

Stock Code: 2014  
The Company's website  
<http://www.chsteel.com.tw>  
TWSE Market Observation Post System website:  
<http://mops.twse.com.tw/mops/web/index>

# 2019 Annual Report



Printed on March 31, 2020

**Notice to readers**

*This English-version annual report is a summary translation of the Chinese version and is not an official document of the shareholders' meeting. If there is any discrepancy between the English and Chinese versions, the Chinese version shall prevail.*

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

N/A

vi. Company website

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# Table of Contents

	Page No.
I. Letter to Shareholders	1
II. Company Profile	10
III. Corporate Governance Report	
i. Organization	21
ii. Profile of Directors, Independent Directors, and Managerial Officers	24
iii. Implementation of Corporate Governance	43
iv. Information on Fees to CPA	98
v. Information on Change of CPA	99
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	100
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	100
viii. Information on relationship between any of the top ten shareholders (related party, spouse, or kinship within the second degree)	102
ix. Total shareholding percentage	103
IV. Fundraising Conditions	
i. Capital and shareholding	103
ii. Issuance of corporate bonds	109
iii. Issuance of preferred stocks	110
iv. Issuance of global depositary receipts (GDR)	110
v. Issuance of employees' stock option certificate and new restricted employee shares	110
vi. Mergers, acquisitions or issuance of new shares for acquisition of shares of other companies	110
vii. Implementation status of the capital utilization plan	110
V. Business overview	
i. Business activities	111
ii. Market, production and sales	116
iii. Human resources	126
iv. Environmental protection expenditure information	126
v. Employer/employee relations	135

vi.	Important contracts	137
VI.	Financial Conditions	
i.	Condensed balance sheets, statements of comprehensive income, names of accountants, and audit opinions in the most recent five years	139
ii.	Financial analysis for the last 5 years	144
iii.	Audit Committee's Audit Report for the 2019 fiscal year	150
iv.	2019 financial statements	151
v.	2019 consolidated financial statements for parent and subsidiary companies	236
vi.	Effects of financial difficulties experienced by the company and its affiliated companies on the Company's financial status	304
VII.	Review, Analysis, and Risks of Financial Conditions and Performance	
i.	Financial conditions	304
ii.	Financial performance	306
iii.	Cash flow	308
iv.	Effect of major capital spending on financial position and business operation in the most recent year	309
v.	Investment policy in the past year, profit/loss analysis, improvement plan, and investment plan for the coming year	309
vi.	Risk issues and analysis evaluation	309
vii.	Other critical matters	316
VIII.	Special Notes	
i.	Profile on affiliates	316
ii.	Private Placement of Securities in the Most Recent Year up to the Publication Date of this Annual Report	316
iii.	Shares of the Company Held or Disposed of by Subsidiaries in the Most Recent Year up to the Publication Date of this Annual Report	316
iv.	Other necessary supplemental information	316
IX.	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 Most Recent Year up to the Publication Date of this Annual Report	316

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.

## **I. Letter to Shareholders**

Dear Shareholders,

The uncertainties caused by the trade war between the United States and China have slowed economic growth in major countries at varying rates. The accelerated decline of the Chinese economy, tensions between Japan and Korea, and expanded geopolitical risks have also caused decline in the domestic and international steel industry. Although the monetary easing policies adopted by developed economies such as the United States, Europe, and Japan help mitigate the impact of decreased economic growth in Asia, the uncertainties in global policies, trade protectionism, and slowed economic growth in major trading nations now affect investments in each region and growth in steel demand. Besides, the coronavirus outbreak is hitting the business around the world on a massive scale and makes the economy more volatile.

The short-term forecast published by the World Steel Association in October 2019 predicted that the steel demand will be 1.806 billion tons in 2020 with a 1.7% increase from 1.775 billion tons in 2019 which is lower than the 3.9% growth rate in 2019. The global economy continues to face political and economic uncertainties which affect its growth momentum even as the United States and China concluded the first phase of negotiations in mid-January. In Europe, the Brexit transition period will end on December 31, 2020 and the uncertainties brought forth by Brexit have begun to materialize as its impact on the economy of the United Kingdom and the European Union gradually appears. The military conflicts between the United States and Iran have directly contributed to fluctuations in crude oil prices. China began the year by announcing reserve requirement cuts which demonstrated the pressure of the immense local debts and corporate debts in China on the central government. With the spread of the epidemic, monetary easing policies will persist across the world this year. In conclusion, the real economy still faces immense challenges in 2020 and whether the epidemic, trade, and geopolitical disputes can be resolved remains undetermined. Steel demand estimates have become relatively conservative.

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 2019 and the 2020 business plan are provided as follows.

## **i. 2019 Business Report**

### **(i) Business Strategy**

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:

- ◎ 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
- ◎ Commit to environmental safety and health to fulfill social responsibilities

### **(ii) Implementation Overview**

1. The Company's consolidated operating revenue in 2019 was NT\$40.470 billion which was a decrease of approximately 16.11% from the operating revenue of NT\$48.239 billion in 2018. Consolidated operating costs and consolidated operating expenses totaled NT\$40.688 billion which was a 10.31% decrease from NT\$45.363 billion in 2018.
2. The following new products were developed in 2019: Development of cold-rolling J4B 0.254 mm×900 mm products, cold-rolling HCH1B 4.15/4.20/4.25 mm products, API 5CT K55 9" steel pipes, and API 5L X42/AS/NZS 1163 C350L0 14"×16.0 mm steel pipes.
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 2019 are as follows:
  - (1) Reduced the break-off rust on hot-rolled API steel pipe materials.
  - (2) Increased the flatness of pickled steel coils in the Pickling and Galvanizing Department.
4. The Company implements occupational safety systems such as ISO 45001 and CNS 45001 and it received the following honors from related agencies for its outstanding performance:
  - (1) The Dafa Steel Pipe Plant was recognized as an "Outstanding Unit in the

Advancement of Occupational Safety and Health Unit in Kaohsiung City in 2018" and received the "2018 Outstanding Occupational Safety and Health Unit" award from the Ministry of Labor, Executive Yuan on September 10, 2019.

- (2) The Section Chief Ming-Lung Sun of the Cold Rolling Department was recognized as an "Excellent Employee for Promoting Occupational Safety and Health in Kaohsiung City in 2018" and received the "2018 Excellent Employee for Promoting Occupational Safety and Health Award" from the Ministry of Labor, Executive Yuan on September 10, 2019.
  - (3) The Hot Rolling Department, Cold Rolling Department, and Dafa Steel Pipe Plant received the "Special Award" for safety and health performance in 2018 from Taiwan Steel & Iron Industries Association on November 5, 2019.
  - (4) The Cold Rolling Department received the "Health Management Award" for outstanding workplace health in 2019 from the Health Promotion Administration of the Ministry of Health and Welfare on December 12, 2019.
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 its outstanding performance as company responsible for air quality improvements in Kaohsiung Clean Air Quality Region in 2018 from the Environmental Protection Bureau of Kaohsiung City Government on March 8, 2019.
6. Certifications:
- (1) The Hot Rolling Department passed the product licensing exchange review in Thailand (TIS).
  - (2) The Pickling and Galvanizing Department passed "Steel and Iron Industry Radiation Personnel Detection Operations Certification".
  - (3) The Hot Rolling Department and Cold Rolling Department passed the product licensing exchange review in Malaysia (MS).
  - (4) The Hot Rolling Department passed the SIRIM certification (English version) exchange review in Malaysia.
  - (5) Lukang Steel Pipe Plant updated the API-5CT certificate.
  - (6) Dafa Steel Pipe Plant completed the renewal of the CNS Mark certificate.
  - (7) Passed ISO 45001: 2018 Management System certification.
  - (8) Passed CNS 45001: 2018 Management System certification.
  - (9) Passed ISO 50001: 2018 Management System certification.

(10) The Pickling and Galvanizing Department passed IATF 16949: 2016 certification.

(11) Passed ISO/IEC 17025: 2017 laboratory accreditation.

(12) Received the 2019 Sports Company Certification from the Sports Administration.

7. Awards received:

(1) Received recognition for 2018 Outstanding Green Procurement Enterprise Award in Kaohsiung city from the Environmental Protection Bureau of Kaohsiung City Government on June 5, 2019.

(2) Received the 2018 Award for International Trade (Best Trade Contribution Award) from the Bureau of Foreign Trade of the Ministry of Economic Affairs on October 23, 2019.

(3) Received the Corporate Sustainability Report Award and Top 50 Corporate Comprehensive Performance Award in the 2019 Taiwan Corporate Sustainability Awards on November 28, 2019.

**(iii) Business Plan Implementation Results**

1. Production plan implementation status;

Steel demand declined in 2019 due to the impact of the trade war between the United States and China. 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	2019 Output (10,000 tons)	2018 Output (10,000 tons)	Difference (10,000 tons)	Difference %
Hot-rolled products	209.11	225.25	-16.14	-7.17%
Cold-rolled products	26.28	39.98	-13.70	-34.27%
Steel pipe products	13.68	17.40	-3.72	-21.38%
Galvanized products	1.40	2.86	-1.46	-51.05%
Total	250.47	285.49	-35.02	-12.27%

2. Sales plan implementation status:

The demand for steel products in the global steel market in 2019 has declined due to the impact of the trade war between the United States and China which caused prices to continue to fall. The consolidated sales volume was 2.3044 million tons in 2019

which was a 7.05% decrease from 2018.

**(iv) Analysis of operating income/expenses and profitability**

The after-tax net profit was NT\$11 million in 2019. The operating revenue/expenses and profitability are as follows:

1. Revenue:

The consolidated operating revenue in 2019 was NT\$40.470 billion which was a decrease of approximately 16.11% from the operating revenue of NT\$48.239 billion in 2018.

2. Expenditures:

Consolidated operating costs and consolidated operating expenses totaled NT\$40.688 billion in 2019 which was a 10.31% decrease from NT\$45.363 billion in 2018.

3. Profitability:

The decrease in sales price in 2019 was greater than the decrease in costs and it decreased pre-tax profit by NT\$3.023 billion from 2018.

**(v) Research and Development**

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 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 quality improvement in 2019 were as follows:

1. Product development:

- (1) In terms of the development of cold rolling J4B 0.254 mm×900 mm products, we met customer demands by extending thickness downwards and expanding the scope of purchase orders to produce metal lead frames suitable for light-emitting diodes (LEDs).
- (2) In terms of the development of cold rolling HCH1B 4.15/4.20/4.25 mm products, we improved the DAVY rolling functionality and fully increased the original full hard plate thickness to more than 3.70 mm, making them suitable for hard drive voice coil motors.
- (3) In terms of the development of API 5CT K55 9" steel pipes, we responded to the state's green energy development policy and worked with domestic supply chains to develop a sleeve specifically for geothermal well drilling.
- (4) In terms of the development of API 5L X42/AS/NZS 1163 C350L0 14"×16.0 mm

steel pipes, we developed new markets in New Zealand and Australia to avoid the risks of excessive reliance on the American market. The maximum production thickness was increased from 12.7mm.

2. Product quality improvements:

- (1) Reduced the break-off rust on hot-rolled API steel pipe materials.
- (2) Reduced the occurrence of hot-rolled Tail Pinch.
- (3) Improved the achievement rate of crowning of fineblanking materials in hot rolling.
- (4) Improved the coiling form quality of hot-rolled steel coils.
- (5) Increased the cleanliness of the steel plate surface on the washing line in cold rolling.
- (6) Increased the flatness of pickled steel coils in the Pickling and Galvanizing Department.

3. Process research:

Improved the rust discrepancies in high-grade hot-rolled pickled steel coils.

4. Equipment technology establishment:

Improved the hot rolling skin pass mill for producing high-grade hot-rolled pickled steel coils, No. 2 furnace boiler tube and skid replacement project, cold-rolling annealing CQ2 mechanical adjustments and establishment of carbide control technologies, update of the cold-rolling tension leveler thickness meter, refurbishment of the 10-ton boiler system for cold-rolling, additional equipment monitoring and diagnosis system for the air compressor for cold-rolling, cold-rolling chock bearing housing dismantling device, Pickling and Galvanizing Department air compressor update, Pickling and Galvanizing Department cold-rolling groundwater recycling and reuse construction, phase 2 of the electrical control system improvement project for the cranes in the Pickling and Galvanizing Department, establishment of heat treatment simulation and test capabilities for the production of steel pipes, added No. 4 pipe rolling and straightening equipment construction project for Lukang Plant, and purchased steel forging simulation and analysis software for Lukang Plant.

## **ii. Summary of 2020 Business Plan**

### **(i) 2020 Business Strategy**

Chung Hung shall uphold the business strategy of "making full use of group resources and strengthening cost reduction; flexible production and sales for diversified development and sales expansion; accelerating full digitalization and promote smart production and sales; improving quality upgrade and enhance value-added products and niches; strengthening talent cultivation and improving knowledge passage; 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.

Faced with drastic changes in the global steel industry, Chung Hung will continue to "maintain stability in operating performance", "ensure supply of materials for slabs", and "optimize customer services and relations" to effectively consolidate Chung Hung's competitiveness and fully commit to enhancing customer services and relations, create positive cycles of mutual trust, and increase the demand of domestic users for purchasing materials from Chung Hung. In addition, as Chung Hung and China Steel Corporation are responsible for different products, we shall continue to cooperate with the Group's production and sales strategy and work closely with users to achieve better balance, make full use of complementary advantages of the Group, and create win-win for all.

### **(ii) Summary of 2020 Business Plan**

The Company's consolidated sales target for all products in 2019 was 2.3 million tons and actual sales volume amounted to 2.3044 million tons. The achievement rate was 100%. In terms of product sales volume, domestic sales accounted for 47.15% and exports accounted for 52.85%. In terms of product sales, hot-rolled products accounted for the largest share with 76.47% while cold-rolled products placed second with 12.44%. Steel pipes accounted for 6.03% and galvanized products accounted for 5.06%.

The World Steel Association predicts that global steel demand will increase by 1.7% from 1.775 billion tons in 2019 to 1.806 billion tons in 2020. The Company's consolidated sales target for all products this year (2020) is 2.1 million tons with 55.29% in domestic sales and 44.71% for exports. Hot-rolled products account for the largest share with 79.35% while cold-rolled products place second with 12.00%. Steel

pipe products account for 5.27% and galvanized products account for 3.38%. 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 decrease 3.0% in 2020 and it will reach 5.8% in 2021. The effects of large-scale monetary easing policies implemented by advanced economies (United States, Euro Zone, Japan, United Kingdom, and Canada) and emerging markets are expected to generate impact on the global economy in 2020. China and the United States reached the "phase 1" trade agreement (cancellation of previously implemented tariffs and suspension of new tariffs). These signs have, to a certain extent, reduced the global economic risks. However, the increase in geopolitical tension (especially between the United States and Iran) and exacerbated social issues must be closely monitored.

The Company shall uphold the marketing strategy of "stable domestic sales and flexible 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. We shall make full use of the high-quality slab materials from the China Steel Group or procurement of slab materials from external sources at appropriate times and appropriate quantities to actively increase purchase orders and the utilization rate of production lines. We shall also reduce the cost of materials and production to increase our price competitiveness.

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.

**Chairman of the Board: Min-Hsiung Liu**

**President: Kung-Ching Wu**

## II. 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 (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.
Mar. 1986	Commencement of the construction of Kaohsiung Plant.
Apr. 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.
Mar. 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.
Apr. 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.
Apr. 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.
Jul. 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.
Mar. 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.
Jun. 2004	The shareholders meeting passed the proposal for renaming the Company “Chung Hung Steel Corporation”.
Jul. 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.
- Jul. 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).
- Mar. 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.
- Jun. 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.)
- Jun. 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.
Apr. 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”.
Jun. 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, and 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.
Mar. 2012	The hot-rolled products and cold-rolled products received the JIS Mark certification in Japan (JIS G3131 SPHC, JIS G3101 SS400, and JIS G3141 SPCC/SPCD).
Jun. 2012	The Company received a Class A rating in the 2011 Information Disclosure Review conducted by the Securities & Futures Institute.
Sept. 2012	The hot-rolled products received the FPC certification in Singapore (JIS G3101 SS400, BS EN 0025-2 S275JR, BS EN 10025-2 S275JO, BS EN 10025-2 S235JR, and 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).
- Jun. 2013 The Company received a Class A rating in the 2012 Information Disclosure Review conducted by the Securities & Futures Institute.
- Jul. 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.
- Jul. 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 Passed ISO/IEC 17025: 2005 General requirements for the competence of testing and calibration laboratories and became a TAF-certified laboratory.
- Apr. 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.
Jun. 2014	The cold-rolled products received the MS certification in Malaysia (JIS G3141: 2011 SPCC 1B and MS ISO 3574: 2009(P)CR1).
Jun. 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.
Jul. 2014	The hot-rolled products/PO, cold-rolled products, and galvanized products received the VN certification in Vietnam.
Jul. 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 in 2013 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 new laboratory of Lukang Steel Pipe Plant passed ISO/IEC 17025: 2005 General requirements for the competence of testing and calibration

	laboratories and became a TAF-certified laboratory.
Apr. 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.
Apr. 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.
Jun. 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.
Apr. 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. Shun-Te Chiu 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. Shun-Te Chiu retired upon reaching retirement age and Mr. Yi-Chung Han took over as Chairman.
- Jun. 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".
- Jun. 2018 Official launch of the Company's new website in traditional Chinese and English.
- Jul. 2018 Lukang steel pipe plant passed ISO 50001 certification.
- Jul. 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

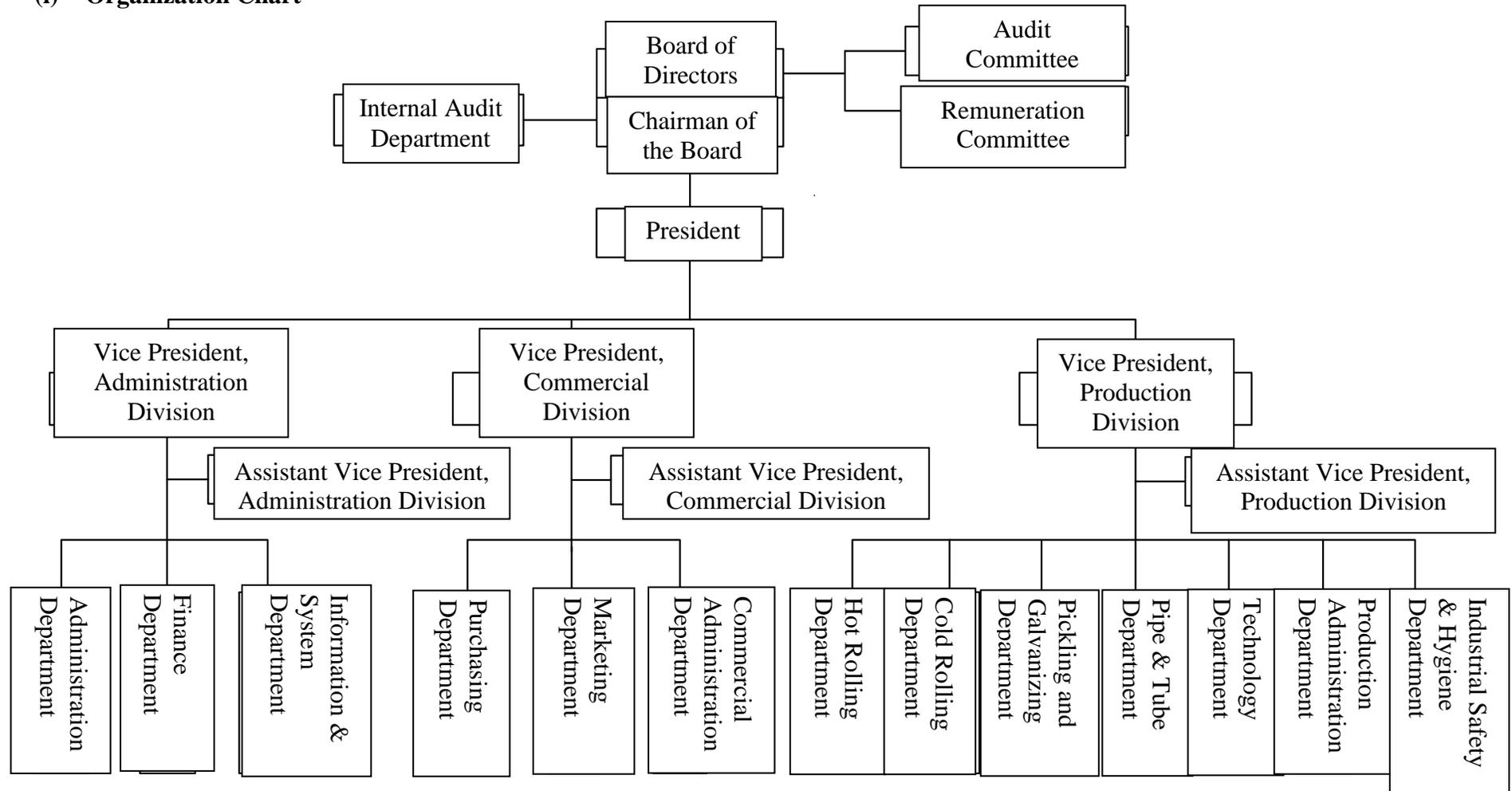
- the Advancement of Occupational Safety and Health Unit in Kaohsiung City in 2017" and received the "Five-Star Award" as a "2017 Outstanding Occupational Safety and Health Unit" from the Ministry of Labor.
- Oct. 2018 Taiwan Ratings gave Chung Hung Steel Corporation a rating of "twA/twA-1" and "stable" 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.
- Mar. 2019 Received recognition for outstanding performance as company responsible for air quality improvements in Kaohsiung Clean Air Quality Region in 2018 from the Environmental Protection Bureau of Kaohsiung City Government.
- May 2019 The heating furnace fuel conversion project of the Hot Rolling Department for replacing GHG emissions received certification for 52,506 tons of CO<sub>2</sub>e in the first year.
- Jun. 2019 Received recognition for 2018 Outstanding Green Procurement Enterprise Award in Kaohsiung city from the Environmental Protection Bureau of Kaohsiung City Government for more than NT\$5 million of green procurement in 2018.
- Jul. 2019 Passed ISO 45001: 2018 Management System certification.
- Jul. 2019 Passed CNS 45001: 2018 Management System certification.
- Jul. 2019 The Hot Rolling Department passed the product licensing exchange review in Malaysia (MS).
- Aug. 2019 Passed ISO 50001: 2018 Management System certification.
- Sept. 2019 The Dafa Steel Pipe Plant was recognized as an "Outstanding Unit in the Advancement of Occupational Safety and Health Unit in Kaohsiung City in 2018" and received the "2018 Outstanding Occupational Safety and Health Unit" award from the Ministry of Labor, Executive Yuan.

- Sept. 2019 Chairman Mr. Yi-Chung Han retired upon reaching retirement age and Mr. Min-Hsiung Liu took over as Chairman.
- Oct. 2019 The Pickling and Galvanizing Department passed IATF 16949: 2016 certification.
- Oct. 2019 Received the 2018 Award for International Trade (Best Trade Contribution Award) from the Bureau of Foreign Trade, Ministry of Economic Affairs.
- Oct. 2019 Received certificate of top 500 ranking among outstanding import and export companies in 2018 from the Bureau of Foreign Trade, Ministry of Economic Affairs.
- Nov. 2019 Received the 2019 Sports Corporate Certification from the Sports Administration of the Ministry of Education.
- Nov. 2019 The Hot Rolling Department, Cold Rolling Department, and Dafa Steel Pipe Plant received the “Special Award” for safety and health performance in 2018 from Taiwan Steel & Iron Industries Association.
- Nov. 2019 Received the Corporate Sustainability Report Award and Top 50 Corporate Comprehensive Performance Award in the 2019 Taiwan Corporate Sustainability Awards.
- Dec. 2019 The Cold Rolling Department received the “Health Management Award” for outstanding workplace health in 2019 from the Health Promotion Administration of the Ministry of Health and Welfare.
- Dec. 2019 Passed ISO/IEC 17025: 2017 revision verification and inspections.
- Dec. 2019 President Tsung-Chang Lee retired upon reaching retirement age and Mr. Kung-Ching Wu took over as President.

### III. Corporate Governance Report

#### i. Organization

##### (i) Organization Chart



**(ii) Responsibilities and functions of 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.
	Pipe & Tube Department	Production of pipe and tube products, quality control, inventory management, equipment maintenance, environmental safety and sanitation management, etc.

Unit		Responsibilities
	Technology Department	Maintenance of ISO 9001, API, JIS, CNS, ISO/IEC 17025, and IATF 16949 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, hygiene, environmental protection, and energy. Establishment, integration, and advancement of ISO 14001, ISO 45001, 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, 2020

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			Remarks (Note 3)
							Number of Shares	Shareholding Ratio (%)	Number of Shares	Shareholding Ratio (%)	Number of Shares	Shareholding Ratio (%)	Number of Shares	Shareholding Ratio (%)			Title	Name	Relationship	
Chairman of the Board	Taiwan	China Steel Corporation Representative: Min-Hsiung Liu	Male	2018.6.22	3 years	2006.6.29	582,673,153	40.59	582,673,153	40.59	-	-	-	-	Department of Business Administration, National Cheng Kung University Assistant Vice President of Commercial Division, China Steel Corporation	Chairman of the Company Vice President of Commercial Division, China Steel Corporation Director of Dragon Steel Corporation Director of China Steel Global Trading Corporation Director of China Steel Express Corporation	None	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			Remarks (Note 3)
							Number of Shares	Shareholding Ratio (%)	Number of Shares	Shareholding Ratio (%)	Number of Shares	Shareholding Ratio (%)	Number of Shares	Shareholding Ratio (%)			Title	Name	Relationship	
Director	Taiwan	China Steel Corporation Representative: Chao-Tung Wong	Male	2018.6.22	3 years	2006.6.29	582,673,153	40.59	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	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			Remarks (Note 3)
							Number of Shares	Shareholding Ratio (%)	Number of Shares	Shareholding Ratio (%)	Number of Shares	Shareholding Ratio (%)	Number of Shares	Shareholding Ratio (%)			Title	Name	Relationship	
Director	Taiwan	China Steel Corporation Representative: Kung-Ching Wu (Note 1)	Male	2018.6.22	3 years	2006.6.29	582,673,153	40.59	582,673,153	40.59	-	-	-	-	Systems and Naval Mechatronic Engineering, National Cheng Kung University Assistant Vice President, Production Division of China Steel Corporation	President of the Company	None	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			Remarks (Note 3)
							Number of Shares	Shareholding Ratio (%)	Number of Shares	Shareholding Ratio (%)	Number of Shares	Shareholding Ratio (%)	Number of Shares	Shareholding Ratio (%)			Title	Name	Relationship	
Director	Taiwan	China Steel Corporation Representative: Kai-Ming Huang (Note 2)	Male	2018.6.22	3 years	2006.6.29	582,673,153	40.59	582,673,153	40.59	-	-	-	-	Department of Business Administration, National Chengchi University Director of Marketing Department, China Steel Corporation	Does not hold positions in the Company Assistant Vice President of Commercial Division, China Steel Corporation	None	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 Accountant	Does not hold positions in the Company Chung Sun Certified Public Accountants Accountant	None	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			Remarks (Note 3)
							Number of Shares	Shareholding Ratio (%)	Number of Shares	Shareholding Ratio (%)	Number of Shares	Shareholding Ratio (%)	Number of Shares	Shareholding Ratio (%)			Title	Name	Relationship	
Independent Director	Taiwan	Hsien-Tang Tsai	Male	2018.6.22	3 years	2015.6.26	-	-	-	-	-	-	-	-	PhD. in Business Administration, Purdue University Dean of College 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	None
Independent Director	Taiwan	Lin-Lin Lee	Female	2018.6.22	3 years	2015.6.26	-	-	-	-	-	-	-	-	Master of Law, National Taiwan University Executive Supervisor of Taiwan Bar Association	Does not hold positions in the Company Managing Attorney, Ling Yun Law Firm	None	None	None	None

Note 1: The corporate shareholder China Steel Corporation assigned Mr. Kung-Ching Wu to replace Mr. Tsung-Chang Lee as its representative on December 31, 2019.

Note 2: The corporate shareholder China Steel Corporation assigned Mr. Kai-Ming Huang to replace Mr. Yi-Chung Han as its representative on September 30, 2019.

Note 3: Where the Chairman, President, or individual with equivalent roles (highest-ranking managerial officer) are the same individual, spouses, or relatives within the first degree of kinship, the Company shall specify related information regarding the reason, reasonableness, necessity, and response measures (e.g., appointment of additional Independent Directors and requiring the appointment of more than half of the Directors from individuals who are not employees or managerial officers).

Note 4: 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, 2019

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 (4.19%), Transglory Investment Corporation (1.62%), Vanguard Total International Stock Index Fund (1.25%), Vanguard Emerging Markets Stock Index Fund (1.21%), Norges Bank Investment Management (1.14%), Winning Investment Corporation (1.02%), Public Service Pension Fund (0.90%), DFA Emerging Markets Value Portfolio (0.89%), Labor Insurance Fund (0.87%).

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: Where a corporate shareholder is not organized as a company, the name of the shareholders and shareholding ratio that must be disclosed in accordance with the above shall be the name of the funder or donor and the funding or donation ratio.

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

December 31, 2019

Name of Legal Entity (Note 1)	Major shareholders of corporate shareholders (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%).

Note 1: If the major shareholders in the preceding Table 1 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.

Note 3: Where a corporate shareholder is not organized as a company, the name of the shareholders and shareholding ratio that must be disclosed in accordance with the above shall be the name of the funder or donor and the funding or donation ratio.

## Directors and Independent Directors

March 31, 2020

Name	Criteria	Has at least 5 years of work experience and meets one of the following professional qualifications		Compliance of independence (Note 1)												Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director	
		An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A judge, public prosecutor, attorney, 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	11		12
Corporate director Representative: Min-Hsiung Liu			✓				✓	✓				✓		✓	✓	✓	0
Corporate Director Representative: Chao-Tung Wong			✓				✓	✓				✓		✓	✓	✓	0
Corporate Director Representative: Kung-Ching Wu			✓				✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Corporate Director Representative: Kai-Ming Huang			✓				✓	✓	✓			✓	✓	✓	✓	✓	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 any of its affiliates.
- (2) Not a director or supervisor of the company or any of its affiliates. Not apply to independent directors appointed in accordance with the Act or the laws and regulations of the local country by, and concurrently serving as such at, a public company and its parent or subsidiary or a subsidiary of the same parent.
- (3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate of one percent or more of the total number of issued shares of the company or ranking in the top 10 in holdings.
- (4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of a managerial officer under subparagraph 1 or any of the persons in the preceding two subparagraphs.
- (5) Not a director, supervisor, or employee of a corporate shareholder that directly holds five percent or more of the total number of issued shares of the company, or that ranks among the top five in shareholdings, or that designates its representative to serve as a director or supervisor of the

company under Article 27, paragraph 1 or 2 of the Company Act. Not apply to independent directors appointed in accordance with the Act or the laws and regulations of the local country by, and concurrently serving as such at, a public company and its parent or subsidiary or a subsidiary of the same parent.

- (6) If a majority of the company's director seats or voting shares and those of any other company are controlled by the same person: not a director, supervisor, or employee of that other company. Not apply to independent directors appointed in accordance with the Act or the laws and regulations of the local country by, and concurrently serving as such at, a public company and its parent or subsidiary or a subsidiary of the same parent.
- (7) If the chairperson, general manager, or person holding an equivalent position of the company and a person in any of those positions at another company or institution are the same person or are spouses: not a director (or governor), supervisor, or employee of that other company or institution. Not apply to independent directors appointed in accordance with the Act or the laws and regulations of the local country by, and concurrently serving as such at, a public company and its parent or subsidiary or a subsidiary of the same parent.
- (8) Not a director, supervisor, officer, or shareholder holding five percent or more of the shares, of a specified company or institution that has a financial or business relationship with the company. Not apply to independent directors appointed in accordance with the Act or the laws and regulations of the local country by, and concurrently serving as such at, a public company and its parent or subsidiary or a subsidiary of the same parent, if the specified company or institution holds 20 percent or more and no more than 50 percent of the total number of issued shares of the public company.
- (9) Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides auditing services to the company or any affiliate of the company, or that provides commercial, legal, financial, accounting or related services to the company or any affiliate of the company for which the provider in the past 2 years has received cumulative compensation exceeding NT\$500,000, or a spouse thereof; provided, this restriction does not apply to a member of the remuneration committee, public tender offer review committee, or special committee for merger/consolidation and acquisition, who exercises powers pursuant to the Act or to the Business Mergers and Acquisitions Act or related laws or regulations.
- (10) Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.
- (11) Not been a person of any conditions defined in Article 30 of the Company Law.
- (12) Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

**(ii) Main Managerial Officers**

March 31, 2020

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			Remarks (Note 1)
					Number of Shares	Shareholding Ratio (%)	Number of Shares	Shareholding Ratio (%)	Number of Shares	Shareholding Ratio (%)			Title	Name	Relationship	
President	Taiwan	Tsung-Chang Lee (Dismissed on December 31, 2019)	Male	2017.10.01	0	0	0	0	0	0	MBA, National Sun Yat-sen University Vice President, Production Division, Chung Hung Steel Corporation	None	None	None	None	None
	Taiwan	Kung-Ching Wu (Appointed on December 31, 2019)	Male	2019.12.31	0	0	0	0	0	0	Systems and Naval Mechatronic Engineering, National Cheng Kung University Assistant Vice President, Production Division of China Steel Corporation	None	None	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 Project Director, Finance Division, China Steel Corporation	Chairman of Hung Kao Investment Corporation	None	None	None	None
Vice President, Commercial Division	Taiwan	Wen-Chou Li	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	None

Vice President of Production	Taiwan	Chien-Chou Chen (Dismissed on February 1, 2020)	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	None
	Taiwan	Chih-Ho Chiu (Appointed on February 1, 2020)	Male	2020.02.01	0	0	0	0	0	0	Department of System Engineering and Naval Architecture, National Taiwan Ocean University Deputy Plant Director, Rolling Mill Dept-III Cold Rolled Products, China Steel Corporation	None	None	None	None	None
Assistant Vice President, Administration Division	Taiwan	Shu-Cheng Yen	Male	2017.09.01	0	0	0	0	0	0	MBA, I-Shou University Director of Administration Division, Chung Hung Steel Corporation	None	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	None

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			Remarks (Note 2)
					Number of Shares	Shareholding Ratio (%)	Number of Shares	Shareholding Ratio (%)	Number of Shares	Shareholding Ratio (%)			Title	Name	Relationship	
Assistant Vice President	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	None.
Assistant Vice President	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	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	None.

