82</u>
Diluted earnings per share	<u>\$ 2.11</u>	<u>\$ 1.82</u>

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

Net profit for the year

	For the Year Ended December 31	
	2018	2017
Net profit	\$ 3,033,223	\$ 2,606,273

Weighted average number of ordinary shares outstanding (in thousand shares)

	For the Year Ended December 31	
	2018	2017
Weighted average number of ordinary shares in computation of basic earnings per share	1,435,544	1,435,544
Effect of dilutive potential ordinary shares: Employees' compensation	2,081	-
Weighted average number of ordinary shares used in computation of diluted earnings per share	<u>1,437,625</u>	<u>1,435,544</u>

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

27. OPERATING LEASE ARRANGEMENTS

The Corporation as lessor leased a building on June 30, 2010 for 20 years under an operating lease agreement; the Corporation collects rental monthly. The rental revenues for the years ended December 31, 2018 and 2017 were NT\$78,722 thousand and NT\$75,775 thousand, respectively, and were included in other income. Based on the lease contract, as of December 31, 2018 and 2017, the Corporation obtained the same amount of deposit of NT\$35,000 thousand which was recognized as guaranteed deposits received.

As of December 31, 2018 and 2017, notes receivable and advance rental were as follows:

	December 31	
	2018	2017
Notes receivable	\$ 48,622	\$ 47,669
Less: Advance rental	<u>(48,622)</u>	<u>(47,669)</u>
	<u>\$ -</u>	<u>\$ -</u>

The future minimum rentals to be received under non-cancellable operating lease commitments are as follows:

	December 31	
	2018	2017
Not later than 1 year	\$ 88,508	\$ 85,363
Later than 1 year and not later than 5 years	424,771	415,880

(Continued)

	December 31	
	2018	2017
Later than 5 years	\$ 634,820	\$ 723,052
	<u>\$ 1,148,099</u>	<u>\$ 1,224,295</u>
		(Concluded)

28. CAPITAL MANAGEMENT

The Corporation manages its capital to ensure that entities in the Corporation will be able to continue their operations while maximizing the return to shareholders through the optimization of the debt and equity balance.

29. FINANCIAL INSTRUMENTS

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

Management of the Corporation considers the carrying amount of financial assets and liabilities not carried at fair value approximates fair value.

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

1) Fair value hierarchy

	Level 1	Level 2	Level 3	Total
<u>December 31, 2018</u>				
Financial assets at fair value through profit or loss				
Emerging market shares	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 217,281</u>	<u>\$ 217,281</u>
Financial assets at FVOCI				
Domestic listed shares	\$ 802,899	\$ -	\$ -	\$ 802,899
Domestic unlisted shares	<u>-</u>	<u>-</u>	<u>51,219</u>	<u>51,219</u>
	<u>\$ 802,899</u>	<u>\$ -</u>	<u>\$ 51,219</u>	<u>\$ 854,118</u>
<u>December 31, 2017</u>				
Financial assets at fair value through profit or loss				
Emerging market shares	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 215,464</u>	<u>\$ 215,464</u>
Available-for-sale financial assets				
Domestic listed shares	\$ 819,454	\$ -	\$ -	\$ 819,454
Domestic unlisted shares	<u>-</u>	<u>-</u>	<u>54,563</u>	<u>54,563</u>
	<u>\$ 819,454</u>	<u>\$ -</u>	<u>\$ 54,563</u>	<u>\$ 874,017</u>

There was no transfer between Level 1 and Level 2 for the years ended December 31, 2018 and 2017.

2) Reconciliation of Level 3 fair value measurements of financial assets

	Financial Assets at Fair Value Through Profit or Loss - Equity Instruments	Financial Assets at Fair value through Other Comprehensive Income - Equity Instruments	Total
<u>For the year ended December 31, 2018</u>			
Balance, beginning of year (IAS 39)	\$ 215,464	\$ -	\$ 215,464
Adjustment on initial application of IFRS 9	<u>-</u>	<u>54,563</u>	<u>54,563</u>
Balance, beginning of year (IFRS 9)	215,464	54,563	270,027
Total profit or loss			
Recognized in profit or loss	2,338	-	2,338
Recognized in other comprehensive income	-	2,580	2,580
Disposal	(521)	(962)	(1,483)
Capital reduction refunded	<u>-</u>	<u>(4,962)</u>	<u>(4,962)</u>
Balance, end of year	<u>\$ 217,281</u>	<u>\$ 51,219</u>	<u>\$ 268,500</u>
Unrealized gains and losses recognized in other profit or loss	<u>\$ 2,264</u>	<u>\$ -</u>	<u>\$ 2,264</u>
<u>For the year ended December 31, 2017</u>			
Balance, beginning of year	\$ 231,953	\$ 54,663	\$ 286,616
Total profit or loss			
Recognized in profit or loss	7,195	-	7,195
Recognized in other comprehensive income	-	4,389	4,389
Disposal	(23,684)	-	(23,684)
Capital reduction refunded	<u>-</u>	<u>(4,489)</u>	<u>(4,489)</u>
Balance, end of year	<u>\$ 215,464</u>	<u>\$ 54,563</u>	<u>\$ 270,027</u>
Unrealized gains and losses recognized in other profit or loss	<u>\$ 4,297</u>	<u>\$ -</u>	<u>\$ 4,297</u>

3) Valuation techniques and inputs applied for the purpose of measuring Level 3 fair value measurement

- a) The fair value of emerging stocks was based on the closing price adjusted for liquidity risk premium.
- b) The fair value of unlisted stocks was based on the current net value.

c. Categories of financial instruments

	December 31	
	2018	2017
Financial assets		
Fair value through profit or loss		
Held for trading	\$ -	\$ 215,464
Mandatorily at fair value through profit or loss	217,281	-
Available-for-sale financial assets (including noncurrent)	-	874,017
Loans and receivables (see 1 below)	-	2,591,933
Measured at amortized cost (see 2 below)	1,997,138	-
Financial assets at fair value through other comprehensive income		
Equity instruments	854,118	-
Financial liabilities		
Measured at amortized cost (see 3 below)	17,915,558	18,715,850

- 1) The balances included loans and receivables measured at amortized cost, which comprise cash, accounts receivable (including related parties), other receivables (including related parties), other financial assets (including current and noncurrent) and refundable deposits.
- 2) The balances included financial assets measured at amortized cost, which comprise cash, accounts receivable (including related parties), other receivables (including related parties), other financial assets (including current and non-current) and refundable deposits.
- 3) The balances included financial liabilities measured at amortized cost, which comprise short-term borrowings, short-term bills payable, accounts payable (including related parties), other payables, refund liability long-term borrowings (including current portion), long-term bills payable, and guarantee deposits received.

d. Financial risk management objectives and policies

The Corporation's major financial instruments include accounts receivable, investments accounted for using equity method, other financial assets, accounts payable, short-term borrowings, short-term bills payable, long-term borrows (including current portion of long-term bank borrowings) and long-term bills payable. The Corporation's financial management department provides service to the business units, coordinates domestic and international financial operations, prepares and analyzes internal risk reports to monitor and manage financial risks related to the operation of the Corporation. These risks include market risk (including exchange rate risk, interest rate risk and other price risk), credit risk and liquidity risk.

1) Market risk

The main financial risks arising from operating activities are to the risk of change in foreign exchange rates (see (a) below), the risk of changes in interest rates (see (b) below) and the risk of other price (see (c) below).

There had been no change to the Corporation's exposure to market risks or the manner in which these risks were managed and measured.

a) Foreign currency risk

The Corporation was exposed to foreign currency risk due to sales and purchases, denominated in foreign currencies. Exchange rate exposures were managed within approved policy parameters

utilizing the same currency for accounts receivable and payable.

The carrying amounts of the Corporation's foreign currency denominated monetary assets and monetary liabilities and of the derivatives exposed foreign currency risk at the end of the reporting period are set out in Note 33.

Sensitivity analysis

The Corporation was mainly exposed to the USD. The following table details the Corporation's sensitivity to a 1% increase and decrease in the New Taiwan dollars (the functional currency) against the relevant foreign currencies. The sensitivity rate of 1% is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates.

The sensitivity analysis included only the outstanding foreign currency denominated monetary items. A positive number below indicates an increase in profit or loss when the New Taiwan dollars strengthens by 1% against the relevant currency.

	USD Impact (Note)	
	For the Year Ended December 31	
	2018	2017
Profit before income tax	\$ 7,660	\$ 10,116

Note: This was mainly attributable to the exposure of outstanding USD cash, accounts receivables, accounts payable and other payables, which were not hedged at the balance sheet date.

b) Interest rate risk

The Corporation was exposed to interest rate risk because the Corporation borrowed funds at both fixed and floating interest rates.

The carrying amounts of the Corporation's financial assets and liabilities with exposure to interest rates at the balance sheet date were as follows:

	December 31	
	2018	2017
Fair value interest rate risk		
Financial liabilities	\$ 1,679,558	\$ 3,149,062

(Continued)

	December 31	
	2018	2017
Cash flow interest rate risk		
Financial assets	\$ 494,825	\$ 693,941
Financial liabilities	11,231,773	12,712,265
		(Concluded)

If interest rates had been 1% higher and all other variables were held constant, the Corporation's pre-tax profit for the years ended December 31, 2018 and 2017 would have been lower by NT\$107,369 thousand and lower by NT\$120,183 thousand, respectively.

c) Other price risk

The Corporation was exposed to equity price risk through their investments in domestic listed shares.

The equity price of the Corporation was evaluated by the closing price of the equity securities on a monthly basis.

Sensitivity analysis

If equity price of fair value through other comprehensive income financial assets had been lower by one dollar, the pre-tax-other comprehensive income, for the years ended December 31, 2018 would have been lower by NT\$33,109 thousand.

If equity prices of available-for-sale financial assets had been lower by one dollar, the pre-tax other comprehensive income, for the years ended December 31, and 2017 would have been lower by NT\$33,109 thousand.

2) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Corporation. As at the balance sheet date, the Corporation's maximum exposure to credit risk is the carrying amount of the financial assets on the standalone balance sheets and the amount of contingent liabilities in relation to financial guarantee issued by the Corporation.

The Corporation made transactions only with the parties with good credit. The goods were delivered after the cash or L/C was received, and the Corporation did not provide financial guarantee to any company. Accounts receivable were due to time differences of L/C negotiation and there were no bad debt in the recent years; therefore, the credit risk is very low.

3) Liquidity risk

The Corporation manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Corporation's operations and mitigate the effects of fluctuations in cash flows. The Corporation relies on bank borrowings as a significant source of liquidity. The management monitors the utilization of bank borrowings and ensures compliance with loan covenants. As of December 31, 2018, the current liabilities of the Corporation exceed current assets by NT\$773,305 thousand and the unutilized credit facility of the Corporation was NT\$34.6 billion; therefore, there is no liquidity risk or incapacity of financing capital to meet contractual obligations.

The table below summarizes the maturity profile of the Corporation's financial liabilities based on contractual undiscounted payments:

	Less Than 1 Year	1-5 Years	Total
December 31, 2018			
Short-term borrowings	\$ 6,424,499	\$ -	\$ 6,424,499
Short-term bills payable	3,200,000	-	3,200,000
Accounts payable (including related parties)	641,068	-	641,068
Other payables	1,013,366	-	1,013,366
Long-term bank borrowings	997,864	3,931,840	4,929,704
Long-term bills payable	-	1,680,000	1,680,000
Guarantee deposits received	<u>-</u>	<u>35,120</u>	<u>35,120</u>
	<u>\$ 12,276,797</u>	<u>\$ 5,646,960</u>	<u>\$ 17,923,757</u>
December 31, 2017			
Short-term borrowings	\$ 7,515,246	\$ -	\$ 7,515,246
Short-term bills payable	670,000	-	670,000
Accounts payable (including related parties)	1,275,425	-	1,275,425
Other payables	874,129	-	874,129
Long-term bank borrowings	223,403	5,162,475	5,385,878
Long-term bills payable	-	3,150,000	3,150,000
Guarantee deposits received	<u>-</u>	<u>35,120</u>	<u>35,120</u>
	<u>\$ 10,558,203</u>	<u>\$ 8,347,595</u>	<u>\$ 18,905,798</u>

30. TRANSACTIONS WITH RELATED PARTIES

The subsidiary, Hung Li Steel Corporation Ltd merged with the Corporation on June 1, 2018, and the Corporation has assumed the related rights and obligations. Details of transactions between the Corporation and other related parties are disclosed below.

- a. The name of the company and its relationship with the Corporation

Company	Relationship
China Steel Corporation	Parent entity
Hong Kao Investment Corporation	Subsidiaries
Taiwan Steel Corporation	Subsidiaries
Dragon Steel Corporation (DSC)	Fellow subsidiaries
CHC Resources Corporation (CHC)	Fellow subsidiaries
United Steel Engineering & Construction Corp. (USECC)	Fellow subsidiaries
Info Champ Systems Corporation (ICSC)	Fellow subsidiaries
China Steel Machinery Corporation (CSMC)	Fellow subsidiaries
Himag Magnetic Corporation (HMC)	Fellow subsidiaries
CSC Steel SDN. BHD. (CSSB)	Fellow subsidiaries
China Steel Precision Metals Kunshan Co., Ltd.	Fellow subsidiaries
China Steel Global Trading Corporation (CSGTC)	Fellow subsidiaries
China Ecotek Corporation	Fellow subsidiaries
Steel Castle Technology Corporation	Fellow subsidiaries
China Steel Security Corporation	Fellow subsidiaries
China Steel Express Corporation	Fellow subsidiaries
China Steel Structure Co., Ltd	Fellow subsidiaries
Universal Exchange Inc.	Fellow subsidiaries

(Continued)

Company	Relationship
Union Steel Development Corp.	Fellow subsidiaries
Thintech Materials Technology Co., Ltd.	Fellow subsidiaries
China Steel Management Consulting Corp.	Fellow subsidiaries
China Steel Chemical Corporation	Fellow subsidiaries
Yu Cheng Lime Corporation	Fellow subsidiaries
CSEI Transport Corporation (Panama)	Fellow subsidiaries
Wabo Global Trading Corporation	Fellow subsidiaries
CSC SOLAR CORP.	Fellow subsidiaries
Transglory Investment Corporation	Associates
Formosa Ha Tinh Steel Corporation	Other related parties
Pacific Harbour Stevedoring Corporation	Other related parties as supervisors of the Corporation
Cheng Shin Management for Building Co., Ltd. (former name: Cheng Shin Building Company)	Director of the Corporation
	(Concluded)

b. Sale of goods

Account Items	Related Parties Types	For the Year Ended December 31	
		2018	2017
Sales	Fellow subsidiaries related to others	\$ 1,780,397	\$ 1,345,685
	Parent entity	<u>531</u>	<u>5,508</u>
		<u>\$ 1,780,928</u>	<u>\$ 1,351,193</u>
Service Revenue	Parent entity	\$ 594,009	\$ 1,021,535
	Fellow subsidiaries related to others	<u>25</u>	<u>18</u>
		<u>\$ 594,034</u>	<u>\$ 1,021,553</u>

The parent entity and some fellow subsidiaries related to others paid by telegraphic transfers (T/T) within 7 days from product shipment, T/T within 60 days from product shipment, monthly billing by T/T after acceptance sale of, steel pipe products collected at the beginning of next month; these payment terms differed from those for third parties, from whom payments were negotiated to be on Tuesday and Friday. The price of iron oxide that the Corporation sells to fellow subsidiaries related to others does not have comparable price because the Corporation does not sell iron oxide to third parties and the collection term for selling iron oxide is negotiated to be on Tuesday and Friday.

The abovementioned service revenue is from the agreements that the Corporation entered into with parent entity in which the Corporation has to do certain processing work and charged based on the formula stated in the agreements. The Corporation bills the parent entity within one month after approval of delivery.

The Corporation entered into an agreement with fellow subsidiaries related to others under which the Corporation sells waste acid and the price is charged based on the formula stated in the agreement. The Corporation bills the fellow subsidiaries related to others within a month after acceptance by T/T based on the monthly amount of processing.

Account Items	Related Parties Types /Name	For the Year Ended December 31	
		2018	2017
Other operating revenue	Fellow subsidiaries related to others		
	DSC	\$ 52,604	\$ 47,024
	HMC	7,843	-
	Parent entity	<u>-</u>	<u>619</u>
		<u>\$ 60,447</u>	<u>\$ 47,643</u>

There is no significant revenue from the sale of the materials of the Company.

c. Purchase of goods

Related Parties Types/Name	For the Year Ended December 31	
	2018	2017
Parent entity	<u>\$ 25,257,677</u>	<u>\$ 20,345,694</u>
Fellow subsidiaries related to others		
DSC	10,349,774	9,404,310
Others	<u>489,636</u>	<u>371,746</u>
	10,839,410	9,776,056
Other related parties	<u>1,584,678</u>	<u>-</u>
	<u>\$ 37,681,765</u>	<u>\$ 30,121,750</u>

Purchases from related parties, mainly slabs and hot rolling coil, were made under normal terms.

d. Accounts receivable from related parties

Related Parties Types/Name	December 31	
	2018	2017
Parent entity	<u>\$ 36,256</u>	<u>\$ 121,529</u>
Fellow subsidiaries related to others		
CSSB	121,361	35,356
Others	<u>25,823</u>	<u>11,302</u>
	<u>147,184</u>	<u>46,658</u>
	<u>\$ 183,440</u>	<u>\$ 168,187</u>
Other receivable from related parties		
Parent entity	<u>\$ 302,696</u>	<u>\$ 363,920</u>
Fellow subsidiaries related to others		
CHC	41,513	\$ 34,292
Others	<u>351</u>	<u>297</u>
	<u>41,864</u>	<u>34,589</u>
	<u>\$ 344,560</u>	<u>\$ 398,509</u>

No guarantee had been received for accounts receivable and other receivable from related parties. No expense had been recognized for the years ended December 31, 2018 and 2017 for allowance for impairment of accounts receivable in respect of the amounts owed by related parties.

e. Accounts payable to related parties (excluding loans from related parties)

Related Parties Types/Name	December 31	
	2018	2017
Parent entity	\$ 582,549	\$ 1,196,582
Others	12,019	12,927
Fellow subsidiaries related to others	<u>1,196</u>	<u>9,756</u>
	<u>\$ 595,764</u>	<u>\$ 1,219,265</u>

The outstanding accounts payable to related parties were unsecured.

f. Loans from related parties

Related Parties Types/Name	December 31, 2018
Parent entity	<u>\$ 2,450,000</u>

The Corporation borrowed money from the parent entity because of the need for short-term fund. The interest rate of the loan was based on average daily short-term interest the parent entity financed for the same currency from financial institutions in the last 30 days and adjusted monthly.

The loans from the parent entity were unsecured loans with interest expense of NT\$12,548 thousand and NT\$14,483 thousand for 2018 and 2017, respectively.

g. Other transactions with related parties

1) Authorization fees

In May 2003, CSC, Sumitomo Metal Industries, Ltd. (SMI) and Sumitomo Corporation (SC) entered into a joint venture agreement and established a holding company named East Asia United Steel Corporation (EAUS) in July 2003. CSC will have a stable supply of good quality slab through this joint venture. CSC then signed a contract with the Corporation, transferring to the Corporation the right to buy slab from EAUS. The Corporation should pay authorization fees to CSC under the contract. These fees (included in the purchase cost of materials) were NT\$106,775 thousand in 2018 and NT\$113,656 thousand in 2017. As of December 31, 2018 and 2017, authorization fees payable (included in payables to related parties) were NT\$27,043 thousand and NT\$35,083 thousand, respectively. The calculation of slab purchase prices was based on the formula stated in the agreement.

2) Leases

- a) The Corporation entered into a contract with fellow subsidiaries related to others on the lease of the Corporation's part of the land and warehouse. Lease period is until August 2019. The rental revenue for the years ended December 31, 2018 and 2017 were NT\$2,501 thousand and NT\$2,292 thousand, respectively.
- b) The Corporation entered into a contract with parent entity on the lease of the Corporation's part of the land until December 2019. The rental revenue for the years ended December 31, 2018 and 2017 were both NT\$5,310 thousand.

3) Construction in progress and other expenditures

Other expenditures paid to related parties, which pertained to construction or maintenance, purchased supplies, waste acid and security fee, etc., were as follows:

	<u>For the Year Ended December 31</u>	
	2018	2017
a) Other expenditures		
Others	\$ 188,799	\$ 150,124
Parent entity	171,355	128,860
Fellow subsidiaries related to others	<u>109,088</u>	<u>186,088</u>
	<u>\$ 469,242</u>	<u>\$ 465,072</u>
b) Capital expenditure		
Parent entity	<u>\$ 3,530</u>	<u>\$ 6,039</u>
Fellow subsidiaries related to others		
ICSC	100,021	16,650
CSMC	34,100	30,600
USECC	-	2,477
Others	<u>1,460</u>	<u>5,968</u>
	<u>135,581</u>	<u>55,695</u>
	<u>\$ 139,111</u>	<u>\$ 61,734</u>

4) Income from supplies and scrap

	<u>For the Year Ended December 31</u>	
	2018	2017
Fellow subsidiaries related to others		
CHC	\$ 523,518	\$ 363,868
CSGTC	<u>17,876</u>	<u>18,161</u>
	<u>\$ 541,394</u>	<u>\$ 382,029</u>

h. Compensation of key management personnel

The remuneration to directors and other members of key management personnel were as follows:

	<u>For the Year Ended December 31</u>	
	2018	2017
Short-term employee benefits	\$ 29,596	\$ 27,886
Post-employment benefits	<u>401</u>	<u>234</u>
	<u>\$ 29,997</u>	<u>\$ 28,120</u>

31. ASSETS PLEDGED AS COLLATERAL OR SECURITY

The Corporation's assets mortgaged or pledged as collateral for long-term borrowings and short-term borrowings were as follows (listed based on their carrying amounts):

	December 31	
	2018	2017
Time deposits (included in other financial assets - current)	\$ 300,000	\$ 500,000
Net property, plant and equipment	<u>3,911,003</u>	<u>3,696,986</u>
	<u>\$ 4,211,003</u>	<u>\$ 4,196,986</u>

32. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Corporation as of December 31, 2018 were as follows:

- Unused letters of credit for purchases of raw materials and machinery and equipment amounted to about NT\$2,535,220 thousand
- The Corporation had signed agreements to buy equipment for NT\$493,913 thousand, of which NT\$132,478 thousand had been paid (included in construction-in-progress and prepayments for equipment).

33. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

	Foreign Currencies (In Thousands)	Exchange Rate	Carrying Amount (In Thousands of New Taiwan Dollars)
December 31, 2018			
Monetary financial assets			
USD	\$ 26,413	30.72 (USD:NTD)	\$ 811,269
Monetary financial liabilities			
USD	1,471	30.72 (USD:NTD)	45,187
December 31, 2017			
Monetary financial assets			
USD	36,110	29.76 (USD:NTD)	1,074,655
Monetary financial liabilities			
USD	2,118	29.76 (USD:NTD)	63,026

The significant realized and unrealized foreign exchange gains (losses) were as follows:

Foreign Currencies	Exchange Rate	Net Foreign Exchange Gain (Loss)
For the Year Ended December 31, 2018		
USD	30.72 (USD:NTD)	\$ 91,193
EUR	35.20 (EUR:NTD)	45
Other		<u>26</u>
		<u>\$ 91,264</u>
For the Year Ended December 31, 2017		
USD	29.76 (USD:NTD)	\$ (774)
EUR	35.57 (EUR:NTD)	(187)
Other		<u>275</u>
		<u>\$ (686)</u>

34. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and b. investees:

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

c. Information on investments in mainland China (None)

35. SEGMENT INFORMATION

Disclosure of the segment information in standalone financial statements is waived.