Note 1: Where the Chairman, President, or individual with equivalent roles are the same individual, spouses, or relatives within the first degree of kinship, the Company shall specify related information regarding the reason, reasonableness, necessity, and response measures (e.g., appointment of additional Independent Directors and requiring the appointment of more than half of the Directors from individuals who are not employees or managerial officers).

Note 2: All shares specified in the table are ordinary shares.

## (iii) Remuneration of Directors, Independent Directors, President and Vice Presidents

**Remuneration Paid to Directors and Independent Directors:**

Unit: NT\$1000 December 31, 2019

Title	Name	Directors' remuneration								Total remuneration (A+B+C+D) as a percentage of net income after tax %		Remuneration received as the Company's employee								Total remuneration (A+B+C+D+E+F+G) as a percentage of net income after tax%		Remuneration received from investees other than subsidiaries or the parent company
		Remuneration (A)		Severance pay and pension (B)		Directors' remuneration (C) (Note 1)		Business execution expenses (D)				Salary, Bonuses and Allowances, etc. (E)		Severance pay and pension (F)		Employees' remuneration (G)						
		The Company	All companies in the financial report	The Company	All companies in the financial report	The Company	All companies in the financial report	The Company	All companies in the financial report	The Company	All companies in the financial report	The Company	All companies in the financial report	The Company	All companies in the financial report	Cash amount	Stock amount	Cash amount	Stock amount	The Company	All companies in the financial report	
Chairman of the Board	Yi-Chung Han (Note 2) Representative of China Steel Corporation	3,220	3,220	0	0	0	0	491	491	34.39	34.39	3,857	3,857	303	303	0	0	0	0	72.94	72.94	13,743
	Min-Hsiung Liu (Note 3) Representative of China Steel Corporation																					
Director	Chao-Tung Wong Representative of China Steel Corporation																					
Director	Tsung-Chang Lee (Note 4) Representative of China Steel Corporation	3,220	3,220	0	0	0	0	491	491	34.39	34.39	3,857	3,857	303	303	0	0	0	0	72.94	72.94	13,743
	Kung-Ching Wu (Note 4) Representative of China Steel Corporation																					
Director	Kai-Ming Huang (Note 2) Representative of China Steel Corporation																					
Independent Director	Juh-Shan Chiou	1,800	1,800	0	0	0	0	637	637	22.58	22.58	0	0	0	0	0	0	0	0	22.58	22.58	0
Independent Director	Hsien-Tang Tsai																					



## Remuneration Range Table

December 31, 2019

Remuneration range for each director in the 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)	
	The Company	All companies in the financial report H	The Company	The parent company and all investees I
Less than NT\$ 1,000,000	Min-Hsiung Liu, Chao-Tung Wong, Tsung-Chang Lee, Kung-Ching Wu, Kai-Ming Huang, Juh-Shan Chiou, Hsien-Tang Tsai, Lin-Lin Lee	Min-Hsiung Liu, Chao-Tung Wong, Tsung-Chang Lee, Kung-Ching Wu, Kai-Ming Huang, Juh-Shan Chiou, Hsien-Tang Tsai, Lin-Lin Lee	Min-Hsiung Liu, Chao-Tung Wong, Kung-Ching Wu, Kai-Ming Huang, Juh-Shan Chiou, Hsien-Tang Tsai, Lin-Lin Lee	Kung-Ching Wu, Kai-Ming Huang, Juh-Shan Chiou, Hsien-Tang Tsai, Lin-Lin Lee
NT\$ 1,000,000 (inclusive) to NT\$ 2,000,000 (exclusive)	0	0	0	0
NT\$ 2,000,000 (inclusive) to NT\$ 3,500,000 (exclusive)	Yi-Chung Han	Yi-Chung Han	Yi-Chung Han	Yi-Chung Han
NT\$ 3,500,000 (inclusive) to NT\$ 5,000,000 (exclusive)	0	0	Tsung-Chang Lee	Min-Hsiung Liu, Tsung-Chang Lee
NT\$ 5,000,000 (inclusive) to NT\$ 10,000,000 (exclusive)	0	0	0	Chao-Tung Wong
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	9	9	9	9

## Remunerations to President and Vice President

Unit: NT\$1,000, December 31, 2019

Title	Name	Salary (A)		Severance pay and pension (B)		Bonuses and allowances, etc. (C)		Employee remuneration (D)				Total remuneration (A+B+C+D) as a percentage of net income after tax (%)		Remuneration received from investees other than subsidiaries or the parent company
		The Company	All companies in the financial report	The Company	All companies in the financial report	The Company	All companies in the financial report	The Company		All companies in the financial report		The Company	All companies in the financial report	
								Cash amount	Stock amount	Cash amount	Stock amount			
President	Tsung-Chang Lee (Dismissed on December 31, 2019)	15,016	15,016	1,777	1,777	6,921	6,921	0	0	0	0	219.76	219.76	633
	Kung-Ching Wu (Appointed on December 31, 2019)													
Vice President, Administration Division	Chia-Wen Luo													
Vice President, Commercial Division	Wen-Chou Li													
Vice President of Production	Shao-Jung Lu (Dismissed on March 1, 2019)													
	Chien-Chou Chen (Appointed on March 1, 2019)													
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													

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

## Remuneration Range Table

December 31, 2019

Range of Remuneration Paid to the President and Vice Presidents of the Company	Name of President and Vice Presidents	
	The Company	The parent company and all investees
Less than NT\$ 1,000,000	Kung-Ching Wu	Kung-Ching Wu
NT\$ 1,000,000 (inclusive) to NT\$ 2,000,000 (exclusive)	Shao-Jung Lu	Shao-Jung Lu
NT\$ 2,000,000 (inclusive) to NT\$ 3,500,000 (exclusive)	Chia-Wen Luo, Wen-Chou Li, Chien-Chou Chen, Shu-Cheng Yen, Ming-Ju Yang, Chin-Ming Hsu, Chien-Hsiung Tung	Chia-Wen Luo, Wen-Chou Li, Chien-Chou Chen, Shu-Cheng Yen, Ming-Ju Yang, Chin-Ming Hsu, Chien-Hsiung Tung
NT\$ 3,500,000 (inclusive) to NT\$ 5,000,000 (exclusive)	Tsung-Chang Lee	Tsung-Chang Lee
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 (exclusive)	0	0
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	10	10

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

**Names of managerial officers who received employee remuneration and the details (proposed distribution for the 2020 fiscal year)**

Unit: NT\$1,000, December 31, 2019

	Title	Name	Stock amount	Cash amount	Total	Ratio accounted compared to the total net income (%)
Managerial Officer	President	Tsung-Chang Lee (Dismissed on December 31, 2019)	0	0	0	0
		Kung-Ching Wu (Appointed on December 31, 2019)				
	Vice President, Administration Division	Chia-Wen Luo				
	Vice President, Commercial Division	Wen-Chou Li				
	Vice President of Production	Shao-Jung Lu (Dismissed on March 1, 2019)				
		Chien-Chou Chen (Appointed on March 1, 2019)				
	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				
	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 2019 amounted to NT\$6,148 thousand (NT\$9,372 thousand in 2018). 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 distribution of earnings.

2. Remunerations to President and Vice Presidents

The Company's remuneration for the President and Vice Presidents in 2019 amounted to NT\$23,714 thousand (NT\$20,625 thousand in 2018) which accounted for 219.76% 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) Board of Directors operating status and evaluation status

A total of 8 (A) meetings of the Board of Directors were held in 2019. The attendance of Directors was as follows:

2019.01.01~2019.12.31

Title	Name	Attendance in person B	Attendance by proxy	Attendance in person rate (%) [B/A]	Remarks
Chairman of the Board	Representative of China Steel Corporation Min-Hsiung Liu	7	1	87.5	None
	Representative of China Steel Corporation Yi-Chung Han	5	0	100	The Director Yi-Chung Han retired on September 30, 2019 and he attended 5 meetings in person with an actual attendance rate of 100%.
Director	Representative of China Steel Corporation Chao-Tung Wong	7	1	87.5	None
Director	Representative of China Steel Corporation Tsung-Chang Lee	8	0	100	None
Director	Representative of China Steel Corporation Kai-Ming Huang	3	0	100	The Director Kai-Ming Huang was appointed on September 30, 2019 and he attended 3 meetings in person with an actual attendance rate of 100%.
Independent Director	Juh-Shan Chiou	6	2	75	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 qualified 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. 7th meeting of the 14th Board of Directors on March 19, 2019: Results of the performance evaluation on the Company's President and Vice Presidents of the departments in 2018. The Director Tsung-Chang Lee recused himself in accordance with laws (Mr. Tsung-Chang Lee is the President of the Company).
  2. 10th meeting of the 14th Board of Directors on September 24, 2019: Proposal for the 2019 salary adjustment

for the Company's Chairman, President, and Vice Presidents. The Directors Yi-Chung Han and Tsung-Chang Lee recused themselves in accordance with laws.

3. 11th meeting of the 14th Board of Directors on September 30, 2019: Assignment of representative directors and supervisors to the Company's investees. The Director Min-Hsiung Liu recused himself in accordance with laws.
- iii. The cycle, duration, scope, methodology, and contents of the evaluation of the Board of Directors are detailed in the evaluation status of the Board of Directors for 2019 set forth below.
- iv. 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 14, May 2, August 8, and November 7 in 2019 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. Operations of the Remuneration Committee in 2019: The Company convened four meetings of the Remuneration Committee on March 14, March 19, May 2, and September 24 in 2019 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 8, 2019. The information was reported on the Market Observation Post System in accordance with regulations.

The Board of Directors evaluation status in 2019 was as follows:

Evaluation Cycle	Evaluation Period	Evaluation Scope	Evaluation Method	Evaluation Contents
Once every year	From January 1, 2019 to December 30, 2019	Performance evaluation of the Board of Directors, individual Directors, Audit Committee, and Remuneration Committee	Self-evaluation of the Board of Directors and self-evaluation of Directors	Described as follows

- i. The Company passed the establishment of the "Regulations Governing the Evaluation of the Performance of the Board of Directors" (hereinafter referred to as the Regulations) in the 13th meeting of the 14th Board of Directors on December 30, 2019 for the implementation of the internal evaluations of the Board of Directors, Directors, and functional committees of the Board of Directors. The evaluation is conducted through questionnaires and the Finance Department of the Company collects and analyzes the evaluation results before submitting them to the Board of Directors on January 21, 2020. The results are used as the basis for determining the performance of individual Directors and the establishment of remuneration.

- ii. The Regulations stipulate that internal evaluations shall be implemented each year and an external evaluation shall be implemented at least once every three years.
- (i) The criteria for evaluating the performance of the Board of Directors of the Company shall cover at least the following five aspects:
1. Participation in the operation of the Company.
  2. Improvement of the quality of the Board of Directors' decision making.
  3. Composition and structure of the Board of Directors.
  4. Election and continuing education of the Directors.
  5. Internal control.
- (ii) The criteria for evaluating the performance of the Directors shall cover at least the following six aspects:
1. Familiarity with the goals and missions of the company.
  2. Awareness of the duties of a Director.
  3. Participation in the operation of the Company.
  4. Management of internal relationship and communication.
  5. The director's professionalism and continuing education.
  6. Internal control.
- (iii) The criteria for evaluating the performance of the functional committees of the Company (Audit Committee and Remuneration Committee) shall cover at least the following five aspects:
1. Participation in the operation of the Company.
  2. Knowledge of the duties of the functional committee.
  3. Improvement of the quality of functional committee's decisions.
  4. Functional committee composition and election of members.
  5. Internal control.
- iii. The performance evaluation of the Board of Directors (including functional committees) in 2019 includes 4 categories with 20 self-evaluation indicators in each category. The maximum score for each self-evaluation indicator is 5 points. The evaluation results are summarized as follows:
- (i) Results of the performance self-evaluation of the Board of Directors:
1. Total average score of the questionnaire: 98.43 points
  2. Total average indicator score: 4.92 points
- (ii) Results of the performance self-evaluation of the Directors:
1. Total average score of the questionnaire: 98.00 points
  2. Total average indicator score: 4.90 points
- (iii) Results of the performance self-evaluation of the Audit Committee:
1. Total average score of the questionnaire: 97.00 points
  2. Total average indicator score: 4.85 points
- (iv) Results of the performance self-evaluation of the Remuneration Committee:
1. Total average score of the questionnaire: 98.00 points
  2. Total average indicator score: 4.90 points
- iv. Based on the results of the performance evaluation of the Board of Directors and the results of the performance evaluation of the Directors, the Company's explanation and improvement measures for indicators with lower scores including "The Director fully understands the characteristics and risks of the Company's industry", "Members of the Board of Directors have sufficient knowledge of the Company, its management team, and its industry", "The proposals submitted by the Company to the Board of Directors for resolution are appropriate", "Directors have fully communicated and interacted with CPAs" are as follows:
- (i) The Company shall establish mechanisms for the managerial officers of the Company to analyze the risks in the current state of the industry, management environment, and the business cycles on the steel industry for Directors to provide professional opinions.
- (ii) The Company shall strengthen the explanation of proposals for Directors to gain a deep understanding of the contents of the proposals.
- (iii) It is necessary for corporate governance personnel to enhance communication and contact between Directors and the CPAs and help Directors provide professional opinions. Starting from the third quarter

of 2019, the Company has invited the CPAs to attend the meetings of the Board of Directors and Audit Committee in accordance with recommendations of the Directors to provide explanation for items in the financial report and strengthen communication contents with the aim of meeting the expectations of the Directors.

**(ii) State of operations of the Audit Committee:**

The Audit Committee met **4** times (A) in 2019. The attendance of Independent Directors was as follows:

2019.01.01~2019.12.31

Title	Name	Number of attendances in person (B)	Attendance by proxy	Actual attendance rate (%) (B/A)	Remarks
Independent Director (Convener)	Juh-Shan Chiou	4	0	100	None
Independent Director	Lin-Lin Lee	4	0	100	None
Independent Director	Hsien-Tang 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 2019**

1. 3rd meeting of 14th Board of Directors on March 14, 2019: The Internal Audit Department provided the Annual Business Report
  - (1) Amendment of the "Audit Committee Charter".
  - (2) The Finance Department was authorized to invite related personnel attend the meeting.
  - (3) 2018 Business Report and Financial Report.
  - (4) Report on the Company's 2018 distribution of remuneration to employees and Directors.
  - (5) Amendment of the "Procedures for the Acquisition or Disposal of Assets".
  - (6) Report on the 2018 Internal Control Self-Assessment Report and Internal Control System Statement.
  - (7) The Company's 2018 earnings distribution proposal.
2. 4th meeting of 14th Board of Directors on May 2, 2019:
  - (1) Draft of the Consolidated Financial Statements and Independent Auditors' Review Report for the first quarter of 2019.
  - (2) Amendment of the Company's "Procedures for Extending Loans to Others".
  - (3) Amendment of the Company's "Procedures for Making Endorsements and Guarantees".
3. 5th meeting of 14th Board of Directors on August 8, 2019:
  - (1) 2019 Q2 consolidated financial statements sealed by the Chairman, managerial officer, and accounting officer.

(2) Evaluation of the independence and performance of the certifying CPAs.

4. 6th meeting of 14th Board of Directors on November 7, 2019:

(1) 2019 Q3 consolidated financial statements sealed by the Chairman, managerial officer, and accounting officer.

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 auditors and accountants:

The Company convened the 2019 financial report conclusion meeting with the governance unit on December 30, 2019. Attendees included Independent Directors, CPAs, business units, and supervisors of the finance unit. The contents of the meeting mainly included material and key audit items used in the audit of the report, related account verification schedule for 2019, and the self-compiled financial statements of TSEC and OTC listed companies.

The Company convened the 2019 financial report conclusion meeting on February 20, 2020. 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 2019 and discussions of plans for 2020. Material items discussed in the meeting are as follows:

1. Financial Report audit results.
2. Business performance analysis and changes in important assets and liabilities.
3. Communication with the governance unit.
4. Recently-published or amended regulations and orders.

The communication between Independent Directors, the Company's internal audit supervisor, and the CPA in 2019 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 Q1 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. 3rd meeting of 14th Board of Directors on March 14, 2019: Discussions on the Company's 2018 distribution of remuneration to employees and Directors.

Opinions of the Audit Committee: Recommended adding "after making up for losses" in point 2 of the description.

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: Recommended moving the phrase "meet requirements in Article 28 of the Company's Articles of Incorporation" in point 4 of the description to the end of the text.

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

Results of resolution: Passed by all members of the Committee in attendance.

2. 5th meeting of 14th Board of Directors on August 8, 2019: Discussion of the 2019 Q2 consolidated financial statements sealed by the Chairman, managerial officer, and accounting officer.

Opinions of the Audit Committee: With recent severe fluctuations in exchange rates, should the Company operate derivatives?

The Company's explanation and measures taken: The Company has never engaged in transactions of options and only engages in general spot and forward foreign exchange transactions.

Opinions of the Audit Committee: What is the reason for the increase in cash and accounts receivable and decrease in inventory, property, plants and equipment decrease in June this year compared to December last year in the Balance Sheet in Attachment 2?

The Company's explanation and measures taken: The increase in cash was caused by the reserve in USD used for repayment for materials for orders that arrived in early July. The accounts receivable increased due to the timing of shipment foreign exchange negotiation for export sales. The decrease in inventory was caused by a decrease in finished products. There is little difference in the materials and property, plant and equipment decreased relative to previous levels due to depreciation of NT\$610 million and addition of NT\$240 million in assets.

Opinions of the Audit Committee: What is the cause of the NT\$1.2 billion increase in operating costs in the first half of the year compared to the same period in the previous year?

The Company's explanation and measures taken: The increase in overall operating costs was caused by the increase in sales which increased the cost of sales.

Results of resolution: Passed by all members of the Committee in attendance.

3. 6th meeting of 14th Board of Directors on November 7, 2019: Report of the 2019 Q3 consolidated financial statements sealed by the Chairman, managerial officer, and accounting officer.

Opinions of the Audit Committee: What is the ratio of domestic and export sales? What is the difference between sales prices compared to the same period last year?

The Company's explanation and measures taken: As of September 2019, the ratio of export sales was 54.45%. The ratio was 45.35% in September 2018. The export sales price fell by approximately NT\$2,000/ton in 2019 from the average price in the same period in 2018.

Opinions of the Audit Committee: The economy is considered unfavorable at the moment. What is the market forecast for the first quarter of the next year? What is the cause of the differences between the other accounts receivable, accounts payable - related parties, and long-term loans in the Balance Sheet in September this year and December of last year?

The Company's explanation and measures taken: The period before Chinese New Year is essentially the low season and conditions appear more favorable after Chinese New Year. The decline in steel prices appears to have stopped. Cash consists mostly of USD. The decrease in September was caused by the exchange rate when the Company reduced its USD positions due to an increase in exchange rates. The increase in other accounts receivable was caused by the business tax rebate recognized in September. The increase in accounts payable - related parties was caused by China Steel's concentrated foreign exchange negotiation at the end of September. The increase in long-term loans was caused by an adjustment of the liquidity ratio for improving financial conditions.

Opinions of the Audit Committee: Please explain the contents of the lease liabilities and refund liabilities. The interest paid in the Cash Flow Statement does not equal the financial costs in the Income Statement. What is the cause?

The Company's explanation and measures taken: The lease liabilities are the discounted payable rent for right-of-use assets for periods over one year. The refund liabilities are mainly discounts payable. The difference between payable interest and financial costs is the difference between the payable interest, capitalized interest, and interest in lease liabilities.

Opinions of the Audit Committee: What is the reasonable inventory level of slabs?

The Company's explanation and measures taken: To facilitate smooth production schedule, the reasonable inventory of slabs is 130,000 to 150,000 metric tons.

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

Evaluation Item	Operating status		Summary	Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No		
i. 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.
ii. Company stock equity structure and shareholder equity				
(i) Did the company establish internal procedures for addressing shareholder suggestions, doubts, disputes, and litigation matters and implement the procedures accordingly?	V		(i) The Company has appointed a spokesperson, acting spokesperson, and other dedicated personnel and emails to process shareholder suggestions and other issues.	
(ii) 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		(ii) The Company has commissioned the stock agency KGI Securities to handle related shareholder services.	
(iii) Did the company establish and execute risk control mechanism for affiliates, and firewall methods?	V		(iii) The Company and affiliated 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.	No deviation from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies.
(iv) Did the company establish internal regulations stipulating that insiders shall not use undisclosed information to engage in the transaction of marketable securities?	V		(iv) The Company has established the "Management Procedures for Handling Internal Major Information and Prevention of Insider 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.	
iii. Board compositions and responsibilities				
(i) Has the Board of Directors developed and implemented a diversified policy for the composition of its members?	V		(i) 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. The Board of Directors has 7 members including 3	No deviation from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies.

Evaluation Item	Operating status		Summary	Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No		
<p>(ii) Does the company voluntarily establish other functional committees in addition to Remuneration Committee and Audit Committee?</p> <p>(iii) Does the Company have Board of Directors performance assessment guidelines and assessment methods in place and perform the assessments periodically on a yearly basis? Does the Company submit results of assessments to the Board of directors and use results as the basis for the salary, remuneration, nomination and reappointment of individual Directors?</p>	V	V	<p>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. Refer to VIII (xiii) for the implementation status of the diversity policy.</p> <p>(ii) 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.</p> <p>(iii) The Company passed the establishment of the "Regulations Governing the Evaluation of the Performance of the Board of Directors" (hereinafter referred to as the Regulations) in the meeting of the Board of Directors in December 2019 for the implementation of the internal evaluations of the Board of Directors, Directors, and functional committees of the Board of Directors. The evaluation is conducted through questionnaires and the Finance Department of the Company collects and analyzes the evaluation results before submitting them to the Board of Directors in January 2020. The results are used as the basis for determining the performance of individual Directors and the establishment of remuneration. The Regulations stipulate that internal evaluations shall be implemented each year and an external evaluation shall be implemented at least once every three years.</p> <p>The criteria for evaluating the performance of the Board of Directors of the Company shall cover at least the following five aspects:</p> <ol style="list-style-type: none"> <li>1. Participation in the operation of the Company.</li> <li>2. Improvement of the quality of the</li> </ol>	<p>No deviation from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies but no other functional committees are currently established.</p> <p>No deviation from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies.</p>

Evaluation Item	Operating status		Summary	Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No		
			<p>Board of Directors' decision making.</p> <p>3. Composition and structure of the Board of Directors.</p> <p>4. Election and continuing education of the Directors.</p> <p>5. Internal control.</p> <p>The criteria for evaluating the performance of the Directors shall cover at least the following six aspects:</p> <ol style="list-style-type: none"> <li>1. Familiarity with the goals and missions of the company.</li> <li>2. Awareness of the duties of a Director.</li> <li>3. Participation in the operation of the Company.</li> <li>4. Management of internal relationship and communication.</li> <li>5. The director's professionalism and continuing education.</li> <li>6. Internal control.</li> </ol> <p>The criteria for evaluating the performance of the functional committees of the Company (Audit Committee and Remuneration Committee) shall cover at least the following five aspects:</p> <ol style="list-style-type: none"> <li>1. Participation in the operation of the Company.</li> <li>2. Knowledge of the duties of the functional committee.</li> <li>3. Improvement of the quality of functional committee's decisions.</li> <li>4. Functional committee composition and election of members.</li> <li>5. Internal control.</li> </ol> <p>The performance evaluation of the Board of Directors (including functional committees) in 2019 include 4 categories with 20 self-evaluation indicators in each category. The maximum score for each self-evaluation indicator is 5 points. The evaluation results are summarized as follows:</p> <ol style="list-style-type: none"> <li>1. Results of the performance self-evaluation of the Board of Directors: <ol style="list-style-type: none"> <li>(1) Total average score of the questionnaire: 98.43 points</li> <li>(2) Total average indicator score: 4.92 points</li> </ol> </li> <li>2. Results of the performance self-evaluation of the Directors: <ol style="list-style-type: none"> <li>(1) Total average score of the questionnaire: 98.00 points</li> <li>(2) Total average indicator score: 4.90 points</li> </ol> </li> </ol>	

Evaluation Item	Operating status		Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No	
			<p>3. Results of the performance self-evaluation of the Audit Committee:</p> <p>(1) Total average score of the questionnaire: 97.00 points</p> <p>(2) Total average indicator score: 4.85 points</p> <p>4. Results of the performance self-evaluation of the Remuneration Committee:</p> <p>(1) Total average score of the questionnaire: 98.00 points</p> <p>(2) Total average indicator score: 4.90 points</p> <p>Based on the results of the performance evaluation of the Board of Directors and the results of the performance evaluation of the Directors, the Company's explanation and improvement measures for indicators with lower scores including "The Director fully understands the characteristics and risks of the Company's industry", "Members of the Board of Directors have sufficient knowledge of the Company, its management team, and its industry", "The proposals submitted by the Company to the Board of Directors for resolution are appropriate", "Directors have fully communicated and interacted with CPAs" are as follows:</p> <p>1. The Company shall establish mechanisms for the managerial officers of the Company to analyze the risks in the current state of the industry, management environment, and the business cycles on the steel industry for Directors to provide professional opinions.</p> <p>2. The Company shall strengthen the explanation of proposals for Directors to gain a deep understanding of the contents of the proposals.</p> <p>3. It is necessary for corporate governance personnel to enhance communication and contact between Directors and the CPAs and help Directors provide professional opinions. Starting from the third quarter of 2019, the Company has invited the CPAs to attend the meetings of the Board of Directors and Audit Committee in accordance with recommendations of the</p>

Evaluation Item	Operating status		Summary	Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No		
(iv) Does the Company regularly implement assessments on the independence of CPAs?	V		<p>Directors to provide explanation for items in the financial report and strengthen communication contents with the aim of meeting the expectations of the Directors.</p> <p>(iv) 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 financial reports (reported to the Audit Committee and Board of Directors on August 8, 2019). 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.</p>	No deviation from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies.
iv. Has the publicly-listed company appointed qualified and suitable number of corporate governance personnel and appointed a Corporate Governance Officer to handle governance related affairs (including but not limited to supplying information requested by the directors and supervisors, assisting Directors and Supervisors with legal compliance matters, processing company matters related to board meetings and shareholders' meetings according to laws, and preparing minutes of the board meetings and shareholders' 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 Director of the Finance Department (administers the Finance and Accounting Department) serve concurrently as corporate governance personnel and is a certified public accountant. The Company also established the "Shareholder Service and Assets Section" under the Finance Department to take charge of related corporate governance affairs. The Section includes 4 employees and 1 employee had passed the Corporate Governance Basic Competency Test organized by the Securities & Futures Institute. They process related affairs of the Board of Directors (including the production of meeting minutes of board meetings), related affairs for convening shareholders' meetings (including the production of meeting minutes of shareholders' meetings), processing company registration and change of registration,	No deviation from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies.

Evaluation Item	Operating status		Summary	Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No		
			<p>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.</p> <p>The corporate governance operations and the status of implementation in 2019 were as follows:</p> <ol style="list-style-type: none"> <li>(1) The Company convened a total of 8 meetings of the Board of Directors in 2019. 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.</li> <li>(2) The Company convened a general shareholders meeting on June 26, 2019 and uploaded related information within the period required by laws.</li> <li>(3) The continuing education courses taken by Directors in 2019 have been disclosed on the Market Observation Post System.</li> </ol>	

Evaluation Item	Operating status		Summary	Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No		
v. 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 stakeholder affairs and adequately responded to stakeholders' inquiries on significant corporate social responsibility issues?	V		<p>(i) 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, employees, customers, and suppliers can use the telephone or email to communicate with the Company and provide feedback.</p> <p>(ii) 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.</p> <p>(iii) The Annual Report and Business Report are distributed each year to investors.</p> <p>(iv) The Company attends investor seminars to communicate with investors. The Company will attend such seminars in the future if necessary.</p> <p>(v) The Company communicates with banks, customers, suppliers, and communities through related business units.</p> <p>(vi) The Company communicates with employees through the quarterly Labor-Management Meetings and the Employee Welfare Committee.</p>	No deviation from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies.
vi. 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.
vii. Information disclosure				
(i) Has the company established a corporate website to disclose information regarding the company's financial, business and corporate governance status?	V		(i) The Company has established an official website in traditional and simplified Chinese and English. URL: <a href="http://www.chsteel.com.tw">http://www.chsteel.com.tw</a> 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.
(ii) Did the company adopt other information disclosure methods (such as establishing English websites, assign dedicated personnel to collect and disclose company data,	V		(ii) The Company organizes investor seminars in accordance with laws and it uploads related information to the Market Observation Post System and the Company's website. The Company has assigned dedicated personnel to	

Evaluation Item	Operating status		Summary	Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No		
<p>implement the spokesperson system, upload the investor conference processes to the company's website, etc.)?</p> <p>(iii) Does the Company publish and report its annual financial report within two months after the end of a fiscal year, and publish and report its financial reports for the first, second and third quarters as well as its operating status for each month before the specified deadline?</p>	V		<p>take charge of the collection of related information and disclosure of material information. A spokesperson is assigned to manage all external announcements.</p> <p>(iii) The Company's 2019 financial report was uploaded within two months after the end of the fiscal year. The 2020 quarterly reports and monthly operation status will also be published ahead of schedule before the prescribed deadline.</p>	
<p>viii. 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)?</p>	V		<p>(i) 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.</p> <p>(ii) Care for employees:</p> <p>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.</p> <p>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.</p> <p>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 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,</p>	<p>No deviation from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies.</p>

Evaluation Item	Operating status		Summary	Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No		
			<p>education subsidies, and scholarships.</p> <p>(iii) Investor relations: The Company has appointed the stock 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.</p> <p>(iv) 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.</p> <p>(v) Rights of stakeholders: 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 established a dedicated stakeholders' section on its website for communication.</p>	

(vi) Status of continuing education of Directors and Independent Directors:							
As of December 31, 2019							
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	2019/04/18	2019/04/18	Taiwan Academy of Banking and Finance	Corporate Governance and Corporate Sustainable Development Program	3.0
			2019/08/12	2019/08/12	Taiwan Corporate Governance Association	Exercise of Functions of the Board of Directors and Performance Evaluation of the Board of Directors	3.0
Representative of Corporate Director	Min-Hsiung Liu	2018/03/31	2019/05/20	2019/05/20	Taiwan Corporate Governance Association	Industry 4.0 and How Companies Lead Innovation and Transformation	3.0
			2019/08/12	2019/08/12	Taiwan Corporate Governance Association	Exercise of Functions of the Board of Directors and Performance Evaluation of the Board of Directors	3.0
Representative of Corporate Director	Chao-Tung Wong	2016/11/15	2019/05/20	2019/05/20	Taiwan Corporate Governance Association	Industry 4.0 and How Companies Lead Innovation and Transformation	3.0
			2019/08/12	2019/08/12	Taiwan Corporate Governance Association	Exercise of Functions of the Board of Directors and Performance Evaluation of the Board of Directors	3.0
Representative of Corporate Director	Tsung-Chang Lee	2017/10/01	2019/04/18	2019/04/18	Taiwan Academy of Banking and Finance	Corporate Governance and Corporate Sustainable Development Program	3.0
			2019/05/20	2019/05/20	Taiwan Corporate Governance Association	Industry 4.0 and How Companies Lead Innovation and Transformation	3.0
			2019/08/12	2019/08/12	Taiwan Corporate Governance Association	Exercise of Functions of the Board of Directors and Performance Evaluation of the Board of Directors	3.0

Representative of Corporate Director	Kai-Ming Huang	2019/09/30	2019/11/01	2019/11/01	Taiwan Stock Exchange Corporation	Effective Implementation of the Functions of Directors Seminar	3.0
			2019/11/27	2019/11/27	Securities & Futures Institute	Skills of Directors and Supervisors for Interpreting Financial Information	3.0
			2019/11/27	2019/11/27	Securities & Futures Institute	Corporate Governance and Operations of the Board of Directors	3.0
			2019/12/16	2019/12/16	Securities & Futures Institute	How Directors and Supervisors Perform Risk Management and Crisis Management and Strengthen Corporate Governance	3.0
Independent Director	Juh-Shan Chiou	2015/06/26	2019/05/10	2019/05/10	Securities & Futures Institute	2019 Insider Trading Prevention Seminar	3.0
			2019/11/01	2019/11/01	Taiwan Stock Exchange Corporation	Effective Implementation of the Functions of Directors Seminar	3.0
Independent Director	Hsien-Tang Tsai	2015/06/26	2019/05/10	2019/05/10	Securities & Futures Institute	2019 Insider Trading Prevention Seminar	3.0
			2019/07/26	2019/07/26	Securities & Futures Institute	2019 Seminar on Legal Compliance for Stock Transactions by Internal Personnel	3.0
Independent Director	Lin-Lin Lee	2015/06/26	2019/04/18	2019/04/18	Taiwan Academy of Banking and Finance	Corporate Governance and Corporate Sustainable Development Program	3.0
			2019/05/10	2019/05/10	Securities & Futures Institute	2019 Insider Trading Prevention Seminar	3.0
			2019/08/12	2019/08/12	Taiwan Corporate Governance Association	Exercise of Functions of the Board of Directors and Performance Evaluation of the Board of Directors	3.0
(vii) Status of continuing education of managerial officers: As of March 31, 2020							
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	2019/04/18	2019/04/18	Taiwan Academy of Banking and Finance	Corporate Governance and Corporate Sustainable Development Program	3.0

			2019/05/20	2019/05/20	Taiwan Corporate Governance Association	Industry 4.0 and How Companies Lead Innovation and Transformation	3.0
			2019/08/12	2019/08/12	Taiwan Corporate Governance Association	Exercise of Functions of the Board of Directors and Performance Evaluation of the Board of Directors	3.0
Vice President, Administration Division (Corporate Governance Officer)	Chia-Wen Luo	2018/01/01	2019/04/18	2019/04/18	Taiwan Academy of Banking and Finance	Corporate Governance and Sustainable Development Program	3.0
			2019/05/10	2019/05/10	Securities & Futures Institute	2019 Insider Trading Prevention Seminar	3.0
			2019/05/20	2019/05/20	Taiwan Corporate Governance Association	Industry 4.0 and How Companies Lead Innovation and Transformation	3.0
			2019/08/12	2019/08/12	Taiwan Corporate Governance Association	Exercise of Functions of the Board of Directors and Performance Evaluation of the Board of Directors	3.0
			2020/02/21	2020/02/21	Accounting Research and Development Foundation	Investigating the Money Flow in Financial Reporting Malpractices and Related Case Studies on Legal Liabilities	3.0
			2020/02/21	2020/02/21	Accounting Research and Development Foundation	Corporate Governance Best Practice	3.0
Vice President, Commercial Division	Wen-Chou Li	2018/09/01	2019/05/20	2019/05/20	Taiwan Corporate Governance Association	Industry 4.0 and How Companies Lead Innovation and Transformation	3.0
			2019/08/12	2019/08/12	Taiwan Corporate Governance Association	Exercise of Functions of the Board of Directors and Performance Evaluation of the Board of Directors	3.0
Vice President of Production	Chien-Chou Chen	2019/03/01	2019/05/10	2019/05/10	Securities & Futures Institute	2019 Insider Trading Prevention Seminar	3.0
			2019/05/20	2019/05/20	Taiwan Corporate Governance Association	Industry 4.0 and How Companies Lead Innovation and Transformation	3.0

			2019/08/12	2019/08/12	Taiwan Corporate Governance Association	Exercise of Functions of the Board of Directors and Performance Evaluation of the Board of Directors	3.0
Assistant Vice President, Administration Division	Shu-Cheng Yen	2017/09/01	2019/05/20	2019/05/20	Taiwan Corporate Governance Association	Industry 4.0 and How Companies Lead Innovation and Transformation	3.0
			2019/08/12	2019/08/12	Taiwan Corporate Governance Association	Exercise of Functions of the Board of Directors and Performance Evaluation of the Board of Directors	3.0
Assistant Vice President, Commercial Division	Ming-Ju Yang	2012/04/01	2019/04/18	2019/04/18	Taiwan Academy of Banking and Finance	Corporate Governance and Sustainable Development Program	3.0
			2019/05/20	2019/05/20	Taiwan Corporate Governance Association	Industry 4.0 and How Companies Lead Innovation and Transformation	3.0
Assistant Vice President, Production Division	Chin-Ming Hsu	2016/01/01	2019/05/20	2019/05/20	Taiwan Corporate Governance Association	Industry 4.0 and How Companies Lead Innovation and Transformation	3.0
			2019/08/12	2019/08/12	Taiwan Corporate Governance Association	Exercise of Functions of the Board of Directors and Performance Evaluation of the Board of Directors	3.0
Assistant Vice President, Production Division	Chien-Hsiung Tung	2018/08/15	2019/05/20	2019/05/20	Taiwan Corporate Governance Association	Industry 4.0 and How Companies Lead Innovation and Transformation	3.0
			2019/08/12	2019/08/12	Taiwan Corporate Governance Association	Exercise of Functions of the Board of Directors and Performance Evaluation of the Board of Directors	3.0

- (viii) Implementation of risk management policy and risk measurement standards: Not applicable (applicable to securities brokerages).
- (ix) Status of protection of consumer or customer interests: Not applicable (applicable to securities brokerages).
- (x) 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.
- (xi) 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 9th meeting of the 14th Board of Directors on August 8, 2019.

(xii) 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.

(xiii) Implementation status of the diversity policy:

The 14th Board of Directors of the Company consists of 7 Directors including 3 Independent Directors. The Directors have different professional skills. Those who specialize in management, leadership and decision making, and knowledge of the industry, and have extensive experience include the Director Min-Hsiung Liu, Director Chao-Tung Wong, Director Kung-Ching Wu, and Director Kai-Ming Huang. These Directors have always paid attention to environmental protection issues and invested in social care. They have provided the Company with numerous precious and valuable opinions. The three Independent Directors Juh-Shan Chiou, Hsien-Tang Tsai, and Lin-Lin Lee are elite professionals from different sectors and they specialize in finance and accounting, business, and legal affairs, respectively. They have demonstrated synergy with their diverse and complementary skills and fully made use of the functions of the Board of Directors to help the Company attain new milestones in corporate governance.

The composition of the Company's current Board of Directors has included diversity consideration and the Company plans to pursue gender equality and ensure that Directors who serve concurrent roles as company managers shall not account for more than one third of the Directors in the future. The Company's Director who serves as employee accounts for 14.29% of all Directors; Independent Directors account for 42.86%; the female Director accounts for 14.29%; the proportion of Directors who do not serve concurrent role as company managers is 85.71%. The three Independent Directors have provided three to six years of services. Six Directors are between 60 and 69 years of age and one Director is between 50 and 59 years of age.

Name of Director	Gender	Nationality	Basic Composition				Business management	Leadership and decision making	Industry knowledge	Financial accounting	Business	Legal Affairs	
			Concurrent Role as Company Employee	Age Distribution		Term of Independent Director							
				50 to 59	60 to 69	Less than 3 year							3 to 6 years
Chairman of the Board Min-Hsiung Liu	Male	Republic of China		V			V	V	V				
Director Chao-Tung Wong	Male	Republic of China		V			V	V	V				
Director Kung-Ching Wu	Male	Republic of China	V	V			V	V	V				
Director Kai-Ming Huang	Male	Republic of China		V			V	V	V				
Independent Director Juh-Shan Chiou	Male	Republic of China		V		V	V			V			
Independent Director Hsien-Tang Tsai	Male	Republic of China		V		V	V				V		

Independent Director Lin-Lin Lee	Female	Republic of China		V			V	V					V
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ix. 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 2019: Organized at least two investor conferences each year, uploaded the Meeting Manual, Meeting Notice 30 days before the general shareholders' meeting, Annual Report, and Mid-Term Financial Report in both Chinese and English, reported material information in English at the same time, obtained third-party certification of the Corporate Social Responsibility Report, and established the "Regulations Governing the Evaluation of the Performance of the Board of Directors".
2. Priorities for improvements in 2020: The Company shall publish annual financial reports within two months of the end of the fiscal year and disclose links between the directors' performance evaluation and their salary and remuneration in the Annual Report.

Established on April 10, 2006	<b>Code of Ethical Conduct for Supervisors and Senior Managerial Officers</b>	Code: CHS-AA4-03
Amended on December 22, 2015		Implemented on December 22, 2015
<p>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.</p> <p>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).</p> <p>3. This Code and its amendments shall be enforced after approval by the Board of Directors and presented to the shareholders' meeting.</p> <p>4. The unit responsible for the maintenance and management of the Code is the Administration Department.</p> <p>5. Code of ethical conduct:</p> <p>5.1 Honest and ethical conduct:</p> <p>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.</p> <p>5.2 Prevention of conflicts of interest:</p> <p>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:</p> <ol style="list-style-type: none"> <li>(1) Themselves, their spouse, parents, children, or relatives within the second degree of kinship;</li> <li>(2) Companies in which the individuals in the subparagraph above directly or indirectly enjoy significant financial benefits;</li> <li>(3) Companies in which they serve as the chairman, executive director, or senior managerial officers;</li> </ol> <p>The Company shall pay particular attention in loans, major asset transactions, purchase (sales) transactions, or provision of guarantee with the aforementioned individuals or companies.</p> <p>5.3 Avoid opportunities for personal gain:</p> <p>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:</p> <ol style="list-style-type: none"> <li>(1) Seeking opportunities to pursue personal gain for themselves or others by using company property or information or taking advantage of their positions;</li> <li>(2) Obtaining personal gain for themselves or others by using company property or information or taking advantage of their positions;</li> </ol>		

(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	<b>Code of Ethical Conduct for Directors</b>	Code: CHS-AA4-04
Amended on December 22, 2015		Implemented on December 22, 2015
<p>1. Objective: The Code of Ethical Conduct for Directors is established to promote honest and ethical conduct of directors and improve corporate governance.</p> <p>2. Scope of application: This Code is applicable to the Company's Directors.</p> <p>3. This Code and its amendments shall be enforced after approval by the Board of Directors and presented to the shareholders' meeting.</p> <p>4. The unit responsible for the maintenance and management of the Code is the Administration Department.</p> <p>5. Code of ethical conduct:</p> <p>5.1 Directors shall abide by the following basic principles when performing their duties:</p> <ol style="list-style-type: none"> <li>(1) Protect shareholder equity;</li> <li>(2) Reinforce the role of the Board of Directors;</li> <li>(3) Respect the interests of stakeholders;</li> <li>(4) Increase information disclosure transparency.</li> </ol> <p>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.</p> <p>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.</p> <p>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:</p> <ol style="list-style-type: none"> <li>(1) Themselves, their spouse, parents, children, or relatives within the second degree of kinship;</li> <li>(2) Companies in which the individuals in the subparagraph above directly or indirectly enjoy significant financial benefits;</li> <li>(3) Companies in which they serve as the chairman, executive director, or senior managerial officers;</li> </ol> <p>The Company shall pay particular attention in loans, major asset transactions, purchase (sales) transactions, or provision of guarantee with the aforementioned individuals or companies.</p> <p>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.</p>		

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, Responsibilities and Operations of the Remuneration Committee:**

**(1) Remuneration Committee member profiles:**

**Remuneration Committee member profiles**

Name	Meets One of the Following Professional Qualification Requirements, Together with at Least Five Years' Work Experience			Independence Criteria (Note)										Number of Other Public Companies in Which the Individual is Concurrently Serving as an Remuneration Committee Member	Remarks	
	Criteria	An instructor or higher position in a department of commerce, law, finance, accounting, or other academic department related to the business needs of the Company in a public or private junior college, college or university	A judge, public prosecutor, attorney, Certified Public Accountant, or other professional or technical specialist who has passed a national examination and been awarded a certificate in a profession necessary for the business of the Company	Has work experience in the areas of commerce, law, finance, or accounting, or otherwise necessary for the business of the Company	1	2	3	4	5	6	7	8	9			10
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 "✓" in the corresponding boxes.

- (1) Not an employee of the company or any of its affiliates.
- (2) Not a director or supervisor of the company or any of its affiliates. Not apply to independent directors appointed in accordance with the Act or the laws and regulations of the local country by, and concurrently serving as such at, a public company and its parent or subsidiary or a subsidiary of the same parent.
- (3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate of one percent or more of the total number of issued shares of the company or ranking in the top 10 in holdings.
- (4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of a managerial officer under subparagraph 1 or any of the persons in the preceding two subparagraphs.
- (5) Not a director, supervisor, or employee of a corporate shareholder that directly holds five percent or more of the total number of issued shares of the company, or that ranks among the top five in shareholdings, or that designates its representative to serve as a director or supervisor of the company under Article 27, paragraph 1 or 2 of the Company Act. Not apply to independent directors appointed in accordance with the Act or the laws and regulations of the local country by, and concurrently serving as such at, a public company and its parent or subsidiary or a subsidiary of the same parent.
- (6) If a majority of the company's director seats or voting shares and those of any other company are controlled by the same

- person: not a director, supervisor, or employee of that other company. Not apply to independent directors appointed in accordance with the Act or the laws and regulations of the local country by, and concurrently serving as such at, a public company and its parent or subsidiary or a subsidiary of the same parent.
- (7) If the chairperson, general manager, or person holding an equivalent position of the company and a person in any of those positions at another company or institution are the same person or are spouses: not a director (or governor), supervisor, or employee of that other company or institution. Not apply to independent directors appointed in accordance with the Act or the laws and regulations of the local country by, and concurrently serving as such at, a public company and its parent or subsidiary or a subsidiary of the same parent.
- (8) Not a director, supervisor, officer, or shareholder holding five percent or more of the shares, of a specified company or institution that has a financial or business relationship with the company. Not apply to independent directors appointed in accordance with the Act or the laws and regulations of the local country by, and concurrently serving as such at, a public company and its parent or subsidiary or a subsidiary of the same parent, if the specified company or institution holds 20 percent or more and no more than 50 percent of the total number of issued shares of the public company.
- (9) Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides auditing services to the company or any affiliate of the company, or that provides commercial, legal, financial, accounting or related services to the company or any affiliate of the company for which the provider in the past 2 years has received cumulative compensation exceeding NT\$500,000, or a spouse thereof; provided, this restriction does not apply to a member of the remuneration committee, public tender offer review committee, or special committee for merger/consolidation and acquisition, who exercises powers pursuant to the Act or to the Business Mergers and Acquisitions Act or related laws or regulations.
- (10) Not been a person of any conditions defined in Article 30 of the Company Law.

**(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 2019. The qualifications of the members and attendance record were as follows:

Term	Title	Name	Attendance in person B	Attendance by proxy	Attendance in person rate (%) [B/A]	Remarks
14th Term	Convener	Lin-Lin Lee	4	0	100%	
	Committee Member	Juh-Shan Chiou	3	1	75%	
		Hsien-Tang Tsai	4	0	100%	

Other matters that should be recorded:

- i. If the board of directors declines to adopt or modifies a recommendation of the remuneration committee, it should specify the date of the meeting, session, content of the motion, resolution by the board of directors, and the Company's response to the remuneration committee's opinion (eg., the remuneration passed by the Board of Directors exceeds the recommendation of the remuneration committee, the circumstances and cause for the difference shall be specified): None.
- ii. Resolutions of the remuneration committee objected to by members or expressed reservations and recorded or declared in writing, the date of the meeting, session, content of the motion, all members' opinions and the response to members' opinion should be specified: None.
- iii. Discussions and results of resolutions of the Remuneration Committee:
  1. 3rd meeting of 14th Remuneration Committee on March 14, 2019:
    - (1) The salary for the newly-appointed Vice President of Production Mr. Chien-Chou Chen.  
Resolution: Passed by all members of the Committee in attendance.
    - (2) The amendments to the grades given in the performance evaluation on the Company's President and Vice Presidents.  
Resolution: Passed by all members of the Committee in attendance.
    - (3) The amendments to the number of annual performance evaluations on the Company's President and Vice Presidents.  
Resolution: Passed by all members of the Committee in attendance.
  2. 4th meeting of 14th Remuneration Committee on March 19, 2019: The results of the performance evaluation of the President and Vice Presidents of the departments in 2018.  
Resolution: Passed by all members of the Committee in attendance.
  3. 5th meeting of 14th Remuneration Committee on May 2, 2019: The Company's proposal for the establishment of the "Regulations on the Distribution of Employee Remuneration"  
Resolution: The proposed amendment of the "Regulations on the Distribution of Employee Remuneration" is specified in the table below and all other clauses were passed unanimously.

Clause after Revision	Clause before Revision
2.1 Recipients of employee remuneration Employees who reported for duties before December 31 of the appropriation year after the Board of Directors approved the distribution in accordance with Article 1.2	2.1 Recipients of employee remuneration Employees who reported for duties before December 31 of the appropriation year <u>and</u> remain employed by the Company <u>when</u> the Board of Directors approved the

<p>who remain employed by the Company <u>on the distribution date</u>. However, where the employee is a new hire or reinstated in the appropriation year and is therefore not employed by the Company in the entire year, or where the employee retires, opts for favorable severance and retirement, is laid off, is deceased during employment, reinstated at CSC, transferred to an investee company, or is on parental leave without pay and is therefore not employed by the Company, the employee remuneration shall be calculated and distributed based on the number of days of service in the year.</p>	<p>distribution in accordance with Article 1.2. However, where the employee is a new hire or reinstated in the appropriation year and is therefore not employed by the Company in the entire year, or where the employee retires, opts for favorable severance and retirement, is laid off, is deceased during employment, reinstated at CSC, transferred to an investee company, or is on parental leave without pay and is therefore not employed by the Company, the employee remuneration shall be calculated and distributed based on the number of days of service in the year.</p>
<p>2.2 Employee remuneration distribution principles (2) <u>The 15% performance bonus distribution</u> may be adjusted within the <u> aforementioned quota</u> based on the employee's work performance and contribution in the year.</p>	<p>2.2 Employee remuneration distribution principles (2) <u>The Management team</u> may adjust the <u>total employee's remuneration within the 15% quota</u> based on the employee's work performance and contribution in the year.</p>
<p>2.3 According to Article 22 of the Company's Articles of Incorporation: "The Chairman shall be applicable to related regulations regarding employee salary payment and provided with other allowances," the maximum amount of employee remuneration distributed to the Chairman shall be 1.2 times that of the employee remuneration for the President and it shall be listed as expenses.</p>	<p>2.3 According to Article 22 of the Company's Articles of Incorporation: "The Chairman shall be applicable to related regulations regarding employee salary payment and provided with other allowances", the maximum amount of employee remuneration distributed to the Chairman shall be 1.2 times that of the employee remuneration for the President and it shall be listed as expenses.</p>
<p>4. 6th meeting of 14th Remuneration Committee on September 24, 2019: Proposal for the 2019 salary adjustment for the Company's Chairman, President, and Vice Presidents. Resolution: Passed by all members of the Committee in attendance.</p>	

**(v) Performance of Corporate Social Responsibility and Deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEX listed companies and reasons for deviation:**

Evaluation Item	Implementation Status (Note 1)		Abstract Explanation (Note 2)	Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No		
i. Does the company assess ESG risks associated with its operations based on the principle of materiality, and establish related risk management policies or strategies? (Note 3)	V		The Company shall identify and analyze possible risks and opportunities based on internal and external issues and the requirements and expectations of stakeholders for determining the risks and opportunities to address and response strategies. With regard to internal and external issues and the requirements and expectations of stakeholders, the Company shall analyze and establish long and short-term business development plans or include them in the Company's business strategy. The Company shall organize Plant or Department-level annual plans or assign dedicated units to take charge of such issues. In December each year, the units shall conduct risk assessments on related operations. For items evaluated as high-risk, the Company shall take additional and more effective control measures to reduce risks.	No deviation.
ii. Does the company establish exclusively (or concurrently) dedicated first-line managers authorized by the board to be in charge of proposing the corporate social responsibility policies and reporting to the board?	V		The Company's Administration Department is assigned to carry out such tasks on a part-time basis. It summarized the results of execution for economic, environmental, and social issues in the contents of the 2018 CSR Report. According to Article 2.3 of the Company's "Corporate Social Responsibility Best Practice Principles", the Company shall implement and promote CSR implementation principles and focus on the continuity of plans. The Department formulated specific CSR implementation plans for 2019 which was reported by the Vice President of the Administration Division to the Board of Directors.	No deviation.
iii.Environmental issues (i) Does the company establish proper environmental management systems based on the characteristics of their industries?	V		(i) 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	No deviation.

<p>(ii) Does the company endeavor to utilize all resources more efficiently and use renewable materials which have low impact on the environment?</p>	<p>V</p>	<p>Committee is chaired by the Vice President of Production and it operates in functional teams. The Committee is organized as follows:</p> <div style="text-align: center;"> <pre> graph TD     A["Committee Chairman Vice President of Production"] --- B["Deputy Committee Chairman (Assistant Vice President, Production Division)"]     A --- C["Consultant"]     B --- D["Executive Secretary for Energy"]     B --- E["Executive Secretary for Environment"]     D --- F["Committee Member"]     D --- G["Heat Technology Group"]     D --- H["Electricity Technology Group"]     D --- I["Environmental Energy System and Waste Reduction Group"]     D --- J["Education Group"] </pre> </div> <p>(ii) The Company maintains control over usage of energy, water resources, and waste and the controls are described as follows:</p> <ol style="list-style-type: none"> <li>1. Energy:       <ol style="list-style-type: none"> <li>(1) Continue to operate the ISO 50001 Energy Management System and improve energy management performance.</li> <li>(2) Attain the mandatory electricity savings target <math>\geq 1\%</math>. The electricity savings achieved by the plants in 2019 were as follows:           <ol style="list-style-type: none"> <li>a. Hot Rolling Department: 3.28%</li> <li>b. Cold Rolling Department: 2.57%</li> <li>c. Pickling and Galvanizing Department: 2.05%</li> <li>d. Dafa Steel Pipe Plant: 1.91%</li> <li>e. Lukang Steel Pipe Plant: 4.44%</li> </ol> </li> <li>(3) Fully adopt the low-pollutant "natural gas" as the main fuel to effectively reduce emissions of pollutants.</li> </ol> </li> <li>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 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</li> </ol>
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		<p>using water conservation taps. The performance of each plant in 2019 were as follows:</p> <ul style="list-style-type: none"> <li>(1) Hot Rolling Department: <math>\leq 0.457\text{kWh/ton}</math></li> <li>(2) Cold Rolling Department: <math>\leq 0.647\text{kWh/ton}</math></li> <li>(3) Pickling and Galvanizing Department: <math>\leq 0.702\text{kWh/ton}</math></li> <li>(4) Dafa Steel Pipe Plant: <math>\leq 0.169\text{kWh/ton}</math></li> <li>(5) Lukang Steel Pipe Plant: <math>\leq 0.060\text{kWh/ton}</math></li> <li>(6) The Company's actual performance in 2019 was 0.494 kWh/ton.</li> </ul> <p>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, etc.). The waste recycling rate in 2019 was 98.93%.</p> <ul style="list-style-type: none"> <li>(1) Hot-rolling clay/inorganic sludge: Materials for cement factories or use in road gradation or production of interlocking bricks.</li> <li>(2) Waste wood: Use as boiler fuel.</li> <li>(3) Waste acid: Acid recycling for processing and reuse.</li> <li>(4) Waste iron and break-off rust: Recycled to the furnace for reuse.</li> </ul>	
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<p>(iii) Does the company evaluate the potential risks and opportunities in climate change with regard to the present and future of its business, and take appropriate action to counter climate change issues?</p>	<p>V</p>	<p>(iii) To ensure sustainability, the Company responds to climate change issues and identifies climate change risks and opportunities. The response management measures are as follows:</p> <table border="1"> <thead> <tr> <th rowspan="2">Dimension</th> <th rowspan="2">Item</th> <th colspan="2">Risks</th> <th colspan="3">Opportunities</th> <th rowspan="2">Response Management Measures</th> </tr> <tr> <th>Potential risks</th> <th>Level of Impact</th> <th>Opportunities</th> <th>Direct Impact</th> <th>Level of Impact</th> </tr> </thead> <tbody> <tr> <td rowspan="3">Regulations</td> <td rowspan="2">Total greenhouse gas emissions management</td> <td rowspan="2">Increase operating costs</td> <td rowspan="2">High</td> <td>Carbon rights offsetting and trading</td> <td>The carbon rights gained from the fuel offsetting program can increase production and can be traded</td> <td>Medium</td> <td rowspan="5">1. Annual greenhouse gas inventory 2. Energy analysis and KPI management 3. Continuous ISO 50001 operations 4. Establish/execute electricity saving plan 5. Obtain carbon rights from the fuel offsetting program</td> </tr> <tr> <td>Increase energy efficiency</td> <td>Continue to identify opportunities for improvement and increase energy usage efficiency</td> <td>Medium</td> </tr> <tr> <td>Reduce electricity consumption by 1%</td> <td>Increase operating costs</td> <td>Medium</td> <td>Replace old equipment</td> <td>Increase energy usage efficiency of equipment</td> <td>Low</td> </tr> <tr> <td rowspan="2">Policy</td> <td>Industry transformation (green production processes)</td> <td>Increase operating costs</td> <td>Low</td> <td>Increase product sales</td> <td>Continuous industry transformation increases the sales opportunities of the Company</td> <td>Low</td> </tr> <tr> <td>Circular economy</td> <td>Increase operating costs</td> <td>Low</td> <td>Increase product sales</td> <td>Continuous industry transformation increases the sales opportunities of the Company</td> <td>Low</td> </tr> <tr> <td rowspan="2">Practice</td> <td>Shortage of water resources</td> <td>Decrease/interruption of production</td> <td>Medium</td> <td>Water resources circular usage</td> <td>1. Improve process water consumption 2. Increase rainwater recovery facilities</td> <td>Low</td> <td>1. Execute process water usage and rainwater recovery to stabilize water supply sources. 2. Establish waste water purification and reuse equipment and make full use of water resources.</td> </tr> <tr> <td>Climate change and torrential rain</td> <td>Decrease/interruption of production</td> <td>Medium</td> <td>Increase product sales</td> <td>Torrential rain damages houses, infrastructure, and objects while repairs increase the use of steel products</td> <td>Low</td> <td>All plants prepare in advance to respond to extreme torrential rain</td> </tr> </tbody> </table>	Dimension	Item	Risks		Opportunities			Response Management Measures	Potential risks	Level of Impact	Opportunities	Direct Impact	Level of Impact	Regulations	Total greenhouse gas emissions management	Increase operating costs	High	Carbon rights offsetting and trading	The carbon rights gained from the fuel offsetting program can increase production and can be traded	Medium	1. Annual greenhouse gas inventory 2. Energy analysis and KPI management 3. Continuous ISO 50001 operations 4. Establish/execute electricity saving plan 5. Obtain carbon rights from the fuel offsetting program	Increase energy efficiency	Continue to identify opportunities for improvement and increase energy usage efficiency	Medium	Reduce electricity consumption by 1%	Increase operating costs	Medium	Replace old equipment	Increase energy usage efficiency of equipment	Low	Policy	Industry transformation (green production processes)	Increase operating costs	Low	Increase product sales	Continuous industry transformation increases the sales opportunities of the Company	Low	Circular economy	Increase operating costs	Low	Increase product sales	Continuous industry transformation increases the sales opportunities of the Company	Low	Practice	Shortage of water resources	Decrease/interruption of production	Medium	Water resources circular usage	1. Improve process water consumption 2. Increase rainwater recovery facilities	Low	1. Execute process water usage and rainwater recovery to stabilize water supply sources. 2. Establish waste water purification and reuse equipment and make full use of water resources.	Climate change and torrential rain	Decrease/interruption of production	Medium	Increase product sales	Torrential rain damages houses, infrastructure, and objects while repairs increase the use of steel products	Low	All plants prepare in advance to respond to extreme torrential rain
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Practice	Shortage of water resources	Decrease/interruption of production	Medium	Water resources circular usage	1. Improve process water consumption 2. Increase rainwater recovery facilities	Low	1. Execute process water usage and rainwater recovery to stabilize water supply sources. 2. Establish waste water purification and reuse equipment and make full use of water resources.																																																					
	Climate change and torrential rain	Decrease/interruption of production	Medium	Increase product sales	Torrential rain damages houses, infrastructure, and objects while repairs increase the use of steel products	Low	All plants prepare in advance to respond to extreme torrential rain																																																					

<p>(iv) Does the company take inventory of its greenhouse gas emissions, water consumption, and total weight of waste in the last two years, and implement policies on energy efficiency and carbon dioxide reduction, greenhouse gas reduction, water reduction, or waste management?</p>	<p>V</p>	<p>(iv) The results and explanation for the Company's greenhouse gas emissions, unit product tap water consumption, and total weight of waste in the past three years were provided below:</p> <ol style="list-style-type: none"> <li>1. Greenhouse gas emissions: 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 from 2017 to 2019 were as follows: 2017: 363,230.117 tons CO<sub>2</sub>e/year; unit product emissions intensity was 0.1467 ton-CO<sub>2</sub>e/unit production tons (verified; verification completed in May 2018) 2018: 379,253.992 tons CO<sub>2</sub>e/year; unit product emissions intensity was 0.1317 ton-CO<sub>2</sub>e/unit production tons (verified; verification completed in May 2019) 2019: 344,265.568 ton CO<sub>2</sub>e/year (not verified; verification is set to be completed in May 2020)</li> <li>2. Unit product tap water consumption (kiloliter/ton) 2017: 0.448 (kiloliter/ton) 2018: 0.450 (kiloliter/ton) 2019: 0.494 (kiloliter/ton)</li> <li>3. Total weight of waste 2017: 144,912 tons 2018: 144,615 tons 2019: 133,543 tons</li> <li>4. Expansion of the core values of the policies of "care for environment" and "energy conservation and waste reduction" <ol style="list-style-type: none"> <li>(1) Energy conservation, carbon reduction, and greenhouse gas cutback <ol style="list-style-type: none"> <li>a. Fuel consumption: Use low-pollutant natural gas.</li> <li>b. Electricity consumption: Electricity savings <math>\geq</math> 1%.</li> <li>c. Reduction of greenhouse gas emissions: The Company's greenhouse gas emissions reduction objectives are set to meet the national greenhouse gas emissions reduction objectives. It plans to reduce greenhouse gas emissions by an additional 50% in 2050 from 2005 level. The objectives for each phase are as follows: First phase (2016 to 2020) objective: Reduce emissions in 2020 by 2% from the baseline year of 2005. Second phase (2021 to 2025) objective: Reduce emissions in 2025 by 10% from the baseline year of 2005. Third phase (2026 to 2030) objective: Reduce emissions in 2030 by 20% from the baseline year of 2005.</li> </ol> </li> </ol> </li> </ol>
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			(2) Unit product tap water consumption target: $\leq 0.447$ (kiloliter/ton) (3) Waste resource recycling ratio target: $\geq 99\%$ .	
iv. Social issues				
(i) Does the company formulate appropriate management policies and procedures according to relevant regulations and the International Bill of Human Rights?	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.	No deviation.
(ii) Does the company have reasonable employee benefit measures (including salaries, leave, and other benefits), and do business performance or results reflect on employee salaries?	V		(ii) The Company established the "Salary Management Regulations" for the governance of employees' salaries. The Company also established the "Production and Sales Earnings Bonus Regulations" and distribute monthly (or annual) bonuses or additional year-end production and sales earnings bonuses based on the Company's profitability in the current month (or current year). The Company also established the "Employee Remuneration Distribution Regulations" to distribute annual profits. The business performance or results are adequately reflected in remuneration for employees. The Company established the Employee Welfare Committee in accordance with the law to implement various employee welfare measures. 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 subsidies, and children (employee) scholarships. The Company also organizes large-scale company-wide outdoor activities to improve employees' morale and advance community engagement activities.	
(iii) Does the company provide a healthy and safe working environment and organize training on health and safety for its employees on a regular basis?	V		(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) Does the company provide its employees with career development and training sessions?	V		(iv) 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	

<p>(v) Do the company's products and services comply with relevant laws and international standards in relation to customer health and safety, customer privacy, and marketing and labeling of products and services, and are relevant consumer protection and grievance procedure policies implemented?</p>	<p>V</p>	<p>training courses to fill in gaps in professional skills so that employees can obtain skills required for career development.</p> <p>The Company has established a knowledge management system to encourage employees to share and absorb knowledge from different sectors to develop their skills for analyzing and solving issues from a macro perspective.</p> <p>(v) 1. The Company's products have been evaluated for their impact on health and hazards. To ensure that imported steel materials are not contaminated by radiation, Chung Hung invests in the procurement of equipment and training of qualified inspection technical personnel to establish rigorous and effective operating procedures for radiation detection. The procedures were certified and approved by the competent authority — Atomic Energy Council, Executive Yuan and the Company obtained the “Steel and Iron Industry Radiation Detection Operations Certification”. No radioactive substances are found in slabs used by Chung Hung as materials or any of the Company's products.</p> <p>2. The Company regularly appoints SGS to analyze the items specified in RoHS 2.0 (cadmium, lead, mercury, hexavalent chromium, polybrominated biphenyls (PBBs), polybrominated diphenyl ethers (PBDEs), diisobutyl phthalate (DIBP), dibutyl phthalate (DBP), benzyl butyl phthalate (BBP), Di-2-ethylhexyl phthalate (DEHP), etc.), and SVHC items in REACH. All analysis results met requirements in the regulations.</p> <p>3. The Company’s products are labeled in accordance with existing Taiwanese and international standards and regulations and the Company issues quality assurance certificates.</p> <p>4. The Company regards customer information as confidential information of the Company. To protect customer interests and privacy, the Company has established rigorous protection measures and adopted the following rigorous mechanisms for management and control:</p> <p>(1) The Company established a dedicated IT unit to take charge of the Company's overall information system planning, development, establishment, and maintenance. It ensures the overall quality and safety of the operations of the software and hardware in the Company's information system.</p> <p>(2) The Company rigorously requires operating personnel to abide by the Company's confidentiality regulations for trade secrets and established the "Employee Code of Ethics" and other regulations for compliance. Employees are required to uphold their confidentiality obligations for business secrets, trade secrets, and other personal</p>	
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<p>(vi) Does the company implement supplier management policies, requiring suppliers to observe relevant regulations on environmental protection, occupational health and safety, or labor and human rights? If so, describe the results.</p>	<p>v</p>	<p>privacy information during their employment. The same rules shall apply after they leave the Company.</p> <p>(3) The Company uses Internet technologies to prevent the intrusion of hackers and prevent the theft of customer data. Anti-virus software is installed in all computer equipment to prevent the intrusion of computer viruses or trojans.</p> <p>(4) Operators are provided with their own unique accounts and passwords in the personal computer system based on their duties. The system regularly requires changes of passwords and management of excessive standby time to prevent theft of personal accounts and passwords. The system also automatically manages the system access for inquiries and operations. Personnel not related to operations are unable to conduct operations or obtain data.</p> <p>(5) The electronic business systems used by the customers and suppliers require individual network connection accounts and passwords.</p> <p>5. Complaint procedures: Please visit the Procedure of Customer Complaints on Chung Hung's website.  <a href="http://www.chsteel.com.tw/cs/cs.html#cs_e">http://www.chsteel.com.tw/cs/cs.html#cs_e</a></p> <p>(vi) The Company has established a comprehensive Supplier Management Policy and disclosed in the Corporate Social Responsibility Report and the Company's website (<a href="http://www.chsteel.com.tw/csr/sc/sc_sel.html">http://www.chsteel.com.tw/csr/sc/sc_sel.html</a>). The Company also provides related regulations for suppliers to download (<a href="http://www.chsteel.com.tw/pr/e-com.html#dow">http://www.chsteel.com.tw/pr/e-com.html#dow</a>). The addendum in Chung Hung's procurement contracts stipulates that if a supplier violates the Company's corporate social responsibility policy and causes significant impact upon the environment and society, or if a supplier engages in unethical conduct and damages labor rights in violation of the "Labor Standards Act", such conduct shall be deemed as a material breach of contract. The Company may, at its sole discretion, terminate or rescind the contract and deduct payment or request compensation in accordance with the contract.</p>	
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<p>v. Does the company reference internationally accepted reporting standards or guidelines, and prepare reports that disclose non-financial information of the company, such as corporate social responsibility reports? Do the reports above obtain assurance from a third party verification unit?</p>	<p>V</p>	<p>The Company's CSR Report is compiled in accordance with GRI standards: Core options and AA1000 Accountability Principles. The Company also references the ISO 26000 Guidance on Social Responsibility, United Nations Global Compact (UNGC), and the Corporate Social Responsibility Best Practice Principles for TWSE/TPEX-Listed Companies of Taiwan as the basis for disclosure in the Report. The Company's CSR Report has been certified by BSI in accordance with AA1000 AS-Type 1 and GRI Standards: Core Options.</p>	<p>No deviation.</p>
<p>vi. Describe the difference, if any, between actual practice and the corporate social responsibility principles, if the company has implemented such principles based on the Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies: 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" and disclosed on the Market Observation Post System. Our actual operations meet all requirements in the "Corporate Social Responsibility Best Practice Principles". (Link to the Company's Corporate Social Responsibility Best Practice Principles: <a href="http://www.chsteel.com.tw/cg/pdf/CHS-AA3-43.pdf">http://www.chsteel.com.tw/cg/pdf/CHS-AA3-43.pdf</a>)</p>			
<p>vii. Other useful information for explaining the status of corporate social responsibility practices:</p> <ol style="list-style-type: none"> <li>1. Environmental protection: 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 its outstanding performance as company responsible for air quality improvements in Kaohsiung Clean Air Quality Region in 2018 from the Environmental Protection Bureau of Kaohsiung City Government.</li> <li>2. Workplace safety and health: The Company implements ISO 45001 and CNS 45001 occupational safety systems. We provide a safe work environment and continue to make effective improvements to take care of employees. All four plant areas of the three plants have obtained OHSAS 18001 Occupational Health and Safety Assessment Series and Taiwan Occupational Safety and Health Management System (TOSHMS) certification. The implementation status and related honors in 2019 were as follows: <ol style="list-style-type: none"> <li>(1) The Dafa Steel Pipe Plant was recognized as an "Outstanding Unit in the Advancement of Occupational Safety and Health in Kaohsiung City in 2018" and received the "2018 Outstanding Occupational Safety and Health Unit" award from the Ministry of Labor, Executive Yuan.</li> <li>(2) The Hot Rolling Department, Cold Rolling Department, and Dafa Steel Pipe Plant received the "Special Award" for safety and health performance in 2018 from Taiwan Steel &amp; Iron Industries Association.</li> <li>(3) The Cold Rolling Department received the "Health Management Award" for outstanding workplace health in 2019 from the Health Promotion Administration of the Ministry of Health and Welfare.</li> <li>(4) The Section Chief Ming-Lung Sun of the Cold Rolling Department was recognized as an "Excellent Employee for Promoting Occupational Safety and Health in Kaohsiung City in 2018" and received the "2018 Excellent Employee for Promoting Occupational Safety and Health Award" from the Ministry of Labor, Executive Yuan.</li> </ol> </li> <li>3. Social welfare: <ol style="list-style-type: none"> <li>(1) By upholding the two main goals of "life" and "education", Chung Hung makes use of limited resources to sponsor social welfare programs. 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) in 2019.</li> <li>(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 2019 were as follows: <ol style="list-style-type: none"> <li>a. The Company cleaned the environment at the Home of Love of the Bureau of Social Affairs, Kaohsiung City Government regularly each month and we invited colleagues and their relatives to provide services. A total of 304 participants were recorded in the entire year (average 25.3 participants/month).</li> <li>b. The Company cleaned and organized the outdoor environment at Jing Zhong Village in Baishu Community and 30 employees and relatives participated in the activity.</li> <li>c. The Company organizes "volunteer training" each year and a total of 30 participants completed training in 2019. A total of 312 employees have obtained the "volunteer service record book" from 2008 to 2019.</li> </ol> </li> <li>(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</li> </ol> </li> </ol>			

local events, and assistance for community schools to continue to contribute to the development of communities near the plants. The activities in 2019 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 2019 Gangshan Bamboo Basket Festival events organized by Gangshan District Office.
- (4) Other activities: 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 events at Shilong Activity Center in Ciaotou for neutering, chip implant, rabies vaccination, and pet adoption and 25 employees and relatives participated in the events.