TABLE 1

CHUNG HUNG STEEL CORPORATION

**ENDORSEMENTS/GUARANTEES PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

NO.	Endorsement/Guarantee Provider	Endorsee/Guarantee		Limits on Endorsement/ Guarantee Amount Provided to Each Guaranteed Party	Maximum Balance for the Period	Ending Balance	Amount Actually Drawn	Amount of Endorsement/ Guarantee Collateralized by Properties	Ratio of Accumulated Endorsement/ Guarantee to Net Equity per Latest Financial Statements (%)	Maximum Endorsement/ Guarantee Amount Allowable	Guarantee Provided by Parent Company	Guarantee Provided by a Subsidiary	Guarantee Provided to Subsidiaries in Mainland China	Note
		Name	Nature of Relationship											
0	Chung Hung Steel Corporation	Chung Hung Steel Corporation (Note1)	Having business relationship	\$ 4,428,974	\$ 10,000	\$ 10,000	\$ 10,000	\$ -		\$ 7,381,623	N	N	N	Note 2

Note 1: For importation of goods, letters of credits were provided to Customs Administration, Ministry of Finance Kaohsiung Customs and guaranteed by banks.

Note 2: According to “The Process of marking endorsements/quadrants” of the Company, the ceiling on the amounts for any single entity or the aggregate amounts to the entities shall not exceed 30% and 50% of the net worth of the Company, respectively.

TABLE 2**CHUNG HUNG STEEL CORPORATION****MARKETABLE SECURITIES HELD****DECEMBER 31, 2018****(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Held Company Name	Type and Name of Marketable Securities	Relationship with The Company	Financial Statement Account	DECEMBER 31, 2018				Note
				Shares/Units	Carrying Value	Percentage of Ownership (%)	Fair Value	
Chung Hung Steel Corporation	Common Stock Yieh United Steel Corp.		Financial assets at fair value through profit or loss - current	39,707,800	\$ 217,281	2	\$ 217,281	Note1
	Shouh Hwang Enterprise Co., Ltd.		Financial assets at fair value through profit or loss - current	730,000	-	15	-	Note2
					<u>\$ 217,281</u>		<u>\$ 217,281</u>	
	Common Stock China Steel Corporation	Parent company	Financial assets at fair value through other comprehensive income - current	33,109,239	<u>\$ 802,899</u>	-	<u>\$ 802,899</u>	
	Common Stock Risalink Venture Capital Corp.	The company as its supervisor	Financial assets at fair value through other comprehensive income - noncurrent	657,936	\$ 7,764	3	\$ 7,764	2018.11.30 net value
	Taiwan Ves-Power Co., Ltd.		Financial assets at fair value through other comprehensive income - noncurrent	958,333	37,662	2	37,662	2018.11.30 net value
	Pacific Harbour Stevedoring Corp.		Financial assets at fair value through other comprehensive income - noncurrent	250,000	5,793	5	5,793	2018.08.31 net value
					<u>\$ 51,219</u>		<u>\$ 51,219</u>	
Hung Kao Investment Corporation	Common Stock China Steel Corporation	The ultimate parent of the Company	Financial assets at fair value through other comprehensive income - noncurrent	1,003,980	<u>\$ 24,346</u>	-	<u>\$ 24,346</u>	

Note 1: The fair value of emerging stock was based on the closing price adjusted for liquidity risk premium.

Note 2: The impairment loss has been recognized that resulted in zero book value.

TABLE 3

CHUNG HUNG STEEL CORPORATION

**TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Buyer	Related Party	Relationship	Relationship				Abnormal Transaction		Notes/Accounts Receivable (Payable)		Note
			Purchase/Sale	Amount	% of Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
Chung Hung Steel Corporation	CSC Steel Sdn. Bhd.	Fellow subsidiary	Revenue from sale of goods	\$ (1,662,350)	(3)	T/T within 7 business days after lading date(not included)	Note1	Note1	\$ 121,361	11	
	China Steel Corporation	Parent company	Service revenue	(349,717)	(1)	T/T as the end of the month of when invoice is issued after final acceptance	NO THIRD-PARTY COULD BE COMPARED	NO THIRD-PARTY COULD BE COMPARED	36,256	3	
	Dragon Steel Corporation	Fellow subsidiary	Purchase of goods	10,349,774	25	Letter of credit at sight/Payment after final acceptance	Note1	Note1	-	-	
	China Steel Global Trading Corporation	Fellow subsidiary	Purchase of goods	416,442	1	Letter of credit at sight/Payment after final acceptance	Note1	Note1	-	-	
	China Steel Corporation	Parent company	Purchase of goods	25,257,677	61	Letter of credit at sight/Payment after final acceptance	Note1	Note1	(582,549)	(91)	
	Formosa Ha Tinh Steel Corporation	Other related parties	Purchase of goods	1,584,678	4	Letter of credit at sight/Payment after final acceptance	Note1	Note1	-	-	
Hung Li Steel Corporation (Note2)	China Steel Corporation	The ultimate parent of the Company	Service revenue	(244,292)	(39)	T/T as the end of the month of when invoice is issued	NO THIRD-PARTY COULD BE COMPARED	NO THIRD-PARTY COULD BE COMPARED	-	-	
	Chung Hung Steel Corporation	Parent company	Service revenue	(157,170)	(25)	T/T within a week after final acceptance/T/T as the end of the month of when invoice is issued	NO THIRD-PARTY COULD BE COMPARED	NO THIRD-PARTY COULD BE COMPARED	-	-	

Note 1: Refer to Note 30.

Note 2: Hung Li Steel Corporation was merged with the Corporation on June 1,2018.

TABLE 4

CHUNG HUNG STEEL CORPORATION

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL

DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

[illegible]

Note 1: Discount receivable (included in other receivables).

Note 2: Accounts receivable.

Note 3: At the report date, amounts were received.

TABLE 5**CHUNG HUNG STEEL CORPORATION****INFORMATION ON INVESTEEES****FOR THE YEAR ENDED DECEMBER 31, 2018****(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Number of Shares	%	Carrying Amount	Net Income (Loss) of the Investee	Share of Profit (Loss)	Note
				December 31, 2018	December 31, 2017						
Chung Hung Steel Corporation	Hung Kao Investment Corporation	Republic of China	General investment	\$ 26,000	\$ 26,000	2,600,000	100.00	\$ 30,427	\$ 3,143	\$ 3,143	Subsidiaries (Note)
Chung Hung Steel Corporation	Taiwan Steel Corporation	Republic of China	Iron and steel industry chain industry	1,000	1,000	100,000	100.00	933	(6)	(6)	Subsidiaries (Note)
Chung Hung Steel Corporation	Transglory Investment Corporation	Republic of China	General investment	2,001,152	2,001,152	289,620,871	40.91	2,462,217	217,245	88,875	Associates

Note: Amount was eliminated in the consolidated financial statements.

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STATEMENT 1

CHUNG HUNG STEEL CORPORATION

STATEMENT OF CASH

DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Item	Amount
Cash on hand	\$ 700
Cash in banks	
●Checking accounts	3,047
Foreign currency deposits	
US \$ 6,248,531	191,924
GBP 102	4
	194,975
	\$ 195,675

Note: US\$1=NT\$30.72, GBP 1 =NT\$38.88.

STATEMENT 2**CHUNG HUNG STEEL CORPORATION****STATEMENT OF FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS
- CURRENT****DECEMBER 31, 2018****(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Item	Shares	Acquisition Cost	Fair Value		Note
			Unit Price (NT\$)	Amount	
Common stock					
Emerging Company					
YIEH UNITED STEEL CORPORATION	39,707,800	\$ 236,367	\$ 6.84	<u>\$ 217,281</u>	Note 1
Less: Evaluation adjustment		<u>19,086</u>			
		217,281			
Domestic unlisted shares					
Shouh Hwang Enterprise Co., Ltd.	730,000	-	-	<u>\$ -</u>	Note 2
		<u>\$ 217,281</u>			

Note 1: Fair value is calculated based on liquidity premium adjusted by Emerging Stock Market price as of December 31, 2018.

Note 2: All were recognized as impairment loss in the previous year.

STATEMENT 3**CHUNG HUNG STEEL CORPORATION****STATEMENT OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER
COMPREHENSIVE INCOME - CURRENT****DECEMBER 31, 2018****(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Item	Shares	Acquisition Cost	Fair Value (Note)		Note
			Unit Price (NT\$)	Amount	
Domestic Listed Shares					
China Steel Corporation	33,109,239	\$635,641	\$24.25	<u>\$ 802,899</u>	
Plus: Evaluation adjustment		<u>167,258</u>			
		<u>\$802,899</u>			

Note: Fair value is measured on the basis of the closing price at the balance sheet date.

STATEMENT 4**CHUNG HUNG STEEL CORPORATION****STATEMENT OF ACCOUNTS RECEIVABLE****DECEMBER 31, 2018****(In Thousands of New Taiwan Dollars)**

Customer Name	Amount (Note 2)
Related Parties	
CSC Steel Sdn. Bhd	\$ 121,361
China Steel Corporation	36,256
China Steel Structure Co.,Ltd	16,065
Others(Note 1)	<u>9,758</u>
	<u>\$ 183,440</u>
Non-Related Parties	
Yieh Hong Enterprise Co.,Ltd	93,243
Hong-Ye Steel Co.,Ltd	91,812
Synn Industrial Co.,Ltd	74,341
Thyssenkrupp Materials Trading North America	61,853
Marubeni-Itochu Steel Inc.	60,203
S&P Steel Products And Service, Inc.	55,674
Optima Steel International, Llc	49,639
Others(Note 1)	<u>462,167</u>
	<u>\$ 948,932</u>

Note 1: The amount of individual customer included in others does not exceed 5% of the account balance.

Note 2: There are no accounts receivable that are past due over 1 year.

CHUNG HUNG STEEL CORPORATION**STATEMENT OF INVENTORIES****DECEMBER 31, 2018****(In Thousands of New Taiwan Dollars)**

Item	Amount	
	Cost	Net Realizable Value (Note)
Raw materials	\$ 3,478,111	\$ 3,354,291
Supplies	421,614	485,737
Work in progress	617,034	569,161
Finished goods	3,891,331	3,655,594
Others	7,056	7,056
Raw materials and supplies in transit	248,619	236,431
Allowance for loss on inventory value	(423,614)	-
	<u>\$ 8,240,151</u>	<u>\$ 8,308,270</u>

Note: Refer to Note 4 for details.

STATEMENT 6**CHUNG HUNG STEEL CORPORATION****STATEMENT OF OTHER FINANCIAL ASSETS****DECEMBER 31, 2018****(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Bank Name	Interest Rates (%)	Period	Amount	Note
Other Financial Assets				
Taiwan Business Bank- Time deposits	0.07	107.11.29-108.01.29	300,000	Note 1
Bank of Taiwan- Deposits for projects			<u>2,897</u>	Note 2
			<u>\$302,897</u>	

Note 1: As a collateral for bank borrowings.

Note 2: Designated account for proceeds from pre-sale housing in the Company's joint construction and separate sale project.

CHUNG HUNG STEEL CORPORATION

STATEMENT OF CHANGES IN FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - NONCURRENT
 FOR THE YEAR ENDED DECEMBER 31, 2018
 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Name	Balance, January 1, 2018 (Note 1)		Additions(Note 2)		Decrease(Note 3)		Balance, December 31, 2018		Collateral
	Shares	Fair Value	Shares	Amount	Shares	Amount	Shares	Fair Value (Note 4)	
Domestic unlisted shares									
Riselink Venture Capital Corp.	1,154,274	\$ 12,662		\$ 64	496,338	\$ 4,962	657,936	\$ 7,764	None
TAIWAN VES-POWER CO., LTD.	958,333	35,132		2,530	-	-	958,333	37,662	None
PACIFIC HARBOUR STEVEDORING CORP.	250,000	5,773		20	-	-	250,000	5,793	None
Cheng Shin Management for Building Co., Ltd.	150,000	996		-	150,000	996	-	-	None
		<u>\$54,563</u>		<u>\$ 2,614</u>		<u>\$ 5,958</u>		<u>\$ 51,219</u>	

Note 1: Reclassified from available-for-sale financial assets-noncurrent, after application of IFRS 9 on January 1, 2018.

Note 2: The unrealized gain on valuation of NT\$ 2,614 thousand was recognized as additions.

Note 3: The reduced capital and refund of NT\$ 4,962 thousand, the dissolution and refund of NT\$ 962 thousand and the unrealized loss on valuation of NT\$ 34 thousand were recognized as decreases.

Note 4: Fair value is estimated pursuant to the evaluation method in Note 29.

CHINA STEEL CORPORATION

STATEMENT OF CHANGES IN INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investees	Balance, January 1, 2018		Additions (Note 1)		Decrease (Note 2)		Balance, December 31, 2018			Market Value or Net Assets Value		
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	% of Ownership	Amount	Unit Price (NT\$)	Total Amount	Collateral
Unlisted companies												
Transglory Investment Corporation	282,123,762	\$ 2,425,702	7,497,109-	\$ 88,875	-	\$ 52,360	289,620,871	40.91	\$ 2,462,217	\$ 8.5	\$ 2,462,217	None
Hong Kao Investment Corporation	2,600,000	28,821	-	3,143	-	1,537	2,600,000	100	30,427	11.7	30,427	None
Taiwan Steel Corporation	100,000	939	-	-	-	6	100,000	100	933	9.3	933	None
		<u>\$ 2,455,462</u>		<u>\$ 92,018</u>		<u>\$ 53,903</u>			<u>\$ 2,493,577</u>		<u>\$ 2,493,577</u>	

Note 1: The increase came from investment income recognized under equity method of NT\$ 92,018 thousand.

Note 2: The decrease came from cash dividends NT\$ 1,036 thousand, unrealized loss of financial assets at fair value through other comprehensive income of NT\$ 52,861 thousand and investment loss recognized under equity method of NT\$ 6 thousand.

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CHUNG HUNG STEEL CORPORATION

STATEMENT OF SHORT-TERM BORROWINGS

DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Type	Contract Period	Range of Interest Rates (%)	Balance, End of Year	Credit Amount	Collateral or Pledge
Revolving loans		0.86-0.90			
Hua Nan Commercial Bank, Kaohsiung	2018.12.14-2019.01.18		\$ 600,000	\$ 2,000,000	None
Bangkok Bank, Kaohsiung	2018.12.21-2019.01.18		150,000	882,000	None
Land Bank of Taiwan, Tainan	2018.12.07-2019.01.11		700,000	1,200,000	None
E.Sun Bank, Kaohsiung	2018.12.14-2019.01.11		200,000	1,000,000	None
Bank SinoPac, North Kaohsiung(Note 1)	2018.12.19-2019.01.08		350,000	1,200,000	None
Taipei Fubon Bank, Kaohsiung	2018.08.10-2019.01.29		<u>120,000</u>	950,000	None
			<u>2,120,000</u>		
Related Parties loans					
China Steel Corporation(Note 3)	2018.11.16-2019.02.21	0.54	<u>2,450,000</u>	3,950,000	None
LC borrowing in NTD		0.88-0.99			
First Bank, Kaohsiung	2018.12.18-2019.01.24		882,713	1,500,000	None
Bank of Taiwan, GangShan(Note 1)	2018.12.11-2019.01.24		518,316	5,500,000	None
E.Sun Bank, Kaohsiung	2018.12.04-2019.01.24		<u>198,276</u>	1,000,000	None
			<u>1,599,305</u>		
Bank overdraft		0.35			
Taiwan Business Bank, LingYa Branch			<u>212,468</u>	300,000	Certificate of time deposit(Note 2)
			<u>\$ 6,381,773</u>		

Note 1: Revolving loans and LC borrowing in NTD shared credit amount.

Note 2: Refer to Note 31 for details.

Note 3: Refer to Note 30 for details.

CHUNG HUNG STEEL CORPORATION

STATEMENT OF SHORT-TERM BILLS PAYABLE

DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Financial Institution	Period	Interest Rates (%)	Amount		
			Issuance amount	Unamortized Amount	Carrying Amount
Mega Bills	2018.12.26-2019.01.22	0.74	\$ 200,000	\$ 85	\$ 199,915
Bank of Taiwan	2018.12.14-2019.01.11	0.68	850,000	158	849,842
	2018.12.14-2019.01.11	0.68	800,000	149	799,851
	2018.12.26-2019.01.25	0.74	200,000	97	199,903
	2018.12.27-2019.01.25	0.74	1,000,000	485	999,515
	2018.12.27-2019.01.25	0.74	<u>150,000</u>	<u>73</u>	<u>149,927</u>
			<u>\$ 3,200,000</u>	<u>\$ 1,047</u>	<u>\$ 3,198,953</u>

CHUNG HUNG STEEL CORPORATION**STATEMENT OF ACCOUNTS PAYABLE****DECEMBER 31, 2018****(In Thousands of New Taiwan Dollars)**

Vendor Name	Amount
Related Parties	
China Steel Corporation	\$ 582,549
Others (Note)	<u>13,215</u>
	<u>\$ 595,764</u>
Non-related Parties	
Others (Note)	<u>\$ 45,304</u>

Note: The amount of individual vendor in others does not exceed 5% of the account balance.

CHUNG HUNG STEEL CORPORATION

STATEMENT OF LONG-TERM BANK BORROWINGS

DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Bank Name	Contract Period and Repayment Method	Interest Rates (%)	Balance, December 31, 2018			Collateral
			Current	Over 1 Year	Total	
Long-term bank borrowings						
Taiwan Business Bank, LingYa Branch	Due in December 2020, amortisation	1.22	\$ 200,000	\$ 700,000	\$ 900,000	None
Cathay United Bank	Due in December 2020, amortisation	1.22	160,000	640,000	800,000	None
Hua Nan Commercial Bank, Kaohsiung	Due in September 2020, amortisation	1.18	100,000	350,000	450,000	None
Bank of Taiwan, GangShan	Due in February 2021, amortisation	1.22	250,000	750,000	1,000,000	None
Land Bank of Taiwan, Tainan	Due in May 2021, amortisation	1.22	240,000	760,000	1,000,000	None
Mega International Commercial Bank, Kaohsiung Metropolitan Branch	Due in June 2021, full repayment of principal	1.28	-	700,000	700,000	None
			<u>\$ 950,000</u>	<u>\$ 3,900,000</u>	<u>\$ 4,850,000</u>	

CHUNG HUNG STEEL CORPORATION

STATEMENT OF LONG-TERM BILLS PAYABLE

DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Financial Institution	Guarantee Institution	Credit Line	Period	Interest Rates (%)	Amount			Collateral
					Issuance Amount	Unamortized Amount	Carrying Amount	
Commercial papers payable								
Mega Bills	Non-guarantee	\$ 600,000	2018.12.24-2021.12.23	0.99	\$ 600,000	\$ 228	\$ 599,772	None
China Bills Finance Corporation	Agricultural Bank of Taiwan	600,000	2016.01.29-2020.01.28	1.14	300,000	28	299,972	None
China Bills Finance Corporation	Hua Nan Commercial Bank	500,000	2017.09.11-2021.09.10	1.06	300,000	26	299,974	None
Grand Bills Finance Corporation	Taishin International Bank	600,000	2016.01.29-2020.01.28	1.20	300,000	30	299,970	None
International Bills Finance Corporation	Bangkok Bank	<u>300,000</u>	2017.12.27-2021.12.27	1.10	<u>180,000</u>	<u>130</u>	<u>179,870</u>	None
		<u>\$ 2,600,000</u>			<u>\$ 1,680,000</u>	<u>\$ 442</u>	<u>\$ 1,679,558</u>	

CHUNG HUNG STEEL CORPORATION**STATEMENT OF OPERATING REVENUES
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Item	Quantities (Metric Tons)	Amount
Sale of Goods		
Hot rolled coiled steel	1,779,772	\$ 32,068,496
Cold rolled coiled steel	414,066	8,508,017
Galvanized coiled steel	115,107	2,481,563
Steel pipe	168,560	4,500,973
Ferric oxide	1,824	<u>6,775</u>
		47,565,824
Service revenue		600,922
Other operating revenue		<u>66,975</u>
		<u>\$ 48,233,721</u>

CHUNG HUNG STEEL CORPORATION
STATEMENT OF OPERATING COSTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Item	Amount
Cost of goods sold for in-house products	
Raw materials used	
Raw materials, beginning of year	\$ 1,537,686
Raw material purchased	41,502,436
Raw materials, end of year	<u>(3,478,111)</u>
	39,562,011
Direct labor	423,675
Manufacturing expenses	<u>5,631,765</u>
Manufacturing cost	45,617,451
Work in progress, beginning of year	782,673
Work in progress, end of year	<u>(617,034)</u>
	45,783,090
Finished goods, beginning of year	2,273,848
Finished goods, end of year	(3,891,331)
Income from off-grades	(1,143,676)
Others	<u>381,929</u>
Total costs of goods sold	43,403,860
Service costs	383,651
Other operating costs	<u>66,488</u>
Total operating costs	<u>\$ 43,853,999</u>

CHUNG HUNG STEEL CORPORATION
STATEMENT OF OPERATING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Item	Selling Expenses	General and Administrative Expenses	Total
Export expense	\$ 970,169	\$ -	\$ 970,169
Salaries and awards	52,365	159,885	212,250
Depreciation expense	-	88,176	88,176
Commission	57,634	-	57,634
Employee benefits	8,332	21,092	29,424
Insurance	7,571	15,430	23,001
Tax	1,149	11,903	13,052
Service fee	3,182	8,454	11,636
Repair and maintenance expense	5	8,819	8,824
Pension	2,148	5,374	7,522
Travelling expense	2,854	4,530	7,384
Donation expense	100	6,843	6,943
Entertainment expense	1,969	4,582	6,551
Rent expense	287	4,350	4,637
Security expense	-	4,280	4,280
Freight expense	3,869	-	3,869
Postage	765	2,442	3,207
Utility	-	3,137	3,137
Stockholder service fee	-	2,802	2,802
Others	<u>5,347</u>	<u>37,979</u>	<u>43,326</u>
Total	<u>\$ 1,117,746</u>	<u>\$ 390,078</u>	<u>\$ 1,507,824</u>

CHUNG HUNG STEEL CORPORATION

STATEMENT OF EMPLOYEE BENEFITS AND DEPRECIATION
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	Year Ended December 31,2018				Year Ended December 31,2017			
	Classified as Operating Costs	Classified as Operating Expenses	Classified as Others	Total	Classified as Operating Costs	Classified as Operating Expenses	Classified as Others	Total
Employee benefits (Note)								
Salaries	\$ 981,830	\$ 204,846	\$ -	\$ 1,186,676	\$ 891,055	\$ 204,180	\$ -	\$ 1,095,235
Labor and health insurance	73,967	14,038	-	88,005	69,153	14,662	-	83,815
Pension	40,700	7,522	-	48,222	38,778	8,000	-	46,778
Employment benefits	173,209	29,424	-	202,633	114,447	21,485	-	135,932
Remuneration of directors	-	7,404	-	7,404	-	2,640	-	2,640
Others	<u>3,184</u>	<u>1,280</u>	<u>-</u>	<u>4,464</u>	<u>1,428</u>	<u>5,233</u>	<u>-</u>	<u>6,661</u>
	<u>\$ 1,272,890</u>	<u>\$ 264,514</u>	<u>\$ -</u>	<u>\$ 1,537,404</u>	<u>\$ 1,114,861</u>	<u>\$ 256,200</u>	<u>\$ -</u>	<u>\$ 1,371,061</u>
Depreciation	<u>\$ 1,092,116</u>	<u>\$ 88,176</u>	<u>\$ 840</u>	<u>\$ 1,181,132</u>	<u>\$ 1,332,810</u>	<u>\$ 85,027</u>	<u>\$ 823</u>	<u>\$ 1,418,660</u>

Note: As of December 31, 2018 and 2017, the Corporation had 1,238 and 1,233 employees, respectively. Among them 5 directors did not serve concurrently as employees in 2018 and 2017, respectively.

V. Consolidated financial statements for parent and subsidiary companies of 2018

REPRESENTATION LETTER

The entities that are required to be included in the combined financial statements of Chung Hung Steel Corporation 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 Standard 10, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Chung Hung Steel Corporation and its subsidiaries do not prepare a separate set of combined financial statements.

Very truly yours,

Chung Hung Steel Corporation

By

Yi-Chung Han
Chairman

March 19, 2019

INDEPENDENT AUDITORS' REPORT

The Board of Directors and the shareholders
Chung Hung Steel Corporation

Opinion

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

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

Basis for Opinion

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

Emphasis of Matter

As disclosed in Note 3 to the consolidated financial statements, in 2018 the Group adopted the revised Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the FSC. Our opinion is not modified in respect of this matter.

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 for the year ended December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the Group's consolidated financial statements for the year ended December 31, 2018 are stated as follows:

Measurement of Inventories

Inventories are one of the significant assets in the balance sheet. As of December 31, 2018 the carrying amount of inventories held by the Group, amounted to NT\$8,240,151 thousand, which accounted for 25% of total assets. Due to the fluctuations in the prices of raw materials and finished goods in steel industry and due to the use of accounting estimates, inventory valuation is deemed to be a key audit matter.

For the accounting policies on inventories and critical accounting estimates and judgments on inventories, refer to Note 4 and Note 5 to the consolidated financial statements, respectively.

We focused on the inventory valuation, including valuation of obsolete inventory and the measurement of inventories. Our main audit procedures performed included the following:

1. We observed year-end inventory counts and assessed the condition of inventory to evaluate the adequacy of inventory provisions for obsolete goods;
2. We obtained the year-end inventory aging profile and tested whether its accuracy based on supporting documents and we evaluated the provision for slow-moving and obsolete inventory was made according to the Group's policy;
3. We evaluated the appropriateness of the methodology used to value the inventory at the year end.
4. We checked the calculation of inventory provisions, the market value of inventory from supporting documentation and the amounts of inventory.

Other Matter

We have also audited the standalone financial statements of the Corporation as of and for the years ended December 31, 2018 and 2017 on which we have issued an unmodified opinion with emphasis of a matter paragraphs and an unmodified opinion, respectively.

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 the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and for such internal control as management determines is necessary to enable the preparation of 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 has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material

misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Jui-Hsuan Hsu and Yu-Hsiang Liu.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 19, 2019

Notice to Readers

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

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

CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

ASSETS	December 31, 2018		December 31, 2017		LIABILITIES AND EQUITY	December 31, 2018		December 31, 2017	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash (Notes 4 and 6)	\$ 200,081	1	\$ 217,955	1	Short-term borrowings (Notes 18, 30 and 31)	\$ 6,381,773	19	\$ 7,464,815	24
Financial assets at fair value through profit or loss - current (Notes 3, 4 and 7)	217,281	1	215,464	1	Short-term bills payable (Note 18)	3,198,953	10	669,849	2
Financial assets at fair value through other comprehensive income - current (Notes 3,4 and 8)	802,899	2	-	-	Contract liabilities - current (Notes 3, 4, 13 and 23)	96,445	-	-	-
Available-for-sale financial assets - current (Notes 3, 4 and 9)	-	-	819,454	3	Accounts payable (Note 19)	45,304	-	56,160	-
Accounts receivable (Notes 4, 10 and 23)	948,932	3	1,291,784	4	Accounts payable to related parties (Notes 19 and 30)	595,764	2	1,219,265	4
Accounts receivable from related parties (Notes 4, 10, 23 and 30)	183,440	-	168,187	-	Other payables (Note 20)	1,014,578	3	875,367	3
Other receivables (Note 10)	16,002	-	10,433	-	Current tax liabilities (Note 25)	537	-	73	-
Other receivables from related parties (Notes 10 and 30)	348,709	1	401,324	1	Current portion of long-term bank borrowings (Notes 18 and 31)	950,000	3	150,000	-
Current tax assets (Note 25)	420	-	339	-	Refund liabilities - current (Note 3)	115,720	-	-	-
Inventories (Notes 4, 5 and 11)	8,240,151	25	5,019,625	16	Other current liabilities (Note 20)	<u>30,974</u>	<u>-</u>	<u>183,673</u>	<u>1</u>
Prepayments (Note 12)	373,830	1	202,824	1	Total current liabilities	<u>12,430,048</u>	<u>37</u>	<u>10,619,202</u>	<u>34</u>
Non-current assets held for sale (Notes 4 and 13)	22,525	-	-	-	NONCURRENT LIABILITIES				
Other financial assets - current (Notes 13, 14 and 31)	302,897	1	500,000	1	Long-term bank borrowings (Notes 18 and 31)	3,900,000	12	5,097,450	16
Other current assets	<u>6,590</u>	<u>-</u>	<u>6,393</u>	<u>-</u>	Long-term bills payable (Note 18)	1,679,558	5	3,149,062	10
Total current assets	<u>11,663,757</u>	<u>35</u>	<u>8,853,782</u>	<u>28</u>	Deferred tax liabilities (Notes 4 and 25)	182,222	1	182,222	1
NONCURRENT ASSETS					Net defined benefit liabilities (Notes 4, 5 and 21)	430,719	1	365,756	1
Financial assets at fair value through other comprehensive income - noncurrent (Notes 3, 4 and 8)	75,565	-	-	-	Guarantee deposits received (Note 27)	35,120	-	35,120	-
Available-for-sale financial assets - noncurrent (Notes 3, 4 and 9)	-	-	79,411	-	Other noncurrent liabilities (Notes 3 and 13)	<u>-</u>	<u>-</u>	<u>2,380</u>	<u>-</u>
Investments accounted for using equity method (Notes 4 and 15)	2,462,217	7	2,425,702	8	Total noncurrent liabilities	<u>6,227,619</u>	<u>19</u>	<u>8,831,990</u>	<u>28</u>
Property, plant and equipment (Notes 4, 16, 30 and 31)	13,249,030	40	14,031,648	45	Total liabilities	<u>18,657,667</u>	<u>56</u>	<u>19,451,192</u>	<u>62</u>
Investment properties (Notes 4, 13, 17 and 24)	5,907,018	18	5,940,891	19	EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION				
Prepayments for equipment	57,694	-	37,185	-	(Notes 4 and 22)				
Refundable deposits	5,632	-	5,847	-	Ordinary shares	14,355,444	43	14,355,444	46
Other financial assets - noncurrent (Notes 13 and 14)	<u>-</u>	<u>-</u>	<u>2,385</u>	<u>-</u>	Capital surplus	903	-	903	-
Total noncurrent assets	<u>21,757,156</u>	<u>65</u>	<u>22,523,069</u>	<u>72</u>	Retained earnings (Accumulated deficit)	904,506	3	(2,083,776)	(7)
					Other equity	<u>(497,607)</u>	<u>(2)</u>	<u>(346,912)</u>	<u>(1)</u>
					Total equity	<u>14,763,246</u>	<u>44</u>	<u>11,925,659</u>	<u>38</u>
TOTAL	<u>\$ 33,420,913</u>	<u>100</u>	<u>\$ 31,376,851</u>	<u>100</u>	TOTAL	<u>\$ 33,420,913</u>	<u>100</u>	<u>\$ 31,376,851</u>	<u>100</u>

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

(With Deloitte & Touche audit report dated March 19, 2019)

CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Year Ended December 31			
	2018		2017	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4, 23 and 30)				
Sales	\$ 47,565,824	99	\$ 39,693,097	97
Investment revenue	884	-	853	-
Service revenue	605,202	1	1,042,391	3
Other operating revenue	<u>66,975</u>	<u>-</u>	<u>56,103</u>	<u>-</u>
Total operating revenue	48,238,885	100	40,792,444	100
OPERATING COSTS (Notes 11, 24 and 30)	<u>43,853,999</u>	<u>91</u>	<u>36,903,341</u>	<u>91</u>
GROSS PROFIT	<u>4,384,886</u>	<u>9</u>	<u>3,889,103</u>	<u>9</u>
OPERATING EXPENSES (Note 24)				
Selling and marketing expenses	1,117,746	2	940,718	2
General and administrative expenses	<u>391,363</u>	<u>1</u>	<u>374,645</u>	<u>1</u>
Total operating expenses	<u>1,509,109</u>	<u>3</u>	<u>1,315,363</u>	<u>3</u>
PROFIT FROM OPERATIONS	<u>2,875,777</u>	<u>6</u>	<u>2,573,740</u>	<u>6</u>
NON-OPERATING INCOME AND EXPENSES (Notes 15, 24, 27 and 30)				
Other income	129,705	-	142,354	-
Other gains and losses	79,374	-	(12,152)	-
Finance costs	(139,883)	-	(180,936)	-
Share of the profit of associates	<u>88,875</u>	<u>-</u>	<u>83,297</u>	<u>-</u>
Total non-operating income and expenses	<u>158,071</u>	<u>-</u>	<u>32,563</u>	<u>-</u>
PROFIT BEFORE INCOME TAX	3,033,848	6	2,606,303	6
INCOME TAX (Notes 4, 5 and 25)	<u>625</u>	<u>-</u>	<u>30</u>	<u>-</u>
NET PROFIT FOR THE YEAR	<u>3,033,223</u>	<u>6</u>	<u>2,606,273</u>	<u>6</u>
OTHER COMPREHENSIVE INCOME (LOSS) (Notes 4, 5, 21 and 22)				
Items that will not be reclassified subsequently to profit or loss				
Remeasurement of defined benefit plans	(128,800)	-	(109,039)	-

(Continued)

CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Year Ended December 31			
	2018		2017	
	Amount	%	Amount	%
Unrealized gains and losses on investments in equity instruments at fair value through other comprehensive income	\$ (14,477)	-	\$ -	-
Share of the other comprehensive income of associates	(52,359)	-	-	-
	<u>(195,636)</u>	<u>-</u>	<u>(109,039)</u>	<u>-</u>
Items that may be reclassified subsequently to profit or loss				
Unrealized gains on available-for-sale financial assets	-	-	7,800	-
Share of the other comprehensive income of associates	-	-	10,811	-
	<u>-</u>	<u>-</u>	<u>18,611</u>	<u>-</u>
Other comprehensive income (loss) for the year, net of income tax	<u>(195,636)</u>	<u>-</u>	<u>(90,428)</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 2,837,587</u>	<u>6</u>	<u>\$ 2,515,845</u>	<u>6</u>
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Corporation	<u>\$ 3,033,223</u>	<u>6</u>	<u>\$ 2,606,273</u>	<u>6</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Corporation	<u>\$ 2,837,587</u>	<u>6</u>	<u>\$ 2,515,845</u>	<u>6</u>
EARNINGS PER SHARE (Note 26)				
Basic	<u>\$ 2.11</u>		<u>\$ 1.82</u>	
Diluted	<u>\$ 2.11</u>		<u>\$ 1.82</u>	

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

(Concluded)

(With Deloitte & Touche audit report dated March 19, 2019)

CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (In Thousands of New Taiwan Dollars)

	Issued and Outstanding Ordinary Shares	Capital Surplus	Retained Earnings (Accumulated Deficit)	Other Equity		Total	Total Equity
				Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Unrealized Gain (Loss) on Available-for-sale Financial Assets		
BALANCE AT JANUARY 1, 2017	\$ 14,355,444	\$ 903	\$ (4,581,010)	\$ -	\$ (365,523)	\$ (365,523)	\$ 9,409,814
Net profit for the year ended December 31, 2017	-	-	2,606,273	-	-	-	2,606,273
Other comprehensive loss for the year ended December 31, 2017, net of income tax	-	-	(109,039)	-	18,611	18,611	(90,428)
Total comprehensive income for the year ended December 31, 2017	-	-	2,497,234	-	18,611	18,611	2,515,845
BALANCE AT DECEMBER 31, 2017	14,355,444	903	(2,083,776)	-	(346,912)	(346,912)	11,925,659
Effect of retrospective application (Note 3)	-	-	84,398	(431,310)	346,912	(84,398)	-
BALANCE AFTER ADJUSTMENT AT JANUARY 1, 2018	14,355,444	903	(1,999,378)	(431,310)	-	(431,310)	11,925,659
Net profit for the year ended December 31, 2018	-	-	3,033,223	-	-	-	3,033,223
Other comprehensive loss for the year ended December 31, 2018, net of income tax	-	-	(128,800)	(66,836)	-	(66,836)	(195,636)
Total comprehensive income for the year ended December 31, 2018	-	-	2,904,423	(66,836)	-	(66,836)	2,837,587
Disposal of investments in equity instruments at fair value through other comprehensive income	-	-	(539)	539	-	539	-
BALANCE AT DECEMBER 31, 2018	\$ 14,355,444	\$ 903	\$ 904,506	\$ (497,607)	\$ -	\$ (497,607)	\$ 14,763,246

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

(With Deloitte & Touche audit report dated March 19, 2019)

CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars)

	For the Year Ended December 31	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	\$ 3,033,848	\$ 2,606,303
Adjustments for:		
Depreciation expense	1,181,132	1,418,660
Net gain on financial assets at fair value through profit or loss	(3,057)	(7,059)
Finance costs	139,883	180,936
Interest income	(4,157)	(3,847)
Dividend income	(42,778)	(62,252)
Share of the profit of associates	(88,875)	(83,297)
Gain on disposal of property, plant and equipment	-	(290)
Write-downs (reversal) of inventories	417,871	(148,046)
Changes in operating assets and liabilities		
Financial instruments held for trading	-	23,548
Financial assets mandatorily classified as at fair value through profit or loss	1,240	-
Accounts receivable	342,852	(574,617)
Accounts receivable from related parties	(15,253)	76,346
Other receivables	(5,579)	(2,821)
Other receivables from related parties	52,615	(256,298)
Inventories	(3,638,397)	(281,275)
Prepayments	(171,006)	104,257
Other current assets	(197)	(3,088)
Contract liabilities	(67,300)	-
Accounts payable	(10,856)	7,640
Accounts payable to related parties	(623,501)	(111,561)
Other payables	309,432	38,235
Other current liabilities	8,666	39,137
Net defined benefit liabilities	(63,837)	(59,384)
Refund liabilities	(47,715)	-
Cash generated from operations	705,031	2,901,227
Income taxes paid	(242)	(170)
Net cash generated from operating activities	<u>704,789</u>	<u>2,901,057</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of financial assets at fair value through other comprehensive income	962	-
Proceeds from the capital reduction on financial assets at fair value through other comprehensive income	4,962	-
Proceeds from the capital reduction on available-for-sale financial assets	-	4,489
Acquisition of property, plant and equipment	(412,440)	(553,808)
Proceeds from disposal of property, plant and equipment	-	12,233

(Continued)

CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars)

	For the Year Ended December 31	
	2018	2017
Decrease in refundable deposits	\$ 215	\$ 543
Decrease in other financial assets	199,488	25,498
Interest received	4,167	4,068
Dividends received from others	<u>42,778</u>	<u>62,252</u>
Net cash used in investing activities	<u>(159,868)</u>	<u>(444,725)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	109,451,453	118,734,081
Repayments of short-term borrowings	(110,534,495)	(119,686,547)
Increase (decrease) in short-term bills payable	2,529,104	(1,249,028)
Proceeds from long-term borrowings	3,500,000	2,300,000
Repayments of long-term borrowings	(3,900,000)	(3,272,308)
Proceeds from long-term bills payable	1,600,496	1,200,283
Repayments of long-term bills payable	(3,070,000)	(100,000)
Interest paid	<u>(139,353)</u>	<u>(179,688)</u>
Net cash used in financing activities	<u>(562,795)</u>	<u>(2,253,207)</u>
NET INCREASE (DECREASE) IN CASH	(17,874)	203,125
CASH AT THE BEGINNING OF THE YEAR	<u>217,955</u>	<u>14,830</u>
CASH AT THE END OF THE YEAR	<u>\$ 200,081</u>	<u>\$ 217,955</u>

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

(Concluded)

(With Deloitte & Touche audit report dated March 19, 2019)

CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

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

1. GENERAL INFORMATION

Chung Hung Steel Corporation (the “Corporation”) was incorporated in September 1983 and started operations in September 1985. It mainly manufactures and sells steel products, such as cold and hot rolled coils and steel pipes. Within these notes to the consolidated financial statement, the Corporation and its subsidiaries are hereto forth referred to as the “Group”.

The Corporation’s shares have been listed on the Taiwan Stock Exchange since February 1992.

As of December 31, 2018, and 2017, China Steel Corporation (“CSC”), the Corporation’s parent and major shareholder (41%), controls the Corporation’s management and operations.

The consolidated financial statements are presented in the Corporation’s functional currency, the New Taiwan Dollar.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Corporation’s board of directors and authorized for issue on March 19, 2019.

3. APPLICATION OF NEW AND AMENDED STANDARDS AND INTERPRETATIONS

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

Except for the following, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC did not have any material impact on the Corporation and its subsidiaries’ (the Group) accounting policies:

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

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

Classification, measurement and impairment of financial assets

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

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

	Measurement Category		Carrying Amount		Remark		
	IAS 39	IFRS 9	IAS 39	IFRS 9			
Financial Assets							
Cash	Loans and receivables	Amortized cost	\$ 217,955	\$ 217,955	a)		
Equity investment	Held-for-trading	Mandatorily at FVTPL	215,464	215,464			
	Available-for-sale	Mandatorily at FVTPL	-	-	c)		
	Available-for-sale	Fair value through other comprehensive income (FVTOCI) - equity instrument	898,865	898,865	b)		
Accounts receivable, other receivables, other financial assets and refundable deposits	Loans and receivables	Amortized cost	2,379,960	2,379,960	a)		
	IAS 39 Carrying Amount as of January 1, 2018	Reclassifi - cations	Remea - surements	IFRS 9 Carrying Amount as of January 1, 2018	Retained Earnings Effect on January 1, 2018	Other Equity Effect on January 1, 2018	Remark
Fair value through profit or loss	\$ 215,464	\$ -	\$ -	\$ 215,464	\$ -	\$ -	
From available for sale (IAS 39)	-	-	-	-	-	-	
Required reclassification	215,464	-	-	215,464	-	-	c)
Fair value through other comprehensive income - equity instrument	-	-	-	-	-	-	
From available for sale (IAS 39)	-	898,865	-	898,865	84,398	(84,398)	b)
	-	898,865	-	898,865	84,398	(84,398)	
Amortized cost	-	-	-	-	-	-	
From loans and receivables (IAS 39)	-	2,597,915	-	2,597,915	-	-	
	-	2,597,915	-	2,597,915	-	-	a)
	\$ 215,464	\$ 3,496,780	\$ -	\$ 3,712,244	\$ 84,398	\$ (84,398)	

- a) Cash, accounts receivable (including related parties), other receivables (including related parties), other financial assets and refundable deposits that were previously classified as loans and receivables under IAS 39 were classified as at amortized cost with an assessment of expected credit losses under IFRS 9.
- b) The Group elected to designate some of its investments in equity securities previously classified as available-for-sale under IAS 39 as at FVTOCI under IFRS 9, because these investments are not held for trading. As a result, the related other equity - unrealized gain (loss) on available-for-sale financial assets of \$346,912 thousand was reclassified to other equity - unrealized gain (loss) on financial assets at FVTOCI. The Group recognized under IAS 39 impairment loss on certain investments in equity securities previously classified as available-for-sale and the loss was accumulated in retained earnings. Since those investments were designated as at FVTOCI under IFRS 9 and no impairment assessment is required, an adjustment was made that resulted in an increase of \$84,398 thousand in other equity - unrealized gain (loss) on financial assets at FVTOCI and an increase of \$84,398 thousand in retained earnings on January 1, 2018.
- c) The Group elected to classify some of its investments in equity securities previously classified as available-for-sale under IAS 39 as at FVTPL under IFRS 9. Losses recognized that resulted zero the carrying value.

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

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

In identifying performance obligations, IFRS 15 and the related amendments provide that a good or service is distinct if it is capable of being distinct (for example, the Group regularly sells it separately) and the promise to transfer it is distinct within the context of the contract (i.e. the nature of the promise in the contract is to transfer each of the good or service individually rather than to transfer a combined output).

For the manufacturing of customer-specific goods, if the customer controls the goods while they are created or enhanced and the customer would compensate the Group to recover the costs incurred plus a reasonable profit margin whenever the contract is terminated by the customer, revenue is recognized over time under IFRS 15. Prior to the application of IFRS 15, the Group recognized revenue when the goods were delivered.

Under IFRS 15, the net effect of revenue recognized and consideration received and receivable is recognized as a contract asset or a contract liability. Prior to the application of IFRS 15, receivables were recognized when revenue was recognized for the relevant contract under IAS 18.

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

Impact on assets, liabilities and equity for current year

	As Originally Stated as of January 1, 2018	Adjustments Arising from Initial Application	Restated as of January 1, 2018
Other payables	\$ 875,367	\$ (163,435)	\$ 711,932
Refund liabilities - current	-	163,435	163,435
Other current liabilities	183,673	(161,365)	22,308
Contract liabilities - current	-	161,365	161,365
Other noncurrent liabilities	2,380	(2,380)	-
Contract liabilities - noncurrent	<u>-</u>	<u>2,380</u>	<u>2,380</u>
Total effect on liabilities	<u>\$ 1,061,420</u>	<u>\$ -</u>	<u>\$ 1,061,420</u>

Had the Group applied IAS 18 in 2018, the following adjustments would have been made to reflect the line items and balance under IFRS 15:

Impact on assets, liabilities and equity

	December 31, 2018
Decrease in contract liabilities - current	\$ (96,445)
Increase in other current liabilities	96,445
Decrease in refund liabilities - current	(115,720)
	(Continued)

	December 31, 2018
Increase in other current liabilities	\$ <u>115,720</u>
Total effect on liabilities	\$ <u>-</u> (Concluded)

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

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

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

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

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

IFRS 16 “Leases”

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessee and lessor. It supersedes IAS 17 “Leases”, IFRIC 4 “Determine whether an Arrangement contains a Lease”, and a number of related interpretations.

1) Definition of a lease

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

2) The Group as lessee

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

straight-line basis. Cash flows for operating leases are classified within operating activities on the consolidated statements of cash flows.

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

The Groups expect to apply the following practical expedients:

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

For leases currently classified as finance leases under IAS 17, the carrying amount of right-of-use assets and lease liabilities on January 1, 2019 will be determined as the carrying amount of the leased assets and finance lease payables as of December 31, 2018.

3) The Group as lessor

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

Anticipated impact on assets, liabilities and equity

	Carrying Amount as of December 31, 2018	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2019
Prepayment for leases - current	\$ 2,044	\$ (947)	\$ 1,097
Right-of-use assets	<u>-</u>	<u>70,755</u>	<u>70,755</u>
Total effect on assets	<u>\$ 2,044</u>	<u>\$ 69,808</u>	<u>\$ 71,852</u>
Lease liabilities - current	\$ -	\$ 9,117	\$ 9,117
Lease liabilities - non-current	<u>-</u>	<u>60,691</u>	<u>60,691</u>
Total effect on liabilities	<u>\$ -</u>	<u>\$ 69,808</u>	<u>\$ 69,808</u>

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

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

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

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

Statement of Compliance

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

Basis of Preparation

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 inputs are 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); and
- Level 3 inputs are unobservable inputs for the asset or liability.