Note: 1.If "Yes" is checked under implementation, please describe the key policies, strategies, and measures and results adopted. If "No" is checked under implementation, please give reasons and describe relevant strategies and measures to be adopted in the future.

2.Companies who have compiled CSR reports may cite the source from specific pages of their CSR reports instead.

3.The materiality principle refers to environmental, social, or corporate governance issues that have a material impact on the investors or other stakeholders of the company.

**(vi) Implementation of ethical corporate management, deviation from "Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies", and reasons for deviation:**

Evaluation Item	Implementation Status			Deviation from "Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies" and reasons for deviation
	Yes	No	Abstract Illustration	
<p>i. Establishment of ethical corporate management policies and programs</p> <p>(i) Does the company have a Board-approved ethical corporate management policy and stated in its regulations and external correspondence the ethical corporate management policy and practices, as well as the active commitment of the Board of Directors and management towards enforcement of such policy?</p> <p>(ii) Does the company have mechanisms in place to assess the risk of unethical conduct, and perform regular analysis and assessment of business activities with higher risk of unethical conduct within the scope of business? Does the company implement programs to prevent unethical conduct based on the above and ensure</p>	V		<p>(i) 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's Board of Directors passed the establishment of 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". The scope and application encompass all related ethical management policies of the Company.</p> <p>The Company regularly uses the ERP system or assigns supervisors to use internal meetings to promote the Company's ethical management business philosophy and emphasize the importance of ethical conduct. The Company requires employees to maintain discipline and abide by related regulations of the Company. Fraudulent activities are not tolerated and employees are encouraged to conduct careful business operations and establish a culture of ethical business practices.</p> <p>(ii) The Company has established regulations for preventing unethical conduct in the "Ethical Corporate Management Best Practice Principles", "Ethical Corporate Operating Procedures and Code of Conduct", "Code of Ethical Conduct for Directors", "Code of Ethical Conduct for Supervisors and Senior Managerial Officers", "Employee Code of Ethics", and the internal control system. The regulations</p>	No deviation.

Evaluation Item	Implementation Status			Deviation from "Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies" and reasons for deviation
	Yes	No	Abstract Illustration	
<p>the programs cover at least the matters described in Paragraph 2, Article 7 of the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies?</p> <p>(iii) Does the company provide clearly the operating procedures, code of conduct, disciplinary actions, and appeal procedures in the programs against unethical conduct? Does the company enforce the programs above effectively and perform regular reviews and amendments?</p>			<p>include, at a minimum, the preventive measures for conducts described in Article 7, Paragraph 2 of the "Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies" and we also expressly stipulate anti-bribery or anti-kickback clauses in all engineering, procurement, and cooperation agreements.</p> <p>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. The company upholds integrity management philosophy and has organized internal training associated with the issue of ethical corporate management (including courses related to the acts announcement, internal audit control, quality technology, information security maintenance, financial accounting management, etc.), training 1,084 people involving a total of 3,648 man-hours.</p> <p>(iii) The Company has established the "Operating Standards for Processing Gifts, Banquets, and Requests", "Ethical Corporate Operating Procedures and Code of Conduct", "Rewards and Penalties Regulations", and "Employee Grievance Processing Regulations" 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.</p> <p>The Company implements these regulations and regularly reviews and</p>	

Evaluation Item	Implementation Status			Deviation from "Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies" and reasons for deviation
	Yes	No	Abstract Illustration	
			amends them.	
<p>ii. Implementation of ethical corporate management</p> <p>(i) Does the company evaluate business partners' ethical records and include ethics-related clauses in business contracts?</p> <p>(ii) Does the company have a unit responsible for ethical corporate management on a full-time basis under the Board of Directors which reports the ethical corporate management policy and programs against unethical conduct regularly (at least once a year) to the Board of Directors while overseeing such operations?</p> <p>(iii) Does the company establish policies to prevent conflicts of interest and provide appropriate communication channels, and implement it?</p> <p>(iv) Does the company have effective accounting and internal control systems in place to implement ethical corporate management? Does the internal audit unit follow the results of unethical conduct risk assessments and devise audit plans to audit the systems accordingly to prevent unethical conduct, or hire outside accountants to perform the audits?</p>	V		<p>(i) The Company's "Contractor and Supplier Assessment Regulations" and "Customer Credit Extension Management Regulations" have specified that the Company should avoid dealing with any persons having any record of unethical conduct when engaging in commercial activities.</p> <p>(ii) The Administration Department is responsible for advancing the establishment of related regulations and each unit complies with related regulations to ensure the full implementation of ethical corporate management. The Department also reports the operation and implementation status to the Board of Directors once every year.</p> <p>(iii) 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.</p> <p>(iv) The Company has established effective accounting systems to implement ethical management. The procedures for processing accounting matters have been implemented in accordance with regulations of the system and filed to the responsible supervisors for approval. In addition, the Company has established the "Internal Control System Regulations" to establish an effective internal control system. The Regulations were passed by the Board of Directors and adopted as the basis for the implementation of internal controls by related units and personnel of the Company. The Company established the "Instruction for Self-Evaluation of Internal Control Systems" which is used to implement self-evaluation of internal controls before the end of December each year. Each level 1 unit conducts a self-assessment on the management status of the current year and files a plant management</p>	No deviation.

Evaluation Item	Implementation Status			Deviation from "Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies" and reasons for deviation
	Yes	No	Abstract Illustration	
(v) Does the company regularly hold internal and external educational trainings on operational integrity?			<p>evaluation report to the Administration Department for compilation of the overall company evaluation report. The report is filed to the authorized supervisor for approval and delivered to the Finance Department which produces the Internal Control System Statement.</p> <p>The Company's audit plan was passed by the Board of Directors in 2019 to facilitate the rigorous implementation of internal control audits. The Company audited various operation items in transaction cycles and completed the audit report in 2019. A total of 52 audits (including 1 special audit) was conducted and 64 recommendations were filed for discrepancies and anomalies. The audit supervisor regularly attends meetings of the Board of Directors to report on the implementation status of the audit plan. After the audit report is filed, the audit supervisor sends the report to all Independent Directors for review in accordance with regulations. The audit supervisor also logs into the Company's audit management system for computerized management to continue follow-up on improvement progress. The follow-up and improvement status are reported to the Independent Directors for review each quarter.</p> <p>(v) The Company has established the "Employee Code of Ethics" and requires all new employees to attend anti-corruption training after reporting for duties. Supervisors use internal meetings to promote the Company's ethical management business philosophy and emphasize the importance of ethical conduct as well as zero tolerance for fraudulent activities.</p>	
<p>iii. Operation of whistle-blowing system in the Company</p> <p>(i) Does the company establish both a reward/punishment system and an integrity hotline? Can the accused be reached by an appropriate person for follow-up?</p>	V		<p>(i) 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</p>	No deviation.

Evaluation Item	Implementation Status			Deviation from "Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies" and reasons for deviation
	Yes	No	Abstract Illustration	
<p>(ii) Does the company have in place standard operating procedures for investigating accusation cases, as well as follow-up actions and relevant post-investigation confidentiality measures?</p> <p>(iii) Does the company provide proper whistleblower protection?</p>			<p>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 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".</p> <p>(ii) 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. There were no occurrences of penalties or complaints regarding violations of ethical corporate management at the Company in 2019.</p> <p>(iii) 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.</p>	
<p>iv. Strengthening information disclosure</p> <p>(i) Does the company disclose its ethical corporate management policies and the results of its implementation on the company's website and MOPS?</p>	√		<p>(i) The Company has disclosed information related to ethical management including the "Code of Ethical Conduct", "Ethical Corporate Management Best Practice Principles", and "Ethical Corporate Operating Procedures and Code of Conduct" 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</p>	No deviation.

Evaluation Item	Implementation Status			Deviation from "Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies" and reasons for deviation
	Yes	No	Abstract Illustration	
			are responsible for enhancing ethical corporate management. The Internal Audit Department is responsible for supervision and implementation as well as reporting the results regularly to the Board of Directors. Related conditions are disclosed in "Internal Auditing" on the website.	
v. 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.				
vi. Other important information to facilitate a better understanding of the company's ethical corporate management policies (e.g., the company shall declare the company's business integrity execution and policy to its business counterparts, 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, 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, Corporate Social Responsibility Best Practice Principles, Standard Operating Procedures for Requests Filed by Directors, and Regulations for Evaluating the Performance of the Board of Directors.

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: February 26, 2020

This Statement of Internal Control System is issued based on the self-assessment results of the Company for year 2019.

- i. The Company takes recognizance 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.
- ii. 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.
- iii. 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.
- iv. 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.
- v. Based on the aforementioned evaluation results, the company believes that the design and execution of its December 31, 2019 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.
- vi. 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.
- vii. This Statement was approved by the Board on February 26, 2020 where 0 of the 7 attending directors expressed dissenting opinions, and the remainder all affirmed the content of this Statement.

Chung Hung Steel Corporation

Chairman: Min-Hsiung Liu Signature and Seal

President: Kung-Ching Wu 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 2019 and up to the publication date of this annual report:**

● **Shareholder's meeting**

**1. Critical resolutions adopted at the 2019 general shareholders' meeting:**

- (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 amendments to the Company's "Procedure for Acquisition and Disposal of Assets".
- (4) Approval of the amendments to the Company's "Rules Governing the Election of Directors".
- (5) Approval of the amendments to the Company's "Operating Procedures for Fund Lending".
- (6) Approval of the amendments to the Company's "Procedures for Making Endorsements and Guarantees".
- (7) Approval of the amendments to the Company's "Rules of Procedure for Shareholders' Meetings".

**2. Report on execution of resolutions adopted at the 2019 general shareholders' meeting:**

- (1) Approval of the Company's 2018 Business Report and Financial Report: Passed as proposed.
- (2) Approval of the Company's 2018 earnings distribution proposal: Passed as proposed.
- (3) Approval of the amendments to the Company's "Procedure for Acquisition and Disposal of Assets": Passed as proposed and announced on the company website.
- (4) Approval of the amendments to the Company's "Rules Governing the Election of Directors": Passed as proposed and announced on the company website.
- (5) Approval of the amendments to the Company's "Operating Procedures for Fund Lending": Passed as proposed and announced on the company website.
- (6) Approval of the amendments to the Company's "Procedures for Making Endorsements and Guarantees": Passed as proposed and announced on the company website.
- (7) Approval of the amendments to the Company's "Rules of Procedure for Shareholders' Meetings": Passed as proposed and announced on the company website.

● **Important resolutions of the Board of Directors in 2019 and 2020:**

**1. 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.

**2. 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 "Procedure for Acquisition and Disposal of Assets".
- (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.
- (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 President and Vice Presidents of the departments in 2018.

**3. Important resolutions of the Board of Directors passed in the 8th meeting of the 14th Board of Directors on May 2, 2019:**

- (1) Approval of the amendments to the "Corporate Governance Best-Practice Principles".
- (2) Approval of the amendments to the Company's "Rules Governing the Election of Directors".
- (3) Approval of the establishment of the "Standard Operating Procedures for Requests Filed by Directors".
- (4) Approval of the establishment of the "Regulations on the Distribution of Employee Remuneration".
- (5) Approval of the amendments to the "Operating Procedures for Fund Lending".
- (6) Approval of the amendments to the "Procedures for Making Endorsements and Guarantees".

- (7) Approval of the amendments to the "Rules of Procedure for Shareholders' Meetings".
  - (8) Approval of the revisions of the agenda for the Company's 2019 general shareholders' meeting.
- 4. Important resolutions of the Board of Directors passed in the 9th meeting of the 14th Board of Directors on August 8, 2019:**
- (1) Approval of the renewal of the international non-recourse accounts receivable purchase with the Bank of Taiwan Gangshan Branch.
  - (2) Approval of the medium-term loan credit limit contract signed with Bank SinoPac North Kaohsiung Branch.
  - (3) Approval of the three-year Fixed Rate Commercial Paper (FRCP) credit extension signed with Taishin International Commercial Bank.
- 5. Important resolutions of the Board of Directors passed in the 10th meeting of the 14th Board of Directors on September 24, 2019:**
- (1) Approval of the Company's 2019 budget correction.
  - (2) Approval of the dissolution of the Company's investee company Taiwan Steel Corporation.
- 6. Important resolutions of the Board of Directors passed in the 11th meeting of the 14th Board of Directors on September 30, 2019:**
- (1) Election of the Company's Chairman. (The Director Min-Hsiung Liu was elected as the Chairman in the meeting)
  - (2) Approval of the assignment of representative directors and supervisors to the Company's investees.
- 7. Important resolutions of the Board of Directors passed in the 12th meeting of the 14th Board of Directors on November 7, 2019:**
- (1) Approval of the Company's 2020 audit plan.
- 8. Important resolutions of the Board of Directors passed in the 13th meeting of the 14th Board of Directors on December 30, 2019:**
- (1) Approval of the Company's 2020 budget.
  - (2) Approval of the replacement of the Hot Rolling Department's F3 main motor equipment.
  - (3) Approval of the amended "Duties Division Table of the Board of Directors, Chairman, and President".
  - (4) Approval of the establishment of the "Regulations Governing the Evaluation of the Performance of the Board of Directors".
  - (5) Approval of the amended "Remuneration Committee Charter".
  - (6) Approval of the issuance of NT\$3 billion in domestic unsecured corporate bonds and application to the Taipei Exchange for listing on TPEx after fundraising.
  - (7) Approval of the renewal of the domestic non-recourse accounts receivable purchase with the Bank of Taiwan Gangshan Branch.

- (8) Approval of the medium-term loan credit limit contract signed with the Bank of Taiwan Gangshan Branch.
- (9) Approval of the medium-term loan credit limit contract signed with Taiwan Business Bank Lingya Branch.
- (10) Approval of the appointment of the Company's President.
- (11) Approval of the proposal for the use of the Company's 2018 undistributed earnings in actual investment.
- (12) Approval of the appointment of Mr. Tsung-Chang Lee to serve as the Company's senior consultant without pay.

**9. Important resolutions of the Board of Directors passed in the 14th meeting of the 14th Board of Directors on January 21, 2020:**

- (1) Reported the results of the 2019 board performance evaluation.
- (2) Approval of the dismissal of the Vice President of Production Mr. Chien-Chou Chen.
- (3) Approval of the appointment of Mr. Chih-Ho Chiu as the Vice President of Production.
- (4) Approval of the medium-term loan credit limit contract signed with Hua Nan Commercial Bank Kaohsiung Branch.
- (5) Approval of the salary for the newly-appointed President Mr. Kung-Ching Wu.
- (6) Approval of the salary for the newly-appointed Vice President of Production Mr. Chih-Ho Chiu.

**10. Important resolutions of the Board of Directors passed in the 15th meeting of the 14th Board of Directors on February 26, 2020:**

- (1) Approval of the Company's 2019 Business Report and Financial Report.
- (2) Approval of the Company's 2019 earnings distribution proposal.
- (3) Approval of the report on the 2019 distribution of remuneration to employees and Directors.
- (4) Approval of the amendments to the "Audit Committee Charter".
- (5) Approval of the 2019 Internal Control Self-Assessment Report and Internal Control System Statement.
- (6) Approval of the proposal for convening the Company's 2020 general shareholders' meeting.
- (7) Approval of the appointment of the Company's certifying CPA.

**(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 of related individuals of the Company in recent years up to the annual report publication date:**

January 1, 2019 - March 31, 2020

Title	Name	Date Appointed	Date Dismissed	Reasons for resignation or dismissal
Chairman of the Board	Yi-Chung Han	2018.01.02	2019.09.30	Retired upon reaching retirement age
President	Tsung-Chang Lee	2017.10.01	2019.12.31	Retired upon reaching retirement age

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

#### 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	Remarks
Deloitte, Taiwan	Jui-Hsuan Hsu	2019.01.01~2019.12.31	None
	Yu-Hsiang Liu	2019.01.01~2019.12.31	

Unit: NT\$1000

Amount bracket		Fee items	Audit fees	Non-audit fees	Total
1	Less than 2,000		-	330	330
2	2,000 (inclusive) to 4,000		-	-	-
3	4,000 (inclusive) to 6,000		5,742	-	5,742
4	6,000 (inclusive) to 8,000		-	-	-
5	8,000 (inclusive) to 10,000		-	-	-
6	More than 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\$1000

Name of the accounting firm	CPA name	Audit fees	Non-audit fees					Audit period	Remarks
			System design	Business registration	Human Resources	Others (Note 1)	Subtotal		
Deloitte, Taiwan	Jui-Hsuan Hsu	5,742	0	0	0	330	330	2019.01.01~2019.12.31	Other fees mainly consisted of transfer pricing services.
	Yu-Hsiang Liu							2019.01.01~2019.12.31	

Note 1: If this company has not changed the company accountant or accounting firm during this year, please list the audit and non-audit fees 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 fees were lower for the year of the firm change compared to that of the previous year, then the decreasing amount and percentage of the audit fees and the reason for such changes should be disclosed: None.

(iii) Where audit fee paid for the year was more than 10% less than that of the previous year, the amount, percentage, 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 CPA: The following information on change of accountants in the past two years and post-period shall be disclosed:**

**(i) Information on the previous CPA:**

Date of Change	Passed in the 15th meeting of the 14th Board of Directors on February 26, 2020		
Reason for Replacement and Explanation	Due to the internal rotation mechanism of CPA at Deloitte, Taiwan, the Company's financial statements, previously certified by the CPAs Jui-Hsuan Hsu and Yu-Hsiang Liu, have been certified by the CPAs Yu-Hsiang Liu and Jia-Ling Chiang starting from the first quarter of 2020.		
Describe whether the Company terminated or the CPA did not accept the appointment	Parties	CPA	The Company
	Status	N/A	
	Termination of appointment		
	No longer accepted (continued) appointment		
Other issues (except for unqualified issues) in the audit reports within the last two years	N/A		
Differences with the company	Yes		Accounting principles or practices
			Disclosure of financial statements
			Audit scope or steps
			Others
	None		
	Description	N/A	
Other items for disclosure (items in Article 10, Subparagraph 6, Item 1-4 to Item 1-7 of the Regulations shall be disclosed)	None		

**(ii) Regarding succeeding CPA:**

Name of accounting firm	Deloitte, Taiwan
CPA name	Jia-Ling Chiang
Date of Appointment	Passed in the 15th meeting of the 14th Board of Directors on February 26, 2020
Consultation results and opinions on accounting treatments or principles with respect to specified transactions and the company's financial reports that the CPA might issue prior to the engagement	N/A

Succeeding CPA's written opinion of disagreement toward the former CPA	N/A
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**Previous CPAs' reply to Article 10, Subparagraph 6, Item 1 and Item 2-3 of the Regulations: N/A**

**(iii) Previous accountant's dissenting opinions on disclosures of items specified in the two preceding paragraphs: None.**

**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% shares and changes to their pledged shares in the past year and up to the publication date of this annual report.**

**Changes in equity of Directors, Independent Directors, managerial officers, and major shareholders**

Title	Name	2019		2020 up to March 31		Remarks
		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: Min-Hsiung Liu	0	0	0	0	
	Representative: Yi-Chung Han	0	0	N/A	N/A	Dismissed on September 30, 2019
	Representative: Kai-Ming Huang	0	0	0	0	Appointed on September 30, 2019
	Representative: Tsung-Chang Lee	0	0	N/A	N/A	Dismissed on December 31, 2019
	Representative: Kung-Ching Wu	0	0	0	0	Appointed on December 31, 2019
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	N/A	N/A	Dismissed on September 30, 2019
	Min-Hsiung Liu	0	0	0	0	Appointed on September 30, 2019

President	Tsung-Chang Lee	0	0	N/A	N/A	Dismissed on December 31, 2019
	Kung-Ching Wu	0	0	0	0	Appointed on December 31, 2019
Vice President, Administration Division	Chia-Wen Luo	0	0	0	0	
Vice President, Commercial Division	Wen-Chou Li	0	0	0	0	
Vice President of Production	Shao-Jung Lu	0	0	N/A	N/A	Dismissed on March 1, 2019
	Chien-Chou Chen	0	0	0	0	Dismissed on February 1, 2020
	Chih-Ho Chiu	N/A	N/A	0	0	Appointed on February 1, 2020
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	
Head of Accounting	Pei-Yu Lee	0	0	0	0	

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

Note 2: The shareholding percentage of dismissed directors at the end of the period refers to the shareholding percentage thereof during the month when they were dismissed. The shareholding percentage of newly appointed directors at the beginning of the period refers to the shareholding percentage thereof during the month when they were appointed.

**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 2019)

Unit: shares; %, April 30, 2019

Name	Personal Shareholding		Shares Held by Spouse and Underage Children		Total Shareholding by Nominee Arrangement		Name and Relationship Between the Company's Top Ten Shareholders, or Spouses or Relatives Within the Second Degree of Relationship		Remarks
	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. Employee's Stock Trust of Chung Hung Steel Corporation under the custody of Mega International Commercial Bank Co., Ltd.	12,757,936	0.89	0	0	0	0	None	None	
3. Taiwan Life Insurance Co., Ltd.	12,000,000	0.84	0	0	0	0	None	None	
Legal representative: Ssu-Kuo Huang	0	0	0	0	0	0	None	None	
4. California State Teachers' Retirement System by State Street Bank under the custody of Deutsche Bank	11,729,000	0.82	0	0	0	0	None	None	
5. Fubon Life Insurance Co., Ltd.	9,822,000	0.68	0	0	0	0	None	None	
Legal representative: Ming-Hsing Tsai	0	0	0	0	0	0	None	None	
6. TIAA-CREF Quant International Small-Cap Equity Fund under the custody of Deutsche Bank	5,935,000	0.41	0	0	0	0	None	None	
7. Jin-Lai Huang	5,463,000	0.38	0	0	0	0	None	None	
8. Hong Bang Investment Co., Ltd.	5,000,000	0.35	0	0	0	0	None	None	

Legal representative: Chao-Chia Lo	0	0	0	0	0	0	0	None	None
9. Hong-Lu Liao	4,862,000	0.34	0	0	0	0	0	None	None
10. DFA Emerging Markets Core Equity Portfolio under the custody of Citibank (Taiwan) Limited	3,766,926	0.26	0	0	0	0	0	None	None

#### ix. Total 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, 2019

Investee business	Investment by the Company		Investments by directors, independent directors, managerial officers and directly or indirectly controlled enterprises		Comprehensive investment	
	Number of Shares	Shareholding Percentage	Number of Shares	Shareholding Percentage	Number of Shares	Shareholding Percentage
Hung Kao Investment Corporation	2,600,000	100%	0	0	2,600,000	100%
Transglory Investment Corporation	297,619,989	40.91%	0	0	297,619,989	40.91%

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

### IV. Fundraising Conditions

#### i. Capital and shareholding

##### (i) Source of Capital:

March 31, 2020

Type of Shares	Authorized Capital			Remarks
	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		Remarks		
		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	None	Note 1
						Earned surplus turned capital increase of NT\$232,589,280		
						Capital increase shares by capital surplus of 99,681,120		

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 2019)

Date: April 30, 2019

Shareholder Structure Amount	Government Agencies	Financial Institutions	Other Institutions	Individual Investors	Foreign Institutions and Foreigners	Total
Number of People	0	10	189	93,539	157	93,895
Number of Shares Held	-	28,865,000	626,678,208	698,917,368	81,083,870	1,435,544,446
Shareholding Percentage	-	2.01%	43.65%	48.69%	5.65%	100%

## (iii) Dispersion of equity ownership:

(information from the period after the book closure date in April 2019)

Date: April 30, 2019; the nominal value is NT\$10 per share

Shareholding Classification	Number of Shareholders	Number of Shares Held	Shareholding Percentage %
1 ~ 999	39,063	10,092,679	0.70
1,000 ~ 5,000	33,734	80,210,106	5.59
5,001 ~ 10,000	9,705	76,140,836	5.30
10,001 ~ 15,000	3,260	39,761,655	2.77
15,001 ~ 20,000	2,395	43,902,485	3.06
20,001 ~ 30,000	1,897	47,978,698	3.34
30,001 ~ 40,000	946	33,604,580	2.34
40,001 ~ 50,000	712	33,071,834	2.30
50,001 ~ 100,000	1,199	87,336,500	6.09

100,001 ~ 200,000	563	81,664,448	5.69
200,001 ~ 400,000	237	66,014,653	4.60
400,001 ~ 600,000	74	36,882,107	2.57
600,001 ~ 800,000	22	15,394,844	1.07
800,001 ~ 1,000,000	20	18,349,924	1.28
Over 1,000,001	68	765,139,097	53.30
<b>Total:</b>	<b>93,895</b>	<b>1,435,544,446</b>	<b>100</b>

**(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 2019)

Date: April 30, 2019

Name of the Main Shareholder	Shares	Number of Shares Held	Shareholding Percentage
China Steel Corporation		582,673,153	40.59%
Employee's Stock Trust of Chung Hung Steel Corporation under the custody of Mega International Commercial Bank Co., Ltd.		12,757,936	0.89%
Taiwan Life Insurance Co., Ltd.		12,000,000	0.84%
California State Teachers' Retirement System by State Street Bank under the custody of Deutsche Bank		11,729,000	0.82%
Fubon Life Insurance Co., Ltd.		9,822,000	0.68%
TIAA-CREF Quant International Small-Cap Equity Fund under the custody of Deutsche Bank		5,935,000	0.41%
Jin-Lai Huang		5,463,000	0.38%
Hong Bang Investment Co., Ltd.		5,000,000	0.35%
Hong-Lu Liao		4,862,000	0.34%
DFA Emerging Markets Core Equity Portfolio under the custody of Citibank (Taiwan) Limited		3,766,926	0.26%

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

Item	Year		2019	2018	Current year up to March 31, 2020 (Note 8)
	Market value per share (Note 1)	Highest		12.80	16.15
	Lowest		8.94	10.30	5.40
	Average		10.60	12.49	8.48
Net value per share (Note 2)	Pre-distribution		10.15	10.28	9.57
	Post-distribution		-	10.18	-
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	0.01	2.11	(0.09)

		After adjustment	-	-	-
Dividends per share	Cash dividends		-	0.10	-
	Stock dividends	-	-	-	-
		-	-	-	-
	Cumulative undistributed dividends (Note 4)		-	-	-
Return on investment analysis	PE ratio (Note 5)		1060	5.92	-
	Price-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:

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%.

(Article 28-1 of the Company's Articles of Incorporation is expected to amend as follows and to be discussed in the 2020 General Shareholders Meeting)

In the event of surplus earnings after closing of annual accounts, due taxes shall be paid, and losses incurred in previous years shall be compensated. Upon completion of the preceding actions, the remainder surplus shall be allocated as statutory reserve in accordance with the

law. 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 remaining profit, if any, shall be included in the earnings available for distribution along with previous years' undistributed earnings, and the shareholder's meeting shall determine whether to distribute dividends or retain the earnings.

The Company shall allocate no less than 30% of the distributable earnings for shareholder dividends and bonuses each year. However, the distribution may be canceled if the accumulated earnings available for distribution are less than 3% of the paid-up capital.

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 earnings distribution proposal to the shareholders meeting

The Company's distribution of 2019 earning shall be processed in accordance with Article 228 of the Company Act and Article 28-1 of the Company's Articles of Incorporation. The distribution shall be described in the following statement.

### Earnings Distribution Statement

2019

Item	Unit: NT\$ Amount
Balance of undistributed earnings at the beginning of the year	172,893,414
Remeasurement of defined benefit plan converted into retained earnings	(9,614,299)
Balance of undistributed earnings after adjustment	163,279,115
After-tax net profit of 2019	10,791,247
Minus: Statutory surplus reserves	(117,695)
Minus: Appropriation for special reserve	(51,970,387)
Distributable earnings	121,982,280
Undistributed earnings at the end of the period	121,982,280

Chairman: Min-Hsiung Liu

Managerial Officer: Kung-Ching Wu

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: N/A**

**(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 2019 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\$10,896.

(2) Directors' remuneration: NT\$0.

(3) The aforementioned amounts shall be distributed in cash and there is no difference from the estimates in 2019.

4. Information of 2018 Distribution of Compensation of Employees and Directors (with an indication of the number of shares, monetary amount, and stock price, of the shares distributed) and, if there is any discrepancy between the actual distribution and the recognized employee and director compensation, additionally the discrepancy, cause, and treatment shall be stated: The Company's actual distributed employee and Directors' remuneration in 2018 were consistent with the amount recognized in the Consolidated Financial Report of 2018.

**(ix) Status of company share buyback**

March 31, 2020

Treasury stocks: Batch Order	1st Buyback in 2000	Remarks
Purpose of buy-back	Transfer to employees	None
Timeframe of buy-back	From October 12, 2000 to November 10, 2000	
Price range	NT\$2.55-5.15 per share	
Class, quantity of shares repurchased	Ordinary shares: 19,791,000 shares	

Value of shares repurchased	56,439,252	
Quantity of repurchased shares as a percentage of total shares to be repurchased (%)	98.96	
Shares sold/transferred	19,791,000 shares	
Accumulated number of company shares held	0	
Percentage of total company shares held (%)	0	

## ii. Issuance of corporate bonds

Type of corporate bonds	First tranche of unsecured ordinary corporate bonds in 2020	
Issuance date	March 27, 2020	
Denomination	One type of NT\$1 million	
Issuing price	Issued at 100% of face value	
Total amount	NT\$2 billion	
Interest rate	Fixed annual interest rate 0.78%	
Deadline and maturity date	5 years Maturity date: March 27, 2025	
Guarantee agency	None	
Trustee	Trust Department, Taipei Fubon Commercial Bank	
Underwriter	2 underwriters including Fubon Securities Co., Ltd.	
Certifying attorney	I-Cheng Joint Law Office	
Certifying CPA	Deloitte, Taiwan	
Redemption method	Principal repayment in full at the expiry of the issuance period	
Outstanding principal balance	NT\$2 billion	
Articles for redemption or early liquidation	None	
Restrictive provisions (Note 4)	None	
Name of credit rating agency (CRA), rating date, and results of corporate bond ratings	Taiwan Ratings Corp. November 8, 2019; Rating: twA	
Other rights attached	As of the printing date of this annual report, converted amount of (exchanged or subscribed) ordinary shares, GDRs or other securities	None
	Issuance and conversion (exchange or subscription) method	None
Issuance and conversion, exchange or subscription method, issuing condition dilution, and impact on existing shareholders' equity	None	
Transfer agent	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.**

## V. Business overview

### i. Business activities

(i) **Business scope:** 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 2020 are as follows:

<u>Primary Product</u>	<u>Percentage (%)</u>
Hot-rolled steel coils	79.35
Cold-rolled steel coils	12.00
Galvanized steel coils	3.38
Steel pipes	5.27
Total	100

## **(ii) Industry Overview**

### 1. Current status and development

#### (1) Global steel supply and demand and development trends

The short-term forecast published by the World Steel Association in October 2019 showed that global steel demand would exceed expectations and increase by 3.9% to 1.775 billion tons in 2019. The main source of growth was China and steel demand in other regions of the world has declined due to the impact of economic uncertainties, tense trade relations, and geopolitics on investment and trade. Although the global economic environment is full of uncertainties in 2020, the increase in steel demand in developing and emerging economies is likely to maintain growth in global steel demand at 1.7% with 1.806 billion tons.

#### (2) Domestic steel supply and demand and development trends

According to the statistics on the apparent consumption of steel products provided by the Taiwan Steel & Iron Industries Association, the domestic apparent consumption of regular steel materials in 2019 amounted to 16.44 million tons which was a slight decline of 1.3%. Hot-rolled products decreased by 8.6% while cold-rolled products increased by 2.9%. The 4.5% decrease in the steel materials production equaled 23.73 million tons and the 2.2 million tons in imports equaled an increase of 20.6%. Export decrease by 5.3% with 9.49 million tons. It demonstrated weak domestic steel demand and operators prioritize exports and the reduction of inventory.