Classification of Current and Noncurrent Assets and Liabilities

Current assets include:

- a. Assets held primarily for the purpose of trading;
- b. Assets expected to be realized within twelve months after the balance sheet date; and
- c. Cash unless the asset is restricted from being used for an exchange or used to settle a liability for more than least 12 months after the reporting period.

Current liabilities include:

- a. Liabilities held primarily for the purpose of trading;
- b. Liabilities expected to be settled within 12 months after the reporting period; and
- c. Liabilities without an unconditional right to defer settlement for at least twelve months after the reporting period.

Assets and liabilities that are not classified as current are classified as noncurrent.

Basis of Consolidation

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

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

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

The consolidated entities were as follows:

Investor	Investee	Main Businesses	Percentage of Ownership (%)	
			December 31, 2018	December 31, 2017
Chung Hung Steel Corporation Ltd.	Hung Li Steel Corporation Ltd.	Steel product processing	-	100
	(HLSC)			
	Taiwan Steel Corporation	Operation in progress	100	100
	Hung Kao Investment Corporation	General investment	100	100

Based on Group's resource integration, reducing operating costs and promoting operational/efficiency, the Board of Directors resolved to conduct a short-form merger with subsidiary Hung Li Steel Corporation Ltd. in November 2017. The reference date of merger was June 1, 2018. After the merger, the Corporation is the surviving company.

Foreign Currencies

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

At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the closing rates. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise except for exchange differences on transactions entered into in order

to hedge certain foreign currency risks.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

Inventories

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

Investment in Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The operating results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognized at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. The Group also recognizes the changes in the share of equity of associates.

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

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

When impairment loss is evaluated, the entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is deducted from investment and the carrying amount of investment is net of impairment loss. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment has subsequently increased.

When the Group transacts with their associates, profits and losses on these transactions are recognized in the consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Property, Plant, and Equipment

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

Properties in the course of construction for production, supply or administrative purposes are carried at cost. Cost includes professional fees and borrowing costs eligible for capitalization. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use and depreciated accordingly.

Freehold land is not depreciated.

Except that depreciation of the rollers (spare parts) that belong to the cold rolling departments, the hot rolling departments and pickling & galvanizing mill departments is calculated based on their level of wear, other depreciation is recognized so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method; each major part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at each balance sheet date, with the effect of any changes in estimate accounted for on a prospective basis.

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

Investment Properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties also include land held for a currently undetermined future use.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss. Depreciation is recognized using the straight-line method.

For a transfer from property, plant and equipment classification to investment properties, the deemed cost of property for subsequent accounting is its carrying amount at the end of owner-occupation.

On derecognition of the property, the difference between the net disposal proceeds and the carrying amount of the asset and is included in profit or loss.

Impairment of Tangible Assets

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

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

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

Non-current assets held for sale

Non-current assets (or disposal groups) are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is

available for immediate sale in its present condition. To meet the criteria for the sale being highly probable, the appropriate level of management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within 1 year from the date of classification.

Financial Instruments

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

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

a. Financial assets

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

1) Measurement category

2018

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

a) Financial asset at FVTPL

Financial asset is classified as at FVTPL when such a financial asset is mandatorily classified as at FVTPL.

Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designed as at FVTPL and debt instruments that do not meet the amortized cost criteria or the FVTPL criteria.

Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. Fair value is determined in the manner described in Note 29.

b) Financial assets at amortized cost

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

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

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

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

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

c) Investments in equity instruments at FVTOCI

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

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

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

2017

Financial assets held by the Group include financial assets at fair value through profit or loss, available-for-sale financial assets and loans and receivables.

a) Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial asset is held for trading.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. Fair value is determined in the manner described in Note 29.

b) Available-for-sale financial assets

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

Available-for-sale financial assets are measured at fair value. Dividends on available-for-sale equity investments are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and reclassified in profit or loss when the investment is disposed of or is determined to be impaired.

Dividends on available-for-sale equity investments are recognized when the Group's right to receive the dividends is established.

c) Loans and receivables

Loans and receivables (including cash, accounts receivable, other receivables, refundable deposits and other financial assets) are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

2) Impairment of financial assets

2018

The Group recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including accounts receivables).

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

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

The Group recognizes an impairment loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

2017

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

Financial assets carried at amortized cost, such as accounts receivable, are assessed for impairment on a collective basis even if there is no objective evidence of impairment individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables. The amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

If, in the subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss shall be reversed either directly or by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the securities below its cost is considered to be objective evidence of impairment. For all other financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, breach of contract, such as a default or delinquency in interest or principal payments, the disappearance of an active market for that financial asset because of financial difficulties, or it is becoming probable that the borrower will enter bankruptcy or financial re-organization.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period. In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss is not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account.

3) Derecognition of financial assets

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

2018

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

2017

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

b. Equity instruments

Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

c. Derivative financial instruments

The Group enters into a foreign exchange forward contracts to manage exposure to foreign exchange rate risks.

Derivatives are initially recognized at fair value at the date on which the derivative contracts are entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognized in profit or loss immediately. When the fair value of a derivative financial instrument is positive, the derivative is recognized as a financial asset; when the fair value of a derivative financial instrument is negative, the derivative is recognized as a financial liability.

Revenue Recognition

2018

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

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

a. Sale of goods

Revenue is recognized when the control of products are transferred to customers. Domestic sales are recognized when products are delivered to and accepted by the customers, and export sales are recognized when products are loaded onto shipping vessels in accordance with the sales terms. The customer has full discretion over the manner of distribution and price to sell the goods and bears the risks of obsolescence. Transaction price received is recognized as a contract liability until performance obligations are satisfied.

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

b. Providing of services

Service revenue is recognized when services are provided by reference to the stage of completion of services provided.

2017

a. Sale of goods

Revenue is recognized when the titles to products and evident risks of ownership are transferred to customers, primarily upon shipment. Domestic sales are recognized when products are delivered to and accepted by the customers, and export sales are recognized when products are loaded onto shipping vessels in accordance with the sales terms.

Sales are measured at fair value, which is a price (net of trade discounts and sales discounts) agreed by the Group and customers. However, if the related receivables are due within one year, the differences between their fair values and receivable amounts are immaterial and sales transactions are frequent, the fair values of related receivables are not calculated using the discounted imputed interest rate.

b. Providing of services

Service revenue is recognized when services are provided.

Leasing

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

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

Borrowing Costs

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

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

All borrowing costs other than those stated above are recognized in profit or loss in the period in which they are incurred.

Employee Benefits

a. Short-term employee benefits

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

b. Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

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

Net defined benefit liability represents the actual deficit in the Group's defined benefit plan.

Taxation

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

Current tax

Current tax is the amount of tax at statutory rate calculated on the taxable profit at the balance sheet date. According to the Income Tax Law, an additional tax of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

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

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused loss carryforwards and unused tax credits for purchases of machinery and equipment and technology to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

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

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

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

Current and deferred taxes for the year

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Measurement of Inventories

Inventories are stated at the lower of cost or net realizable value, and the Group uses judgment and estimate to determine the net realizable value of inventory at the balance sheet date. Since the net realizable value of inventory is mainly determined on the basis of future selling price, it might be adjusted significantly.

Realizability of Deferred Tax Assets

The realizability of deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. Considering climate change in the steel industry and unpredictability of future profit, deferred tax assets were not recognized.

Recognition and Measurement of Defined Benefit Plan

The resulting pension expense and accrued pension liabilities under defined benefit pension plans are calculated using the Projected Unit Credit Method. Actuarial assumptions comprise the discount rate, employee turnover rate and long-term average future salary rate. Changes in economic circumstances and market conditions will affect these assumptions and may have a material impact on the amount of the expense and the liability.

6. CASH

	December 31	
	2018	2017
Cash on hand	\$ 700	\$ 820
Checking accounts and demand deposits	<u>199,381</u>	<u>217,135</u>
	<u>\$ 200,081</u>	<u>\$ 217,955</u>

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2018	2017
<u>Financial assets at FVTPL - current</u>		
Financial assets mandatorily as at FVTPL		
Emerging market shares	<u>\$ 217,281</u>	<u>\$ -</u>
<u>Financial assets held for trading - current</u>		
Emerging market shares	<u>\$ -</u>	<u>\$ 215,464</u>

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	December 31, 2018
<u>Current</u>	
Domestic Listed shares	<u>\$ 802,899</u>
<u>Noncurrent</u>	
Domestic listed shares	\$ 24,346
Domestic unlisted shares	<u>51,219</u>
	<u>\$ 75,565</u>

These investments in equity instruments are not held for trading; instead, they are held for strategic purposes. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI. These investments in equity instruments were classified as available-for-sale under IAS 39. Refer to Notes 3 and 9 for information relating to reclassification and comparative information for 2017.

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31, 2017
Current	
Domestic listed shares	<u>\$ 819,454</u>
Noncurrent	
Domestic listed shares	\$ 24,848
Domestic unlisted shares	<u>54,563</u>
	<u>\$ 79,411</u>

Risalink Venture Capital Corp. conducted capital reduction and refunded NT\$4,962 thousand and NT\$4,489 thousand in August 2018 and August 2017, respectively.

10. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

	December 31	
	2018	2017
Accounts receivable		
Accounts receivable - non-related parties	<u>\$ 948,932</u>	<u>\$ 1,291,784</u>
Accounts receivable - related parties	<u>\$ 183,440</u>	<u>\$ 168,187</u>
Other receivables (including related parties)		
Discount receivable	\$ 302,720	\$ 363,920
Receivables from disposal of scrap	57,676	43,348
Others	<u>4,315</u>	<u>4,489</u>
	<u>\$ 364,711</u>	<u>\$ 411,757</u>

a. Accounts receivable

2018

The Group allows an average credit period of 30 days (the aging of receivables from sales of goods is based upon the date of examination and acceptance of the goods settlement is monthly or 60 days after shipment date). Refer to Note 29 for credit risk management policies.

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

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

2018

	Not Past Due	1 to 30 Days	31 to 60 Days	61 to 180 Days	181 to 365 Days	Over 365 Days	Total
Expected credit loss rate (%)	-	-	-	-	-	100	
Gross carrying amount	\$ 1,132,372	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,132,372
Loss allowance (Lifetime ECL)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Amortized cost	<u>\$ 1,132,372</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,132,372</u>

2017

The Group applied the same credit policy in 2018 and 2017. Allowance for impairment loss was recognized by reference to past default experience with counterparties and an analysis of their current financial position. As of December 31, 2017, there was no allowance for doubtful accounts.

The aging of accounts receivable was as follows:

	December 31, 2017
Up to 30 days	\$ 1,459,775
31-60 days	<u>196</u>
	<u><u>\$ 1,459,971</u></u>

The above aging schedule was based on the invoice date.

As of December 31, 2017, the Group did not have overdue accounts receivable.

The amounts of accounts receivable from single customer that exceed 10% of total accounts receivable were as follows:

	December 31	
	2018	2017
A company	\$ 121,361	\$ -
B company	91,812	191,338
C company	-	184,954
D company	<u>-</u>	<u>163,962</u>
	<u><u>\$ 213,173</u></u>	<u><u>\$ 540,254</u></u>

The Corporation entered into accounts receivable factoring contract (without recourse). Under the contract, the Corporation is authorized to sell accounts receivable to Bank upon the delivery of products to customers and is required to complete related formalities on the next banking day. Under this contract, the Corporation does not bear the risk of the uncollectability of the accounts receivable. The receivables sold and the related credit lines, which may be used on a revolving basis, were as follows:

Buyer of Accounts Receivable	Advances Received at Year - Beginning	Receivables Sold	Amounts Collected	Advances Received at Year-end	Interest Rates on Advances Received (%)	Credit Line
For the year ended December 31, 2018						
Mega Bank	\$ 1,088,226	\$ 3,114,212	\$ 3,169,251	\$ 1,033,187	1.19	NT\$3 billion
Bank of Taiwan	62,805	534,050	396,895	199,960	3.52	USD20 million
	<u>\$ 1,151,031</u>	<u>\$ 3,648,262</u>	<u>\$ 3,566,146</u>	<u>\$ 1,233,147</u>		
For the year ended December 31, 2017						
Mega Bank	\$ 1,099,546	\$ 3,137,353	\$ 3,148,673	\$ 1,088,226	1.19	NT\$3 billion
Bank of Taiwan	106,911	356,052	400,158	62,805	2.58	USD30 million
Taishin International Bank	-	726,453	726,453	-	2.61	USD10 million
	<u>\$ 1,206,457</u>	<u>\$ 4,219,858</u>	<u>\$ 4,275,284</u>	<u>\$ 1,151,031</u>		

b. Other receivables

2018

The Group applies the approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provision for other receivable. The expected credit losses on other receivables are estimated using expected credit loss rate based on the other receivables overdue days. As of December 31, 2018, there was no allowance for doubtful accounts.

2017

Allowance for doubtful accounts is estimated by reference to the historical experience and the current financial position of the counterparties. As of December 31, 2017, there was no allowance for doubtful accounts.

11. INVENTORIES

	December 31	
	2018	2017
Raw materials	\$ 3,352,627	\$ 1,537,686
Supplies	421,614	426,656
Work in progress	569,161	782,309
Finished goods	3,653,262	2,268,470
Others	7,056	4,504
Raw materials and supplies in transit	<u>236,431</u>	<u>-</u>
	<u>\$ 8,240,151</u>	<u>\$ 5,019,625</u>

The cost of inventories recognized as operating costs for the years ended December 31, 2018 and 2017 was NT\$43,403,860 thousand and NT\$36,306,647 thousand, respectively, including loss on inventory value decline of NT\$417,871 thousand and reversal of loss of \$148,046 thousand, respectively.

12. PREPAYMENTS

	December 31	
	2018	2017
Input tax	\$ 342,442	\$ 162,775
Prepayments for purchases	22,209	26,800
Prepaid insurance	3,443	10,968
Others	<u>5,736</u>	<u>2,881</u>
	<u>\$ 373,830</u>	<u>\$ 202,824</u>

13. NON-CURRENT ASSETS HELD FOR SALE

	December 31, 2018
Freehold land held for sale	<u>\$ 22,525</u>

The Group joined China Prosperity Development Corporation's (CPDC) contract titled "Qianzhen Residential Building Project", and bought the land from CPDC recognized as investment property. After acquiring the building use permit in November 2018, the Qianzhen Residential Building Project was reclassified to non-current assets held for sale. The Corporation then signed contracts with employees for the sale of the land. The proceeds of the sale are deposited in the Bank of Taiwan. At December 31, 2018, the proceeds of the sale were recognized as other financial assets-current and contract liabilities. At December 31, 2017, the proceeds of the sale were recognized as other financial assets-noncurrent and other noncurrent liability. When the transfer of ownership of the land has been completed in 2019, the Corporation will recognize gain on disposal of land.

14. OTHER FINANCIAL ASSETS

	December 31	
	2018	2017
Current		
Pledged time deposits (Note 31)	\$ 300,000	\$ 500,000
Deposits for project (Note 13)	<u>2,897</u>	<u>-</u>
	<u>\$ 302,897</u>	<u>\$ 500,000</u>
Noncurrent		
Deposits for projects (Note 13)	<u>\$ -</u>	<u>\$ 2,385</u>

15. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31	
	2018	2017
Transglory Investment Corp. (TIC)	<u>\$ 2,462,217</u>	<u>\$ 2,425,702</u>

Name of Associate	Nature of Activities	Proportion of Ownership and Voting Rights		
		Principal Place of Business	December 31	
			2018	2017
TIC	General investment	Taiwan	40.91%	40.91%

The investments accounted for by the equity method and the share of profit or loss and other comprehensive loss of those investments for the years ended December 31, 2018 and 2017 was based on the audited financial statements for the same years.

The summarized financial information below represents amounts shown in the associates' financial statements prepared in accordance with IFRSs adjusted by the Group for equity accounting purposes.

TIC

	December 31	
	2018	2017
Current assets	\$ 1,018	\$ 644
Noncurrent assets	6,439,578	6,429,601
Current liabilities	<u>(421,976)</u>	<u>(500,883)</u>
Equity	<u>\$ 6,018,620</u>	<u>\$ 5,929,362</u>
Proportion of the Group's ownership (%)	40.91	40.91
Equity attributable to the Group	<u>\$ 2,462,217</u>	<u>\$ 2,425,702</u>
Carrying amount	<u>\$ 2,462,217</u>	<u>\$ 2,425,702</u>
	For the Year Ended December 31	
	2018	2017
Operating revenue	<u>\$ 236,539</u>	<u>\$ 223,577</u>
Net profit for the year	\$ 217,245	\$ 203,611
Other comprehensive income	<u>(127,987)</u>	<u>26,426</u>
Total comprehensive income for the year	<u>\$ 89,258</u>	<u>\$ 230,037</u>
Comprehensive income attributable to the Group	<u>\$ 36,516</u>	<u>\$ 94,108</u>

16. PROPERTY, PLANT AND EQUIPMENT

For the year ended December 31, 2018

	Land	Buildings	Machinery and Equipment	Other Equipment	Spare Parts	Construction in Progress and Equipment to be Inspected	Total
Cost							
Balance at January 1, 2018	\$ 3,974,121	\$ 4,989,193	\$ 21,946,483	\$ 4,340,985	\$ 1,553,194	\$ 366,162	\$ 37,170,138
Additions	-	-	564,602	77,808	34,537	(287,262)	389,685
Disposals	-	-	-	(3,452)	(139,208)	-	(142,660)
Reclassification	11,554	(1,454)	-	-	-	-	10,100
Other	-	(2,519)	-	-	-	-	(2,519)
Balance at December 31, 2018	<u>\$ 3,985,675</u>	<u>\$ 4,985,220</u>	<u>\$ 22,511,085</u>	<u>\$ 4,415,341</u>	<u>\$ 1,448,523</u>	<u>\$ 78,900</u>	<u>\$ 37,424,744</u>

(Continued)

	Land	Buildings	Machinery and Equipment	Other Equipment	Spare Parts	Construction in Progress and Equipment to be Inspected	Total
<u>Accumulated depreciation</u>							
Balance at January 1, 2018	\$ -	\$ 1,613,606	\$ 17,112,026	\$ 3,725,590	\$ 687,268	\$ -	\$ 23,138,490
Depreciation expense	-	133,176	702,264	140,286	204,566	-	1,180,292
Disposals	-	-	-	(3,452)	(139,208)	-	(142,660)
Reclassification	-	(408)	-	-	-	-	(408)
Balance at December 31, 2018	<u>\$ -</u>	<u>\$ 1,746,374</u>	<u>\$ 17,814,290</u>	<u>\$ 3,862,424</u>	<u>\$ 752,626</u>	<u>\$ -</u>	<u>\$ 24,175,714</u>
Carrying amount at December 31, 2018	<u>\$ 3,985,675</u>	<u>\$ 3,238,846</u>	<u>\$ 4,696,795</u>	<u>\$ 552,917</u>	<u>\$ 695,897</u>	<u>\$ 78,900</u>	<u>\$ 13,249,030</u>

(Concluded)

For the year ended December 31, 2017

	Land	Buildings	Machinery and Equipment	Other Equipment	Spare Parts	Construction in Progress and Equipment to be Inspected	Total
<u>Cost</u>							
Balance at January 1, 2017	\$ 3,989,661	\$ 4,968,868	\$ 22,075,191	\$ 4,322,471	\$ 1,542,186	\$ 244,701	\$ 37,143,078
Additions	1,496	20,325	68,771	45,416	152,988	121,461	410,457
Disposals	(11,258)	-	(197,479)	(26,902)	(141,980)	-	(377,619)
Items reclassified to investment properties	(5,778)	-	-	-	-	-	(5,778)
Balance at December 31, 2017	<u>\$ 3,974,121</u>	<u>\$ 4,989,193</u>	<u>\$ 21,946,483</u>	<u>\$ 4,340,985</u>	<u>\$ 1,553,194</u>	<u>\$ 366,162</u>	<u>\$ 37,170,138</u>
<u>Accumulated depreciation</u>							
Balance at January 1, 2017	\$ -	\$ 1,481,430	\$ 16,404,867	\$ 3,575,303	\$ 624,729	\$ -	\$ 22,086,329
Depreciation expense	-	132,176	903,953	177,190	204,518	-	1,417,837
Disposals	-	-	(196,794)	(26,903)	(141,979)	-	(365,676)
Balance at December 31, 2017	<u>\$ -</u>	<u>\$ 1,613,606</u>	<u>\$ 17,112,026</u>	<u>\$ 3,725,590</u>	<u>\$ 687,268</u>	<u>\$ -</u>	<u>\$ 23,138,490</u>
Carrying amount at December 31, 2017	<u>\$ 3,974,121</u>	<u>\$ 3,375,587</u>	<u>\$ 4,834,457</u>	<u>\$ 615,395</u>	<u>\$ 865,926</u>	<u>\$ 366,162</u>	<u>\$ 14,031,648</u>

Depreciation of the rollers that belong to the cold-rolling departments, the hot rolling department and the skin pass mill of the pickling & galvanizing mill department is calculated based on their level of wear; depreciation of other assets is recognized based on the following useful lives:

Buildings	
Facility	8-50 years
Main structure	31-60 years
Machinery and equipment	
Power equipment	3-30 years
High-temperature equipment	5-18 years
Other equipment	
Computer equipment	3-10 years
Office, air condition and extinguishment equipment	3-20 years
Transportation equipment	5-16 years
Others	3-18 years
Tank	8-10 years

The Group bought farmlands for warehouse at the Jia Xing Section and Quing Shui Section of the Gangshan District in Kaohsiung City. However, certain regulations prohibit the Group from registering the title of these farmlands in the Group's name; thus, the registration was made in the name of an individual person. The individual person consented to fully cooperate with the Group in changing the land title in the future and pledged the land to the Group as collateral. As of December 31, 2018 and 2017, the book value of those remaining farmlands recognized as land were both NT\$55,433 thousand, respectively.

Refer to Note 31 for the carrying amount of property, plant and equipment that are pledged by the Group to secure borrowings.

17. INVESTMENT PROPERTIES

For the year ended December 31, 2018

	Land	Buildings	Total
<u>Cost</u>			
Balance at January 1, 2018	\$ 5,993,141	\$ 39,218	\$ 6,032,359
Transferred from (to) property, plant and equipment	(11,554)	1,454	(10,100)
Reclassified as held for sale (Note 13)	<u>(22,525)</u>	<u>-</u>	<u>(22,525)</u>
Balance at December 31, 2018	<u>\$ 5,959,062</u>	<u>\$ 40,672</u>	<u>\$ 5,999,734</u>
<u>Accumulated depreciation</u>			
Balance at January 1, 2018	\$ -	\$ 13,936	\$ 13,936
Depreciation expense	-	840	840
Transferred from property, plant and equipment	<u>-</u>	<u>408</u>	<u>408</u>
Balance at December 31, 2018	<u>\$ -</u>	<u>\$ 15,184</u>	<u>\$ 15,184</u>
<u>Accumulated impairment</u>			
Balance at January 1 and December 31, 2018	<u>\$ 77,532</u>	<u>\$ -</u>	<u>\$ 77,532</u>
Carrying amount at December 31, 2018	<u>\$ 5,881,530</u>	<u>\$ 25,488</u>	<u>\$ 5,907,018</u>

For the year ended December 31, 2017

	Land	Buildings	Total
<u>Cost</u>			
Balance at January 1, 2017	\$ 5,987,363	\$ 39,218	\$ 6,026,581
Transferred from property, plant and equipment	<u>5,778</u>	<u>-</u>	<u>5,778</u>
Balance at December 31, 2017	<u>\$ 5,993,141</u>	<u>\$ 39,218</u>	<u>\$ 6,032,359</u>
<u>Accumulated depreciation</u>			
Balance at January 1, 2017	\$ -	\$ 13,113	\$ 13,113
Depreciation expense	<u>-</u>	<u>823</u>	<u>823</u>
Balance at December 31, 2017	<u>\$ -</u>	<u>\$ 13,936</u>	<u>\$ 13,936</u>
<u>Accumulated impairment</u>			
Balance at January 1, and December 31, 2017	<u>\$ 77,532</u>	<u>\$ -</u>	<u>\$ 77,532</u>
Carrying amount at December 31, 2017	<u>\$ 5,915,609</u>	<u>\$ 25,282</u>	<u>\$ 5,940,891</u>

The above buildings of investment properties are depreciated on a straight-line basis over 31-55 years useful lives.

The fair value of the investment properties was arrived at on the basis of valuations carried out in March, December 2017 and April, September and November 2015, by independent appraisers and on the basis of information at the Ministry of the Interior's real estate transaction database website. Appraised lands and buildings were evaluated using Level 3 inputs under market approach, income approach, and land development analysis approach. The important assumptions and fair value were as follows:

	December 31	
	2018	2017
Fair value	<u>\$ 8,952,560</u>	<u>\$ 9,055,408</u>
Expense rate (%)	19.61-25.61	19.61-25.61
Depreciation rate (%)	1.90-2.57	1.90-2.57

All investment properties are owned by the Group and had not been pledged to secure borrowings.

18. BORROWINGS

a. Short-term borrowings and bank overdrafts

	December 31	
	2018	2017
Unsecured loans - interest at 0.86%-0.90% p.a. and 0.88%-1.03% p.a. as of December 31, 2018 and 2017, respectively	\$ 2,120,000	\$ 5,965,000
Letters of credit - interest at 0.88%-0.99% p.a. and 0.98% p.a. as of December 31, 2018 and 2017, respectively	1,599,305	1,054,484
Loans from related parties - interest at 0.54% p.a. (Note 30)	2,450,000	-
Bank overdrafts - interest at 0.35% p.a. and 0.35%-0.54% p.a. as of December 31, 2018 and 2017 (Note 31)	<u>212,468</u>	<u>445,331</u>
	<u>\$ 6,381,773</u>	<u>\$ 7,464,815</u>

b. Short-term bills payable

	December 31	
	2018	2017
Commercial paper		
Band of Taiwan	\$ 3,000,000	\$ -
Mega Bills Finance Corporation	200,000	460,000
Grand Bills Finance Corp.	-	100,000
Taiwan Cooperative Bills Finance Corporation	-	100,000
China Bills Finance Corporation	<u>-</u>	<u>10,000</u>
	3,200,000	670,000
	<u>1,047</u>	<u>151</u>
Less: Unamortized discounts	<u>\$ 3,198,953</u>	<u>\$ 669,849</u>
Interest rate (%)	0.68-0.74	0.87-0.90

On December 31, 2018, commercial paper was non-guarantee commercial paper. On December 31, 2017, commercial paper was secured by Mega Bills Finance Corporation, Grand Bills Finance Corp., Taiwan Cooperative Bills Finance Corporation and China Bills Finance Corporation.

c. Long-term borrowings

	December 31	
	2018	2017
Credit bank loans		
Due on various dates through June 2021, interest at 1.18%-1.28% p.a. and 1.11%-1.32% p.a. as of December 2018 and 2017.	\$ 4,850,000	\$ 3,000,000
Syndicated bank loans		
Bank of Taiwan and other banks		
Repaid in March 2018, interest at 1.58% p.a.	-	2,250,000
	4,850,000	5,250,000
Less: Current portion	950,000	150,000
Syndicated loan fee	-	2,550
	<u>\$ 3,900,000</u>	<u>\$ 5,097,450</u>

In December 2011, the Corporation entered into a syndicated credit facility agreement with Bank of Taiwan and 11 other banks, which is as follows:

- 1) The credit line is NT\$16 billion, which consists of two types of loans, namely Type A for NT\$7 billion and Type B for NT\$9 billion. The first drawdown of the Corporation was on March 20, 2012. The loan balance was repaid in December 2017 and March 2018.
- 2) Under the agreement, China Steel Corporation and its related parties should collectively hold at least 30% of the Corporation's issued shares and control the Corporation's operations. From January 1, 2012, the net tangible assets of the Corporation should not be less than half of the capital, and the ratio of financial liabilities to net tangible assets should not exceed 350%.

The amounts referred to in the above restrictions should be based on the Corporation's audited annual standalone financial statements.

As of December 31, 2017, the Corporation was in compliance with this syndicated credit facility agreement.

d. Long-term bills payable

	December 31	
	2018	2017
Mega Bills Finance Corporation		
Repayable in December 2021 with a credit of NT\$600 million	\$ 600,000	\$ -
Repayable in March 2021 with a credit of NT\$1.3 billion,		
Repaid in December 2018	-	1,300,000
China Bills Finance Corporation		
Repayable in January 2020 with a credit of NT\$600 million	300,000	600,000
Repayable in September 2021 with a credit of NT\$500 million	300,000	500,000
Grand Bills Finance Corporation		
Repayable in January 2020 with a credit of NT\$600 million	300,000	450,000
International Bills Financial Corporation		
Repayable in December 2021 with a credit of NT\$300 million	<u>180,000</u>	<u>300,000</u>
	1,680,000	3,150,000

(Continued)

	December 31	
	2018	2017
Less: Unamortized discount	\$ 442	\$ 938
	<u>\$ 1,679,558</u>	<u>\$ 3,149,062</u>
Interest rate (%)	0.99-1.20	1.04-1.16 (Concluded)

On December 31, 2018, Mega Bills was non-guarantee commercial paper. The other commercial paper was secured by Agricultural Bank of Taiwan, Taishin International Bank, Hua Nan Commercial Bank and Bangkok Bank. On December 31, 2017, commercial paper was secured by Mega Bank, Agricultural Bank of Taiwan, Taishin International Bank, Hua Nan Commercial Bank and Bangkok Bank.

19. ACCOUNTS PAYABLE

	December 31	
	2018	2017
<u>Accounts payable</u>		
Operating - non related parties	\$ 45,304	\$ 56,160
Operating - related parties	\$ 595,764	\$ 1,219,265

The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

20. OTHER LIABILITIES

	December 31	
	2018	2017
<u>Current</u>		
Other payables		
Salaries and incentive bonus	\$ 401,312	\$ 349,322
Outsourced repair and construction	120,532	53,091
Export fees	101,107	65,457
Utilities	64,820	71,104
Employees' compensation and remuneration of directors and supervisors (Note 24)	26,714	-
Sales discounts	-	163,435
Others	<u>300,093</u>	<u>172,958</u>
	<u>\$ 1,014,578</u>	<u>\$ 875,367</u>
Other current liabilities		
Unearned receipts	\$ 5,907	\$ 167,296
Others	<u>25,067</u>	<u>16,377</u>
	<u>\$ 30,974</u>	<u>\$ 183,673</u>

21. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Group adopted a pension plan under the Labor Pension Act (the “LPA”), which is a state-managed defined contribution plan. Based on the LPA, the Group makes monthly contributions to employees’ individual pension accounts at 6% of monthly salaries and wages.

b. Defined benefit plans

The Corporation adopted the defined benefit plan under the Labor Standards Law, under which pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Corporation makes contributions, equal to 12.9% of total monthly salaries, to a pension fund, which is deposited in the Bank of Taiwan in the name of and administered by the pension fund monitoring committee. Before the end of each year, the Corporation assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Corporation is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (“the Bureau”); the Corporation has no right to influence the investment policy and strategy.

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

	December 31	
	2018	2017
Present value of defined benefit obligation	\$ 1,445,603	\$ 1,282,008
Fair value of plan assets	<u>(1,014,884)</u>	<u>(916,252)</u>
Net defined benefit liabilities	<u>\$ 430,719</u>	<u>\$ 365,756</u>

Movements of net defined benefit liabilities (assets) were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities
Balance at January 1, 2018	<u>\$ 1,282,008</u>	<u>\$ (916,252)</u>	<u>\$ 365,756</u>
Service cost			
Current service cost	20,060	-	20,060
Interest expense (income)	<u>16,025</u>	<u>(11,850)</u>	<u>4,175</u>
Recognized in profit or loss	<u>36,085</u>	<u>(11,850)</u>	<u>24,235</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(24,839)	(24,839)
Actuarial loss - changes in demographic assumptions	18,050	-	18,050

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities
Actuarial loss - changes in financial assumptions	\$ 54,247	\$ -	\$ 54,247
Actuarial loss - experience adjustments	<u>81,342</u>	<u>-</u>	<u>81,342</u>
Recognized in other comprehensive income	<u>153,639</u>	<u>(24,839)</u>	<u>128,800</u>
Contributions from the employer	<u>-</u>	<u>(86,350)</u>	<u>(86,350)</u>
Benefits paid	<u>(26,129)</u>	<u>24,407</u>	<u>(1,722)</u>
Balance at December 31, 2018	<u>\$ 1,445,603</u>	<u>\$ (1,014,884)</u>	<u>\$ 430,719</u>
Balance at January 1, 2017	<u>\$ 1,182,038</u>	<u>\$ (865,937)</u>	<u>\$ 316,101</u>
Service cost			
Current service cost	20,694	-	20,694
Interest expense (income)	<u>14,775</u>	<u>(11,247)</u>	<u>3,528</u>
Recognized in profit or loss	<u>35,469</u>	<u>(11,247)</u>	<u>24,222</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	2,611	2,611
Actuarial loss - changes in demographic assumptions	16,585	-	16,585
Actuarial loss - experience adjustments	<u>89,843</u>	<u>-</u>	<u>89,843</u>
Recognized in other comprehensive income	<u>106,428</u>	<u>2,611</u>	<u>109,039</u>
Contributions from the employer	<u>-</u>	<u>(80,260)</u>	<u>(80,260)</u>
Benefits paid	<u>(41,927)</u>	<u>38,581</u>	<u>(3,346)</u>
Balance at December 31, 2017	<u>\$ 1,282,008</u>	<u>\$ (916,252)</u>	<u>\$ 365,756</u>

(Concluded)

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

	For the Year Ended December 31	
	2018	2017
Operating costs	\$ 20,571	\$ 20,733
Operating expenses	<u>3,664</u>	<u>3,489</u>
	<u>\$ 24,235</u>	<u>\$ 24,222</u>

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

1) Investment risk

The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau of Labor Funds, Ministry of Labor or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.

2) Interest risk

A decrease in the government and the corporate bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.

3) Salary risk

The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

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

	December 31	
	2018	2017
Discount rate (%)	1.125	1.25
Expected rate of salary increase (%)	2.25	2.00
Turnover rate (%)	0-7	0-8

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

	December 31	
	2018	2017
Discount rate		
0.25% increase	<u>\$ (37,335)</u>	<u>\$ (34,176)</u>
0.25% decrease	<u>\$ 38,750</u>	<u>\$ 35,507</u>
Expected rate of salary increase		
0.25% increase	<u>\$ 37,644</u>	<u>\$ 34,607</u>
0.25% decrease	<u>\$ (36,462)</u>	<u>\$ (33,482)</u>

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

	December 31	
	2018	2017
The expected contributions to the plan for the next year	<u>\$ 90,640</u>	<u>\$ 63,600</u>
The average duration of the defined benefit obligation	10.7 years	11.1 years

22. EQUITY

a. Ordinary shares

	December 31	
	2018	2017
Numbers of shares authorized (in thousands)	<u>2,043,160</u>	<u>2,043,160</u>
Shares authorized	<u>\$ 20,431,600</u>	<u>\$ 20,431,600</u>
Numbers of shares issued and fully paid (in thousands)	<u>1,435,544</u>	<u>1,435,544</u>
Shares issued	<u>\$ 14,355,444</u>	<u>\$ 14,355,444</u>

In June 2009, the Corporation revised the number of its authorized shares to 3,000,000 thousand shares upon obtaining the approval in the shareholders' meeting. However, because the Company Law prohibits the Corporation from revising the number of authorized shares before the full issuance of the original authorized shares, the number of authorized shares remained unchanged.

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

b. Capital surplus

	December 31	
	2018	2017
Additional paid-in capital	<u>\$ 903</u>	<u>\$ 903</u>

In 2009, CSC had transferred its treasury stocks to its employees and subsidiaries. The Corporation recognized a compensation cost and capital surplus of NT\$743 thousand. In July 2011, CSC issued ordinary shares for cash capital. Under the Company Law, CSC should reserve 10% of the stocks for its employees and subsidiaries. The Corporation recognized NT\$160 thousand of compensation cost and capital surplus.

Such capital surplus may be used only to offset deficits.

c. Retained earnings and dividend policy

The Corporation's Articles of Incorporation provide that 10% of the annual net income less any deficit should be appropriated as a legal reserve; a certain percentage should be appropriated as special reserve; the remainder may be declared as dividends or retained as proposed by the Corporation's board of directors and approved in the shareholders' meetings.

The Corporation is in a mature steel industry. Thus, dividends will be appropriated in cash or in stock at an appropriate ratio, with cash dividends to be at least 50% of total dividends.

Under the Company Law, legal reserve should be appropriated from retained earnings until its balance equals the Corporation's paid-in capital. Legal reserve may be used to offset a deficit. If the Corporation has no deficit and the legal reserve has exceeded 25% of the Corporation's paid-in capital, the excess may be transferred to capital or distributed in cash.

Items referred to under Rule No. 1010012865, Rule No. 1010047490 and Rule No. 1030006415 issued by the FSC and in the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs" should be appropriated to or reversed from a special reserve by the Corporation.

The use of NT\$2,606,273 thousand of net profit for 2017 to offset the accumulated deficit was proposed by the board of directors and approved in the shareholders' meeting in June 2018. The appropriations of earnings for 2018 had been proposed by the Corporation's board of directors on March 19, 2019. The appropriation and dividends per share were as follows:

	Appropriation of Earnings	Dividend Per Share (NT\$)
Legal reserve	\$ 90,451	
Special reserve	497,607	
Cash dividends	143,554	<u>\$ 0.1</u>

The appropriations of earnings for 2018 are subject to the resolution in the shareholders' meeting to be held in June, 2019.

Information about the appropriation of earnings and offsetting deficits, proposed by the shareholders' meetings and the Corporation's board of directors, is available on the Market Observation Post System website of the Taiwan Stock Exchange.

d. Unrealized gain and loss on available-for-sale financial assets

	For the Year Ended December 31, 2017
Balance, beginning of year	<u>\$ (365,523)</u>
Unrealized gain or loss on available-for-sale financial assets	7,800
Share of unrealized loss on available-for-sale financial assets of associates accounted for using the equity method	<u>10,811</u>
	<u>18,611</u>
Balance, end of year	<u>\$ (346,912)</u>
Balance at January 1, 2018 (IAS 39)	\$ (346,912)
Adjustment on initial application of IFRS 9	<u>346,912</u>
Balance at January 1, 2018 (IFRS 9)	<u>\$ -</u>

e. Unrealized gains and losses on financial assets at fair value through other comprehensive income

	For the Year Ended December 31, 2018
Balance at January 1, 2018 (IAS 39)	\$ -
Adjustment on initial application of IFRS 9	<u>(431,310)</u>
Balance at January 1, 2018 (IFRS 9)	<u>(431,310)</u>
Recognized during the period	
Unrealized gains and losses - equity instruments	(14,477)
Share from associates accounted for using the equity method	<u>(52,359)</u>
Other comprehensive income recognized in the year	<u>(66,836)</u>
	(Continued)

**For the Year
Ended
December 31,
2018**

Cumulative unrealized gain of equity instruments transferred to retained earnings due to disposal	\$ <u>539</u>
Balance end of year	\$ <u>(497,607)</u> (Concluded)

23. OPERATING REVENUES

a. Contract balances

**December 31,
2018**

Accounts receivable (Note 10)	\$ <u>1,132,372</u>
Contract liabilities	
Sale of goods	\$ 93,555
Advances received	<u>2,890</u>
	<u>\$ 96,445</u>

The change in contract liabilities is mainly due to differences in customer payment timing and there is no significant change in contract liabilities in 2018.

b. Disaggregation of revenue

For year ended December 31, 2018

	Reportable segments		
	Chung Hung	Others	Total
<u>Type of goods or services</u>			
Sale of goods	\$ 47,565,824	\$ -	\$ 47,565,824
Rendering of services	600,922	4,280	605,202
Others	<u>66,975</u>	<u>884</u>	<u>67,859</u>
	<u>\$ 48,233,721</u>	<u>\$ 5,164</u>	<u>\$ 48,238,885</u>

24. PROFIT BEFORE INCOME TAX

Profit before income tax consisted of following items:

a. Other income

	For the Year Ended December 31	
	2018	2017
Rental income	\$ 74,629	\$ 70,202
Dividend income	41,894	61,399
Interest income	4,157	3,847
Others	<u>9,025</u>	<u>6,906</u>
	<u>\$ 129,705</u>	<u>\$ 142,354</u>

b. Other gains and losses

	For the Year Ended December 31	
	2018	2017
Net foreign exchange gain (loss)	\$ 91,264	\$ (686)
Gain arising on financial assets at fair value through profit or loss	3,057	7,059
Fees	(14,523)	(18,214)
Gain on disposal of property, plant and equipment	-	290
Other losses	<u>(424)</u>	<u>(601)</u>
	<u>\$ 79,374</u>	<u>\$ (12,152)</u>

The components of net foreign exchange gain (loss) were as follows:

	For the Year Ended December 31	
	2018	2017
Foreign exchange gain	\$ 157,840	\$ 64,004
Foreign exchange loss	<u>(66,576)</u>	<u>(64,690)</u>
Net exchange gain (loss)	<u>\$ 91,264</u>	<u>\$ (686)</u>

c. Finance costs

	For the Year Ended December 31	
	2018	2017
Interest on bank overdrafts and loans	\$ 129,806	\$ 170,187
Interest on loans from related parties (Note 30)	<u>12,548</u>	<u>14,483</u>
Total interest expense financial liabilities measured at amortized cost	142,354	184,670
Less: Amounts included in the cost of qualifying assets	<u>2,471</u>	<u>3,734</u>
	<u>\$ 139,883</u>	<u>\$ 180,936</u>

Information about capitalized interest was as follows:

	For the Year Ended December 31	
	2018	2017
Capitalized amounts	\$ 2,471	\$ 3,734
Capitalized annual rates (%)	0.77-1.04	1.01-1.15

d. Depreciation

	For the Year Ended December 31	
	2018	2017
Property, plant and equipment	\$ 1,180,292	\$ 1,417,837
Investment properties	<u>840</u>	<u>823</u>
	<u>\$ 1,181,132</u>	<u>\$ 1,418,660</u>
Analysis of depreciation by function		
Operating costs	\$ 1,092,116	\$ 1,332,810
Operating expenses	88,176	85,027
Deduction of other income	<u>840</u>	<u>823</u>
	<u>\$ 1,181,132</u>	<u>\$ 1,418,660</u>

e. Operating expenses directly related to investment properties

	For the Year Ended December 31	
	2018	2017
Direct operating expenses of investment properties that generated rental income	\$ 17,348	\$ 16,857
Direct operating expenses of investment properties that did not generate rental income	<u>1,940</u>	<u>2,163</u>
	<u>\$ 19,288</u>	<u>\$ 19,020</u>

f. Employee benefits

	For the Year Ended December 31	
	2018	2017
Short-term employee benefits		
Salaries	\$ 1,194,080	\$ 1,097,875
Labor and health insurance	88,005	83,815
Others	<u>207,097</u>	<u>142,593</u>
	<u>1,489,182</u>	<u>1,324,283</u>
Post-employment benefits		
Defined contribution plans	23,987	22,556
Defined benefit plans (Note 21)	<u>24,235</u>	<u>24,222</u>
	<u>48,222</u>	<u>46,778</u>
	<u>\$ 1,537,404</u>	<u>\$ 1,371,061</u>
Analysis of employee benefits expense by function		
Operating costs	\$ 1,272,890	\$ 1,114,861
Operating expenses	<u>264,514</u>	<u>256,200</u>
	<u>\$ 1,537,404</u>	<u>\$ 1,371,061</u>

g. Employees' compensation and remuneration of directors

In accordance with the Corporation's Articles of Incorporation, the Corporation distributes employees' compensation and remuneration of directors and supervisors at rates of no less than 1‰ and no higher than 1%, respectively, of net profit before income tax less any deficit, employees' compensation, and remuneration of directors and supervisors. There was no bonus to employees and remuneration to directors and supervisors in 2017 because the Corporation had accumulated deficits.

The appropriations of employees' compensation and remuneration of directors for the year ended December 31, 2018, which were approved by the board of directors on March 19, 2019, respectively, were as follows:

	For the Year Ended December 31, 2018
<u>Accrual rate</u>	
Employees' compensation (%)	2.1
Remuneration of directors (%)	0.42
<u>Amount</u>	
Employees' compensation	\$ 22,262
Remuneration of directors	4,452

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

Information on employees' compensation and remuneration of directors resolved by the Corporation's board of directors are available on the Market Observation Post System website of the Taiwan Stock Exchange.

25. INCOME TAX

a. Income tax recognized in profit or loss

The major components of income tax expense were as follows:

	<u>For the Year Ended December 31</u>	
	2018	2017
Current tax		
In respect of the current year	\$ 625	\$ 185
Deferred tax		
In respect of the current year	—	(155)
	<u>\$ 625</u>	<u>\$ 30</u>

The reconciliation of accounting profit and income tax expense was as follows:

	For the Year Ended December 31	
	2018	2017
Profit before income tax	<u>\$ 3,033,848</u>	<u>\$ 2,606,303</u>
Income tax expense at the statutory rate	\$ 606,770	\$ 443,072
Permanent differences		
Profit on investments under equity method	(17,775)	(14,161)
Others	(5,573)	(7,965)
Unrecognized deductible temporary differences	52,923	(54,192)
Loss carryforwards	(635,721)	(366,755)
Unrecognized loss carryforwards	1	21
Land value increment tax	<u>-</u>	<u>10</u>
	<u>\$ 625</u>	<u>\$ 30</u>

The Income Tax Act in the ROC was amended in 2018, and the corporate income tax rate was adjusted from 17% to 20%, effective in 2018. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings will be reduced from 10% to 5%. As the status of the 2019 appropriation of earnings is uncertain, the potential income tax consequences of the 2018 unappropriated earnings are not reliably determinable.