Due to the stalemate in the trade war between the United States and China, the statistics compiled by the Ministry of Economic Affairs showed that as of December 27, 2019, 165 Taiwanese businesses have passed the review and more than NT\$710 billion in investments have returned with the Taiwanese businesses. Their return has also led to the construction of plants and offices in Taiwan and is likely to accelerate demand in related steel materials. In terms of other transferred purchase orders, those for automobile components from North America increased 6.7% in 2019 which will help with growth in the demand of steel materials for automobiles. The demand for shells used by major OEM plants for servers will also increase and it is expected to increase the demand for galvanized products.

#### (3) Recent development trends in the global steel market

The international steel market has declined since the third quarter and conditions did not improve until December. It was mainly caused by the decline of the automobile industry in multiple countries which reduced demand. Among these countries, India suffered from financial liquidity, seasonal factors, decline of the automobile industry, and the general election which caused suspension of public construction projects which have led to reduced domestic steel demand. Steel plants actively pursued exports to deal with inventory and the result was a substantial decline in steel prices in Asia and Europe. The manufacturing industry has declined in the United States with continuous decrease in steel prices in the second half of the year. Prices have increased recently but they are not supported by demand from the physical economy. We must continue to monitor developments. The steel market in China has stabilized and prices became more favorable. Its market capacity continued to stabilize the steel market in Asia. Phase 1 of the trade agreement between China and the United States has been signed but the progress on negotiations in Phase 2 will still impact physical demands. We must continue to monitor developments closely.

## 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 not interchangeable fully. The Company 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 electronics industries in China, automobile and 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. The Company must use small rollers to produce 0.08-0.30mm products by customers 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 lead frames, 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.
  - D. Development of the pile-driving pipes used in Japan (upgrade from STK490 to STK590).
  - E. Development of pipes used for domestic hot spring and geothermal projects. Seam carbon steel pipes are used to replace previously imported seamless pipes.
- (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 2019 are as follows:

#### **1. Product development**

- (1) Cold rolling - development of J4B 0.254 mm×900 mm products.
- (2) Cold rolling - development of HCH1B 4.15/4.20/4.25 mm products.
- (3) Steel pipes - API 5CT K55 9" product development.
- (4) Steel pipes - API 5L/AS/NZS 1163 C350L0 14"×16.0 mm product development.

#### **2. Product quality improvements**

- (1) Hot rolling - reduction of break-off rust on API steel pipe materials.
- (2) Hot rolling - reduced the occurrence of Tail Pinch.
- (3) Hot rolling - improved the achievement rate of crowning of fineblanking materials.
- (4) Hot rolling - improved the coiling form quality of hot-rolled steel coils.
- (5) Cold rolling - increased the cleanliness of the steel plate surface on the washing line.
- (6) Pickling and galvanizing - increased the flatness of pickled steel coils in the Pickling and Galvanizing Department.

#### **3. Process research**

Hot rolling - improved the rust discrepancies in high-grade hot-rolled pickled steel coils.

#### **4. Equipment technology establishment**

- (1) Hot rolling - high-grade pickled steel coils (suitable for electroplating products).
- (2) Hot rolling - improvement of the pressure roll in tempering and recoiling (decrease of the stamp marks of the thick pressure roll and improve quality).
- (3) Hot rolling - No. 2 furnace boiler tube and skid replacement project (increase equipment stability and reduce the risks of suspension of operations).
- (4) Cold rolling - establishment of the annealing CQ2 machinery adjustment and carbide control technology (increase the stamping durability of cold-rolled products).
- (5) Cold-rolling - replacement of the thickness sensor on the tension leveler (developed domestic laser thickness measurement equipment with the Industrial Technology Research Institute to increase overall benefits).
- (6) Cold-rolling - refurbishment of the 10-ton boiler system (fuel conversion from heavy oil to natural gas) (reduction of air pollutants for energy conservation and carbon emissions reduction).
- (7) Cold-rolling - add equipment monitoring and diagnosis technologies for air compressors for public use (increase system diagnosis technologies and equipment stability).
- (8) Cold-rolling - dismantling of the bearing housing of the work rolls (reduce occurrences of occupational hazards and reduce manpower consumption).
- (9) Pickling and galvanizing - air compressor replacement project (replacement for reducing energy consumption).
- (10) Pickling and galvanizing - cold-rolling equipment groundwater recycling and reuse project (reduce tap water consumption).

(11) Pickling and galvanizing - phase 2 of the electrical control system improvement project for the cranes (equipment update to reduce damage of equipment).

(12) Steel pipes - establish heat treatment simulation and test capabilities (ensure heat treatment quality of upgradeable steel pipes).

(13) Steel pipes - additional straightening machine for No. 4 steel pipe process in Lukang (improved the straightness of steel pipes).

(14) Steel pipes - purchase of the steel forging simulation and analysis software for Lukang Plant (steel pipe forming simulation and wear and tear prediction).

#### **(iv) Long-term and Short-term Business Development Plans**

##### **1. Short-term plans**

Faced with drastic changes in the global steel industry, Chung Hung will continue to "maintain stability in operating performance", "ensure supply of materials for slabs", and "optimize customer services and relations" to effectively consolidate Chung Hung's competitiveness and fully commit to enhancing customer services and relations, create positive cycles of mutual trust, and increase the demand of domestic users for purchasing materials from Chung Hung. In addition, as Chung Hung and China Steel Corporation are responsible for different products, we shall continue to cooperate with the Group's production and sales strategy and work closely with users to achieve better balance, make full use of complementary advantages of the Group, and create win-win for all.

##### **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 to 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 2019 included domestic sales which accounted for 47.15% of the total sales volume of 2.3044 million tons (52.85% in 2018). Exports accounted for 52.85% and export regions include China, Japan, Korea, Southeast Asia, South Asia, Middle East, Australia, Europe and the Americas. Regions such as Southeast Asia

(27.95%), South Asia (6.90%), United States and Canada (5.47%), Europe (2.71%), and Japan and Korea (6.50%) 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): 15.0%.

(2) Cold-rolled products (including imports): 15.1%.

(3) Galvanized products (including imports): 7.8%.

(4) Steel pipe products (including imports): 3.4%.

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 2.14 million tons of hot-rolled steel products in 2020 and purchase 60,000 tons of steel coils from external sources. The products, deducted by the self-usage volume, equals approximately 1.6664 million tons of hot-rolled products 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. The amount was reduced to 600,000 tons + 200,000 tons (optional) in 2020 and other shortfalls will be filled by CSC Group. 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 high-grade products. It also advances upstream and downstream strategic alliances to form flexible and versatile strategies to compete against imports.

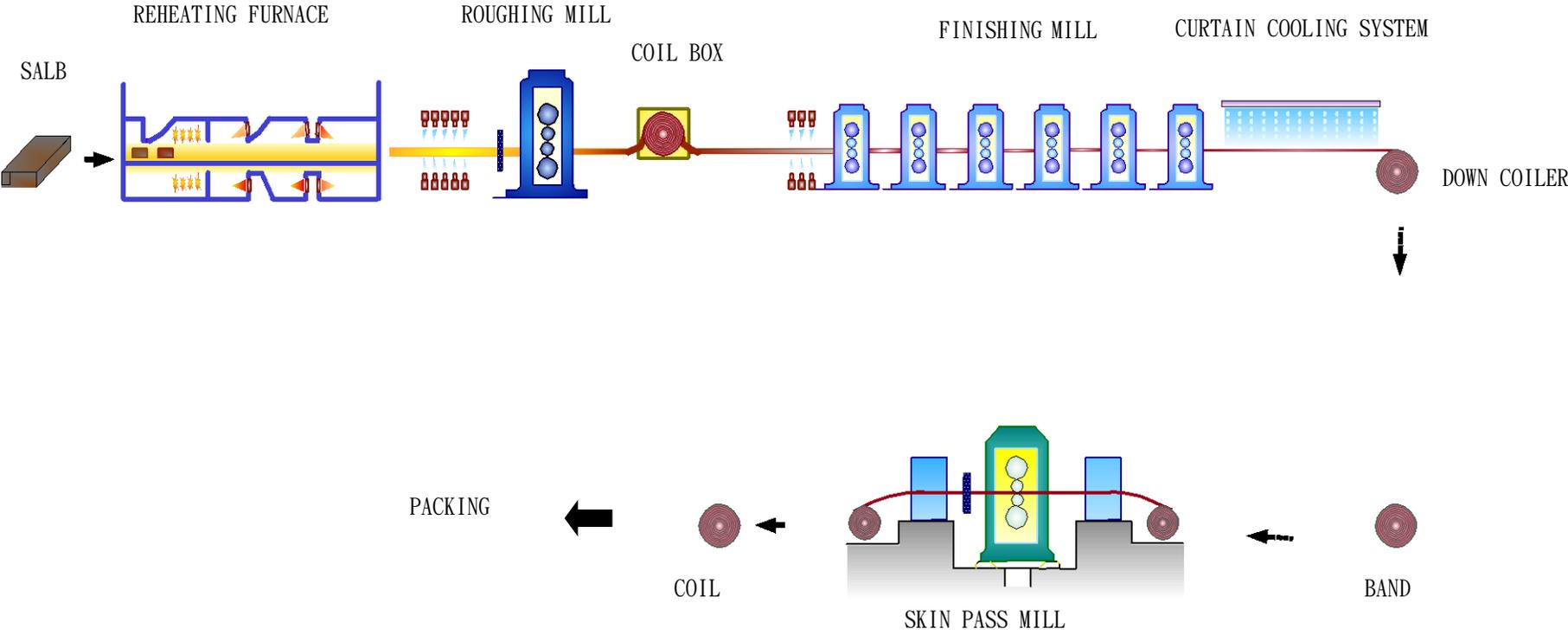
**(ii) Major product manufacturing processes**

1. Applications main products

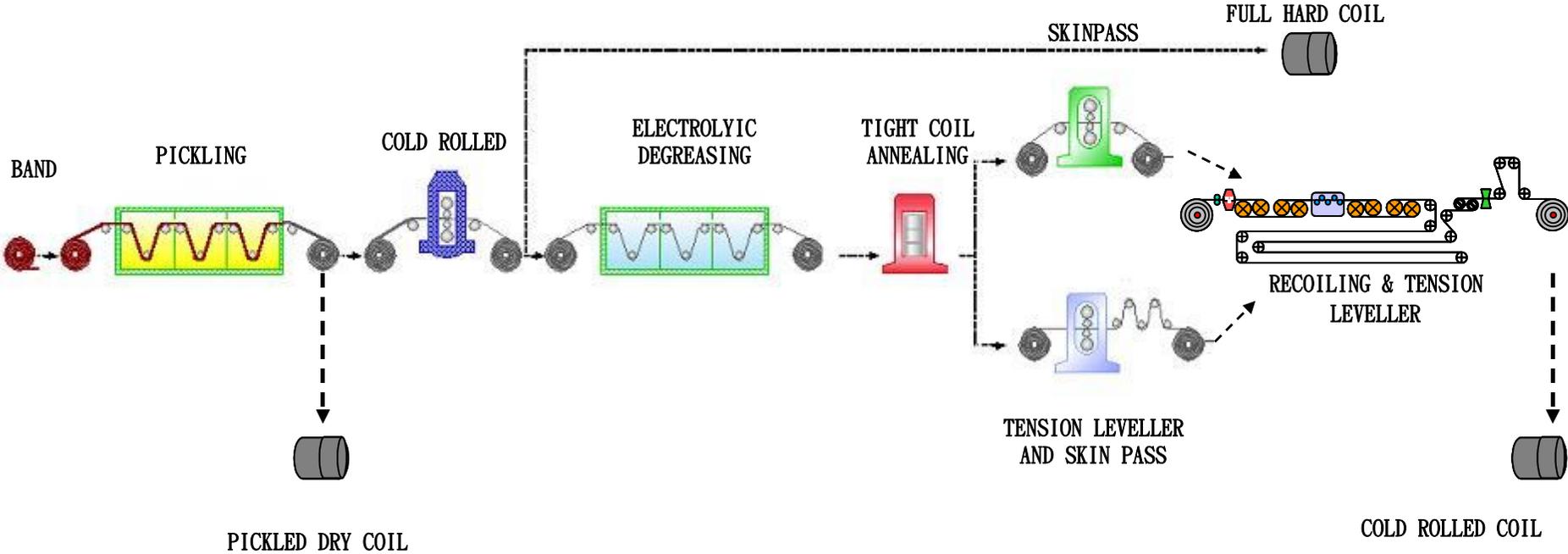
Product	Applications
Hot-rolled steel coils	<ul style="list-style-type: none"> <li>● Re-rolling steel coils such as processing into cold-rolled steel plates and galvanized (coated) steel plates.</li> <li>● Soft steel for processing into products such as containers, tools, and agricultural machinery.</li> <li>● Structural steel plates for processing into products such as structural steel for buildings, bridges, and vessels, automobile components, containers, oil tanks, and crane beams.</li> <li>● Production steel materials such as production of steel pipes for various purposes.</li> </ul>
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

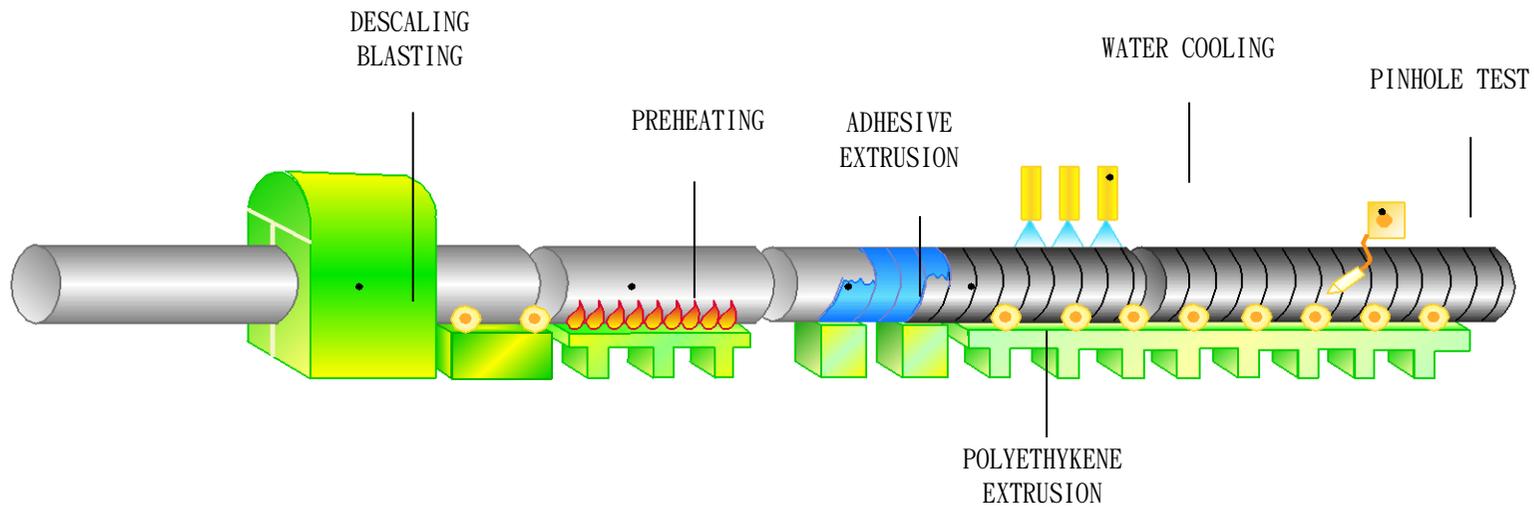
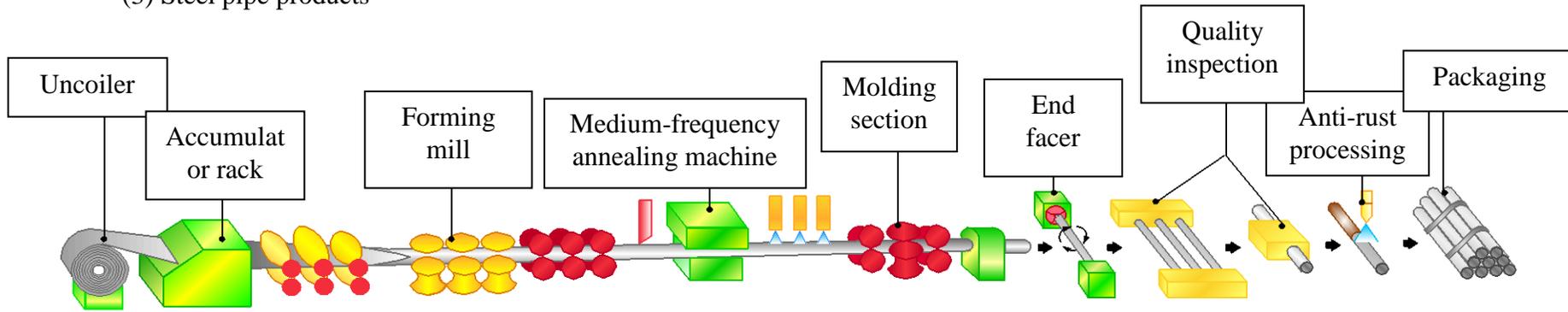
(1) Hot-rolled steel coils



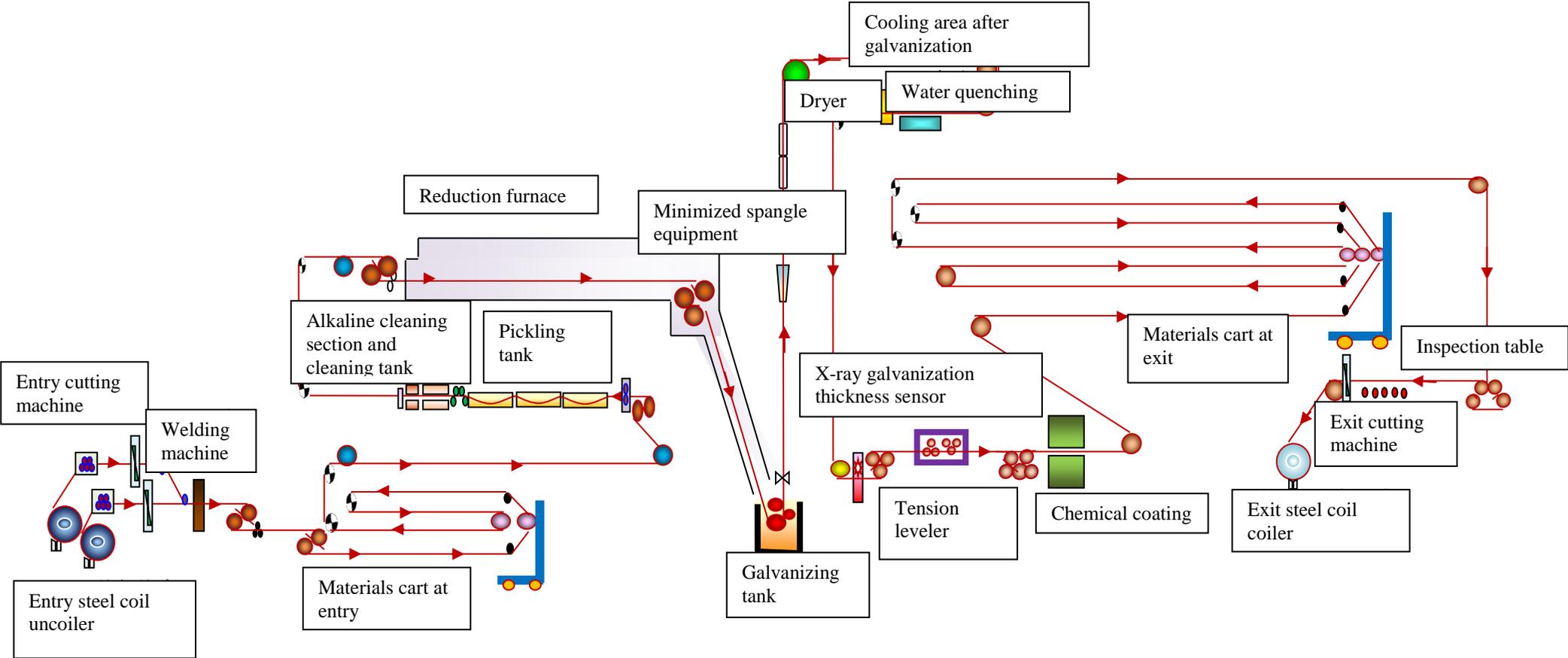
(2) Cold-rolled steel coils



(3) Steel pipe products



(4) Consecutive pickling of galvanized products



### (3) 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.

### (4) 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\$1000

		2019			2018				2020 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 2020 Annual Report is information from 2019. Therefore, the information is the same as the information on the left.
1	China Steel	20,764,285	63	Related party	China Steel	25,257,677	61	Related party	
2	Dragon Steel	8,712,164	27	Related party	Dragon Steel	10,349,774	25	Related party	
3	Others	3,232,156	10	N/A	Others	5,894,985	14	N/A	
	Net amount for purchases	32,708,605	100		Net amount for purchases	41,502,436	100		

#### 2. Sales (excluding returns and discounts):

Unit: NT\$1000

		2019			2018				2020 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 2020 Annual Report is information from 2019. Therefore, the information is the same as the information on the left.
1	Hong-Ye Steel	4,462,556	11	Non-related party	Hong-Ye Steel	6,045,004	13	Non-related party	
2	CARGILL	4,403,377	11	Non-related party	Others	41,520,820	87	N/A	
3	Synn Industrial	3,927,418	10	Non-related party					
4	Others	27,137,176	68	N/A					
	Net sales	39,930,527	100		Net sales	47,565,824	100		

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

Unit: NT\$1000; tons

Output Volume	Year	2019			2018		
		Production capacity	Production volume	Production value	Production capacity	Production volume	Production value
<b>Primary Product</b>							
Hot-rolled products		2,400,000	2,091,091	31,874,581	2,400,000	2,252,510	35,756,817
Cold-rolled products		450,000	262,834	5,272,745	450,000	399,776	7,999,733
Steel pipes		248,000	136,756	3,016,435	248,000	174,007	3,783,018
Galvanized products		300,000	14,009	285,985	300,000	28,554	458,765
<b>Total</b>		<b>3,398,000</b>	<b>2,504,690</b>	<b>40,449,746</b>	<b>3,398,000</b>	<b>2,854,847</b>	<b>47,998,333</b>

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	Year	2019				2018			
		Domestic sales		Export sales		Domestic sales		Export sales	
		Volume	Value	Volume	Value	Volume	Value	Volume	Value
<b>Primary Product</b>									
Hot-rolled steel coils		748,795	12,152,605	1,013,280	16,272,199	933,370	16,653,150	846,402	15,415,346
Cold-rolled steel coils		222,391	4,178,197	64,332	1,277,102	273,242	5,525,906	140,824	2,982,111
Steel pipes		10,126	271,653	128,859	3,464,883	11,035	271,607	157,525	4,229,366
Galvanized steel coils		105,273	2,061,136	11,300	252,752	90,872	1,957,610	24,235	523,953
Others		0	0	0	0	1,824	6,775	0	0
<b>Total</b>		<b>1,086,585</b>	<b>18,663,591</b>	<b>1,217,771</b>	<b>21,266,936</b>	<b>1,310,343</b>	<b>24,415,048</b>	<b>1,168,986</b>	<b>23,150,776</b>

Note: Certain galvanized steel coils were from outsourced production.

**(vii) Special key performance indicators in 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 2019 and 2018 can be referenced in the Financial analysis of the most recent 5 years in (VI) Financial Conditions of this Annual Report. Global steel prices were low in 2019. 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 2019, our liability to asset ratio amounted to 52.17% and long-term funds to fixed assets ratio amounted to 174.95%; current ratio was 108.31% and interest protection multiples was 1.08 times; return on assets was 0.34% and return on shareholder's equity was 0.07%; earnings per share was NT\$0.01.

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, 2020

The Company and subsidiaries of the Company		Year	End of 2019	End of 2018	2020 up to March 31
Number of employees			1,230	1,233	1,219
Average Age			47.6	47.6	48.1
Average years of services			18.1	17.9	18.7
Education Background Distribution %	Doctorate		0.16	0.16	0.16
	Master's		10.57	10.22	10.83
	College		53.99	53.85	53.82
	High school (vocational high school)		32.76	33.09	32.65
	High School and below		2.52	2.68	2.54

### iv. Environmental protection expenditure information

The Company upholds the core values for environmental health and safety including the "respect for life", "care for the environment", "energy conservation and waste reduction", and remains committed to improving employees' health, mitigating potential hazards and risks, upholding environmental protection, continuing energy conservation and waste reduction, strengthening participation in consultation services, and continuing to improve environmental safety and health management performance. The Company also passed various certifications

and accreditation (ISO 14001, ISO 45001, CNS 45001, ISO 50001, ISO 14064-1, and ISO 14064-2) and received numerous awards:

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’ 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 “Excellence 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 “Excellence 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 Unit 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 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 Department was recognized as an "Outstanding Unit in the Advancement of Occupational Safety and Health Unit in Kaohsiung City in 2015" and received the "Excellence Award" as a "2015 Outstanding Occupational Safety and Health Unit" from the Ministry of Labor in November 2016.
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 Unit in Kaohsiung City in 2016" and received the "Excellence Award" as a "2016 Outstanding Occupational Safety and Health Unit" from the Ministry of Labor in November 2017.
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 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 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.
  70. The Company received the "Joint Water Environment Patrol Team Service Award" from the Environmental Protection Bureau of Kaohsiung City Government in December 2018.
  71. Received recognition for outstanding performance as company responsible for air quality improvements in Kaohsiung Clean Air Quality Region in 2018 from the Environmental Protection Bureau of Kaohsiung City in March 2019.
  72. The heating furnace fuel conversion project of the Hot Rolling Department for replacing GHG emissions received certification for 52,506 tons of CO<sub>2</sub>e in the first year in May 2019.
  73. Received recognition for 2018 Outstanding Green Procurement Enterprise Award in Kaohsiung city from the Environmental Protection Bureau of Kaohsiung City for more than NT\$5 million of green procurement in 2018.
  74. The Company passed certification for ISO 45001: 2018 and ISO 50001: 2018 Management System revision certification in 2019.
  75. Dafa Steel Pipe Plant was recognized as an "Outstanding Unit in the Advancement of Occupational Safety and Health Unit in Kaohsiung City in 2018" and received the "Excellence Award" as a "2018 Outstanding Occupational Safety and Health Unit" from the Ministry of Labor in September 2019.
  76. The Labor Inspection Office of the Department of Labor, Taipei City Government visited the Cold Rolling Department to observe the occupational safety technology in September 2019.
  77. The Hot Rolling Department, Cold Rolling Department, and Dafa Steel Pipe Plant received the "Special Award" for occupational safety performance in 2018 from Taiwan Steel & Iron Industries Association in November 2019.
  78. The Cold Rolling Department received the "Health Management Award" for outstanding workplace health in 2019 from the Health Promotion Administration of the Ministry of Health and Welfare in December 2019.
- (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:

The Company received an environmental protection penalty in 2019 for inconsistency between the temporary storage volume of waste liquid from metal processing in the wastewater system and the data reported on the online Waste Report and Management System. The penalty was NT\$6,000. The Company's response measure requires the verification of the consistency of data in different reporting systems before online reports.

	2019	January to March 2020
Status of pollution (type and level)	Waste	None
Compensation claimed by/penalty incurred by	Environmental Protection Bureau, Kaohsiung City Government	None
Amount of compensation or penalty	A fine of NT\$6,000	None
Other losses	None	None
Date of punishment	2019.12.12	None
Punishment Letter No.	No. 10807163600 from Environmental Protection Bureau, Kaohsiung City Government	None
Regulations Violated	Subparagraph 2, Paragraph 1, Article 31 of the Waste Disposal Act	None
Content of Regulations Violated	Report to the special municipality, county or city competent authority via the Internet the circumstances regarding the production, storage, clearance, disposal, reuse, export, import, transit and transshipment of the waste at issue in accordance with the format, items, content, and frequency stipulated by the central competent authority.	None
Content of Punishment	Incorrect figures reported with regard to the production and storage amount of "wastewater or sewage whose pH value lies between 6.0 and 9.0 (D-1506)".	None

(ii) Future response strategies and potential expenditures

1. Expenses for pollution prevention (governance), changes in permits, detection of pollutant emissions, appointment of qualified removal and processing plants for adequate removal and processing of waste, land restoration, greenhouse gas emissions reduction (energy conservation investments), personnel training, third-party audits of the management system, and special assistance projects.
2. Environmental protection expenditure in 2019 amounted to NT\$304,263 thousand.

Item	Amount (NT\$1000)
1. Air pollution prevention costs	2,201
2. Water pollution prevention costs	42,728
3. Industrial waste disposal expenses	31,451
4. Soil pollutant expenses, land restoration, and soil and groundwater inspections	74,397
5. Toxic chemical (statuary expenses, review, and certification expenses)	3
6. Drinking water inspection expenses (including the cost of repairs)	235
7. Energy conservation investment, employee training, consultation, and verification expenses	153,248
Total	304,263

3. Total estimated environmental protection expenditures in 2020 is approximately NT\$109,268 thousand.

Item	Amount (NT\$1000)
1. Air pollution prevention costs	9,829
2. Water pollution prevention costs	42,195
3. Industrial waste disposal expenses	40,368
4. Soil pollutant expenses, land restoration, and soil and groundwater inspections	306
5. Toxic chemical (statuary expenses, review, and certification expenses)	3
6. Drinking water inspection expenses (including the cost of repairs)	237
7. Energy conservation investment, employee training, consultation, and verification expenses	16,330
Total	109,268

**(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, separation of access of personnel and vehicles, cutting (slicing) (abrasion) injuries, and contact with hazardous chemicals), employees of the plant and contractors conduct self-audits and joint defenses and they continue to uncover potential hazards, reduce operating risks, and enhance personal occupational safety awareness and accountability. 9,472 issues were discovered in the occupational safety regional allied defense measures from 2011 to 2019. The improvement rate is 100%.
2. Constant safety observations by supervisors: To control and alleviate potential hazards in high-risk operations, the team leaders, section chiefs, and Plant Directors implement 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 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 safety and health management skills of contractors.
4. 12 basic occupational safety regulations: The Company converts the requirements for the prevention of occupational hazards that are prone to occur in the operations of various plants into 12 basic regulations and tests employees and contractors during occupational safety audits to increase employees' occupational safety awareness.
5. Employee health inspection management and health promotion: The Company screens employees with high-risk health examination results ( low-density lipoprotein  $\geq 190\text{mg/dL}$ , atrial fibrillation in EKG results, myocardial ischemia, and hemoglobin A1C  $\geq 8\%$ ) and conducts supervisor health care, plant physician visits, follow-up management by plant nurses, and health promotion activities with the aim of gradually reducing the proportion of high-risk employees to 5%.

6. Four major plans for preventing human-factor hazards, irregular work load, acts of infringements, and maternal health. In 2019, improvements were conducted for five human-factor hazard cases; maternity health protection programs were activated for 5 female workers; no cases of irregular work load or acts of infringements were reported.
7. Occupational safety experience of all employees: The Company assigned employees to 29 sessions of trainings and 1,033 employees completed dynamic experience for "electrical, elevated, hoisting, mechanical, elevated, confined, and clamping" hazard awareness and prevention.
8. Three-tiered construction safety review meetings: In terms of the occupational safety management performance of overhauls or large-scale projects with a cost of more than NT\$5 million, the first tier involves a construction safety review meeting organized by the contract execution unit and contractor; the second tier involves an occupational safety review meeting organized by the contract execution unit, contractor, level 1 unit of the plant, and the occupational safety unit; the third tier involves an occupational safety review meeting organized by related personnel in the second tier with the occupational safety unit of the head office and the supervisor of the management department. The Company uses rigorous pre-construction review meetings to identify all hazardous risks, perform preventive tasks, and minimize hazards in construction.
9. The Company set up red control doors for high-hazard areas and safety interlock mechanisms and indicator lights for production lines to help all employees understand the energy, gas, and electrical conditions of the production line at a glance and help operators ensure safety before entering the production line.
10. Traffic safety dynamic experience and training: The Company organizes dynamic experience for the blind spots of large vehicles, motorcycle braking, and tire tread examinations. The Company also organizes defensive driving training and produces promotional posters for roads with frequent traffic accidents near the plant to enhance employees' transportation awareness and self-defense capabilities.
11. 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 annual 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.
12. 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.
13. 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.
14. 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.

15. 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 2019 which meets regulatory requirements.
16. Conduct the inventory of greenhouse gas emissions and third-party certification each year to monitor greenhouse gas emissions and meet national targets.

**(iv) Responding 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. Employer/employee 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 education and training status

Employee training is 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 23.2 hours of internal/external training. Total expenditures amounted to NT\$3,143 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 Corporation	2015.07.01~2020.06.30	Supply of slabs	None.
Long-term natural gas supply contract	Shinhsiung Natural Gas Inc.	2015.01.01~2024.12.31	Supply of fuel for the production of heating stoves at hot rolling mills	None.
Long-term natural gas supply contract	Nan-Jehn Gas Corporation	2018.10.11~2021.10.31	Supply of fuel for the production of annealing furnaces at cold rolling mills	None.
Equipment contract	InfoChamp Systems Corporation	2018.11.02~2020.12.31	Upgrading of electrical control equipment in pickling line at pickling and galvanizing mills	None.

Long-term steam supply contract	China Steel Corporation	2018.12.28~2023.12.31	Providing heating in production lines at pickling and galvanizing mills	None.
Land lease contract	Costco Wholesale Taiwan, Ltd.	2011.08.24~2031.08.23	Land lease	<ol style="list-style-type: none"> <li>1. The lessee has the right to notify the lessor in writing of lease renewal between 18 months and 24 months before the expiration of the operating period. The renewal period is limited up to 10 years, but shall not be less than 5 years.</li> <li>2. The lessee may terminate the contract at any time after 10 years from the commencement of the lease. However, the lessee shall notify the lessor in writing no less than 6 months before the termination, and shall indicate the reasons for not renewing the contract (hereinafter referred to as "termination notice period"). In addition, the lessee shall obtain written consent from the lessor. The lessor shall not refuse to give consent without any justifiable reason. However, the lessee is not required to obtain written consent from the lessor when the land lease cannot be extended due to losses arising from operations on the site/construction for two consecutive years and above (supporting documents from CPAs shall be provided).</li> </ol>

## VI. 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

Item	Year	Financial data for the last 5 years (Note 1)				
		2019 (Note 2)	2018	2017 (Note 3)	2016	2015
Current assets		9,204,726	11,654,994	8,847,559	7,211,872	6,025,763
Property, plant and equipment		12,552,287	13,249,030	14,031,648	12,074,761	13,250,036
Intangible assets		0	0	0	0	0
Other assets		8,705,393	8,515,140	8,496,333	10,585,269	9,624,914
Total assets		30,462,406	33,419,164	31,375,540	29,871,902	28,900,713
Current liabilities	Pre-distribution	8,501,245	12,428,299	10,617,891	13,578,273	10,602,139
	Post-distribution	Note 4	12,571,854	10,617,891	13,578,273	10,602,139
Non-current liabilities		7,392,264	6,227,619	8,831,990	6,883,815	11,660,319
Total liabilities	Pre-distribution	15,893,509	18,655,918	19,449,881	20,462,088	22,262,458
	Post-distribution	Note 4	18,799,473	19,449,881	20,462,088	22,262,458
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 (Accumulated deficit)	Pre-distribution	762,128	904,506	(2,083,776)	(4,581,010)	(6,400,684)
	Post-distribution	Note 4	760,951	(2,083,776)	(4,581,010)	(6,400,684)
Other equity		(549,578)	(497,607)	(346,912)	(365,523)	(1,317,408)
Treasury stock		0	0	0	0	0
Total equity	Pre-distribution	14,568,897	14,763,246	11,925,659	9,409,814	6,638,255
	Post-distribution	Note 4	14,619,691	11,925,659	9,409,814	6,638,255

Note 1: The financial data from 2015 to 2019 have been audited by CPAs.