- b. No income tax was recognized in other comprehensive loss.
- c. Current tax assets and liabilities

	December 31	
	2018	2017
Current tax assets		
Tax refund receivable	<u>\$ 420</u>	<u>\$ 339</u>
Current tax liabilities		
Income tax payable	<u>\$ 537</u>	<u>\$ 73</u>

- d. Deferred tax liabilities

The movements of deferred tax liabilities were as follows:

For the year ended December 31, 2018

	Balance, Beginning of Year	Recognized in Profit or Loss	Balance, End of Year
<u>Deferred Tax Liabilities</u>			
Temporary differences			
Land value increment tax	<u>\$ (182,222)</u>	<u>\$ -</u>	<u>\$ (182,222)</u>

For the year ended December 31, 2017

	Balance, Beginning of Year	Recognized in Profit or Loss	Balance, End of Year
<u>Deferred Tax Liabilities</u>			
Temporary differences			
Realized foreign exchange gain	\$ (155)	\$ 155	\$ -
Land value increment tax	<u>(182,222)</u>	<u>-</u>	<u>(182,222)</u>
	<u>\$ (182,377)</u>	<u>\$ 155</u>	<u>\$ (182,222)</u>

e. Items for which no deferred tax assets have been recognized

	December 31	
	2018	2017
Loss carryforwards		
2021 maturity	\$ -	\$ 61,050
2022 maturity	1,460,084	4,641,513
2023 maturity	187,880	187,880
2025 maturity	2,655,245	2,655,245
2027 maturity	125	125
2028 maturity	<u>6</u>	<u>-</u>
	<u>\$ 4,303,340</u>	<u>\$ 7,545,813</u>
Deductible temporary differences		
Gain on disposal of nonperforming loans	\$ -	\$ 575,992
Amortization of deferred credits	509,636	-
Impairment loss on assets	447,663	447,663
Net defined benefit liabilities	430,719	365,756
Sales discount payable	109,982	163,174
Provision for inventory loss	423,614	5,743
Others	<u>90,672</u>	<u>60,389</u>
	<u>\$ 2,012,286</u>	<u>\$ 1,618,717</u>

f. Income tax assessments

The Group's income tax returns through 2016 have been assessed by the tax authorities.

26. BASIC EARNINGS PER SHARE

	For the Year Ended December 31	
	2018	2017
Basic earnings per share	<u>\$ 2.11</u>	<u>\$ 1.82</u>
Diluted earnings per share	<u>\$ 2.11</u>	<u>\$ 1.82</u>

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

Net profit for the year

	For the Year Ended December 31	
	2018	2017
Attributable to owners of the Corporation	\$ 3,033,223	\$ 2,606,273

Weighted average number of ordinary shares outstanding (in thousand shares)

	For the Year Ended December 31	
	2018	2017
Weighted average number of ordinary shares in computation of basic earnings per share	1,435,544	1,435,544
Effect of dilutive potential ordinary shares:		
Employees' compensation	2,081	-
Weighted average number of ordinary shares used in computation of diluted earnings per share	<u>1,437,625</u>	<u>1,435,544</u>

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

27. OPERATING LEASE ARRANGEMENTS

The Corporation as lessor leased a building on June 30, 2010 for 20 years under an operating lease agreement; the Corporation collects rental monthly. The rental revenues for the years ended December 31, 2018 and 2017 were NT\$78,722 thousand and NT\$75,775 thousand, respectively, and were included in other income. Based on the lease contract, as of December 31, 2018 and 2017, the Corporation obtained the same amount of deposit of NT\$35,000 thousand which was recognized as guaranteed deposits received.

As of December 31, 2018 and 2017, notes receivable and advance rental were as follows:

	December 31	
	2018	2017
Notes receivable	\$ 48,622	\$ 47,669
Less: Advance rental	<u>(48,622)</u>	<u>(47,669)</u>
	<u>\$ -</u>	<u>\$ -</u>

The future minimum rentals to be received under non-cancellable operating lease commitments are as follows:

	December 31	
	2018	2017
Not later than 1 year	\$ 88,508	\$ 85,363
Later than 1 year and not later than 5 years	424,771	415,880

(Continued)

	December 31	
	2018	2017
Later than 5 years	\$ <u>634,820</u>	\$ <u>723,052</u>
	\$ <u>1,148,099</u>	\$ <u>1,224,295</u> (Concluded)

28. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue their operations while maximizing the return to shareholders through the optimization of the debt and equity balance.

29. FINANCIAL INSTRUMENTS

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

Management of the Group considers the carrying amount of financial assets and liabilities not carried at fair value approximates fair value.

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

1) Fair value hierarchy

	Level 1	Level 2	Level 3	Total
<u>December 31, 2018</u>				
Financial assets at fair value through profit or loss				
Emerging market shares	\$ <u>-</u>	\$ <u>-</u>	\$ <u>217,281</u>	\$ <u>217,281</u>
Financial assets at FVOCI				
Domestic listed shares	\$ <u>827,245</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>827,245</u>
Domestic unlisted shares	<u>-</u>	<u>-</u>	<u>51,219</u>	<u>51,219</u>
	\$ <u>827,245</u>	\$ <u>-</u>	\$ <u>51,219</u>	\$ <u>878,464</u>
<u>December 31, 2017</u>				
Financial assets at fair value through profit or loss				
Emerging market shares	\$ <u>-</u>	\$ <u>-</u>	\$ <u>215,464</u>	\$ <u>215,464</u>
Available-for-sale financial assets				
Domestic listed shares	\$ <u>844,302</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>844,302</u>
Domestic unlisted shares	<u>-</u>	<u>-</u>	<u>54,563</u>	<u>54,563</u>
	\$ <u>844,302</u>	\$ <u>-</u>	\$ <u>54,563</u>	\$ <u>898,865</u>

There was no transfer between Level 1 and Level 2 for the years ended December 31, 2018 and 2017.

2) Reconciliation of Level 3 fair value measurements of financial assets

	Financial Assets at Fair Value Through Profit or Loss - Equity Instruments	Financial Assets at Fair value through Other Comprehensive Income - Equity Instruments	Total
<u>For the year ended December 31, 2018</u>			
Balance, beginning of year (IAS 39)	\$ 215,464	\$ -	\$ 215,464
Adjustment on initial application of IFRS 9	<u>-</u>	<u>54,563</u>	<u>54,563</u>
Balance, beginning of year (IFRS 9)	215,464	54,563	270,027
Total profit or loss			
Recognized in profit or loss	2,338	-	2,338
Recognized in other comprehensive income	-	2,580	2,580
Disposal	(521)	(962)	(1,483)
Capital reduction refunded	<u>-</u>	<u>(4,962)</u>	<u>(4,962)</u>
Balance, end of year	<u>\$ 217,281</u>	<u>\$ 51,219</u>	<u>\$ 268,500</u>
Unrealized gains and losses recognized in other profit or loss	<u>\$ 2,264</u>	<u>\$ -</u>	<u>\$ 2,264</u>
<u>For the year ended December 31, 2017</u>			
Balance, beginning of year	\$ 231,953	\$ 54,663	\$ 286,616
Total profit or loss			
Recognized in profit or loss	7,195	-	7,195
Recognized in other comprehensive income	-	4,389	4,389
Disposal	(23,684)	-	(23,684)
Capital reduction refunded	<u>-</u>	<u>(4,489)</u>	<u>(4,489)</u>
Balance, end of year	<u>\$ 215,464</u>	<u>\$ 54,563</u>	<u>\$ 270,027</u>
Unrealized gains and losses recognized in other profit or loss	<u>\$ 4,297</u>	<u>\$ -</u>	<u>\$ 4,297</u>

3) Valuation techniques and inputs applied for the purpose of measuring Level 3 fair value measurement

- a) The fair value of emerging stocks was based on the closing price adjusted for liquidity risk premium.
- b) The fair value of unlisted stocks was based on the current net value.

c. Categories of financial instruments

	December 31	
	2018	2017
Financial assets		
Fair value through profit or loss		
Held for trading	\$ -	\$ 215,464
Mandatorily at fair value through profit or loss	217,281	-
Available-for-sale financial assets (including noncurrent)	-	898,865
Loans and receivables (see 1 below)	-	2,597,915
Measured at amortized cost (see 2 below)	2,005,693	-
Financial assets at fair value through other comprehensive income		
Equity instruments	878,464	-
Financial liabilities		
Measured at amortized cost (see 3 below)	17,916,770	18,717,088
1) The balances included loans and receivables measured at amortized cost, which comprise cash, accounts receivable (including related parties), other receivables (including related parties), other financial assets (including current and noncurrent) and refundable deposits.		
2) The balances included financial assets measured at amortized cost, which comprise cash, accounts receivable (including related parties), other receivables (including related parties), other financial assets (including current and non-current) and refundable deposits.		
3) The balances included financial liabilities measured at amortized cost, which comprise short-term borrowings, short-term bills payable, accounts payable (including related parties), other payables, refund liability long-term borrowings (including current portion), long-term bills payable, and guarantee deposits received.		

d. Financial risk management objectives and policies

The Group's major financial instruments include accounts receivable, investments accounted for using equity method, other financial assets, accounts payable, short-term borrowings, short-term bills payable, long-term borrows (including current portion of long-term bank borrowings) and long-term bills payable. The Group's financial management department provides service to the business units, coordinates domestic and international financial operations, prepares and analyzes internal risk reports to monitor and manage financial risks related to the operation of the Group. These risks include market risk (including exchange rate risk, interest rate risk and other price risk), credit risk and liquidity risk.

The Group sought to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives was governed by the Group's policies approved by the board of directors, which provided written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits was reviewed by the internal auditors on a continuous basis. The Group did not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

1) Market risk

The main financial risks arising from operating activities are to the risk of change in foreign exchange rates (see (a) below), the risk of changes in interest rates (see (b) below) and the risk of other price (see (c) below).

There had been no change to the Group's exposure to market risks or the manner in which these risks were managed and measured.

a) Foreign currency risk

The Group was exposed to foreign currency risk due to sales and purchases, denominated in foreign currencies. Exchange rate exposures were managed within approved policy parameters utilizing the same currency for accounts receivable and payable.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities and of the derivatives exposed foreign currency risk at the end of the reporting period are set out in Note 33.

Sensitivity analysis

The Group was mainly exposed to the USD. The following table details the Group's sensitivity to a 1% increase and decrease in the New Taiwan dollars (the functional currency) against the relevant foreign currencies. The sensitivity rate of 1% is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates.

The sensitivity analysis included only the outstanding foreign currency denominated monetary items. A positive number below indicates an increase in profit or loss when the New Taiwan dollars strengthens by 1% against the relevant currency.

	USD Impact (Note)	
	For the Year Ended December 31	
	2018	2017
Profit before income tax	\$ 7,660	\$ 10,116

Note: This was mainly attributable to the exposure of outstanding USD cash, accounts receivables, accounts payable and other payables, which were not hedged at the balance sheet date.

b) Interest rate risk

The Group was exposed to interest rate risk because the Group borrowed funds at both fixed and floating interest rates.

The carrying amounts of the Group's financial assets and liabilities with exposure to interest rates at the balance sheet date were as follows:

	December 31	
	2018	2017
Fair value interest rate risk		
Financial liabilities	\$ 1,679,558	\$ 3,149,062

(Continued)

	December 31	
	2018	2017
Cash flow interest rate risk		
Financial assets	\$ 499,231	\$ 697,108
Financial liabilities	11,231,773	12,712,265
		(Concluded)

If interest rates had been 1% higher and all other variables were held constant, the Group's pre-tax profit for the years ended December 31, 2018 and 2017 would have been lower by NT\$107,325 thousand and lower by NT\$120,152 thousand, respectively.

c) Other price risk

The Group was exposed to equity price risk through their investments in domestic listed shares.

The equity price of the group was evaluated by the closing price of the equity securities on a monthly basis.

Sensitivity analysis

If equity price of fair value through other comprehensive income financial assets had been lower by one dollar, the pre-tax-other comprehensive income, for the years ended December 31, 2018 would have been lower by NT\$34,113 thousand.

If equity prices of available-for-sale financial assets had been lower by one dollar, the pre-tax other comprehensive income, for the years ended December 31, 2017 would have been lower by NT\$34,113 thousand.

2) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. As at the balance sheet date, the Group's maximum exposure to credit risk is the carrying amount of the financial assets on the consolidated balance sheets and the amount of contingent liabilities in relation to financial guarantee issued by the Group.

The Group made transactions only with the parties with good credit. The goods were delivered after the cash or L/C was received, and the Group did not provide financial guarantee to any company. Accounts receivable were due to time differences of L/C negotiation and there were no bad debt in the recent years; therefore, the credit risk is very low.

3) Liquidity risk

The Group manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group relies on bank borrowings as a significant source of liquidity. The management monitors the utilization of bank borrowings and ensures compliance with loan covenants. As of December 31, 2018, the current liabilities of the Group exceed current assets by NT\$766,291 thousand and the unutilized credit facility of the Group was NT\$34.6 billion; therefore, there is no liquidity risk or incapacity of financing capital to meet contractual obligations.

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

	Less Than 1 Year	1-5 Years	Total
December 31, 2018			
Short-term borrowings	\$ 6,424,499	\$ -	\$ 6,424,499
Short-term bills payable	3,200,000	-	3,200,000
Accounts payable (including related parties)	641,068	-	641,068
Other payables	1,014,578	-	1,014,578
Long-term bank borrowings	997,864	3,931,840	4,929,704
Long-term bills payable	-	1,680,000	1,680,000
Guarantee deposits received	<u>-</u>	<u>35,120</u>	<u>35,120</u>
	<u>\$ 12,278,009</u>	<u>\$ 5,646,960</u>	<u>\$ 17,924,969</u>
December 31, 2017			
Short-term borrowings	\$ 7,515,246	\$ -	\$ 7,515,246
Short-term bills payable	670,000	-	670,000
Accounts payable (including related parties)	1,275,425	-	1,275,425
Other payables	875,367	-	875,367
Long-term bank borrowings	223,403	5,162,475	5,385,878
Long-term bills payable	-	3,150,000	3,150,000
Guarantee deposits received	<u>-</u>	<u>35,120</u>	<u>35,120</u>
	<u>\$ 10,559,441</u>	<u>\$ 8,347,595</u>	<u>\$ 18,907,036</u>

30. TRANSACTIONS WITH RELATED PARTIES

Balances and transactions between the Corporation and its subsidiaries, which are related parties of the Corporation, have been eliminated on consolidation and are not disclosed in this note. The subsidiary, Hung Li Steel Corporation Ltd merged with the Corporation on June 1, 2018, and the Corporation has assumed the related rights and obligations. Details of transactions between the Group and other related parties are disclosed below.

a. The name of the company and its relationship with the Group

Company	Relationship
China Steel Corporation	Parent entity
Dragon Steel Corporation (DSC)	Fellow subsidiaries
CHC Resources Corporation (CHC)	Fellow subsidiaries
Info Champ Systems Corporation (ICSC)	Fellow subsidiaries
China Steel Machinery Corporation (CSMC)	Fellow subsidiaries
CSC Steel SDN. BHD. (CSSB)	Fellow subsidiaries
China Steel Global Trading Corporation (CSGTC)	Fellow subsidiaries
United Steel Engineering & Construction Corp. (USECC)	Fellow subsidiaries
Himag Magnetic Corporation (HMC)	Fellow subsidiaries
China Steel Security Corporation	Fellow subsidiaries
China Steel Precision Metals Kunshan Co., Ltd.	Fellow subsidiaries
China Ecotek Corporation	Fellow subsidiaries
Steel Castle Technology Corporation	Fellow subsidiaries
China Steel Express Corporation	Fellow subsidiaries
China Steel Structure Co., Ltd	Fellow subsidiaries
Universal Exchange Inc.	Fellow subsidiaries
Union Steel Development Corp.	Fellow subsidiaries
Thintech Materials Technology Co., Ltd.	Fellow subsidiaries

(Continued)

Company	Relationship
China Steel Management Consulting Corp.	Fellow subsidiaries
China Steel Chemical Corporation	Fellow subsidiaries
Yu Cheng Lime Corporation	Fellow subsidiaries
CSEI Transport Corporation (Panama)	Fellow subsidiaries
Wabo Global Trading Corporation	Fellow subsidiaries
CSC SOLAR CORP.	Fellow subsidiaries
Transglory Investment Corporation	Associates
Formosa Ha Tinh Steel Corporation	Other related parties
Pacific Harbour Stevedoring Corporation	Other related parties as supervisors of the Corporation
Cheng Shin Management for Building Co., Ltd. (former name: Cheng Shin Building Company)	Director of the Corporation
	(Concluded)

b. Sale of goods

Account Items	Related Parties Types	For the Year Ended December 31	
		2018	2017
Sales	Fellow subsidiaries related to others	\$ 1,780,397	\$ 1,345,685
	Parent entity	<u>531</u>	<u>5,508</u>
		<u>\$ 1,780,928</u>	<u>\$ 1,351,193</u>
Service Revenue	Parent entity	\$ 594,009	\$ 1,021,535
	Fellow subsidiaries related to others	<u>25</u>	<u>18</u>
		<u>\$ 594,034</u>	<u>\$ 1,021,553</u>

The parent entity and some fellow subsidiaries related to others paid by telegraphic transfers (T/T) within 7 days from product shipment, T/T within 60 days from product shipment, monthly billing by T/T after acceptance sale of, steel pipe products collected at the beginning of next month; these payment terms differed from those for third parties, from whom payments were negotiated to be on Tuesday and Friday. The price of iron oxide that the Corporation sells to fellow subsidiaries related to others does not have comparable price because the Corporation does not sell iron oxide to third parties and the collection term for selling iron oxide is negotiated to be on Tuesday and Friday.

The abovementioned service revenue is from the agreements that the Corporation entered into with parent entity in which the Corporation has to do certain processing work and charged based on the formula stated in the agreements. The Corporation bills the parent entity within one month after approval of delivery.

The Corporation entered into an agreement with fellow subsidiaries related to others under which the Corporation sells waste acid and the price is charged based on the formula stated in the agreement. The Corporation bills the fellow subsidiaries related to others within a month after acceptance by T/T based on the monthly amount of processing.

Account Items	Related Parties Types /Name	For the Year Ended December 31	
		2018	2017
Other operating revenue	Fellow subsidiaries related to others		
	DSC	\$ 52,604	\$ 47,024
	HMC	7,843	-
	Parent entity	<u>-</u>	<u>619</u>
		<u>\$ 60,447</u>	<u>\$ 47,643</u>

There is no significant revenue from the sale of the materials of the Company.

c. Purchase of goods

Related Parties Types/Name	For the Year Ended December 31	
	2018	2017
Parent entity	<u>\$ 25,257,677</u>	<u>\$ 20,345,694</u>
Fellow subsidiaries related to others		
DSC	10,349,774	9,404,310
Others	<u>489,636</u>	<u>371,746</u>
	10,839,410	9,776,056
Other related parties	<u>1,584,678</u>	<u>-</u>
	<u>\$ 37,681,765</u>	<u>\$ 30,121,750</u>

Purchases from related parties, mainly slabs and hot rolling coil, were made under normal terms.

d. Accounts receivable from related parties

Related Parties Types/Name	December 31	
	2018	2017
Parent entity	<u>\$ 36,256</u>	<u>\$ 121,529</u>
Fellow subsidiaries related to others		
CSSB	121,361	35,356
Others	<u>25,823</u>	<u>11,302</u>
	<u>147,184</u>	<u>46,658</u>
	<u>\$ 183,440</u>	<u>\$ 168,187</u>
Other receivable from related parties		
Parent entity	<u>\$ 306,845</u>	<u>\$ 366,735</u>
Fellow subsidiaries related to others		
CHC	41,513	\$ 34,292
Others	<u>351</u>	<u>297</u>
	<u>41,864</u>	<u>34,589</u>
	<u>\$ 348,709</u>	<u>\$ 401,324</u>

No guarantee had been received for accounts receivable and other receivable from related parties. No expense had been recognized for the years ended December 31, 2018 and 2017 for allowance for impairment of accounts receivable in respect of the amounts owed by related parties.

e. Accounts payable to related parties (excluding loans from related parties)

Related Parties Types/Name	December 31	
	2018	2017
Parent entity	\$ 582,549	\$ 1,196,582
Others	12,019	12,927
Fellow subsidiaries related to others	<u>1,196</u>	<u>9,756</u>
	<u>\$ 595,764</u>	<u>\$ 1,219,265</u>

The outstanding accounts payable to related parties were unsecured.

f. Loans from related parties

Related Parties Types/Name	December 31, 2018
Parent entity	<u>\$ 2,450,000</u>

The Corporation borrowed money from the parent entity because of the need for short-term fund. The interest rate of the loan was based on average daily short-term interest the parent entity financed for the same currency from financial institutions in the last 30 days and adjusted monthly.

The loans from the parent entity were unsecured loans with interest expense of NT\$12,548 thousand and NT\$14,483 thousand for 2018 and 2017, respectively.

g. Other transactions with related parties

1) Authorization fees

In May 2003, CSC, Sumitomo Metal Industries, Ltd. (SMI) and Sumitomo Corporation (SC) entered into a joint venture agreement and established a holding company named East Asia United Steel Corporation (EAUS) in July 2003. CSC will have a stable supply of good quality slab through this joint venture. CSC then signed a contract with the Corporation, transferring to the Corporation the right to buy slab from EAUS. The Corporation should pay authorization fees to CSC under the contract. These fees (included in the purchase cost of materials) were NT\$106,775 thousand in 2018 and NT\$113,656 thousand in 2017. As of December 31, 2018 and 2017, authorization fees payable (included in payables to related parties) were NT\$27,043 thousand and NT\$35,083 thousand, respectively. The calculation of slab purchase prices was based on the formula stated in the agreement.

2) Leases

- a) The Corporation entered into a contract with fellow subsidiaries related to others on the lease of the Corporation's part of the land and warehouse. Lease period is until August 2019. The rental revenue for the years ended December 31, 2018 and 2017 were NT\$2,501 thousand and NT\$2,292 thousand, respectively.
- b) The Corporation entered into a contract with parent entity on the lease of the Corporation's part of the land until December 2019. The rental revenue for the years ended December 31, 2018 and 2017 were both NT\$5,310 thousand.

3) Construction in progress and other expenditures

Other expenditures paid to related parties, which pertained to construction or maintenance, purchased supplies, waste acid and security fee, etc., were as follows:

	For the Year Ended December 31	
	2018	2017
a) Other expenditures		
Others	\$ 188,799	\$ 150,124
Parent entity	171,368	128,873
Fellow subsidiaries related to others	<u>109,088</u>	<u>186,088</u>
	<u>\$ 469,255</u>	<u>\$ 465,085</u>
b) Capital expenditure		
Parent entity	<u>\$ 3,530</u>	<u>\$ 6,039</u>
Fellow subsidiaries related to others		
ICSC	100,021	16,650
CSMC	34,100	30,600
USECC	-	2,477
Others	<u>1,460</u>	<u>5,968</u>
	<u>135,581</u>	<u>55,695</u>
	<u>\$ 139,111</u>	<u>\$ 61,734</u>

4) Income from supplies and scrap

	For the Year Ended December 31	
	2018	2017
Fellow subsidiaries related to others		
CHC	\$ 523,518	\$ 363,868
CSGTC	<u>17,876</u>	<u>18,161</u>
	<u>\$ 541,394</u>	<u>\$ 382,029</u>

h. Compensation of key management personnel

The remuneration to directors and other members of key management personnel were as follows:

	For the Year Ended December 31	
	2018	2017
Short-term employee benefits	\$ 29,596	\$ 27,886
Post-employment benefits	<u>401</u>	<u>234</u>
	<u>\$ 29,997</u>	<u>\$ 28,120</u>

31. ASSETS PLEDGED AS COLLATERAL OR SECURITY

The Group's assets mortgaged or pledged as collateral for long-term borrowings and short-term borrowings were as follows (listed based on their carrying amounts):

	December 31	
	2018	2017
Time deposits (included in other financial assets - current)	\$ 300,000	\$ 500,000
Net property, plant and equipment	<u>3,911,003</u>	<u>3,696,986</u>
	<u>\$ 4,211,003</u>	<u>\$ 4,196,986</u>

32. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Group as of December 31, 2018 were as follows:

- Unused letters of credit for purchases of raw materials and machinery and equipment amounted to about NT\$2,535,220 thousand
- The Group had signed agreements to buy equipment for NT\$493,913 thousand, of which NT\$132,478 thousand had been paid (included in construction-in-progress and prepayments for equipment).

33. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

	Foreign Currencies (In Thousands)	Exchange Rate	Carrying Amount (In Thousands of New Taiwan Dollars)
<u>December 31, 2018</u>			
Monetary financial assets			
USD	\$ 26,413	30.72 (USD:NTD)	\$ 811,269
Monetary financial liabilities			
USD	1,471	30.72 (USD:NTD)	45,187
<u>December 31, 2017</u>			
Monetary financial assets			
USD	36,110	29.76 (USD:NTD)	1,074,655
Monetary financial liabilities			
USD	2,118	29.76 (USD:NTD)	63,026

The significant realized and unrealized foreign exchange gains (losses) were as follows:

Foreign Currencies	Exchange Rate	Net Foreign Exchange Gain (Loss)
For the Year Ended December 31, 2018		
USD	30.72 (USD:NTD)	\$ 91,193
EUR	35.20 (EUR:NTD)	45
Other		<u>26</u>
		<u>\$ 91,264</u>
For the Year Ended December 31, 2017		
USD	29.76 (USD:NTD)	\$ (774)
EUR	35.57 (EUR:NTD)	(187)
Other		<u>275</u>
		<u>\$ (686)</u>

34. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and b. investees:

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

c. Information on investments in mainland China (None)

35. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. Reportable segments of the Group were as follows:

- The Corporation - manufacture, process and sell steel products.
- Other corporations - Hung Kao Investment Corporation engaged in general investment, and Taiwan Steel Corporation which has not yet started is operation.

a. Segment revenues and operating results

The following is an analysis of the Group revenues and results of operations by reportable segment.

	The Corporation	Others	Adjustment and Elimination	Total
For the year ended December 31, 2018				
Revenues from external customers	<u>\$ 48,233,721</u>	<u>\$ 5,164</u>	<u>\$ -</u>	<u>\$ 48,238,885</u>
Segment profit	\$ 2,871,898	\$ 3,759	\$ 120	\$ 2,875,777
Interest revenue	4,154	3	-	4,157
Other income	125,668	-	(120)	125,548
Other income and expenses	79,374	-	-	79,374
Finance costs	(139,883)	-	-	(139,883)
Share of the profit of associates and joint ventures	<u>92,012</u>	<u>-</u>	<u>(3,137)</u>	<u>88,875</u>
Profit before income tax for the year	3,033,223	3,762	(3,137)	3,033,848
Income tax expense	<u>-</u>	<u>625</u>	<u>-</u>	<u>625</u>
Net profit for the year	<u>\$ 3,033,223</u>	<u>\$ 3,137</u>	<u>\$ (3,137)</u>	<u>\$ 3,033,223</u>
Identifiable assets	\$ 30,925,587	\$ 33,109	\$ -	\$ 30,958,696
Investments accounted for using equity method	<u>2,493,577</u>	<u>-</u>	<u>(31,360)</u>	<u>2,462,217</u>
Total assets	<u>\$ 33,419,164</u>	<u>\$ 33,109</u>	<u>\$ (31,360)</u>	<u>\$ 33,420,913</u>
Total liabilities	<u>\$ 18,655,918</u>	<u>\$ 1,749</u>	<u>\$ -</u>	<u>\$ 18,657,667</u>
For the year ended December 31, 2017				
Revenues from external customers	<u>\$ 40,788,590</u>	<u>\$ 3,854</u>	<u>\$ -</u>	<u>\$ 40,792,444</u>
Segment profit	\$ 2,571,306	\$ 1,102	\$ 1,332	\$ 2,573,740
Interest revenue	3,749	98	-	3,847

(Continued)

	The Corporation	Others	Adjustment and Elimination	Total
Other income	\$ 139,839	\$ -	\$ (1,332)	\$ 138,507
Other income and expenses	(12,152)	-	-	(12,152)
Finance costs	(180,936)	-	-	(180,936)
Share of the profit of associates and joint ventures	<u>84,322</u>	<u>-</u>	<u>(1,025)</u>	<u>83,297</u>
Profit before income tax for the year	2,606,128	1,200	(1,025)	2,606,303
Income tax expense (benefit)	<u>(145)</u>	<u>175</u>	<u>-</u>	<u>30</u>
Net profit for the year	<u>\$ 2,606,273</u>	<u>\$ 1,025</u>	<u>\$ (1025)</u>	<u>\$ 2,606,273</u>
Identifiable assets	\$ 28,920,078	\$ 31,071	\$ -	\$ 28,951,149
Investments accounted for using equity method	<u>2,455,462</u>	<u>-</u>	<u>(29,760)</u>	<u>2,425,702</u>
Total assets	<u>\$ 31,375,540</u>	<u>\$ 31,071</u>	<u>\$ (29,760)</u>	<u>\$ 31,376,851</u>
Total liabilities	<u>\$ 19,449,881</u>	<u>\$ 1,311</u>	<u>\$ -</u>	<u>\$ 19,451,192</u>
				(Concluded)

Segment profit represented the profit before tax earned by each segment without allocation of central administration costs and directors' salaries, rental revenue, interest income, gain or loss on disposal of property, plant and equipment, exchange gain or loss, finance costs and income tax expense. This was the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

b. Revenues from major products and services

Revenues from major products and services of the Group were as follows:

	For the Year Ended December 31	
	2018	2017
Sales		
Hot Rolled Steel	\$ 32,068,496	\$ 26,371,392
Cold Rolled Steel	8,508,017	7,946,076
Galvanized Steel	2,481,563	2,438,093
Steel Pipe	4,500,973	2,920,540
Iron Oxide Powder	6,775	16,996
Service revenue	605,202	1,042,391
Investments revenue	884	853
Other operating revenue	<u>66,975</u>	<u>56,103</u>
	<u>\$ 48,238,885</u>	<u>\$ 40,792,444</u>

c. Geographical information

The Group operates in Taiwan.

The Group's revenues from external customers and information about its noncurrent assets by geographical location were detailed below.

	Revenues from External Customers		Noncurrent Assets	
	For the Year Ended December 31		December 31	
	2018	2017	2018	2017
Taiwan	\$ 25,088,110	\$ 24,868,698	\$ 19,213,742	\$ 20,009,724
Asia	15,011,568	11,419,006	-	-
America	4,564,690	3,077,960	-	-
Europe	3,000,886	1,053,070	-	-
Others	<u>573,631</u>	<u>373,710</u>	<u>-</u>	<u>-</u>
	<u>\$ 48,238,885</u>	<u>\$ 40,792,444</u>	<u>\$ 19,213,742</u>	<u>\$ 20,009,724</u>

Noncurrent assets excluded financial instruments.

d. Information about major customers

	For the Year Ended December 31	
	2018	2017
Sales revenue		
A Company	\$ 6,045,004	\$ 5,693,645
B Company	3,929,398	3,550,931
C Company	<u>3,191,882</u>	<u>178,113</u>
	<u>\$ 13,166,284</u>	<u>\$ 9,422,689</u>

TABLE 1

CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

**ENDORSEMENTS/GUARANTEES PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

NO.	Endorsement/Guarantee Provider	Endorsee/Guarantee		Limits on Endorsement/ Guarantee Amount Provided to Each Guaranteed Party	Maximum Balance for the Period	Ending Balance	Amount Actually Drawn	Amount of Endorsement/ Guarantee Collateralized by Properties	Ratio of Accumulated Endorsement/ Guarantee to Net Equity per Latest Financial Statements (%)	Maximum Endorsement/ Guarantee Amount Allowable	Guarantee Provided by Parent Company	Guarantee Provided by a Subsidiary	Guarantee Provided to Subsidiaries in Mainland China	Note
		Name	Nature of Relationship											
0	Chung Hung Steel Corporation	Chung Hung Steel Corporation (Note1)	Having business relationship	\$ 4,428,974	\$ 10,000	\$ 10,000	\$ 10,000	\$ -		\$ 7,381,623	N	N	N	Note 2

Note 1: For importation of goods, letters of credits were provided to Customs Administration, Ministry of Finance Kaohsiung Customs and guaranteed by banks.

Note 2: According to “The Process of marking endorsements/quadrants” of the Company, the ceiling on the amounts for any single entity or the aggregate amounts to the entities shall not exceed 30% and 50% of the net worth of the Company, respectively.

TABLE 2**CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES****MARKETABLE SECURITIES HELD****DECEMBER 31, 2018****(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Held Company Name	Type and Name of Marketable Securities	Relationship with The Company	Financial Statement Account	DECEMBER 31, 2018				Note
				Shares/Units	Carrying Value	Percentage of Ownership (%)	Fair Value	
Chung Hung Steel Corporation	Common Stock Yieh United Steel Corp.	Parent company	Financial assets at fair value through profit or loss - current	39,707,800	\$ 217,281	2	\$ 217,281	Note1
	Shouh Hwang Enterprise Co., Ltd.		Financial assets at fair value through profit or loss - current	730,000	-	15	-	Note2
					<u>\$ 217,281</u>		<u>\$ 217,281</u>	
	Common Stock China Steel Corporation		Financial assets at fair value through other comprehensive income - current	33,109,239	<u>\$ 802,899</u>	-	<u>\$ 802,899</u>	
	Common Stock Risalink Venture Capital Corp.		Financial assets at fair value through other comprehensive income - noncurrent	657,936	\$ 7,764	3	\$ 7,764	2018.11.30 net value
	Taiwan Ves-Power Co., Ltd.		Financial assets at fair value through other comprehensive income - noncurrent	958,333	37,662	2	37,662	2018.11.30 net value
	Pacific Harbour Stevedoring Corp.		Financial assets at fair value through other comprehensive income - noncurrent	250,000	5,793	5	5,793	2018.08.31 net value
					<u>\$ 51,219</u>		<u>\$ 51,219</u>	
Hung Kao Investment Corporation	Common Stock China Steel Corporation	The ultimate parent of the Company	Financial assets at fair value through other comprehensive income - noncurrent	1,003,980	<u>\$ 24,346</u>	-	<u>\$ 24,346</u>	

Note 1: The fair value of emerging stock was based on the closing price adjusted for liquidity risk premium.

Note 2: The impairment loss has been recognized that resulted in zero book value.

TABLE 3

CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

**TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Buyer	Related Party	Relationship	Relationship				Abnormal Transaction		Notes/Accounts Receivable (Payable)		Note
			Purchase/Sale	Amount	% of Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
Chung Hung Steel Corporation	CSC Steel Sdn. Bhd.	Fellow subsidiary	Revenue from sale of goods	\$ (1,662,350)	(3)	T/T within 7 business days after lading date(not included)	Note1	Note1	\$ 121,361	11	
	China Steel Corporation	Parent company	Service revenue	(349,717)	(1)	T/T as the end of the month of when invoice is issued after final acceptance	NO THIRD-PARTY COULD BE COMPARED	NO THIRD-PARTY COULD BE COMPARED	36,256	3	
	Dragon Steel Corporation	Fellow subsidiary	Purchase of goods	10,349,774	25	Letter of credit at sight/Payment after final acceptance	Note1	Note1	-	-	
	China Steel Global Trading Corporation	Fellow subsidiary	Purchase of goods	416,442	1	Letter of credit at sight/Payment after final acceptance	Note1	Note1	-	-	
	China Steel Corporation	Parent company	Purchase of goods	25,257,677	61	Letter of credit at sight/Payment after final acceptance	Note1	Note1	(582,549)	(91)	
	Formosa Ha Tinh Steel Corporation	Other related parties	Purchase of goods	1,584,678	4	Letter of credit at sight/Payment after final acceptance	Note1	Note1	-	-	
Hung Li Steel Corporation (Note2)	China Steel Corporation	The ultimate parent of the Company	Service revenue	(244,292)	(39)	T/T as the end of the month of when invoice is issued	NO THIRD-PARTY COULD BE COMPARED	NO THIRD-PARTY COULD BE COMPARED	-	-	
	Chung Hung Steel Corporation	Parent company	Service revenue	(157,170)	(25)	T/T within a week after final acceptance/T/T as the end of the month of when invoice is issued	NO THIRD-PARTY COULD BE COMPARED	NO THIRD-PARTY COULD BE COMPARED	-	-	

Note 1: Refer to Note 30.

Note 2: Hung Li Steel Corporation was merged with the Corporation on June 1, 2018.

TABLE 4

CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

[illegible]

Note 1: Discount receivable (included in other receivables).

Note 2: Accounts receivable.

Note 3: At the report date, amounts were received.

TABLE 5

CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

**INFORMATION ON INVESTEEES
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Number of Shares	%	Carrying Amount	Net Income (Loss) of the Investee	Share of Profit (Loss)	Note
				December 31, 2018	December 31, 2017						
Chung Hung Steel Corporation	Hung Kao Investment Corporation	Republic of China	General investment	\$ 26,000	\$ 26,000	2,600,000	100.00	\$ 30,427	\$ 3,143	\$ 3,143	Subsidiaries (Note)
Chung Hung Steel Corporation	Taiwan Steel Corporation	Republic of China	Iron and steel industry chain industry	1,000	1,000	100,000	100.00	933	(6)	(6)	Subsidiaries (Note)
Chung Hung Steel Corporation	Transglory Investment Corporation	Republic of China	General investment	2,001,152	2,001,152	289,620,871	40.91	2,462,217	217,245	88,875	Associates

Note: Amount was eliminated in the consolidated financial statements.

VI. Effects of financial difficulties experienced by the company and its affiliated companies on the Company's financial status: None.

Chapter 7 Financial Position and Financial Performance Review Analysis and Risk Matters

I. Financial status

1. Comparative analysis of financial status - International Financial Reporting Standards (consolidated)

Unit: NT\$1000

Item \ Year	2018	2017	Difference	
			Amount	%
Current assets	11,663,757	8,853,782	2,809,975	31.74
Property, plant and equipment	13,249,030	14,031,648	(782,618)	(5.58)
Other assets	8,508,126	8,491,421	16,705	0.20
Total assets	33,420,913	31,376,851	2,044,062	6.51
Current liabilities	12,430,048	10,619,202	1,810,846	17.05
Long-term liabilities	6,227,619	8,831,990	(2,604,371)	(29.49)
Total liabilities	18,657,667	19,451,192	(793,525)	(4.08)
Capital stock	14,355,444	14,355,444	0	0.00
Capital reserve	903	903	0	0.00
Retained earnings (Accumulated losses)	904,506	(2,083,776)	2,988,282	143.41
Other equity	(497,607)	(346,912)	(150,695)	(43.44)
Net shareholder equity	14,763,246	11,925,659	2,837,587	23.79
Explanation (change of 20% or more and over NT\$10,000): 1.The increase of NT\$2,809,975 thousand in current assets was primarily caused by an increase in inventory compared to 2017. 2.The decrease of NT\$2,604,371 thousand in long-term liabilities was primarily caused by a decrease in long-term bills issued compared to 2017 and repayment of syndicated loans to the bank consortium. 3.Retained earnings increased by NT\$2,988,282 thousand and shareholder equity rose by NT\$2,837,587 thousand compared to 2017 mainly due to high-price fluctuations in the global steel market that caused prices to remain at high prices and increased margins, thus generating net profit. 4.Other equity decreased by NT\$150,695 thousand mainly due to an increase in share of the other comprehensive losses of associates this year compared to 2017.				

2. Comparative analysis of financial status - International Financial Reporting Standards (individual)

Unit: NT\$1000

Item \ Year	2018	2017 (Note)	Difference	
			Amount	%
Current assets	11,654,994	8,847,559	2,807,435	31.73
Property, plant and equipment	13,249,030	14,031,648	(782,618)	(5.58)
Other assets	8,515,140	8,496,333	18,807	0.22
Total assets	33,419,164	31,375,540	2,043,624	6.51
Current liabilities	12,428,299	10,617,891	1,810,408	17.05
Long-term liabilities	6,227,619	8,831,990	(2,604,371)	(29.49)
Total liabilities	18,655,918	19,449,881	(793,963)	(4.08)
Capital stock	14,355,444	14,355,444	0	0.00
Capital reserve	903	903	0	0.00
Retained earnings (Accumulated losses)	904,506	(2,083,776)	2,988,282	143.41
Other equity	(497,607)	(346,912)	(150,695)	(43.44)
Net shareholder equity	14,763,246	11,925,659	2,837,587	23.79

Explanation (change of 20% or more and over NT\$10,000):

1. The increase of NT\$2,807,435 thousand in current assets was primarily caused by an increase in inventory compared to 2017.
2. The decrease of NT\$2,604,371 thousand in long-term liabilities was primarily caused by a decrease in long-term bills issued compared to 2017 and repayment of syndicated loans to the bank consortium.
3. Retained earnings increased by NT\$2,988,282 thousand and shareholder equity rose by NT\$2,837,587 thousand mainly due to high-price fluctuations in the global steel market that caused prices to remain at high prices and increased margins, thus generating net profit.
4. Other equity decreased by NT\$150,695 thousand mainly due to an increase in share of the other comprehensive losses of subsidiaries and associates this year compared to 2017.

Note: Based on the recompiled Financial Report.

II. Financial performance

(I) Comparative Analysis of Operational Performance

1. Comparative analysis of financial performance - International Financial Reporting Standards (consolidated)

Unit: NT\$1000

	2018	2017	Increase (decrease) amount	Percentage of change (%)
Net operating income	48,238,885	40,792,444	7,446,441	18.25
Operating costs	43,853,999	36,903,341	6,950,658	18.83
Gross profit	4,384,886	3,889,103	495,783	12.75
Operating expenses	1,509,109	1,315,363	193,746	14.73
Operating profit	2,875,777	2,573,740	302,037	11.74
Non-operating income (expenses)	158,071	32,563	125,508	385.43
Pre-tax profit	3,033,848	2,606,303	427,545	16.40
Income tax expenses	625	30	595	1983.33
Net income for the year	3,033,223	2,606,273	426,950	16.38
Other comprehensive income	(195,636)	(90,428)	(105,208)	(116.34)
Total comprehensive income	2,837,587	2,515,845	321,742	12.79
Analysis description for items with increase and decrease ratio (changes of over 20%): 1.Non-operating income increased by NT\$125,508 thousand from the previous year mainly due to an increase in net profit in foreign currency exchange in this period and reduction in interest expenses from the previous year. 2.Income tax expenses increased by NT\$595 thousand from the previous year mainly due to increase in income tax for subsidiaries in the current year. 3.Other comprehensive income (loss) decreased by NT\$105,208 thousand from the previous year mainly due to an increase in share of the other comprehensive losses of associates this year compared to 2017.				

2. Comparative analysis of financial performance - International Financial Reporting Standards (individual)

Unit: NT\$1000

	2018	2017 (Note)	Increase (decrease) amount	Percentage of change (%)
Net operating income	48,233,721	40,788,590	7,445,131	18.25
Operating costs	43,853,999	36,903,341	6,950,658	18.83
Gross profit	4,379,722	3,885,249	494,473	12.73
Operating expenses	1,507,824	1,313,943	193,881	14.76
Operating profit	2,871,898	2,571,306	300,592	11.69
Non-operating income (expenses)	161,325	34,822	126,503	363.28
Pre-tax profit	3,033,223	2,606,128	427,095	16.39
Income tax expenses (benefits)	-	(145)	145	(100.00)
Net income for the year	3,033,223	2,606,273	426,950	16.38
Other comprehensive income	(195,636)	(90,428)	(105,208)	(116.34)
Total comprehensive income	2,837,587	2,515,845	321,742	12.79
Analysis description for items with increase and decrease ratio (changes of over 20%):				
1. Non-operating income increased by NT\$126,503 thousand from the previous year mainly due to an increase in net profit in foreign currency exchange in this period and reduction in interest expenses from the previous year.				
2. Income tax benefits decreased by NT\$145 thousand from the previous year mainly due to changes in deferred income tax liabilities.				
3. Other comprehensive income (loss) decreased by NT\$105,208 thousand from the previous year mainly due to an increase in share of the other comprehensive losses of subsidiaries and associates this year compared to 2017.				

Note: Based on the recompiled Financial Report.

(II) The expected sales and its basis, and the possible impact on the company's future financial operations and response plans are detailed in page 9 of the Annual Report.

III. Cash flow

1. Analysis on the cash flow changes of the current year - International Financial Reporting Standards (consolidated):

Cash and cash equivalents decreased by NT\$17,874 thousand in 2018 and cash flows changed as follows:

- (1) Operating activities: The net cash inflow of NT\$704,789 thousand was mainly due to the pre-tax profit of NT\$3,033,848 thousand plus depreciation of NT\$1,181,132 thousand minus the increase in inventory of NT\$3,638,397 thousand, and other reasons.
- (2) Investing activities: Net cash outflow of NT\$159,868 thousand was mainly due to the fixed asset purchases of NT\$412,440 thousand and a NT\$199,488 thousand decrease in other financial assets.
- (3) Financing activities: Net cash outflow of NT\$ 562,795 thousand was mainly due to the reduction in repayment of short-term loans of NT\$1,083,042 thousand, repayment of NT\$400,000 thousand for long-term loans, reduction of NT\$1,469,504 thousand in payable long-term bills, and net increase of NT\$2,529,104 thousand in the distribution of short-term bills, and other reasons.

Cash flow analysis for the following year:

Unit: NT\$1000

Cash balance at beginning of the period	Estimated annual net cash flow from operating activities	Expected annual cash outflow	Estimated cash surplus (shortage) amount	Estimated remedial measures for cash deficit	
				Investment plan	Financial plan
200,081	4,316,410	4,276,972	239,519	N/A	N/A
1. Analysis of estimated cash flow changes in the 2019 fiscal year Net cash flows from operating activities: Cash inflow is mainly from operating activities and changes in accounts receivable and inventory. Cash outflow: Cash outflow is mainly caused by procurement of fixed assets in investing activities and a decrease in long-term and short-term loans in financing activities. 2. Expected cash deficit remedies and liquidity analysis: Not applicable.					

2. Analysis on the cash flow changes of the current year - International Financial Reporting Standards (individual):

Cash and cash equivalents decreased by NT\$19,113 thousand in 2018 and cash flows changed as follows:

(1) Operating activities: The net cash inflow of NT\$703,401 thousand was mainly due to the pre-tax profit of NT\$3,033,223 thousand plus depreciation of NT\$1,181,132 thousand minus the increase in inventory of NT\$3,638,397 thousand, and other reasons.

(2) Investing activities: Net cash outflow of NT\$159,719 thousand was mainly due to the fixed asset purchases of NT\$412,440 thousand and a NT\$199,488 thousand decrease in other financial assets.

(3) Financing activities: Net cash outflow of NT\$ 562,795 thousand was mainly due to the repayment of short-term loans of NT\$1,083,042 thousand, repayment of NT\$400,000 thousand for long-term loans, reduction of NT\$1,469,504 thousand in payable long-term bills, and net increase of NT\$2,529,104 thousand in the distribution of short-term bills, and other reasons.