Note 2: The Company's Annual Report is published on March 31, 2020. Therefore, the information at the end of the quarter before the publication date is the information from 2019.

Note 3: Based on the recomputed Financial Report.

Note 4: The 2019 earning distribution proposal is to be approved by the shareholders meeting.

## 2. Consolidated condensed balance sheet - International Financial Reporting Standards

Unit: NT\$1000

Item \ Year	Financial data for the last 5 years (Note 1)					
	2019 (Note 2)	2018	2017	2016	2015	
Current assets	9,209,104	11,663,757	8,853,782	7,604,143	6,524,665	
Property, plant and equipment	12,552,287	13,249,030	14,031,648	15,056,749	16,453,974	
Intangible assets	0	0	0	0	0	
Other assets	8,702,215	8,508,126	8,491,421	8,361,386	7,624,184	
Total assets	30,463,606	33,420,913	31,376,851	31,022,278	30,602,823	
Current liabilities	Pre-distribution	8,502,445	12,430,048	10,619,202	13,890,741	11,066,341
	Post-distribution	Note 3	12,573,603	10,619,202	13,890,741	11,066,341
Non-current liabilities	7,392,264	6,227,619	8,831,990	7,721,723	12,898,227	
Total liabilities	Pre-distribution	15,894,709	18,657,667	19,451,192	21,612,464	23,964,568
	Post-distribution	Note 3	18,801,222	19,451,192	21,612,464	23,964,568
Equity attributed to the owners of the parent company	14,568,897	14,763,246	11,925,659	9,409,814	6,638,255	
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 (Accumulated deficit)	Pre-distribution	762,128	904,506	(2,083,776)	(4,581,010)	(6,400,684)
	Post-distribution	Note 3	760,951	(2,083,776)	(4,581,010)	(6,400,684)
Other equity	(549,578)	(497,607)	(346,912)	(365,523)	(1,317,408)	
Treasury stock	0	0	0	0	0	
Non-controlling equity	0	0	0	0	0	
Total equity	Pre-distribution	14,568,897	14,763,246	11,925,659	9,409,814	6,638,255
	Post-distribution	Note 3	14,619,691	11,925,659	9,409,814	6,638,255

Note 1: The financial data from 2015 to 2019 have been audited by CPAs.

Note 2: The Company's Annual Report is published on March 31, 2020. Therefore, the information at the end of the quarter before the publication date is the information from 2019.

Note 3: The 2019 earning distribution proposal is to be approved by the shareholders meeting.

(ii) Condensed income statement

1. Individual condensed comprehensive income statement- International Financial Reporting Standards

Unit: NT\$1000

Item \ Year	Financial data for the last 5 years (Note 1)				
	2019 (Note 2)	2018	2017 (Note 3)	2016	2015
Operating revenue	40,467,516	48,233,721	40,788,590	32,618,511	29,349,527
Gross Profit (loss)	1,242,315	4,379,722	3,885,249	2,880,470	(1,909,545)
Operating profit (loss)	(217,532)	2,871,898	2,571,306	1,779,313	(2,912,361)
Non-operating income and expenses	228,417	161,325	34,822	133,961	1,748,232
Net profit (loss) before tax	10,885	3,033,223	2,606,128	1,913,274	(1,164,129)
Current period net profit from continuing operations	10,885	3,033,223	2,606,273	1,913,119	(1,162,198)
Loss from discontinued operations	0	0	0	0	0
Current period net profit (loss)	10,791	3,033,223	2,606,273	1,913,119	(1,162,198)
Income (loss) from discontinued operations	0	0	0	0	0
Other comprehensive income of the term (net value after tax)	(61,585)	(195,636)	(90,428)	858,440	(1,244,047)
Total comprehensive income for the period	(50,794)	2,837,587	2,515,845	2,771,559	(2,406,245)
Basic earnings (net loss) per share (NT\$) (Note 4)	0.01	2.11	1.82	1.33	(0.81)

Note 1: The financial data from 2015 to 2019 have been audited by CPAs.

Note 2: The Company's Annual Report is published on March 31, 2020. Therefore, the information at the end of the quarter before the publication date is the information from 2019.

Note 3: Based on the recompiled Financial Report.

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

## 2. Consolidated condensed comprehensive income statement- International Financial Reporting Standards

Unit: NT\$1000

Item \ Year	Financial data for the last 5 years (Note 1)				
	2019 (Note 2)	2018	2017	2016	2015
Operating revenue	40,470,129	48,238,885	40,792,444	33,440,122	29,992,331
Gross Profit (loss)	1,244,928	4,384,886	3,889,103	3,285,724	(1,604,515)
Operating profit (loss)	(217,589)	2,875,777	2,573,740	2,044,877	(2,733,272)
Non-operating income and expenses	228,474	158,071	32,563	(131,399)	1,569,176
Net profit (loss) before tax	10,885	3,033,848	2,606,303	1,913,478	(1,164,096)
Current period net profit from continuing operations	10,791	3,033,223	2,606,273	1,913,119	(1,162,198)
Loss from discontinued operations	0	0	0	0	0
Current period net profit (loss)	10,791	3,033,223	2,606,273	1,913,119	(1,162,198)
Income (loss) from discontinued operations	0	0	0	0	0
Other consolidated income of the term (net value after tax)	(61,585)	(195,636)	(90,428)	858,440	(1,244,047)
Total comprehensive income for the period	(50,794)	2,837,587	2,515,845	2,771,559	(2,406,245)
Net profit (loss) attributable to owners of the parent company	10,791	3,033,223	2,606,273	1,913,119	(1,162,198)
Net profit attributable to non-controlling equity	0	0	0	0	0
Total comprehensive income attributed to the owners of the parent company	(50,794)	2,837,587	2,515,845	2,771,559	(2,406,245)
Total comprehensive income attributed to non-controlling equity	0	0	0	0	0
Basic earnings (net loss) per share (NT\$) (Note 3)	0.01	2.11	1.82	1.33	(0.81)

Note 1: The financial data from 2015 to 2019 have been audited by CPAs.

Note 2: The Company's Annual Report is published on March 31, 2020. Therefore, the information at the end of the quarter before the publication date is the information from 2019.

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

(iii) Names of CPAs and audit opinions:

Year	Name of the accounting firm	Certifying CPA	Audit opinion
2019	Deloitte, Taiwan	Jui-Hsuan Hsu and Yu-Hsiang Liu	Unqualified 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

## ii. Financial analysis for the last 5 years

### (i) Financial analysis

#### 1. Individual financial analysis - International Financial Reporting Standards

Analysis Item (Note 5)		Year	Financial analysis for the last 5 years (Note 1)				
		2019 (Note 3)	2018	2017 (Note 4)	2016	2015	
Financial structure	Debt-to-assets ratio (%)	52.17	55.82	61.99	68.50	77.03	
	Long-term fund to property, plant and equipment (%)	174.95	158.43	147.93	134.94	138.10	
Solvency	Current ratio (%)	108.27	93.77	83.32	53.11	56.84	
	Quick ratio (%)	24.66	21.79	29.37	15.74	20.63	
	Interest earned times	1.08	22.68	15.40	10.47	(3.83)	
Operating performance	Receivables turnover ratio (times)	49.22	37.21	34.94	39.46	37.98	
	Average collection period	7.41	9.80	10.44	9.25	9.61	
	Inventory turnover ratio (times)	5.23	6.54	7.64	7.85	6.27	
	Payables turnover ratio (times)	106.54	45.76	28.02	38.41	65.64	
	Average days of sales	69.78	55.81	47.77	46.50	58.21	
	Property, plant, and equipment turnover ratio (times)	3.13	3.53	3.12	2.58	2.24	
	Total assets turnover ratio (times)	1.26	1.48	1.33	1.11	0.95	
Profitability	Return on assets (%)	0.34	9.70	8.98	7.08	(3.12)	
	Return on equity (%)	0.07	22.73	24.43	23.84	(14.82)	
	Net profit before taxes as a percentage of paid-in capital (%) (Note 9)	0.07	21.12	18.15	13.33	(8.11)	
	Net profit margin (%)	0.02	6.28	6.39	5.87	(3.96)	
	Earnings per share (NT\$) (Note 2)	0.01	2.11	1.82	1.33	(0.81)	
Cash flow	Cash flow ratio (%)	29.57	5.65	27.32	28.98	18.47	
	Cash flow adequacy ratio (%)	154.18	99.75	151.94	67.28	35.38	
	Cash reinvestment ratio (%)	5.03	1.55	6.60	10.60	5.19	
Leverage	Operating leverage	-	1.41	1.55	1.94	0.41	
	Financial leverage	0.63	1.05	1.07	1.13	0.92	

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. Interest earned times fell by 95% from the previous year mainly due to a decrease in pre-tax profit.
2. The receivables turnover ratio rose by 32% and the average collection period fell by 24% compared to the previous year mainly due to the decrease in the average accounts receivable.
3. The inventory turnover ratio fell by 20%; the payables turnover ratio rose by 133%; and average days of sales rose by 25% compared to the previous year mainly due to the decrease in the cost of goods sold and decrease in accounts and notes payable.
4. The return on assets ratio fell by 96% and the return on equity fell by 100% compared to the previous year mainly due to the decrease in net profit after tax.
5. The net profit before tax to paid-in capital ratio fell by 100% from the previous year mainly due to the decrease in pre-tax profit.
6. Net profit margin fell by 100% from the previous year mainly due to the decrease in net profit after tax.
7. The earnings per share fell by 100% from the previous year mainly due to the decrease in net profit after tax.
8. The cash flow ratio rose by 423% from the previous year mainly due to an increase in net cash inflow from operating activities.
9. The cash flow adequacy ratio rose by 55% from the previous year mainly due to an increase in net cash inflow from operating activities in the five preceding years.
10. The cash reinvestment ratio rose by 225% from the previous year mainly due to an increase in net cash inflow from operating activities.
11. The degree of financial leverage declined by 40% from the previous year mainly due to a decrease in operating profit.

## 2. Consolidated financial analysis- International Financial Reporting Standards

Analysis Item (Note 5)		Year	Financial analysis for the last 5 years (Note 1)				
		2019 (Note 3)	2018	2017	2016	2015	
Financial structure	Debt-to-assets ratio (%)	52.17	55.82	61.99	69.67	78.31	
	Long-term fund to property, plant and equipment (%)	174.95	158.43	147.93	113.78	118.73	
Solvency	Current ratio (%)	108.31	93.83	83.38	54.74	58.96	
	Quick ratio (%)	24.69	21.86	29.43	15.68	20.19	
	Interest earned times	1.08	22.68	12.95	9.77	(3.40)	
Operating performance	Receivables turnover ratio (times)	49.23	37.21	33.69	37.45	36.49	
	Average collection period	7.41	9.80	10.83	9.75	10.00	
	Inventory turnover ratio (times)	5.23	6.54	7.56	7.55	5.97	
	Payables turnover ratio (times)	106.54	45.76	27.80	38.19	64.83	
	Average days of sales	69.78	55.81	48.28	48.34	61.14	
	Property, plant, and equipment turnover ratio (times)	3.13	3.53	2.80	2.12	1.82	
	Total assets turnover ratio (times)	1.26	1.48	1.31	1.09	0.91	
Profitability	Return on assets (%)	0.34	9.70	8.93	6.80	(2.87)	
	Return on equity (%)	0.07	22.73	24.43	23.84	(14.79)	
	Net profit before taxes as a percentage of paid-in capital (%) (Note 9)	0.07	21.13	18.16	13.33	(8.11)	
	Net profit margin (%)	0.02	6.28	6.39	5.72	(3.87)	
	Earnings per share (NT\$) (Note 2)	0.01	2.11	1.82	1.33	(0.81)	
Cash flow	Cash flow ratio (%)	29.55	5.67	27.32	32.68	20.95	
	Cash flow adequacy ratio (%)	167.45	117.67	169.50	91.28	52.92	
	Cash reinvestment ratio (%)	5.03	1.56	6.61	11.58	5.80	
Leverage	Operating leverage	-	1.41	1.55	1.93	0.28	
	Financial leverage	0.63	1.05	1.09	1.12	0.91	

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. Interest earned times fell by 95% from the previous year mainly due to a decrease in pre-tax profit.
2. The receivables turnover ratio rose by 32% and the average collection period fell by 24% compared to the previous year mainly due to the decrease in the average accounts receivable.
3. The inventory turnover ratio fell by 20%; the payables turnover ratio rose by 133%; and average days of sales rose by 25% compared to the previous year mainly due to the decrease in the cost of goods sold and decrease in accounts and notes payable.
4. The return on assets ratio fell by 96% and the return on equity fell by 100% compared to the previous year mainly due to the decrease in net profit after tax.
5. The net profit before tax to paid-in capital ratio fell by 100% from the previous year mainly due to the decrease in pre-tax profit.
6. Net profit margin fell by 100% from the previous year mainly due to the decrease in net profit after tax.
7. The earnings per share fell by 100% from the previous year mainly due to the decrease in net profit after tax.
8. The cash flow ratio rose by 421% from the previous year mainly due to an increase in net cash inflow from operating activities.
9. The cash flow adequacy ratio rose by 42% from the previous year mainly due to an increase in net cash inflow from operating activities in the five preceding years.
10. The cash reinvestment ratio rose by 222% from the previous year mainly due to an increase in net cash inflow from operating activities.
11. The degree of financial leverage declined by 40% from the previous year mainly due to a decrease in operating profit.

Note 1: The financial data from 2015 to 2019 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, 2020. Therefore, the information at the end of the quarter before the publication date is the information from 2019.

Note 4: Based on the recomplied 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
  - (1) Current ratio = current assets / current liabilities.
  - (2) Quick ratio = (current assets - inventories - prepaid expenses) / current liabilities.
  - (3) Interest earned times = earnings before interest and taxes / interest expense.
3. Operating performance
  - (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 flow
  - (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 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 2019 fiscal year**

Chung Hung Steel Corporation  
Audit Committee's Audit Report

Hereby approves

The Company's 2019 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 2020 General Shareholders Meeting

Audit Committee, Chung Hung Steel Corporation

Convener: Juh-Shan Chiou

February 26, 2020

#### **iv. 2019 financial statements**

##### **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, 2019 and 2018, 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, 2019 and 2018, 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 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 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.

##### **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, 2019. 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 of the Corporation's standalone financial statements for the year ended December 31, 2019 are stated as follows:

##### **Measurement of Inventories**

Inventories are one of the significant assets in the balance sheet. As of December 31, 2019 the carrying amount of inventories held by the Corporation was NT\$6,577,637 thousand, which accounted for 21% of total assets. Due to the fluctuations in the prices of raw materials and finished goods in steel the 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 at the end of the reporting period, including evaluation of obsolete inventory and the measurement of inventories during the year. Our main audit procedures performed included the

following:

1. We observed year-end inventory counts and assessed the condition of inventory and evaluated the adequacy of inventory provision for obsolete goods;
2. We obtained the year-end inventory aging profile and verified its accuracy based on supporting documents and we confirmed that 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 yearend.
4. We checked the calculation of inventory provision, the market value of inventory from supporting documents 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, 2019 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

February 26, 2020

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, 2019		December 31, 2018	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash (Notes 4 and 6)	\$ 66,137	-	\$ 195,675	1
Financial assets at fair value through profit or loss - current (Notes 4 and 7)	181,351	1	217,281	1
Financial assets at fair value through other comprehensive income - current (Notes 4 and 8)	791,311	3	802,899	2
Accounts receivable (Notes 4 and 9)	466,017	1	948,932	3
Accounts receivable from related parties (Notes 4, 9 and 29)	45,733	-	183,440	-
Other receivables (Note 9)	6,031	-	16,002	-
Other receivables from related parties (Notes 9 and 29)	539,939	2	344,560	1
Current tax assets (Note 25)	349	-	392	-
Inventories (Notes 4, 5 and 10)	6,577,637	21	8,240,151	25
Prepayments (Note 11)	228,531	1	373,650	1
Non-current assets held for sale (Notes 4 and 12)	-	-	22,525	-
Other financial assets - current (Notes 12, 13 and 30)	300,000	1	302,897	1
Other current assets	1,690	-	6,590	-
Total current assets	9,204,726	30	11,654,994	35
<b>NONCURRENT ASSETS</b>				
Financial assets at fair value through other comprehensive income - noncurrent (Notes 4 and 8)	44,843	-	51,219	-
Investments accounted for using equity method (Notes 4 and 14)	2,553,395	9	2,493,577	7
Property, plant and equipment (Notes 4, 15, 30 and 31)	12,552,287	41	13,249,030	40
Right-of-use assets (Notes 3, 4 and 16)	74,901	-	-	-
Investment properties (Notes 4, 12 and 17)	5,984,073	20	5,907,018	18
Prepayments for equipment (Note 31)	42,549	-	57,694	-
Refundable deposits	5,632	-	5,632	-
Total noncurrent assets	21,257,680	70	21,764,170	65
<b>TOTAL</b>	<b>\$ 30,462,406</b>	<b>100</b>	<b>\$ 33,419,164</b>	<b>100</b>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term borrowings (Notes 18, 29 and 30)	\$ 5,154,867	17	\$ 6,381,773	19
Short-term bills payable (Note 18)	1,799,550	6	3,198,953	10
Contract liabilities - current (Notes 4, 12 and 23)	285,052	1	96,445	-
Accounts payable (Note 19)	29,672	-	45,304	-
Accounts payable to related parties (Notes 19 and 29)	65,597	-	595,764	2
Other payables (Note 20 and 29)	503,188	2	1,013,366	3
Lease liabilities - current (Notes 3, 4 and 16)	13,273	-	-	-
Current portion of long-term bank borrowings (Notes 18 and 30)	480,000	2	950,000	3
Refund liabilities - current	153,612	-	115,720	-
Other current liabilities	16,434	-	30,974	-
Total current liabilities	8,501,245	28	12,428,299	37
<b>NONCURRENT LIABILITIES</b>				
Long-term bank borrowings (Notes 18 and 30)	4,130,000	13	3,900,000	12
Long-term bills payable (Note 18)	2,609,138	9	1,679,558	5
Deferred tax liabilities (Notes 4 and 25)	182,222	1	182,222	1
Lease liabilities - noncurrent (Notes 3, 4 and 16)	62,044	-	-	-
Net defined benefit liabilities (Notes 4, 5 and 21)	373,860	1	430,719	1
Guarantee deposits received (Note 17)	35,000	-	35,120	-
Total noncurrent liabilities	7,392,264	24	6,227,619	19
Total liabilities	15,893,509	52	18,655,918	56
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION (Notes 4 and 22)</b>				
Ordinary shares	14,355,444	47	14,355,444	43
Capital surplus	903	-	903	-
Retained earnings				
Legal reserve	90,450	-	-	-
Special reserve	497,607	2	-	-
Unappropriated earnings	174,071	1	904,506	3
Total retained earnings	762,128	3	904,506	3
Other equity	(549,578)	(2)	(497,607)	(2)
Total equity	14,568,897	48	14,763,246	44
<b>TOTAL</b>	<b>\$ 30,462,406</b>	<b>100</b>	<b>\$ 33,419,164</b>	<b>100</b>

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

# CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

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

	For the Year Ended December 31			
	2019		2018	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4, 23 and 29)				
Sales	\$ 39,930,527	99	\$ 47,565,824	99
Service revenue	475,462	1	600,922	1
Other operating revenue	<u>61,527</u>	<u>-</u>	<u>66,975</u>	<u>-</u>
Total operating revenue	40,467,516	100	48,233,721	100
OPERATING COSTS (Notes 10, 24 and 29)	<u>39,225,201</u>	<u>97</u>	<u>43,853,999</u>	<u>91</u>
GROSS PROFIT	<u>1,242,315</u>	<u>3</u>	<u>4,379,722</u>	<u>9</u>
OPERATING EXPENSES (Note 24)				
Selling and marketing expenses	1,147,701	3	1,117,746	2
General and administrative expenses	<u>312,146</u>	<u>1</u>	<u>390,078</u>	<u>1</u>
Total operating expenses	<u>1,459,847</u>	<u>4</u>	<u>1,507,824</u>	<u>3</u>
PROFIT (LOSS) FROM OPERATIONS	<u>(217,532)</u>	<u>(1)</u>	<u>2,871,898</u>	<u>6</u>
NON-OPERATING INCOME AND EXPENSES (Notes 14, 17, 24 and 29)				
Other income	175,463	1	129,822	-
Other gains and losses	73,899	-	79,374	-
Finance costs	(123,047)	-	(139,883)	-
Share of the profit of associates	<u>102,102</u>	<u>-</u>	<u>92,012</u>	<u>-</u>
Total non-operating income and expenses	<u>228,417</u>	<u>1</u>	<u>161,325</u>	<u>-</u>
PROFIT BEFORE INCOME TAX	10,885	-	3,033,223	6
INCOME TAX (Notes 4, 5 and 25)	<u>94</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET PROFIT FOR THE YEAR	<u>10,791</u>	<u>-</u>	<u>3,033,223</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 AND SUBSIDIARIES

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

	For the Year Ended December 31			
	2019		2018	
	Amount	%	Amount	%
Remeasurement of defined benefit plans	\$ (9,614)	-	\$ (128,800)	-
Unrealized gains and losses on investments in equity instruments at fair value through other comprehensive income	(13,359)	-	(13,975)	-
Share of the other comprehensive income of associates	<u>(38,612)</u>	<u>-</u>	<u>(52,861)</u>	<u>-</u>
	<u>(61,585)</u>	<u>-</u>	<u>(195,636)</u>	<u>-</u>
<b>TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR</b>	<u>\$ (50,794)</u>	<u>-</u>	<u>\$ 2,837,587</u>	<u>6</u>
<b>EARNINGS PER SHARE (Note 26)</b>				
Basic	<u>\$ 0.01</u>		<u>\$ 2.11</u>	
Diluted	<u>\$ 0.01</u>		<u>\$ 2.11</u>	

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

(Concluded)

## CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

### 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
			Legal Reserve	Special Reserve	Unappropriated Earnings	Unrealized Valuation 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, 2018	\$ 14,355,444	\$ 903	\$ -	\$ -	\$ (2,083,776)	\$ -	\$ (346,912)	\$ (346,912)	\$ 11,925,659
Effect of retrospective application	-	-	-	-	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
Appropriation of 2018 earning (Note 22)									
Legal reserve	-	-	90,450	-	(90,450)	-	-	-	-
Special reserve	-	-	-	497,607	(497,607)	-	-	-	-
Cash dividends	-	-	-	-	(143,555)	-	-	-	(143,555)
Net profit for the year ended December 31, 2019	-	-	-	-	10,791	-	-	-	10,791
Other comprehensive loss for the year ended December 31, 2019, net of income tax	-	-	-	-	(9,614)	(51,971)	-	(51,971)	(61,585)
Total comprehensive income for the year ended December 31, 2019	-	-	-	-	1,177	(51,971)	-	(51,971)	(50,794)
BALANCE AT DECEMBER 31, 2019	\$ 14,355,444	\$ 903	\$ 90,450	\$ 497,607	\$ 174,071	\$ (549,578)	\$ -	\$ (549,578)	\$ 14,568,897

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

# CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

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

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before income tax	\$ 10,885	\$ 3,033,223
Adjustments for:		
Depreciation expense	1,213,635	1,181,132
Net loss (gain) on financial assets at fair value through profit or loss	32,516	(3,057)
Finance costs	123,047	139,883
Interest income	(2,012)	(4,154)
Dividend income	(47,601)	(41,894)
Share of the profit of associates	(102,102)	(92,012)
Loss on disposal of property, plant and equipment	8,491	-
Gain on disposal of non - current assets held for sale	(871)	-
Write-downs of inventories	4,624	417,871
Reversal of impairment loss	(77,532)	-
Changes in operating assets and liabilities		
Financial assets mandatorily classified as at fair value through profit or loss	3,414	1,240
Accounts receivable	482,915	342,852
Accounts receivable from related parties	137,707	(15,253)
Other receivables	10,140	(5,579)
Other receivables from related parties	(195,379)	53,949
Inventories	1,657,890	(3,638,397)
Prepayments	144,172	(171,006)
Other current assets	4,900	(198)
Contract liabilities	191,497	(67,300)
Accounts payable	(15,632)	(10,856)
Accounts payable to related parties	(530,167)	(623,501)
Other payables	(497,330)	309,457
Other current liabilities	(14,540)	8,666
Net defined benefit liabilities	(66,473)	(63,837)
Refund liabilities	37,892	(47,715)
Cash generated from operations	<u>2,514,086</u>	<u>703,514</u>
Income taxes paid	<u>(51)</u>	<u>(113)</u>
Net cash generated from operating activities	<u>2,514,035</u>	<u>703,401</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
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	4,605	4,962
Proceeds from the capital reduction on investments accounted for using equity method	674	-
Proceeds from disposal of non-current assets held for sale	20,506	-
Acquisition of property, plant and equipment	(507,531)	(412,440)
Proceeds from disposal of property, plant and equipment	123	-

(Continued)

# CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

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

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Decrease in refundable deposits	\$ -	\$ 215
Decrease in other financial assets	2,897	199,488
Interest received	2,012	4,164
Dividends received from subsidiaries and associates	2,829	1,036
Dividends received from others	<u>47,601</u>	<u>41,894</u>
Net cash used in investing activities	<u>(426,284)</u>	<u>(159,719)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from short-term borrowings	76,681,921	109,451,453
Repayments of short-term borrowings	(77,908,827)	(110,534,495)
Increase in short-term bills payable	8,700,597	6,870,101
Decrease in short-term bills payable	(10,100,000)	(4,340,997)
Proceeds from long-term borrowings	7,550,000	3,500,000
Repayments of long-term borrowings	(7,790,000)	(3,900,000)
Proceeds from long-term bills payable	2,589,580	1,600,496
Repayments of long-term bills payable	(1,660,000)	(3,070,000)
Decrease in guarantee deposits	(120)	-
Repayments of principal of lease liabilities	(11,222)	-
Dividends paid to owner of the company	(143,555)	-
Interest paid	<u>(125,663)</u>	<u>(139,353)</u>
Net cash used in financing activities	<u>(2,217,289)</u>	<u>(562,795)</u>
NET DECREASE IN CASH	(129,538)	(19,113)
CASH AT THE BEGINNING OF THE YEAR	<u>195,675</u>	<u>214,788</u>
CASH AT THE END OF THE YEAR	<u>\$ 66,137</u>	<u>\$ 195,975</u>

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

(Concluded)

# CHUNG HUNG STEEL CORPORATION

## NOTES TO STANDALONE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

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### 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, 2019, and 2018, 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 February 26, 2020.

### 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 accounting policies:

#### 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 “Determining whether an Arrangement contains a Lease”, and a number of related interpretations. Refer to Note 4 for information relating to the relevant accounting policies.

#### 1) Definition of a lease

The Corporation elects 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 are not reassessed and are accounted for in accordance with the transitional provisions under IFRS 16.

## 2) The Corporation as lessee

The Corporation recognizes right-of-use assets and lease liabilities for all leases on the standalone balance sheets except for those whose payments under low-value asset and short-term leases are recognized as expenses on a straight-line basis. On the standalone statements of comprehensive income, the Corporation presents 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 are classified within financing activities. Prior to the application of IFRS 16, payments under operating lease contract were recognized as expenses on a straight-line basis. Cash flows for operating leases were classified within operating activities on the standalone statements of cash flows.

The Corporation elects to apply IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized in retained earnings on January 1, 2019. Comparative information is not restated.

The Corporation also applies the following practical expedients:

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

The lessee's weighted average incremental borrowing rate applied to lease liabilities recognized on January 1, 2019 is 1.26%. The difference between the lease liabilities recognized and future minimum lease payments of non-cancellable operating lease commitments disclosed on December 31, 2018 is explained as follows:

The future minimum lease payments of non-cancellable operating lease commitments on December 31, 2018	\$ 85,098
Less: Recognition exemption for short-term leases	(6,494)
Less: Recognition exemption for low-value assets	<u>(4,298)</u>
Undiscounted amounts on January 1, 2019	<u>\$ 74,306</u>
Discounted amounts using the incremental borrowing rate on January 1, 2019	\$ 70,755
Less: Prepayments for leases	<u>947</u>
Lease liabilities recognized on January 1, 2019	<u>\$ 69,808</u>

The impact on assets, liabilities and equity as of January 1, 2019 from the initial application of IFRS 16 is set out as follows:

	As Originally Stated on January 1, 2019	Adjustments Arising from Initial Application	Restated on January 1, 2019
Prepayments 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 - noncurrent	<u>-</u>	<u>60,691</u>	<u>60,691</u>
Total effect on liabilities	<u>\$ -</u>	<u>\$ 69,808</u>	<u>\$ 69,808</u>

3) The Corporation as lessor

The Corporation does not make any adjustments for leases in which it is the lessor. The Corporation accounts for those leases with the application of IFRS 16 starting from January 1, 2019.

b. The IFRSs endorsed by FSC for application starting from 2020

New IFRSs	Effective Date Announced by IASB
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020 (Note 1)
Amendments to IFRS 9, IAS 39 and IFRS 7 “Interest Rate Benchmark Reform”	January 1, 2020 (Note 2)
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020 (Note 3)

Note 1: 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 2: The Corporation shall apply these amendments retrospectively for annual reporting periods beginning on or after January 1, 2020.

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

Amendments to IAS 1 and IAS 8 “Definition of material”

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRSs. The concept of “obscuring” material information with immaterial information has been included as part of the new definition. The threshold for material has been changed from “could influence” to “could reasonably be expected to influence”.

Except for the above impact, as of the date the standalone financial statements were authorized for issue, the Corporation is in the process of assessing the impact of the amendments to other standards and interpretations on Corporation’s financial position and results of operations. Disclosures will be provided after a detailed review of the impact has been 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)
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 “Classification of Liabilities as Current or Non-current”	January 1, 2022

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

Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”

The amendments clarify that for a liability to be classified as non-current, the Corporation shall assess whether it has the right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. If such rights are in existence at the end of the reporting period, the liability is classified as non-current regardless of whether the Corporation will exercise that right. The amendments also clarify that, if the right to defer settlement is subject to compliance with specified conditions, the Corporation must comply with those conditions at the end of the reporting period even if the lender does not test compliance until a later date.

The amendments stipulate that, for the purpose of liability classification, the aforementioned settlement refers to a transfer of cash, other economic resources or the Corporation’s own equity instruments to the counterparty that results in the extinguishment of the liability. However, if the terms of a liability that could, at the option of the counterparty, result in its settlement by a transfer of the Corporation’s own equity instruments, and if such option is recognized separately as equity in accordance with IAS 32: Financial Instruments: Presentation, the aforementioned terms would not affect the classification of the liability.

Except for the above impact, as of the date the standalone financial statements were authorized for issue, the Corporation is in the process of assessing the impact of the amendments to other standards and interpretations on Corporation’s financial position and results of operations. Disclosures will be provided after a detailed review of the impact has been 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 and IFRSs as endorsed and issued into effect by the FSC.

##### 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 Corporation do not use the acquisition method to account for the business combination under the organizational reorganization 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.

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 in a subsidiary 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 control of the subsidiary are accounted for as equity transactions. The Corporation recognizes directly in equity any difference between the carrying amount of the investment and the fair value of the consideration paid or received.

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

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 standalone 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's 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 equal or exceed 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 standalone 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.

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 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**

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 were investments in equity instruments which are not designed as at FVTPL. 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 28.

##### **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.

2) Impairment of financial assets

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

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.

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.

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

b. Equity instruments

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

c. Financial liabilities

1) Subsequent measurement

All financial liabilities are measured at amortized cost using the effective interest method.

2) Derecognition of financial liabilities

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

## **Revenue Recognition**

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 is transferred to customers. The customer has full discretion over the manner of distribution and price to sell the goods and bears the risks of obsolescence. 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. 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.

## **Leases**

### 2019

At the inception of a contract, the Corporation assesses whether the contract is, or contains, a lease.

#### a. The Corporation as lessor

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

Lease payments (less any lease incentives payable) from operating leases are recognized as income on a straight-line basis over the terms of the relevant leases. Initial direct costs incurred in obtaining operating leases are added to the carrying amounts of the underlying assets and recognized as expenses on a straight-line basis over the lease terms.

#### b. The Corporation as lessee

The Corporation recognizes right-of-use assets and lease liabilities for all leases at the commencement date of a lease, except for short-term leases and low-value asset leases accounted for applying a recognition exemption where lease payments are recognized as expenses on a straight-line basis over the lease terms.

Right-of-use assets are initially measured at cost, which comprises the initial measurement of lease liabilities adjusted for lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs needed to restore the underlying assets, and less any lease incentives received. Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liabilities. Right-of-use assets are presented on a separate line in the standalone balance sheets.

Right-of-use assets are depreciated using the straight-line method from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms. However, if leases transfer ownership of the underlying assets to the Corporation by the end of the lease terms or if the costs of right-of-use assets reflect that the Corporation will exercise a purchase option, the Corporation depreciates the right-of-use assets from the commencement dates to the end of the useful lives of the underlying assets.

Lease liabilities are initially measured at the present value of the lease payments, which comprise fixed payments and variable lease payments which depend on an index or a rate. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Corporation uses the lessee's incremental borrowing rate.

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in a lease term, the Corporation remeasures the lease liabilities with a corresponding adjustment to the right-of-use-assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. Lease liabilities are presented on a separate line in the standalone balance sheets.