Cash flow analysis for the following year:

Unit: NT\$1000

Cash balance at beginning of the period	Estimated annual net cash flow from operating activities	Expected annual cash outflow	Estimated cash surplus (shortage) amount	Estimated remedial measures for cash deficit	
				Investment plan	Financial plan
195,675	4,316,410	4,276,972	235,113	N/A	N/A
1. Analysis of estimated cash flow changes in the 2019 fiscal year Net cash flows from operating activities: Cash inflow is mainly from operating activities and changes in accounts receivable and inventory. Cash outflow: Cash outflow is mainly caused by procurement of fixed assets in investing activities and a decrease in long-term and short-term loans in financing activities. 2. Expected cash deficit remedies and liquidity analysis: Not applicable.					

IV. Effect of major capital spending on financial position and business operation in the most recent year: None.

V. Investment policy in the past year, profit/loss analysis, improvement plan, and investment plan for the coming year:

Name of investee	Investment amount as of the end of 2018	Policy	Main reasons for profit or loss	Improvement plan	Other investment plan in the future
Hung Kao Investment Corporation	NT\$26 million	Investment	The main source of income in 2018 was remuneration for Directors and Supervisors of China	None	None

			Steel and income from cash dividends for investment in China Steel.		
Transglory Investment Corporation	NT\$2,001 million	Investment	Recognized as profits from dividends from China Steel from investments.	None	None
Taiwan Steel Corporation	NT\$1 million	Investment	The net loss after tax in 2018 was NT\$6,000. There is no source of operating income. The main expenses were fees for changing the registration.	None	None

VI. Risk issues and analysis evaluation

(I) Impacts of interest rates, exchange rate fluctuation and inflation situation on the company's profit and loss, and the future countermeasures:

1. Impact on the Company's income:

(1) Interest rate change

The Group's main financial instruments of the include accounts receivable, equity investment, other financial assets, accounts payable, short-term borrowings, short-term notes and bills payable, long-term borrowing (including long-term borrowing that mature within one year), and long-term notes and bills payable. The finance management department of the Group provides services to business units and coordinates operations in the domestic and overseas financial markets. It establishes diverse financing channels and obtains favorable loan interest rates. It also adjusts the loan structure based on trends in interest rates. The financial assets and financial liabilities with cash flow interest rate risks as of the end of 2018 were NT\$499,231 thousand and NT\$11,231,773 thousand. If the interest rate increases by 1% while all other variables remain unchanged, the Company's net profit before tax in 2018 will decrease by NT\$107,325 thousand.

(2) Exchange rate variation

The Group conducts sales and purchases in foreign currencies and therefore the Group is exposed to risks in exchange rate variation. The management of the Company's exchange rate risk exposure involves the use of accounts receivable and payable of the same currency to alleviate exchange rate risks. When the NTD increase 1% in value against the USD, it generates a NT\$7,660 loss for the Company.

(3) Inflation

According to the statistics of the Directorate-General of Budget, Accounting, and Statistics of the Executive Yuan, the annual growth rate of the Consumer Price Index

(CPI) in Taiwan as of December 2018 decreased by 0.05% and the annual average increase was 1.36%. Therefore, inflation does not have a significant impact on the Company's income.

2. Future response measures:

(1) Short-term funds are controlled and managed by overdraft accounts and the Company borrows funds or repays loans based on funding conditions to lower the cost of loans as a priority. Demand for capital expenditures and long-term investment are mostly met with medium to long-term funding.

(2) The finance units maintain close control over interest rates and exchange rate variation and takes response measures (for both NTD and USD). Capital expenditures of more than US\$2 million in a single transaction shall be immediately hedged upon the signing of the contract to adopt pre-purchase or pre-sales methods during interest rate fluctuations. With regard to the impact of inflation, the Company pays close attention to changes in related economic environments and changes in market conditions. The Company also upholds the spirit of financial prudence and continues to advance various plans to lower costs.

(II) Policies of engaging in high-risk, high-leverage investments, lending to others, providing endorsement and guarantee, and derivatives transactions, profit/loss analysis, and future response measures:

1. The Company has not conducted any high-risk or high-leverage investments.
2. The Company's loans to others are processed in accordance with the "Operating Procedures for Fund Lending".
3. The Company's endorsements and guarantees are processed in accordance with the "Procedures for Endorsements and Guarantees".
4. The Company's policies for transactions of derivative products are processed in accordance with the "Asset Acquisition or Disposal Procedures".

(III) Future R&D projects and estimated expenditures for equipment improvement:

1. Annual R&D and equipment improvement expenses in the most recent years:

Unit: NT\$1000

Year Item	2016	2017	2018
R&D and equipment improvement expenses	182,835	204,977	252,100

2. The R&D and equipment improvement projects in 2019 are as follows:

(1) Hot rolling - development of S55C low-temperature rolled fineblanking products.

- (2) Hot rolling - No. 2 furnace boiler tube and skid replacement project.
- (3) Hot rolling - No. 3 grinder revamping project.
- (4) Hot rolling - replacement of the 400hp screw air compressor for joint use.
- (5) Hot rolling - optimization of the heating furnace PDA inspection system.
- (6) Hot rolling - public water pollution prevention improvement project.
- (7) Hot rolling - F3 AGC server system improvement project.
- (8) Cold rolling - EN10139 DC01 C490 product development.
- (9) Cold rolling - development of high-grade fineblanking materials for gears.
- (10) Pickling and galvanizing - automatic surface inspection system (ASIS) added to the pickling production line.
- (11) Pickling and galvanizing - Update of electricity monitoring control system.
- (12) Pickling and galvanizing - KATHABAR conversion to the K7 and K8 steel coil storage areas.
- (13) Pickling and galvanizing - TPM conversion project (Phase 1).
- (14) Steel pipes - establish #4 pipe production line performance simulation technology.
- (15) Steel pipes - CH300YU3 steel pipe development (for J55 upgradable).

In response to the rise of steel mills in China and other competition, Chung Hung shall remain committed to improving product quality and refining manufacturing control technologies. It shall face the challenge of developing niche high-grade products to improve added value of products and separate the market. To strengthen overall competitiveness, the Company shall continue to accelerate the update and improvement of production equipment and it shall also actively work with the parent company (China Steel) to establish production, equipment, project improvement, and other technical assistance channels to strengthen the technical roots of the Company and enhance the Company's overall competitiveness.

3. Expected expenditures for R&D and equipment improvement plans in 2019:

The total is approximately NT\$204,716 thousand.

4. Current progress of uncompleted R&D projects in 2018:

The uncompleted projects are as follows. The average progress is approximately 32% and they shall be continued in 2019.

- (1) Hot rolling - high quality PO materials.
- (2) Hot rolling - improvement of the SPM Pressure Roll.
- (3) Hot rolling - No. 2 furnace boiler tube and skid replacement project.
- (4) Hot rolling - No. 2 grinder revamping project.
- (5) Hot rolling - automatic surface inspection system (ASIS) added to the skin pass mill

production line.

- (6) Hot rolling - D/C width meter replacement project.
- (7) Cold rolling - establishment of the BA SDCQ2 machinery adjustment and carbide control technology.
- (8) Cold rolling - development of J4B 0.254mm×900mm products.
- (9) Cold-rolling - dismantling of the chock (bearing housing) of the work rolls.
- (10) Cold-rolling - update of the electrical control equipment of the Cold Rolling Department's first cold rolling process.
- (11) Cold-rolling - replacement of the thickness sensor on the tension leveler.
- (12) Cold-rolling - refurbishment of the 10-ton boiler system.
- (13) Pickling and galvanizing - update of electrical control equipment of the pickling line.
- (14) Pickling and galvanizing - air compressor replacement project.
- (15) Pickling and galvanizing - five-station groundwater recycling and reuse project.
- (16) Pickling and galvanizing - phase 2 of the electrical control system improvement project for the cranes.
- (17) Steel pipes - establish heat treatment simulation and test capabilities.
- (18) Steel pipes - API 5L X70M PSL2 steel pipe development with a diameter of 16" and above.
- (19) Steel pipes - replacement of the medium-frequency equipment in the No. 2 steel pipe process.

5. Expected R&D and equipment improvement expenses for R&D projects not completed in 2018: The total is approximately NT\$364,405 thousand.

6. Major factors that influence the success of R&D in the future:

They include conditions of cooperation onsite, project control, and coordination and support.

(IV) Major changes in government policies and laws at home and abroad and the impact on Company finance and business and response measures:

There have been important policies and legislation enacted and amended in Taiwan and in foreign countries in recent years and they mainly impact business operations in terms corporate governance and environmental protection. As a member of the China Steel Corporation Group, Chung Hung Steel upholds the business philosophy of “integrity, growth, excellence, and responsibility” and aims to become a steel company with “sustainable development, trustworthiness, and committed to business transactions” by adopting a steadfast and flexible business strategy. The Company shall abide by changes in important policies and laws and seek ways to respond to such changes. The changes will not have negative impacts on the Company’s operations.

- (V) The impacts of technology changes and industry changes on the Company's finance and business, and the countermeasures:

The Company operates in the traditional steel manufacturing industry with few industrial changes. Recent technology advancements have led to a shift in the steel industry toward lighter, thinner, shorter, smaller, and more refined products and the Company is also committed to the development of high added-value products and process improvements as it adjusts its product portfolio to enhance competitiveness. The technology changes are not expected to cause great impact on financial performance.

- (VI) Impact of corporate image change on crisis management and response measures: As a member of the China Steel Corporation Group, Chung Hung upholds one of the four major business philosophies of the Group "Promote social welfare". In addition to diligent business operations to achieve earnings, the Company also actively gives back to society. Since 2004, the Company has continuously sponsored the municipal government's Poverty Eradication Programs and it has sponsored the "Greater Kaohsiung Lifeline Association" Suicide Prevention Program for 14 years. Chung Hung spares no effort in fulfilling corporate social responsibilities. The Company shall continue to make improvements in all areas and make contributions to the creation of a better society.

- (VII) The expected benefits and possible risks to engage in mergers and acquisitions (M&A) and the countermeasures:

The Company's 13th Board of Directors approved the merger of the wholly owned subsidiary Hung Li Steel Corporation during its 17th meeting on November 2, 2017 and adopted the merging model in accordance with the Business Mergers and Acquisitions Act and related regulations. The Company became the surviving company after the merger and Hung Li became the dissolved company. The merger was completed on schedule on June 1, 2018.

1. Benefits: Inter-company communication became communication between internal units. The same institutions and management systems facilitated quick integration and enhanced management performance. The Company completed ERP system integration to simplify procedures, improve efficiency, and save costs.
2. Risk management measures: The Company shall continue to monitor the development of personnel and management efficiency after the merger.

- (VIII) Expected benefits and potential risks of capacity expansion and response measures: The Company's capacity expansion has been subjected to comprehensive, careful, and professional assessments. Major investment projects must be reported to the Board of Directors and the Company has fully considered the benefits of investment and potential risks.

- (IX) Risks associated with over-concentration in purchase or sale and response measures: The Company's main materials are imported. The Company signed a long-term slab supply agreement with Sumitomo Metal Industries through China Steel Corporation in May 2003 which greatly assists the Company's acquisition of materials with stable quantity and quality at reasonable prices. In addition, the Company maintains long-term stable cooperation with customers and provides high-quality products and optimal technical services to establish close interactions and relations. The Company also actively develops niche markets to increase the ratio of exports and increase customers' dependency on the Company.
- (X) Impacts and risks arising from major exchange or transfer of shares by directors or shareholders with over 10 percent of stake in the company and the countermeasures: No such occurrences as of the publication date of the Annual Report.
- (XI) Impact, risk, and response measures related to any change in the administrative authority towards the Company's operations: No such occurrences as of the publication date of the Annual Report.
- (XII) In terms of litigation or non-litigation matters, the company and the company's directors, supervisors, president, actual responsible person, shareholders holding more than 10% of the company shares, and a subsidiary company who is involved in a major lawsuit that has either been decided or is still pending whereby the results of the case may have a significant impact to shareholder interests or securities prices, must be specified. The status of the disputed facts, bid amount, litigation commencement date, and the primary parties involved in such litigations up to the publication date of this annual report shall be disclosed: No such occurrences as of the publication date of the Annual Report.
- (XIII) Risk management framework: The main scope of risk management includes system and incident risks, market risks, credit risks, market fluidity risks, and capital liquidity risks. The Company's various risk management are tasked to each business unit or task-based organizations for management. For instance, business units are responsible for market risks and evaluation and management of customers' credit risks; finance units are responsible for the evaluation and management of fund liquidity risks; the exchange rate evaluation team is responsible for risk assessments of foreign-currency assets and liabilities exchange rate variations. The units implement professional and objective risk monitoring duties and bridge communications between the senior management with decision-making powers and each business unit to achieve optimal profitability after implementing risk adjustments. Please refer to page 19 of the Annual Report for the structure of business units of the Company.
- (XIV) Other significant risks and response measures: Description of the information security risk analysis

Risk Category	Potential risks	Response management measures
Information security Risks	Regulatory risks	1.Establish personal computer asset management system to collect software installation information and implement user access management. Abide by software copyright verification and reduce the risks of infringement of related intellectual property right legislation.
	Data security	2.Establish data maintenance mechanisms for the online database of the ERP system and establish a database of past records to store data offline to reduce the risks system performance deterioration or service interruption. 3.Conduct regular data backup to ensure data security and conduct one simulated data recovery at least once every year to verify the effectiveness of data and backup procedures.
	Hacking incidents and virus infection	4.Continue to use network firewall and hacking prevention equipment to prevent hacker attacks and install anti-virus software in the Windows computer system for regular updates to prevent the infection and spread of viruses. 5.Use various channels to conduct information security education and email phishing tests to strengthen employee awareness and jointly build a line of defense for information security. 6.Establish the e-commerce (EC) website in the demilitarized zone (DMZ) in the firewall to ensure customer's purchase orders and related sales queries are isolated from internal networks to prevent unauthorized access. 7.Strengthen USB disk management. Usage shall require the approval of a supervisor ranked Vice President or above and the employees shall provide regular USB disk access records to the supervisors to verify whether there are confidentiality concerns. 8.Establish a virtual private network (VPN) for emergency connection for external personnel and retain related communication records for verification and follow-up.
	Access control	9.Implement access control and automatic surveillance in the server rooms to ensure continuous operations of computer equipment under a normal environment. Require registration and explanation of the reasons for access to the server rooms and allow access only with the approval of the supervisor.

VII. Other critical matters: None

Chapter 8 Special Notes

I. Profile on affiliates

(I) Consolidated business report of affiliates: Refer to Attachment 1.

(II) Affiliation report: Refer to Attachment 2.

(III) Consolidated Financial Statement of Affiliates: Please refer to pages 180 to 253.

(IV) Endorsement and guarantee with regard to affiliated enterprises: None.

(V) Loans related to affiliated enterprises: None.

(VI) Affiliated enterprises that conduct transactions in derivative products:

1. Chung Hung Steel:

The Company signed a JPY 180 million forward foreign exchange contract with Mega International Commercial Bank in 2018 and completed transactions in 2018. It recognized realized gain of NT\$719 thousand.

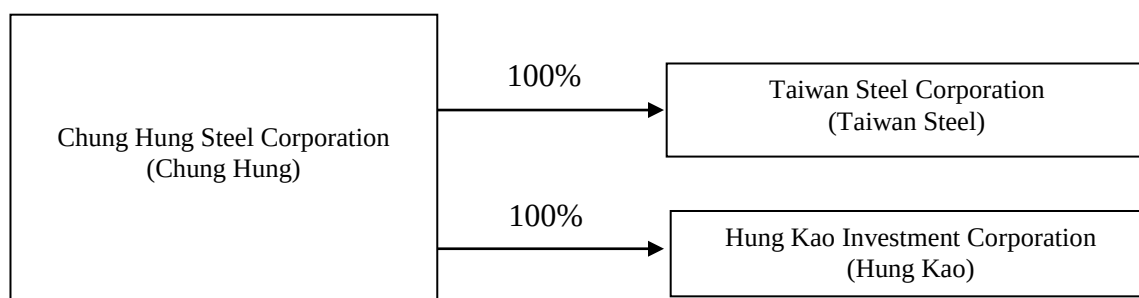
II. Status of private solicitation for marketable securities handling in the past year and up to the publication date of this annual report: None.

III. Holding or disposal of stocks of the Company by subsidiaries in the past year and up to the publication date of this annual report: None.

IV. Other necessary supplemental information: No

Chapter 9 Corporate events with material impact on shareholders' equity or stock prices set forth in Subparagraph 2, Paragraph 2, Article 36 of Securities Exchange Act in the past year and up to the publication date of this annual report: None.

Chung Hung Steel Corporation
Consolidated Business Reports form the
Affiliated Enterprises, 2018

I. Profiles and status of affiliated enterprises:**(I) Organization chart for the affiliated enterprises****(II) Basic information of the affiliated enterprises**

Unit: NT\$1000

Company name	Date of establishment	Address	Paid-in capital	Principal business or core products
Chung Hung	1983.9.29	No. 317, Yuliao Road, Ciaotou Dist., Kaohsiung City	14,355,444	Manufacturing and sales of hot-rolled steel coils, cold-rolled steel coils, steel pipes, etc.
Taiwan Steel	1993.9.16	No. 296-2, Yuliao Road, Ciaotou Dist., Kaohsiung City	1,000	Agency for other products
Hung Kao	2006.9.26	28F, No. 88, Chenggong 2nd Rd., Qianzhen Dist., Kaohsiung City	26,000	General investment

(III) Companies presumed as having control and subordinate relationships in accordance with Article 369-3 of the Company Act: None.

(IV) Businesses included in the affiliated enterprises' overall operations are as follows:

Company name	Industry
Chung Hung	Steel and Iron Industry
Taiwan Steel	Steel and Iron Industry
Hung Kao	Investment

(V) Information on directors, supervisors, and general managers of affiliated enterprises

Unit: shares; %

Company name	Title	Name or representative	Shares held		Remarks
			Number of Shares	Shareholding %	
Chung Hung	Chairman of the Board	I-Chung Han	582,673,153	40.59	Representative of China Steel Corporation
	Director	Chao-Tung Wong	582,673,153	40.59	Representative of China Steel Corporation
	Director	Tsung-Chang Lee	582,673,153	40.59	Representative of China Steel Corporation
	Director	Min-Hsiung Liu	582,673,153	40.59	Representative of China Steel Corporation
	Independent Director	Juh-Shan Chiou	0	0	
	Independent Director	Hsien-Tang Tsai	0	0	
	Independent Director	Lin-Lin Lee	0	0	
	President	Tsung-Chang Lee	0	0	
Taiwan Steel	Chairman of the Board	Tsung-Chang Lee	100,000	100.00	Representative of Chung Hung Steel Corporation
	President	Chia-Wen Luo	0	0	
Hung Kao	Chairman of the Board	Chia-Wen Luo	2,600,000	100.00	Representative of Chung Hung Steel Corporation
	President	Pei-Yu Lee	0	0	

Note 1: The shareholding information is from the end of 2018 and it does not include retained decision-making trust shares.

Note 2: The status of representatives was as of March 31, 2019.

II. Status of operations of affiliated enterprises

(Except for the EPS which is in NTD)

Unit: NT\$1000

Company name	Paid-in capital	Total value of assets	Total liabilities	Net Value	Operating revenue	Operating profit (loss)	Income (loss) for the current year (after tax)	Basic earnings per share (after tax)
Chung Hung	14,355,444	33,419,164	18,655,918	14,763,246	48,233,721	2,871,898	3,033,223	2.11
Taiwan Steel	1,000	933	0	933	0	-7	-6	-0.06
Hung Kao	26,000	32,177	1,750	30,427	5,164	3,766	3,143	1.21

Affiliation Report Statement

The company's 2018 affiliation report is formulated based on the "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises," and there are no major discrepancies between the information disclosed and the related information disclosed in the notes of the financial report for the aforementioned period.

It is hereby declared

Chung Hung Steel Corporation

Legal representative: Yi-Chung Han

March 31, 2019

Attachment 2

Chung Hung Steel Corporation**Affiliation Report, 2018****I. Relationship status between the controlling and subsidiary companies**

Unit: shares; %

Name of controlling company	Reason for control	Status of the controlling company's share ownership and pledge			Status of director, supervisor, or manager designation by the controlling company (Note 2)	
		Total number of shares held	Total shareholding percentage %	Number of shares pledged	Title	Name
China Steel Corporation (China Steel)	Note 1	582,673,153	40.59	0	Chairman of the Board	Yi-Chung Han (Representative of China Steel Corporation)
					Director	Chao-Tung Wong (Representative of China Steel Corporation)
					Director	Tsung-Chang Lee (Representative of China Steel Corporation)
					Director	Min-Hsiung Liu (Representative of China Steel Corporation)

Note 1: China Steel Corporation holds 40.59% of shares of the Company and retains management control over the Company.

Note 2: The status of representatives was as of March 31, 2019.

II. Transaction status**(I) Procurement and sales status**

Unit: NT\$1000; %

Transaction status with controlling company				Transaction conditions with controlling company		Regular transaction terms		Cause of variation
Purchase (sales)	Amount	Ratio of total procurement (sales)	Sales margin	Unit price (NT\$1,000/ton)	Credit period	Unit price (NT\$1,000/ton)	Credit period	
Sales	531	—	—	—	Issuance of sight L/C	—	Cash advance received L/C	None
Procurement	25,257,677	61	—	—	Issuance of sight L/C	—	L/C	None

Unit: NT\$1000; %

Accounts receivable (payable) and notes		Overdue accounts receivable			Remarks
Balance	Ratio of total accounts receivable (payable) and notes	Amount	Processing method	Allowance for bad debts	
36,256	3	0	0	0	Note 1
(582,549)	(91)	0	0	0	Note 2

Note 1: Derived mainly from accounts receivable from income from labor (OEM contracts).

Note 2: Purchases from China Steel Corporation in 2018 consisted mainly of hot-rolled steel coils, slabs, and materials.

(II) Property transactions: None.

(III) Status of fund intermediation: None.

(IV) Status of asset leasing: The Company leased certain land to the parent company and the lease shall expire in December 2019. The income from lease is NT\$5,310 thousand.

(V) Other significant transactions: None

III. Endorsements and guarantees: None.

IV. Other matters with material impact on finance and business: China Steel Corporation signed a joint venture agreement with Sumitomo Metal Industries and Sumitomo Corporation in May 2003 and established East Asia United Steel in July of the same year. East Asia United Steel then invested in Wakayama Iron Works, Ltd. (a company spun off from Sumitomo Metal Industries). China Steel Corporation has thus obtained high quality and stable supplies of slabs through this joint venture. China Steel subsequently signed a slab licensing agreement with the Company to assign part of the purchasing rights of the slabs obtained from the aforementioned joint venture agreement to the Company. The Company pays royalties to China Steel in accordance with the agreement. The expenditures on royalties in 2018 totaled approximately NT\$106,775 thousand. The payable royalties as of the end of December 2018 totaled NT\$27,043 thousand. The procurement price of the aforementioned slabs is calculated based on the formula specified in the agreement.

Chung Hung Steel Corporation

Chairperson of the Board Yi-Chung Han

-  Head Office/Cold Rolling Department: No. 317, Yuliao Road, Ciaotou Dist., Kaohsiung City
-  Hot Rolling Department: No. 576, Xinglong St., Jiaxing, Gangshan Dist., Kaohsiung City
-  Pickling and Galvanizing Department: No. 24, Yanhai 3rd Rd., Xiaogang Dist., Kaohsiung City
-  Steel Pipe Plant (Dafa Plant): No. 18, Huazhong Rd., Dafa Industrial Park, Daliao Dist., Kaohsiung City
-  Steel Pipe Plant (Lukang Plant): No. 42, Lugong Rd., Neighborhood 18, Haipu Village, Lukang Township Changhua County