### 2018

Leases are classified as finance leases whenever the terms of a lease transfer substantially all the risks and

rewards of ownership to the lessee. All other leases are classified as operating leases.

a. The Corporation as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and amortized on a straight-line basis over the lease term.

b. The Corporation as lessee

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

### **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 and unused loss carryforwards 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**

	<u>December 31</u>	
	<b>2019</b>	<b>2018</b>
Cash on hand	\$ 700	\$ 700
Checking accounts and demand deposits	<u>65,437</u>	<u>194,975</u>
	<u>\$ 66,137</u>	<u>\$ 195,675</u>

### **7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	<u>December 31</u>	
	<b>2019</b>	<b>2018</b>
<u>Financial assets at FVTPL - current</u>		
Financial assets mandatorily as at FVTPL		
Emerging market shares	<u>\$ 181,351</u>	<u>\$ 217,281</u>

### **8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**

	<u>December 31</u>	
	<b>2019</b>	<b>2018</b>
<u>Current</u>		
Domestic Listed shares	<u>\$ 791,311</u>	<u>\$ 802,899</u>
<u>Noncurrent</u>		
Domestic unlisted shares	<u>\$ 44,843</u>	<u>\$ 51,219</u>

Risalink Venture Capital Corp. conducted capital reduction and refunded NT\$4,605 thousand and NT\$4,962 thousand in August 2019 and August 2018, respectively.

### **9. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES**

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
<u>Accounts receivable</u>		
Accounts receivable - non-related parties	<u>\$ 466,017</u>	<u>\$ 948,932</u>
Accounts receivable - related parties	<u>\$ 45,733</u>	<u>\$ 183,440</u>
<u>Other receivables (including related parties)</u>		
Discount receivable	\$ 508,256	\$ 302,720
Receivables from disposal of scrap	37,536	57,676
Others	<u>178</u>	<u>166</u>
	<u>\$ 545,970</u>	<u>\$ 360,562</u>

a. Accounts receivable

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 28 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.

2019

	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	\$ 511,750	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 511,750
Loss allowance (Lifetime ECL)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Amortized cost	<u>\$ 511,750</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 511,750</u>

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>

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

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
A company	\$ 104,591	\$ -
B company	91,491	91,812
C company	67,712	74,340
D company	<u>-</u>	<u>121,361</u>
	<u>\$ 263,794</u>	<u>\$ 287,513</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.

Receivables sold for the year ended December 31, 2019 and 2018 were as follows:

<b>Buyer of Accounts Receivable</b>	<b>Advances Received at Year - Beginning</b>	<b>Receivables Sold</b>	<b>Amounts Collected</b>	<b>Advances Received at Year-end</b>	<b>Interest Rates on Advances Received (%)</b>	<b>Credit Line</b>
<u>For the year ended December 31, 2019</u>						
Mega Bank	\$ 1,033,187	\$ 2,719,821	\$ 2,826,277	\$ 926,731	1.24	NT\$3 billion
Bank of Taiwan	199,960	520,664	596,410	124,214	3.66	USD20 million
	<u>\$ 1,233,147</u>	<u>\$ 3,240,485</u>	<u>\$ 3,422,687</u>	<u>\$ 1,050,945</u>		
<u>For the year ended December 31, 2018</u>						
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>		

b. Other receivables

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 receivables. 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, 2019 and 2018, there was no allowance for doubtful accounts.

## 10. INVENTORIES

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Raw materials	\$ 2,804,063	\$ 3,352,627
Supplies	468,672	421,614
Work in progress	599,299	569,161
Finished goods	2,704,337	3,653,262

(Continued)

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Others	\$ 887	\$ 7,056
Raw materials and supplies in transit	<u>379</u>	<u>236,431</u>
	<u>\$ 6,577,637</u>	<u>\$ 8,240,151</u>

(Concluded)

The cost of inventories recognized as operating costs for the years ended December 31, 2019 and 2018 was NT\$38,767,836 thousand and NT\$43,403,860 thousand, respectively, including loss on inventory value decline of NT\$4,624 thousand and NT\$417,871 thousand, respectively.

## 11. PREPAYMENTS

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Input tax	\$ 99,167	\$ 342,442
Prepayments for purchases	70,532	22,209
Tax overpaid retained for offsetting future tax payable	52,332	-
Others	<u>6,500</u>	<u>8,999</u>
	<u>\$ 228,531</u>	<u>\$ 373,650</u>

## 12. NON-CURRENT ASSETS HELD FOR SALE

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

The Corporation joined China Prosperity Development Corporation's (CPDC) contract titled "Qianzhen Residential Building Project" and bought 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 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, which was pledged until the beginning of 2019 and turned to be normal bank account afterwards, and contract liabilities. The transfer of ownership of the land had been completed in June 2019, and the Corporation recognized gain on disposal of land of NT\$871 thousand.

## 13. OTHER FINANCIAL ASSETS

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Current		
Pledged time deposits (Note 30)	\$ 300,000	\$ 300,000
Deposits for project (Note 12)	<u>-</u>	<u>2,897</u>
	<u>\$ 300,000</u>	<u>\$ 302,897</u>

#### 14. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	<u>December 31</u>	
	<b>2019</b>	<b>2018</b>
Investments in subsidiaries	\$ 27,173	\$ 31,360
Investments in associates	<u>2,526,222</u>	<u>2,462,217</u>
	<u>\$ 2,553,395</u>	<u>\$ 2,493,577</u>

##### a. Investments in subsidiaries

	<u>December 31, 2019</u>		<u>December 31, 2018</u>	
	<u>Amount</u>	<u>Share-holding (%)</u>	<u>Amount</u>	<u>Share-holding (%)</u>
<b>Unlisted Companies</b>				
Hong Kao Investment Corporation	\$ 27,173	100	\$ 30,427	100
Taiwan Steel Corporation(Note)	-	-	<u>933</u>	100
	<u>\$ 27,173</u>		<u>\$ 31,360</u>	

<u>Subsidiary Companies Name</u>	<u>Percentage of Ownership Interests and Voting Rights (%)</u>	
	<u>December 31, 2019</u>	<u>December 31, 2018</u>
	Taiwan Steel Corporation	-
Hong Kao Investment Corporation	100	100

Note: The board of directors of Taiwan Steel Corporation authorized the liquidation of the company; the date of liquidation was September 25, 2019; the settlement was completed on December 30, 2019.

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, 2019 and 2018 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

	<u>December 31</u>	
	<b>2019</b>	<b>2018</b>
Transglory Investment Corp. (TIC)	<u>\$ 2,526,222</u>	<u>\$ 2,462,217</u>

Name of Associate	Nature of Activities	Proportion of Ownership and Voting Rights		
		Principal Place of Business	December 31	
			2019	2018
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, 2019 and 2018 was based on the audited financial statements for the same years.

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

#### TIC

	December 31	
	2019	2018
Current assets	\$ 1,304	\$ 1,018
Noncurrent assets	6,373,775	6,439,578
Current liabilities	<u>(200,008)</u>	<u>(421,976)</u>
Equity	<u>\$ 6,175,071</u>	<u>\$ 6,018,620</u>
Proportion of the Corporation's ownership (%)	40.91	40.91
Equity attributable to the Corporation	<u>\$ 2,526,222</u>	<u>\$ 2,462,217</u>
Carrying amount	<u>\$ 2,526,222</u>	<u>\$ 2,462,217</u>
	For the Year Ended December 31	
	2019	2018
Operating revenue	<u>\$ 268,506</u>	<u>\$ 236,539</u>
Net profit for the year	\$ 249,976	\$ 217,245
Other comprehensive income	<u>(93,524)</u>	<u>(127,987)</u>
Total comprehensive income for the year	<u>\$ 156,452</u>	<u>\$ 89,258</u>
Comprehensive income attributable to the Corporation	<u>\$ 64,005</u>	<u>\$ 36,516</u>

## 15. PROPERTY, PLANT AND EQUIPMENT

### For the year ended December 31, 2019

	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, 2019	\$ 3,985,675	\$ 4,985,220	\$ 22,511,085	\$ 4,415,341	\$ 1,448,523	\$ 78,900	\$ 37,424,744
Additions	3,320	8,564	222,952	72,515	167,664	37,429	512,444
Disposals	-	-	-	(67,977)	(187,892)	-	(255,869)
Items reclassified to investment properties	<u>(12)</u>	<u>(395)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(407)</u>
Balance at December 31, 2019	<u>\$ 3,988,983</u>	<u>\$ 4,993,389</u>	<u>\$ 22,734,037</u>	<u>\$ 4,419,879</u>	<u>\$ 1,428,295</u>	<u>\$ 116,329</u>	<u>\$ 37,680,912</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, 2019	\$ -	\$ 1,746,374	\$ 17,814,290	\$ 3,862,424	\$ 752,626	\$ -	\$ 24,175,714
Depreciation expense	-	130,957	725,059	135,688	208,462	-	1,200,166
Disposals	-	-	-	(59,363)	(187,892)	-	(247,255)
Balance at December 31, 2019	<u>\$ -</u>	<u>\$ 1,877,331</u>	<u>\$ 18,539,349</u>	<u>\$ 3,938,749</u>	<u>\$ 773,196</u>	<u>\$ -</u>	<u>\$ 25,128,625</u>
Carrying amount at December 31, 2019	<u>\$ 3,988,983</u>	<u>\$ 3,116,058</u>	<u>\$ 4,194,688</u>	<u>\$ 481,130</u>	<u>\$ 655,099</u>	<u>\$ 116,329</u>	<u>\$ 12,552,287</u>

(Concluded)

### 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
<u>Cost</u>							
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>
<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>

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:

<b>Buildings</b>	
Facility	5-50 years
Main structure	31-60 years
<b>Machinery and equipment</b>	
Power equipment	3-30 years
High-temperature equipment	5-18 years
<b>Other equipment</b>	
Computer equipment	3-10 years
Office, air condition and extinguishment equipment	3-20 years
Transportation equipment	5-16 years
Others	3-18 years
Tank	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, 2019 and 2018, the book value of those remaining farmlands recognized as land were both NT\$55,433 thousand, respectively.

Refer to Note 30 for the carrying amount of property, plant and equipment that are pledged by the Corporation to secure borrowings.

## 16. LEASE ARRANGEMENTS

### a. Right-of-use assets - 2019

	<b>December 31, 2019</b>
	<b><u>Carrying amounts</u></b>
Land	\$ 61,775
Transportation equipment	<u>13,126</u>
	<u>\$ 74,901</u>
	<b>For the Year Ended December 31, 2019</b>
Additions to right-of-use assets	<u>\$ 17,708</u>
Depreciation charge for right-of-use assets	
Land	\$ 10,440
Transportation equipment	<u>2,145</u>
	<u>\$ 12,585</u>

### b. Lease liabilities - 2019

	<b>December 31, 2019</b>
	<b><u>Carrying amounts</u></b>
Current	<u>\$ 13,273</u>
Non-current	<u>\$ 62,044</u>

Range of discount rate (%) for lease liabilities was as follows:

	<b>December 31, 2019</b>
Land	1.10-1.31
Transportation equipment	0.76

### c. Material lease activities and terms

The Corporation leases several pieces of land to store steel products, with the lease terms of 5 to 10 years. The Corporation does not have bargain purchase options to acquire the leasehold land at the end of the lease terms.

### d. Other lease information

Lease arrangements under operating leases for the leasing out of investment properties are set out in Note

17.

2019

	<b>For the Year Ended December 31, 2019</b>
Expenses relating to short-term leases	<u>\$ 24,877</u>
Expenses relating to low-value asset leases	<u>\$ 1,294</u>
Total cash outflow for leases	<u>\$ 38,303</u>

For transportation equipment which qualified as short-term leases and several other equipment which qualified as low-value asset leases, the Corporation has elected to apply the recognition exemption and, thus, did not recognize right-of-use assets and lease liabilities for these leases.

## 17. INVESTMENT PROPERTIES

For the year ended December 31, 2019

	<b>Land</b>	<b>Buildings</b>	<b>Total</b>
<u>Cost</u>			
Balance at January 1, 2019	\$ 5,959,062	\$ 40,672	\$ 5,999,734
Transferred from property, plant and equipment	<u>12</u>	<u>395</u>	<u>407</u>
Balance at December 31, 2019	<u>\$ 5,959,074</u>	<u>\$ 41,067</u>	<u>\$ 6,000,141</u>
<u>Accumulated depreciation</u>			
Balance at January 1, 2019	\$ -	\$ 15,184	\$ 15,184
Depreciation expense	<u>-</u>	<u>884</u>	<u>884</u>
Balance at December 31, 2019	<u>\$ -</u>	<u>\$ 16,068</u>	<u>\$ 16,068</u>
<u>Accumulated impairment</u>			
Balance at January 1, 2019	\$ 77,532	\$ -	\$ 77,532
Reversal of impairment loss	<u>(77,532)</u>	<u>-</u>	<u>(77,532)</u>
Balance at December 31, 2019	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Carrying amount at December 31, 2019	<u>\$ 5,959,074</u>	<u>\$ 24,999</u>	<u>\$ 5,984,073</u>

For the year ended December 31, 2018

	<b>Land</b>	<b>Buildings</b>	<b>Total</b>
<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 12)	<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>

The Corporation as lessor leased land in Longdong section in Kaohsiung 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, 2019 and 2018 were NT\$80,290 thousand and NT\$78,722 thousand, respectively, and were included in other income. As of December 31, 2019 and 2018, the Corporation received the same margin of NT\$35,000 thousand based on the lease contract.

As of December 31, 2019 and 2018, notes receivable and advance rental were as follows:

	<u>December 31</u>	
	<b>2019</b>	<b>2018</b>
Notes receivable	\$ 49,595	\$ 48,622
Less: Advance rental	<u>(49,595)</u>	<u>(48,622)</u>
	<u>\$ -</u>	<u>\$ -</u>

The future rentals to be received under operating leases for the leasing out of investment properties as of December 31, 2019 are as follows:

	<b>December 31, 2019</b>
1st year	\$ 91,251
2nd year	83,296
3rd year	84,956
4th year	86,618
5th year	88,232
Later than 5 years	<u>634,820</u>

(Continued)

**December 31,  
2019**

\$ 1,069,173  
(Concluded)

The future minimum rentals to be received under non-cancellable operating lease commitments as of December 31, 2018 are as follows:

	<b>December 31, 2018</b>
Not later than 1 year	\$ 88,508
Later than 1 year and not later than 5 years	424,771
Later than 5 years	<u>634,820</u>
	<u>\$ 1,148,099</u>

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

The Corporation appointed real estate appraiser to reevaluate land at Guo An Section in Tainan in November 2019, and recognized gain on reversal of impairment loss NT\$77,532 thousand within the scope of accumulated impairment recognized originally.

The fair value of the investment properties was arrived at on the basis of valuations carried out in March and December 2017 and November 2019 by real estate appraiser 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, cost approach, income approach, and land development analysis approach. The important assumptions and fair value were as follows:

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Fair value	<u>\$ 9,980,290</u>	<u>\$ 8,952,560</u>
Expense rate (%)	25.14	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

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Unsecured loans - interest at 0.69%-0.88% p.a. and 0.86%-0.90% p.a. as of December 31, 2019 and 2018, respectively	\$ 1,900,000	\$ 2,120,000
Letters of credit - interest at 0%-0.95% p.a. and 0.88%-0.99% p.a. as of December 31, 2019 and 2018, respectively	646,187	1,599,305
Loans from related parties - interest at 0.69% p.a. and 0.54% p.a. as of December 31, 2019 and 2018, respectively (Note 29)	2,450,000	2,450,000

(Continued)

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Bank overdrafts – interest both at 0.35% p.a. as of December 31, 2019 and 2018 (Note 30)	<u>158,680</u>	<u>212,468</u>
	<u>\$ 5,154,867</u>	<u>\$ 6,381,773</u> (Concluded)

b. Short-term bills payable

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Commercial paper		
Bank of Taiwan	\$ 1,300,000	\$ 3,000,000
Hua Nan Bank	500,000	-
Mega Bills Finance Corporation	<u>-</u>	<u>200,000</u>
	1,800,000	3,200,000
	<u>450</u>	<u>1,047</u>
Less: Unamortized discounts	<u>\$ 1,799,550</u>	<u>\$ 3,198,953</u>
Interest rate (%)	0.70-0.71	0.68-0.74

On December 31, 2019 and 2018, all commercial papers were non-guarantee commercial paper.

c. Long-term borrowings

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Credit bank loans		
Due on various dates through December 2024, interest at 0.87%-1.29% p.a. and 1.18%-1.28% p.a. as of December 2019 and 2018.	\$ 4,610,000	\$ 4,850,000
Less: Current portion	<u>480,000</u>	<u>950,000</u>
	<u>\$ 4,130,000</u>	<u>\$ 3,900,000</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 and expired in March 2019.
- 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, 2018, the Corporation was in compliance with this syndicated credit facility

agreement.

d. Long-term bills payable

	<u>December 31</u>	
	<b>2019</b>	<b>2018</b>
Taishin Bank		
Repayable in September 2022 with a revolving credit of NT\$1.8 Billion	\$ 1,800,000	\$ -
Mega Bills Finance Corporation		
Repayable in December 2021 with a revolving credit of NT\$600 million	420,000	600,000
China Bills Finance Corporation		
Repayable in March 2022 with a revolving credit of NT\$300 million	210,000	-
Repayable in September 2021, terminated in April 2019 in advance, with a credit of NT\$500 million	-	300,000
Repayable in January 2020, terminated in January 2019 in advance, with a credit of NT\$600 million	-	300,000
International Bills Financial Corporation		
Repayable in December 2021 with a revolving credit of NT\$300 million	180,000	180,000
Grand Bills Finance Corporation		
Repayable in January 2020, terminated in January 2019 in advance, with a credit of NT\$600 million	<u>\$ -</u>	<u>\$ 300,000</u>
	2,610,000	1,680,000
Less: Unamortized discount	<u>862</u>	<u>442</u>
	<u>\$ 2,609,138</u>	<u>\$ 1,679,558</u>
Interest rate (%)	0.84-1.06	0.99-1.20

Commercial papers have revolving credit lines within the payment terms according to the contracts and need to be utilized to some extent. Contracts with Mega Bills and China Bills were re-signed to be unsecured in December 2018 and April 2019, and the contract with Taishin Bank was unsecured. The borrowing from International Bills Financial Corporation was secured by Bangkok Bank as of December 31, 2019 and secured by Agricultural Bank of Taiwan, Hua Nan Commercial Bank, Taishin Bank, and Bangkok Bank as of December 31, 2018.

**19. ACCOUNTS PAYABLE**

	<u>December 31</u>	
	<b>2019</b>	<b>2018</b>
<u>Accounts payable</u>		
Operating – nonrelated parties	<u>\$ 29,672</u>	<u>\$ 45,304</u>
Operating - related parties	<u>\$ 65,597</u>	<u>\$ 595,764</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 PAYABLES

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Salaries and incentive bonus	\$ 184,613	\$ 401,312
Utilities	65,964	64,820
Export fees	41,375	101,107
Outsourced repair and construction	40,107	120,532
Freight	29,247	41,842
Processing fee	26,859	28,700
Employees' compensation and remuneration of directors	11	26,714
Others	<u>115,012</u>	<u>228,339</u>
	<u>\$ 503,188</u>	<u>\$ 1,013,366</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 a portion 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:

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Present value of defined benefit obligation	\$ 1,475,725	\$ 1,445,603
Fair value of plan assets	<u>(1,101,865)</u>	<u>(1,014,884)</u>
Net defined benefit liabilities	<u>\$ 373,860</u>	<u>\$ 430,719</u>

Movements of net defined benefit liabilities were as follows:

	<b>Present Value of the Defined Benefit Obligation</b>	<b>Fair Value of the Plan Assets</b>	<b>Net Defined Benefit Liabilities</b>
Balance at January 1, 2019	<u>\$ 1,445,603</u>	<u>\$ (1,014,884)</u>	<u>\$ 430,719</u>
Service cost			
Current service cost	21,195	-	21,195
Interest expense (income)	<u>16,158</u>	<u>(11,822)</u>	<u>4,336</u>
Recognized in profit or loss	<u>37,353</u>	<u>(11,822)</u>	<u>25,531</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(33,526)	(33,526)
Actuarial loss - changes in demographic assumptions	3,577	-	3,577
Actuarial loss - changes in financial assumptions	37,144	-	37,144
Actuarial loss - experience adjustments	<u>2,419</u>	<u>-</u>	<u>2,419</u>
Recognized in other comprehensive income	<u>43,140</u>	<u>(33,526)</u>	<u>9,614</u>
Contributions from the employer	<u>-</u>	<u>(86,943)</u>	<u>(86,943)</u>
Benefits paid	<u>(50,371)</u>	<u>45,310</u>	<u>(5,061)</u>
Balance at December 31, 2019	<u>\$ 1,475,725</u>	<u>\$ (1,101,865)</u>	<u>\$ 373,860</u>
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
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>

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

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Operating costs	\$ 21,472	\$ 20,571
Operating expenses	<u>4,059</u>	<u>3,664</u>
	<u>\$ 25,531</u>	<u>\$ 24,235</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:

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Discount rate (%)	0.75	1.125
Expected rate of salary increase (%)	2.125	2.25
Turnover rate (%)	0-6	0-7

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:

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Discount rate		
0.25% increase	<u>\$ (36,641)</u>	<u>\$ (37,335)</u>
0.25% decrease	<u>\$ 37,986</u>	<u>\$ 38,750</u>

(Continued)

Expected rate of salary increase		
0.25% increase	\$ 36,810	\$ 37,644
0.25% decrease	\$ (35,698)	\$ (36,462)
		(Concluded)

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.

	<u>December 31</u>	
	<b>2019</b>	<b>2018</b>
The expected contributions to the plan for the next year	<u>\$ 81,579</u>	<u>\$ 90,640</u>
The average duration of the defined benefit obligation	10.2 years	10.7 years

## 22. EQUITY

### a. Ordinary shares

	<u>December 31</u>	
	<b>2019</b>	<b>2018</b>
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. Change registration of aforementioned revised authorized shares has not been conducted.

Fully paid ordinary shares, which have a par value NT\$10, carry one vote per share and the right to dividends.

### b. Capital surplus

	<u>December 31</u>	
	<b>2019</b>	<b>2018</b>
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 approved in the shareholders' meeting in June 2019 as follows:

	<b>Appropriation of Earnings</b>	<b>Dividend Per Share (NT\$)</b>
Legal reserve	\$ 90,450	
Special reserve	497,607	
Cash dividends	143,555	<u>\$ 0.1</u>

The appropriations of earnings for 2019 had been proposed by the Corporation's board of directors on February 26, 2020 as follows:

	<b>Appropriations of Earnings</b>
Legal reserve	\$ 118
Special reserve	51,971

The appropriations of earnings for 2019 are subject to the resolution of the shareholders' meeting to be held on June 2020.

Information about the appropriation of earnings and offsetting deficits, proposed by the shareholders' meetings and the Corporation's board of directors, is available at the Market Observation Post System website of the Taiwan Stock Exchange.

- d. Unrealized gains and losses on financial assets at fair value through other comprehensive income

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Balance, beginning of year	<u>\$ (497,607)</u>	<u>\$ (431,310)</u>
Recognized during the period		
Unrealized gains and losses - equity instruments	(13,359)	(13,975)
Share from associates accounted for using the equity method	<u>(38,612)</u>	<u>(52,861)</u>
		(Continued)

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Cumulative unrealized gain of equity instruments transferred to retained earnings due to disposal	-	539
Balance end of year	<u>\$ (549,578)</u>	<u>\$ (497,607)</u> (Concluded)

## 23. OPERATING REVENUES

### a. Contract balances

	<b>December 31, 2019</b>	<b>December 31, 2018</b>	<b>January 1, 2018</b>
Accounts receivable	<u>\$ 511,750</u>	<u>\$ 1,132,372</u>	<u>\$ 1,459,971</u>
Contract liabilities			
Sale of goods	\$ 285,052	\$ 93,555	\$ 161,365
Advances received	<u>-</u>	<u>2,890</u>	<u>2,380</u>
	<u>\$ 285,052</u>	<u>\$ 96,445</u>	<u>\$ 163,745</u>

### b. Disaggregation of revenue

Refer to Statement 15.

## 24. PROFIT BEFORE INCOME TAX

Profit before income tax consisted of following items:

### a. Other income

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Rental income	\$ 83,649	\$ 74,629
Dividend income	47,601	41,894
Indemnity income	30,113	1,621
Interest income	2,012	4,154
Others	<u>12,088</u>	<u>7,524</u>
	<u>\$ 175,463</u>	<u>\$ 129,822</u>

b. Other gains and losses

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Reversal of impairment loss	\$ 77,532	\$ -
Net foreign exchange gain	49,511	91,264
Gain on disposal of non - current assets held for sale	871	-
Loss on disposal of property, plant and equipment	(8,491)	-
Service charge	(10,426)	(14,523)
Gain (loss) arising on financial assets at fair value through profit or loss	(32,516)	3,057
Other losses	<u>(2,582)</u>	<u>(424)</u>
	<u>\$ 73,899</u>	<u>\$ 79,374</u>

The components of net foreign exchange gain (loss) were as follows:

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Foreign exchange gain	\$ 91,352	\$ 157,840
Foreign exchange loss	<u>(41,841)</u>	<u>(66,576)</u>
Net exchange gain (loss)	<u>\$ 49,511</u>	<u>\$ 91,264</u>

c. Finance costs

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Interest on bank overdrafts and loans	\$ 109,084	\$ 129,806
Interest on loans from related parties (Note 29)	15,145	12,548
Interest on lease liabilities	<u>910</u>	<u>-</u>
Total interest expense financial liabilities measured at amortized cost	125,139	142,354
Less: Amounts included in the cost of qualifying assets	<u>2,092</u>	<u>2,471</u>
	<u>\$ 123,047</u>	<u>\$ 139,883</u>

Information about capitalized interest was as follows:

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Capitalized amounts	\$ 2,092	\$ 2,471
Capitalized annual rates (%)	0.87-0.94	0.77-1.04

d. Depreciation

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Property, plant and equipment	\$ 1,200,166	\$ 1,180,292
Investment properties	884	840
Right-of-use assets	<u>12,585</u>	<u>-</u>
	<u>\$ 1,213,635</u>	<u>\$ 1,181,132</u>
Analysis of depreciation by function		
Operating costs	\$ 1,128,006	\$ 1,092,116
Operating expenses	84,745	88,176
Deduction of other income	<u>884</u>	<u>840</u>
	<u>\$ 1,213,635</u>	<u>\$ 1,181,132</u>

e. Operating expenses directly related to investment properties

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Direct operating expenses of investment properties that generated rental income	\$ 11,181	\$ 17,348
Direct operating expenses of investment properties that did not generate rental income	<u>1,665</u>	<u>1,940</u>
	<u>\$ 12,846</u>	<u>\$ 19,288</u>

f. Employee benefits

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Short-term employee benefits		
Salaries	\$ 951,616	\$ 1,194,080
Labor and health insurance	90,264	88,005
Others	<u>157,459</u>	<u>207,097</u>
	<u>1,199,339</u>	<u>1,489,182</u>
Post-employment benefits		
Defined contribution plans	25,617	23,987
Defined benefit plans (Note 21)	<u>25,531</u>	<u>24,235</u>
	<u>51,148</u>	<u>48,222</u>
	<u>\$ 1,250,487</u>	<u>\$ 1,537,404</u>
Analysis of employee benefits expense by function		
Operating costs	\$ 1,042,100	\$ 1,272,890
Operating expenses	<u>208,387</u>	<u>264,514</u>
	<u>\$ 1,250,487</u>	<u>\$ 1,537,404</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 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.

The employees' compensation and remuneration of directors for the years ended December 31, 2019 and 2018 which have been approved by the Corporation's board of directors in February 2020 and March 2019, respectively, were as follows:

Amount

	<u>For the Year Ended December 31</u>	
	<u>2019</u>	<u>2018</u>
Employees' compensation	\$ 11	\$ 22,262
Remuneration of directors	-	4,452

Accrual rate

	<u>For the Year Ended December 31</u>	
	<u>2019</u>	<u>2018</u>
Employees' compensation (%)	0.1	2.10
Remuneration of directors (%)	-	0.42

If there is a change in the proposed amounts after the annual standalone financial statements are authorized for issue, the difference is recorded as a change in accounting estimate and recognized in the next year.

There was no difference between the actual amounts of employees' compensation and remuneration of directors paid and the amounts recognized in the standalone financial statements for the year ended December 31, 2018.

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>	
	<u>2019</u>	<u>2018</u>
Current tax		
In respect of the current year	\$ 94	\$ -

The reconciliation of accounting profit and income tax expense was as follows:

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Profit before income tax	\$ 10,885	\$ 3,033,223
Income tax expense at the statutory rate	\$ 2,177	\$ 606,645
Permanent differences		
Profit on investments under equity method	(20,420)	(18,402)
Others	(15,698)	(5,444)
Unrecognized deductible temporary differences	(15,565)	52,922
Loss carryforwards	-	(635,721)
Unrecognized loss carryforwards	49,506	-
Land value increment tax	94	-
	<u>\$ 94</u>	<u>\$ -</u>

The Income Tax Act in the ROC was amended in 2018, and the corporate income tax rate was adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings has been reduced from 10% to 5%.

In July 2019, the president of the ROC announced the amendments to the Statute for Industrial Innovation, which stipulate that the amounts of unappropriated earnings in 2018 and thereafter that are reinvested in the construction or purchase of certain assets or technologies are allowed as deduction when computing the income tax on unappropriated earnings. The Corporation has already deducted the amount of the unappropriated earnings in 2018 that was reinvested as capital expenditure when calculating the tax on unappropriated earnings for the year ended December 2019.

- b. No income tax was recognized in other comprehensive loss.
- c. Current tax assets and liabilities

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Current tax assets		
Tax refund receivable	\$ 349	\$ 392

- d. Deferred tax liabilities

The movements of deferred tax liabilities were as follows:

For the year ended December 31, 2019

	<b>Balance, Beginning of Year</b>	<b>Recognized in Profit or Loss</b>	<b>Balance, End of Year</b>
<u>Deferred Tax Liabilities</u>			
Temporary differences			
Land value increment tax	\$ (182,222)	\$ -	\$ (182,222)

For the year ended December 31, 2018

	<b>Balance, Beginning of Year</b>	<b>Recognized in Profit or Loss</b>	<b>Balance, End of Year</b>
<u>Deferred Tax Liabilities</u>			
Temporary differences			
Land value increment tax	<u>\$ (182,222)</u>	<u>\$ -</u>	<u>\$ (182,222)</u>
e. Items for which no deferred tax assets have been recognized			
		<u>December 31</u>	
		<b>2019</b>	<b>2018</b>
Loss carryforwards			
2022 maturity		\$ 1,457,780	\$ 1,460,084
2023 maturity		187,880	187,880
2025 maturity		2,655,245	2,655,245
2029 maturity		<u>247,531</u>	<u>-</u>
		<u>\$ 4,548,436</u>	<u>\$ 4,303,209</u>
Deductible temporary differences			
Amortization of deferred credits		\$ 454,558	\$ 509,636
Sales discount payable		140,124	109,982
Net defined benefit liabilities		373,860	430,719
Provision for inventory loss		428,239	423,614
Others		<u>100,114</u>	<u>90,672</u>
		<u>\$ 1,496,895</u>	<u>\$ 1,564,623</u>
f. Income tax assessments			

The Corporation's income tax returns through 2017 have been assessed by the tax authorities.

## 26. BASIC EARNINGS PER SHARE

	<u>For the Year Ended December 31</u>	
	<b>2019</b>	<b>2018</b>
Basic earnings per share	<u>\$ 0.01</u>	<u>\$ 2.11</u>
Diluted earnings per share	<u>\$ 0.01</u>	<u>\$ 2.11</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

	<u>For the Year Ended December 31</u>	
	<b>2019</b>	<b>2018</b>
Attributable to owners of the Corporation	<u>\$ 10,791</u>	<u>\$ 3,033,223</u>

Weighted average number of ordinary shares outstanding (in thousand shares)

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
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	<u>401</u>	<u>2,081</u>
Weighted average number of ordinary shares used in computation of diluted earnings per share	<u>1,435,945</u>	<u>1,437,625</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. 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.

## 28. 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

<u>December 31, 2019</u>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial assets at FVTPL				
Emerging market shares	\$ <u>-</u>	\$ <u>-</u>	\$ <u>181,351</u>	\$ <u>181,351</u>
Financial assets at FVTOCI				
Domestic listed shares	\$ 791,311	\$ -	\$ -	\$ 791,311
Domestic unlisted shares	<u>-</u>	<u>-</u>	<u>44,843</u>	<u>44,843</u>
	<u>\$ 791,311</u>	<u>\$ -</u>	<u>\$ 44,843</u>	<u>\$ 836,154</u>

(Continued)

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<u>December 31, 2018</u>				
Financial assets at FVTPL				
Emerging market shares	\$ -	\$ -	\$ 217,281	\$ 217,281
Financial assets at FVTOCI				
Domestic listed shares	\$ 802,899	\$ -	\$ -	\$ 802,899
Domestic unlisted shares	-	-	51,219	51,219
	<u>\$ 802,899</u>	<u>\$ -</u>	<u>\$ 51,219</u>	<u>\$ 854,118</u>
				(Concluded)

There was no transfer between Level 1 and Level 2 for the years ended December 31, 2019 and 2018.

2) Reconciliation of Level 3 fair value measurements of financial assets

	<b>Financial Assets at FVTPL - Equity Instruments</b>	<b>Financial Assets at FVTOCI - Equity Instruments</b>	<b>Total</b>
<u>For the year ended December 31, 2019</u>			
Balance, beginning of year	\$ 217,281	\$ 51,219	\$ 268,500
Total profit or loss			
Recognized in profit or loss	(32,516)	-	(32,516)
Recognized in other comprehensive income	-	(1,771)	(1,771)
Disposal	(3,414)	-	(3,414)
Capital reduction refunded	-	(4,605)	(4,605)
Balance, end of year	<u>\$ 181,351</u>	<u>\$ 44,843</u>	<u>\$ 226,194</u>
Unrealized gains and losses recognized in other profit or loss	<u>\$ (32,620)</u>	<u>\$ -</u>	<u>\$ (32,620)</u>
<u>For the year ended December 31, 2018</u>			
Balance, beginning of year	\$ 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	-	(4,962)	(4,962)
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>

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

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
<b>Financial assets</b>		
<hr/>		
Fair value through profit or loss		
Mandatorily at fair value through profit or loss	\$ 181,351	\$ 217,281
Measured at amortized cost (see 1 below)	1,429,321	1,997,138
Financial assets at fair value through other comprehensive income		
Equity instruments	836,154	854,118
<hr/>		
<b>Financial liabilities</b>		
Measured at amortized cost (see 2 below)	14,960,624	17,915,558

- 1) The balances included financial assets measured at amortized cost, which comprise cash, accounts receivable (including related parties), other receivables (including related parties and excluding tax refund receivable), other financial assets and refundable deposits.
- 2) 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.

The Corporation 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 Corporation'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 Corporation 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 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 to alleviate foreign currency risk and risk to manage futures.

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 32.

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, refer to Note 32. The following table shows the impact on profit of 1% decrease in NTD against USD.

	<b>USD Impact (Note)</b>	
	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Profit before income tax	\$ 841	\$ 7,660

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:

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Fair value interest rate risk		
Financial liabilities	\$ 2,684,455	\$ 1,679,558

(Continued)

Cash flow interest rate risk		
Financial assets	365,177	494,825
Financial liabilities	9,764,867	11,231,773
		(Concluded)

If interest rates had been 0.25% higher/lower and all other variables were held constant, the Corporation's pre-tax profit for the years ended December 31, 2019 and 2018 would have been lower/higher by NT\$23,499 thousand and NT\$26,842 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, 2019 and 2018 would both 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 was 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 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, 2019, the unutilized credit facility of the Corporation was NT\$ 33.3 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	Over 5 Years	Total
December 31, 2019				
Short-term borrowings	\$ 5,188,373	\$ -	\$ -	\$ 5,188,373
Short-term bills payable	1,800,000	-	-	1,800,000
Accounts payable (including related parties)	95,269	-	-	95,269
Other payables	503,188	-	-	503,188
Refund liabilities	153,612	-	-	153,612
Lease liabilities	14,082	47,037	17,228	78,347
Long-term bank borrowings	499,363	4,173,943	-	4,673,306
Long-term bills payable	-	2,610,000	-	2,610,000
Guarantee deposits received	-	-	35,000	35,000
	<u>\$ 8,253,887</u>	<u>\$ 6,830,980</u>	<u>\$ 52,228</u>	<u>\$ 15,137,095</u>
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	-	120	35,000	35,120
	<u>\$ 12,276,797</u>	<u>\$ 5,611,960</u>	<u>\$ 35,000</u>	<u>\$ 17,923,757</u>

## 29. 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
China Ecotek Corporation (CEC)	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	Fellow subsidiaries
United Steel Engineering & Construction Corp.	Fellow subsidiaries
Steel Castle Technology Corporation	Fellow subsidiaries

(Continued)

<u>Company</u>	<u>Relationship</u>
China Steel Security 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
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
Kaohsiung Rapid Transit Corporation	Fellow subsidiaries
CGST Metals Vietnam Joint Stock Company	Fellow subsidiaries
Wabo Global Trading Corporation	Fellow subsidiaries
CSC Solar Corporation.	Fellow subsidiaries
Transglory Investment Corporation	Associates
Formosa Ha Tinh Steel Corporation	Other related parties
Pacific Harbour Stevedoring Corporation	The Corporation as supervisor of other company
Cheng Shin Management for Building Co., Ltd.	The Corporation as director of other Company

(Concluded)

b. Sale of goods

Account Items	Related Parties Types /Name	<u>For the Year Ended December 31</u>	
		2019	2018
Sales	Fellow subsidiaries related to others	\$ 1,333,043	\$ 1,780,397
	Parent entity	<u>4,544</u>	<u>531</u>
		<u>\$ 1,337,587</u>	<u>\$ 1,780,928</u>
Service Revenue	China Steel Corporation	\$ 470,271	\$ 594,009
	Fellow subsidiaries related to others	37	25
		<u>\$ 470,308</u>	<u>\$ 594,034</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	
		2019	2018
Other operating revenue	Fellow subsidiaries related to others		
	DSC	\$ 44,762	\$ 52,604
	HMC	<u>11,474</u>	<u>7,843</u>
		<u>\$ 56,236</u>	<u>\$ 60,447</u>

There is no significant profit or loss from the sale of the materials of the Company to fellow subsidiaries.

c. Purchase of goods

Related Parties Types/Name	For the Year Ended December 31	
	2019	2018
Parent entity	<u>\$ 20,764,285</u>	<u>\$ 25,257,677</u>
Fellow subsidiaries related to others		
DSC	8,712,164	10,349,774
Others	<u>334,062</u>	<u>489,636</u>
	9,046,226	10,839,410
Other related parties	<u>122,810</u>	<u>1,584,678</u>
	<u>\$ 29,933,321</u>	<u>\$ 37,681,765</u>

Purchases from related parties, mainly slabs and hot rolling coil, were made under normal terms.

d. Accounts receivable from related parties

Account Items	Related Parties Types /Name	December 31	
		2019	2018
Accounts receivable from related parties	Parent entity	<u>\$ 43,118</u>	<u>\$ 36,256</u>
	Fellow subsidiaries related to others		
	CSSB	-	121,361
	Others	<u>2,615</u>	<u>25,823</u>
		<u>2,615</u>	<u>147,184</u>
		<u>\$ 45,733</u>	<u>\$ 183,440</u>
Other receivable from related parties	Parent entity	<u>\$ 508,259</u>	<u>\$ 302,696</u>

(Continued)

Account Items	Related Parties Types /Name	December 31	
		2019	2018
Other receivable from related parties	Fellow subsidiaries related to others		
	CHC	\$ 31,578	\$ 41,513
	Others	<u>102</u>	<u>351</u>
		<u>31,680</u>	<u>41,864</u>
		<u>\$ 539,939</u>	<u>\$ 344,560</u>

(Concluded)

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, 2019 and 2018 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)

Account Items	Related Parties Types /Name	December 31	
		2019	2018
Accounts payable to related parties	Parent entity	\$ 56,343	\$ 582,549
	Others	7,924	12,019
	Fellow subsidiaries related to others	<u>1,330</u>	<u>1,196</u>
		<u>\$ 65,597</u>	<u>\$ 595,764</u>

The outstanding accounts payable to related parties were unsecured.

f. Loans from related parties

Related Parties Types	December 31	
	2019	2018
Parent entity	<u>\$ 2,450,000</u>	<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\$15,145 thousand and NT\$12,548 thousand for 2019 and 2018, respectively.

g. Other transactions with related parties

1) Authorization fees

In May 2003, the parent company, Sumitomo Metal Industries, Ltd. (renamed as Nippon Steel Corporation in April 2019) and Sumitomo Corporation entered into a joint venture agreement and established the joint venture company East Asia United Steel Corporation (EAUS) in July 2003. The parent company thus has a stable supply of high quality slab through this joint venture. The parent company 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 the parent company under the

contract. These fees (included in the purchase cost of materials) were NT\$99,527 thousand and NT\$106,775 thousand in 2019 and 2018, respectively. As of December 31, 2019 and 2018, authorization fees payable (included in payables to related parties) were NT\$21,550 thousand and NT\$27,043 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 2020. The rental revenue for the years ended December 31, 2019 and 2018 were NT\$2,335 thousand and NT\$2,336 thousand, respectively.
- b) The Corporation entered into a contract with parent entity on the lease of the Corporation's part of the land lease period is until December 2020. The rental revenue for the years ended December 31, 2019 and 2018 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:

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
a) Other expenditures		
Others	\$ 190,046	\$ 188,799
Parent entity	118,919	171,355
Fellow subsidiaries related to others	<u>60,637</u>	<u>109,088</u>
	<u>\$ 369,602</u>	<u>\$ 469,242</u>
b) Capital expenditure		
Parent entity	<u>\$ 2,723</u>	<u>\$ 3,530</u>
Fellow subsidiaries related to others		
ICSC	21,742	100,021
CSMC	22,430	34,100
CEC	8,500	-
Others	<u>3,536</u>	<u>1,460</u>
	<u>56,208</u>	<u>135,581</u>
	<u>\$ 58,931</u>	<u>\$ 139,111</u>

4) Income from selling supplies and scrap (included in deductions of cost of goods sold)

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Fellow subsidiaries related to others		
CHC	\$ 377,925	\$ 523,518
Others	<u>15,102</u>	<u>17,876</u>
	<u>\$ 393,027</u>	<u>\$ 541,394</u>

h. Compensation of key management personnel

The remuneration to directors and other members of key management personnel were as follows:

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Short-term employee benefits	\$ 29,509	\$ 29,596
Post-employment benefits	<u>1,777</u>	<u>401</u>
	<u>\$ 31,286</u>	<u>\$ 29,997</u>

**30. 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):

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Time deposits (included in other financial assets - current)	\$ 300,000	\$ 300,000
Net property, plant and equipment	<u>-</u>	<u>3,911,003</u>
	<u>\$ 300,000</u>	<u>\$ 4,211,003</u>

**31. 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, 2019 were as follows:

- a. Unused letters of credit for purchases of raw materials and machinery and equipment amounted to about NT\$1,577,206 thousand
- b. The Corporation had signed agreements to buy equipment for NT\$493,339 thousand, of which NT\$155,725 thousand had been paid (included in construction-in-progress and prepayments for equipment).

**32. 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:

	<b>Foreign Currencies (In Thousands)</b>	<b>Exchange Rate</b>		<b>Carrying Amount (In Thousands of New Taiwan Dollars)</b>
<u>December 31, 2019</u>				
Monetary financial assets				
USD	\$ 4,321	29.98	(USD:NTD)	\$ 129,550
Monetary financial liabilities				
USD	1,515	29.98	(USD:NTD)	45,416
JPY	49,145	0.276	(JPY:NTD)	13,564
<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

For the years ended December 31, 2019 and 2018, realized and unrealized net foreign exchange gain or loss were gain of NT\$49,511 thousand and gain of NT\$91,264 thousand, respectively. It is impractical to disclose net foreign exchange gains and losses by each significant foreign currency due to the variety of the foreign currency transactions.

### 33. 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)

#### **34. SEGMENT INFORMATION**

Disclosure of the segment information in standalone financial statements is waived.

**CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES**

**ENDORSEMENTS/GUARANTEES PROVIDED**

**FOR THE YEAR ENDED DECEMBER 31, 2019**

**(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 (Note 1)	Having business relationship	\$ 4,370,669	\$ 10,000	\$ -	\$ -	\$ -	-	\$ 7,284,449	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/guarantees” 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.

## CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

## MARKETABLE SECURITIES HELD

DECEMBER 31, 2019

(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, 2019				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	39,151,800	\$ 181,351	1	\$ 181,351	Note 1	
	Shouh Hwang Enterprise Co., Ltd.		Financial assets at fair value through profit or loss - current	730,000	-	15	-	Note 2	
						<u>\$ 181,351</u>		<u>\$ 181,351</u>	
	Common Stock China Steel Corporation		Financial assets at fair value through other comprehensive income - current	33,109,239	<u>\$ 791,311</u>	-	<u>\$ 791,311</u>		
	Common Stock Taiwan Ves-Power Co., Ltd.		Financial assets at fair value through other comprehensive income - noncurrent	958,333	\$ 35,305	2	\$ 35,305	2019.11.30 net value	
	Riselink Venture Capital Corp.		Financial assets at fair value through other comprehensive income - noncurrent	197,381	3,580	3	3,580	2019.11.30 net value	
Chung Hung Steel Corporation	Pacific Harbour Stevedoring Corp.	The company as its supervisor	Financial assets at fair value through other comprehensive income - noncurrent	250,000	5,958	5	5,958	2019.11.30 net value	
					<u>\$ 44,843</u>		<u>\$ 44,843</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>\$ 23,995</u>	-	<u>\$ 23,995</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.

## 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, 2019  
(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	( \$ 1,288,652 )	( 3 )	T/T within 7 business days after lading date(not included)	-	NO THIRD-PARTY COULD BE COMPARED(Note)	\$ -	-	
	China Steel Corporation	Parent company	Service revenue	( 470,271 )	( 1 )	T/T as the end of the month of when invoice is issued after final acceptance	-	NO THIRD-PARTY COULD BE COMPARED(Note)	43,118	8	
	Dragon Steel Corporation	Fellow subsidiary	Purchase of goods	8,712,164	27	Letter of credit at sight	-	NO THIRD-PARTY COULD BE COMPARED(Note)	-	-	
	China Steel Global Trading Corporation	Fellow subsidiary	Purchase of goods	259,405	1	Letter of credit at sight/Payment after final acceptance	-	NO THIRD-PARTY COULD BE COMPARED(Note)	-	-	
	China Steel Corporation	Parent company	Purchase of goods	20,764,285	63	Letter of credit at sight/Payment after final acceptance	-	NO THIRD-PARTY COULD BE COMPARED(Note)	( 56,343 )	( 59 )	
	Formosa Ha Tinh Steel Corporation	Other related parties	Purchase of goods	122,810	-	Letter of credit at sight	-	NO THIRD-PARTY COULD BE COMPARED(Note)	-	-	

Note : Refer to Note 29.

**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, 2019  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Company Name	Related Party	Relationship	Ending Balance	Turnover Rate	Overdue		Amount Received in Subsequent Period (Note 2)	Allowance for Impairment Loss
					Amount	Actions Taken		
Chung Hung Steel Corporation	China Steel Corporation	Parent company	\$ 508,259 (Note 1)	-	\$ -	-	\$ 3	\$ -

Note 1: Discount receivable (included in other receivables).

Note 2: Amounts received until report date.

## CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

### INFORMATION ON INVESTEEES

FOR THE YEAR ENDED DECEMBER 31, 2019

(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	\$ 27,173	(\$ 74)	(\$ 74)	Subsidiaries
Chung Hung Steel Corporation	Taiwan Steel Corporation	Republic of China	Iron and steel industry chain industry	-	1,000	-	-	-	( 90)	( 90)	Subsidiaries (Note)
Chung Hung Steel Corporation	Transglory Investment Corporation	Republic of China	General investment	2,001,152	2,001,152	297,619,989	40.91	2,526,222	249,976	102,266	

Note: End of settlement on December 30, 2019.

## THE CONTENTS OF STATEMENTS OF MAJOR ACCOUNTING ITEMS

ITEM	STATEMENT INDEX
MAJOR ACCOUNTING ITEMS IN ASSETS, LIABILITIES AND EQUITY	
STATEMENT OF CASH	1
STATEMENT OF FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS - CURRENT	2
STATEMENT OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME- CURRENT	3
STATEMENT OF ACCOUNTS RECEIVABLE	4
STATEMENT OF OTHER RECEIVABLES	Note 9
STATEMENT OF INVENTORIES	5
STATEMENT OF PREPAYMENTS	Note 11
STATEMENT OF NON - CURRENT ASSETS HELD FOR SALE	Note 12
STATEMENT OF OTHER FINANCIAL ASSETS	6
STATEMENT OF CHANGES IN FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - NONCURRENT	7
STATEMENT OF CHANGES IN INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD	8
STATEMENT OF CHANGES IN PROPERTY, PLANT AND EQUIPMENT	Note 15
STATEMENT OF CHANGES IN ACCUMULATED DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT	Note 15
STATEMENT OF CHANGES IN RIGHT-OF-USE ASSETS	9
STATEMENT OF CHANGES IN ACCUMULATED DEPRECIATION OF RIGHT-OF-USE ASSETS	9
STATEMENT OF CHANGES IN INVESTMENT PROPERTIES	Note 17
STATEMENT OF CHANGES IN ACCUMULATED DEPRECIATION OF INVESTMENT PROPERTIES	Note 17
STATEMENT OF CHANGES IN ACCUMULATED OF IMPAIRMENT OF INVESTMENT PROPERTIES	Note 17
STATEMENT OF SHORT-TERM BORROWINGS	10
STATEMENT OF SHORT-TERM BILLS PAYABLE	11
STATEMENT OF ACCOUNTS PAYABLE	12
STATEMENT OF OTHER PAYABLES	Note 20
STATEMENT OF LONG-TERM BANK BORROWINGS	13
STATEMENT OF LEASE LIABILITY	14
STATEMENT OF LONG-TERM BILLS PAYABLE	15
STATEMENT OF DEFERRED TAX LIABILITIES	Note 25
MAJOR ACCOUNTING ITEMS IN PROFIT OR LOSS	
STATEMENT OF OPERATING REVENUES	16
STATEMENT OF OPERATING COSTS	17
STATEMENT OF OPERATING EXPENSES	18
STATEMENT OF OTHER GAINS AND LOSSES	Note 24 (a) & (b)
STATEMENT OF FINANCE COSTS	Note 24 (c)
STATEMENT OF EMPLOYEE BENEFITS and DEPRECIATION	19

**STATEMENT 1**

**CHUNG HUNG STEEL CORPORATION**

**STATEMENT OF CASH**

**DECEMBER 31, 2019**

**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

---

<b>Item</b>	<b>Amount</b>
Cash on hand	\$ 700
Cash in banks	
Demand deposits	30,003
Checking accounts	260
Foreign currency deposits	
USD \$ 1,173,130	35,170
GBP 102	4
	<hr/>
	65,437
	<hr/>
	\$ 66,137
	<hr/>

Note: US\$1=NT\$29.98, GBP 1 =NT\$39.36.

**STATEMENT 2**

**CHUNG HUNG STEEL CORPORATION**

**STATEMENT OF FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS  
- CURRENT**

**DECEMBER 31, 2019**

**(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	39,151,800	\$ 233,057	\$ 4.63	<u>\$ 181,351</u>	Note 1
Less: Evaluation adjustment		<u>51,706</u>			
		181,351			
Domestic unlisted shares					
Shouh Hwang Enterprise Co., Ltd.	730,000	<u>-</u>	-	<u>\$ -</u>	Note 2
		<u>\$ 181,351</u>			

Note 1: Fair value is calculated based on liquidity premium adjusted by Emerging Stock Market price as of December 31, 2019.

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, 2019**

**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

---

<b>Item</b>	<b>Shares</b>	<b>Acquisition Cost</b>	<b>Fair Value (Note)</b>		
			<b>Unit Price (NT\$)</b>	<b>Amount</b>	
Domestic Listed Shares					
China Steel Corporation	33,109,239	\$635,641	\$23.9	<u>\$ 791,311</u>	Note
Plus: Evaluation adjustment		<u>155,670</u>			
		<u>\$791,311</u>			

Note: Fair value is measured on the basis of the closing price at the balance sheet date.

**CHUNG HUNG STEEL CORPORATION****STATEMENT OF ACCOUNTS RECEIVABLE****DECEMBER 31, 2019****(In Thousands of New Taiwan Dollars)**

---

<b>Customer Name</b>	<b>Amount (Note 2)</b>
Related Parties	
China Steel Corporation	\$ 43,118
Dragon Steel Corporation	2,302
Others(Note 1)	<u>313</u>
	<u>\$ 45,733</u>
Non-Related Parties	
CPC Corporation, Taiwan	\$ 104,591
Hong-Ye Steel Co.,Ltd	91,491
Synn Industrial Co.,Ltd	67,712
POSCO INTERNATIONAL Corporation	27,527
Commercial Steel Products	27,342
Others(Note 1)	<u>147,354</u>
	<u>\$ 466,017</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, 2019  
(In Thousands of New Taiwan Dollars)**

Item	Amount	
	Cost	Net Realizable Value (Note)
Raw materials	\$ 2,925,281	\$ 2,803,988
Supplies	468,672	524,923
Work in progress	638,623	599,839
Finished goods	2,972,034	2,706,263
Others	887	887
Raw materials and supplies in transit	379	379
Allowance for loss on inventory value	<u>( 428,239)</u>	<u>-</u>
	<u>\$ 6,577,637</u>	<u>\$ 6,636,279</u>

Note: Refer to Note 4 for details.

**CHUNG HUNG STEEL CORPORATION**

**STATEMENT OF OTHER FINANCIAL ASSETS**

**DECEMBER 31, 2019**

**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

---

<b>Bank Name</b>	<b>Interest Rates (%)</b>	<b>Period</b>	<b>Amount</b>	<b>Note</b>
Other Financial Assets				
Taiwan Business Bank- Time deposits	0.07	108.11.29-109.01.29	<u>\$ 300,000</u>	Note

Note: As a collateral for bank borrowings.

## CHUNG HUNG STEEL CORPORATION

STATEMENT OF CHANGES IN FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - NONCURRENT  
 FOR THE YEAR ENDED DECEMBER 31, 2019  
 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Name	Balance, January 1, 2019		Additions(Note 1)		Decrease(Note 2)		Balance, December 31, 2019		Collateral
	Shares	Fair Value	Shares	Amount	Shares	Amount	Shares	Fair Value (Note 3)	
Domestic unlisted shares									
Riselink Venture Capital Corp.	657,936	\$ 7,764	-	\$ 421	460,555	\$ 4,605	197,381	\$ 3,580	None
TAIWAN VES-POWER CO., LTD.	958,333	37,662	-	-	-	2,357	958,333	35,305	None
PACIFIC HARBOUR STEVEDORING CORP.	250,000	5,793	-	165	-	-	250,000	5,958	None
		<u>\$51,219</u>		<u>\$ 586</u>		<u>\$ 6,962</u>		<u>\$ 44,843</u>	

Note 1: The unrealized gain on valuation of NT\$ 586 thousand was recognized as additions.

Note 2: The reduced capital and refund of NT\$ 4,605 thousand and the unrealized loss on valuation of NT\$ 2,357 thousand were recognized as decreases.

Note 3: Fair value is estimated pursuant to the evaluation method in Note 28.

## CHINA STEEL CORPORATION

STATEMENT OF CHANGES IN INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD  
 FOR THE YEAR ENDED DECEMBER 31, 2019  
 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investees	Balance, January 1, 2019		Additions (Note 1)		Decrease (Note 2)		Balance, December 31, 2019			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	289,620,871	\$ 2,462,217	7,999,118	\$ 102,266	-	\$ 38,261	297,619,989	40.91	\$ 2,526,222	\$ 8.5	\$ 2,526,222	None
Hong Kao Investment Corporation	2,600,000	30,427	-	-	-	3,254	2,600,000	100	27,173	10.5	27,173	None
Taiwan Steel Corporation	100,000	933	-	-	100,000	933	-	-	-	-	-	None
		<u>\$ 2,493,577</u>		<u>\$ 102,266</u>		<u>\$ 42,448</u>			<u>\$ 2,553,395</u>		<u>\$ 2,553,395</u>	

Note 1: The increase came from investment income recognized under equity method of NT\$ 102,266 thousand.

Note 2: The decrease came from cash dividends NT\$ 2,829 thousand, unrealized loss of financial assets at fair value through other comprehensive income of NT\$ 38,612 thousand, investment loss recognized under equity method of NT\$ 164 thousand and the dissolution and refund of NT\$ 843 thousand.

**CHUNG HUNG STEEL CORPORATION**
**STATEMENT OF CHANGES IN RIGHT-OF-USE ASSETS  
 FOR THE YEAR ENDED DECEMBER 31, 2019  
 (In Thousands of New Taiwan Dollars)**


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Item	Land	Transportation Equipment	Total
Cost			
Balance, January 1,2019	\$ -	\$ -	\$ -
Adjustments arising from initial application	70,584	171	70,755
Additions	1,631	16,077	17,708
Disposals	<u>-</u>	<u>( 1,010)</u>	<u>( 1,010)</u>
Balance, December 31,2019	<u>72,215</u>	<u>15,238</u>	<u>87,453</u>
Accumulated depreciation			
Balance, January 1,2019	-	-	-
Disposals	-	33	33
Depreciation expense	<u>( 10,440)</u>	<u>( 2,145)</u>	<u>( 12,585)</u>
Balance, December 31,2019	<u>( 10,440)</u>	<u>( 2,112)</u>	<u>( 12,552)</u>
	<u>\$ 61,775</u>	<u>\$ 13,126</u>	<u>\$ 74,901</u>

## CHUNG HUNG STEEL CORPORATION

## STATEMENT OF SHORT-TERM BORROWINGS

DECEMBER 31, 2019

(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		0.69-0.88			
Bank of Taiwan, GangShan (Note 1)	2019.12.24-2020.03.20		\$ 1,100,000	\$ 5,500,000	None
Bangkok Bank, Kaohsiung	2019.12.17-2020.01.14		100,000	900,000	None
BNP Paribas, Kaohsiung	2019.12.06-2020.02.06		200,000	600,000	None
Mitsubishi UFJ, Taipei	2019.12.06-2020.01.06		500,000	500,000	None
			<u>1,900,000</u>		
Related Parties loans					
China Steel Corporation (Note 3)	2019.11.14-2020.02.20	0.69	<u>2,450,000</u>	3,450,000	None
LC borrowing in NTD		0.88-0.95			
First Bank, Kaohsiung	2019.12.24-2020.01.30		157,163	1,500,000	None
Chang Hwa Bank, Kaohsiung	2019.12.31-2020.01.14		96,684	1,500,000	None
Bank of Taiwan, GangShan (Note 1)	2019.12.10-2020.03.30		176,718	5,500,000	None
E. Sun Bank, Kaohsiung	2019.12.24-2020.01.30		202,058	1,000,000	None
			<u>632,623</u>		
LC borrowing in JPY		-			
Mega Bank, Kaohsiung Metropolitan	2019.12.30-2020.01.03		6,222	3,100,000	None
Mega Bank, Kaohsiung Metropolitan	2019.12.30-2020.01.06		7,342	3,100,000	None
			<u>13,564</u>		
Bank overdraft					
Taiwan Business Bank, LingYa Branch		0.35	<u>158,680</u>	-	Certificate of time deposit (Note 2)
			<u>\$ 5,154,867</u>		

Note 1: Revolving loans and LC borrowing in NTD shared credit amount.

Note 2: Refer to Note 30 for details.

Note 3: Refer to Note 29 for details.

## CHUNG HUNG STEEL CORPORATION

## STATEMENT OF SHORT-TERM BILLS PAYABLE

DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Financial Institution	Period	Interest Rates (%)	Amount		
			Issuance amount	Unamortized Amount	Carrying Amount
Bank of Taiwan	2019.12.31-2020.01.14	0.70	\$ 1,300,000	\$ 324	\$ 1,299,676
Hua Nan Commercial Bank	2019.12.17-2020.01.14	0.71	<u>500,000</u>	<u>126</u>	<u>499,874</u>
			<u>\$ 1,800,000</u>	<u>\$ 450</u>	<u>\$ 1,799,550</u>

**CHUNG HUNG STEEL CORPORATION****STATEMENT OF ACCOUNTS PAYABLE****DECEMBER 31, 2019****(In Thousands of New Taiwan Dollars)**

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<b>Vendor Name</b>	<b>Amount</b>
Related Parties	
China Steel Corporation	\$ 56,343
Pacific Harbour Stevedoring Corporation	7,924
Others (Note)	<u>1,330</u>
	<u>\$ 65,597</u>
Non-related Parties	
Prosperity Did Enterprise Co., Ltd.	\$ 2,439
Arise Abundant Co., Ltd.	2,143
Plus Metal Tech Co., Ltd	1,733
Others (Note)	<u>23,357</u>
	<u>\$ 29,672</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, 2019

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Bank Name	Contract Period and Repayment Method	Interest Rates (%)	Balance, December 31, 2019			Collateral
			Current	Over 1 Year	Total	
Long-term bank borrowings						
Hua Nan Commercial Bank, Kaohsiung	Due in January 2022, full repayment of principal	0.98	\$ -	\$ 700,000	\$ 700,000	None
Mitsubishi UFJ, Taipei	Due in April 2021, full repayment of principal	0.87	-	1,150,000	1,150,000	None
Bank of Taiwan, GangShan	Due in December 2024, amortisation	0.99	-	1,200,000	1,200,000	None
Land Bank of Taiwan, Tainan	Due in May 2021, amortisation	1.22	480,000	280,000	760,000	None
Mega International Commercial Bank, Kaohsiung Metropolitan Branch	Due in June 2021, full repayment of principal	1.29	-	100,000	100,000	None
Mega International Commercial Bank, Kaohsiung Metropolitan Branch	Due in June 2021, full repayment of principal	1.13	-	700,000	700,000	None
			<u>\$ 480,000</u>	<u>\$ 4,130,000</u>	<u>\$ 4,610,000</u>	

**CHUNG HUNG STEEL CORPORATION****STATEMENT OF LEASE LIABILITIES****DECEMBER 31, 2019****(In Thousands of New Taiwan Dollars)**

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<b>Item</b>	<b>Period</b>	<b>Discount Rates (%)</b>	<b>Amount</b>
Land	2015.03.01-2027.12.31	1.10-1.31	\$ 62,156
Transportation equipment	2019.05.01-2024.04.30	0.76	<u>13,161</u>
			<u>\$ 75,317</u>

Note 1: Refer to Note 16 for details.

Note 2: Current portion of lease liabilities has been classified as current liabilities.

## CHUNG HUNG STEEL CORPORATION

## STATEMENT OF LONG-TERM BILLS PAYABLE

DECEMBER 31, 2019

(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	1.03	\$ 420,000	\$ 236	\$ 419,764	None
China Bills Finance Corporation	Non-guarantee	300,000	2019.04.01-2022.03.31	1.03	210,000	77	209,923	None
International Bills Finance Corporation	Bangkok Bank	300,000	2017.12.27-2021.12.27	1.06	180,000	104	179,896	None
Taishin Bank	Non-guarantee	<u>1,800,000</u>	2019.03.10-2022.09.09	0.84-0.85	<u>1,800,000</u>	<u>445</u>	<u>1,799,555</u>	None
		<u>\$ 3,000,000</u>			<u>\$ 2,610,000</u>	<u>\$ 862</u>	<u>\$ 2,609,138</u>	

**CHUNG HUNG STEEL CORPORATION****STATEMENT OF OPERATING REVENUES  
FOR THE YEAR ENDED DECEMBER 31, 2019  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

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<b>Item</b>	<b>Quantities (Metric Tons)</b>	<b>Amount</b>
Sale of Goods		
Hot rolled coiled steel	1,762,075	\$ 28,424,804
Cold rolled coiled steel	286,723	5,455,299
Steel pipe	138,985	3,736,536
Galvanized coiled steel	116,573	<u>2,313,888</u>
		39,930,527
Service revenue		475,462
Other operating revenue		<u>61,527</u>
		<u>\$ 40,467,516</u>

## CHUNG HUNG STEEL CORPORATION

**STATEMENT OF OPERATING COSTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**  
(In Thousands of New Taiwan Dollars)

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Item	Amount
Cost of goods sold for in-house products	
Raw materials used	
Raw materials, beginning of year	\$ 3,478,111
Raw material purchased	32,708,605
Raw materials, end of year	<u>(2,925,281)</u>
	33,261,435
Direct labor	348,748
Manufacturing expenses	<u>5,154,465</u>
Manufacturing cost	38,764,648
Work in progress, beginning of year	617,034
Work in progress, end of year	<u>( 638,623)</u>
	38,743,059
Finished goods, beginning of year	3,891,331
Finished goods, end of year	(2,972,034)
Income from off-grades	(834,097)
Others	<u>(60,423)</u>
Total costs of goods sold	38,767,836
Service costs	386,184
Other operating costs	<u>71,181</u>
Total operating costs	<u>\$ 39,225,201</u>

## CHUNG HUNG STEEL CORPORATION

STATEMENT OF OPERATING EXPENSES  
 FOR THE YEAR ENDED DECEMBER 31, 2019  
 (In Thousands of New Taiwan Dollars)

Item	Selling Expenses	General and Administrative Expenses	Total
Export expense	\$ 1,019,910	\$ 10,011	\$ 1,029,921
Salaries and awards	42,632	120,234	162,866
Depreciation expense	71	84,674	84,745
Commission	51,473	-	51,473
Insurance	9,149	13,782	22,931
Employee benefits	6,292	14,816	21,108
Tax	1,362	9,681	11,043
Service fee	655	9,650	10,305
Travelling expense	2,866	5,494	8,360
Pension	2,358	5,547	7,905
Entertainment expense	2,524	4,935	7,459
Stockholder service fee	-	5,064	5,064
Repair and maintenance expense	5	4,721	4,726
Rent expense	248	3,351	3,599
Postage	731	2,683	3,414
Utility	-	2,893	2,893
Donation expense	-	2,718	2,718
Security expense	-	2,565	2,565
Freight expense	1,875	3	1,878
Others	<u>5,550</u>	<u>9,324</u>	<u>14,874</u>
Total	<u>\$ 1,147,701</u>	<u>\$ 312,146</u>	<u>\$ 1,459,847</u>

## CHUNG HUNG STEEL CORPORATION

STATEMENT OF EMPLOYEE BENEFITS AND DEPRECIATION  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018  
(In Thousands of New Taiwan Dollars)

	Year Ended December 31,2019				Year Ended December 31,2018			
	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								
Salaries	\$ 788,750	\$ 156,718	\$ -	\$ 945,468	\$ 981,830	\$ 202,878	\$ -	\$ 1,184,708
Labor and health insurance	76,921	13,343	-	90,264	73,967	14,038	-	88,005
Pension	43,243	7,905	-	51,148	40,700	7,522	-	48,222
Employment benefits	130,713	21,108	-	151,821	173,209	29,424	-	202,633
Remuneration of directors	-	6,148	-	6,148	-	9,372	-	9,372
Others	2,473	3,165	-	5,638	3,184	1,280	-	4,464
	<u>\$ 1,042,100</u>	<u>\$ 208,387</u>	<u>\$ -</u>	<u>\$ 1,250,487</u>	<u>\$ 1,272,890</u>	<u>\$ 264,514</u>	<u>\$ -</u>	<u>\$ 1,537,404</u>
Depreciation	<u>\$ 1,128,006</u>	<u>\$ 84,745</u>	<u>\$ 884</u>	<u>\$ 1,213,635</u>	<u>\$ 1,092,116</u>	<u>\$ 88,176</u>	<u>\$ 840</u>	<u>\$ 1,181,132</u>

Note 1: As of December 31, 2019 and 2018, the Corporation had 1,235 and 1,233 employees, respectively. Among them 6 directors did not serve concurrently as employees in 2018 and 2017, respectively.

Note 2: Additional disclosures are as follows:

- 1) Average employee benefits for the year ended December 31, 2019 and 2018 were NT\$ 1,012 thousand and NT\$ 1,245 thousand, respectively.
- 2) Average salaries for the year ended December 31, 2019 and 2018 were NT\$ 769 thousand and NT\$ 966 thousand, respectively.
- 3) Changes of adjustments of average salaries was (20.39) %.

**v. 2019 consolidated financial statements for parent and subsidiary companies**

**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, 2019, 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

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Min-Hsiung Liu  
Chairman

February 26, 2020

## **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, 2019 and 2018, 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, 2019 and 2018, 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.

### **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, 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters of the Group's consolidated financial statements for the year ended December 31, 2019 are stated as follows:

#### Measurement of Inventories

Inventories are one of the significant assets in the balance sheet. As of December 31, 2019 the carrying amount of inventories held by the Group was NT\$6,577,637 thousand, which accounted for 21% of total assets. Due to the fluctuations in the prices of raw materials and finished goods in steel the 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 at the end of the reporting period, including evaluation of obsolete inventory and the measurement of inventories during the year. Our main audit procedures performed included the following:

1. We observed year-end inventory counts and assessed the condition of inventory and evaluated the adequacy of inventory provision for obsolete goods;
2. We obtained the year-end inventory aging profile and verified its accuracy based on supporting documents and we confirmed that 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 yearend.
4. We checked the calculation of inventory provision, the market value of inventory from supporting documents 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, 2019 and 2018 on which we have issued an unmodified opinion and an unmodified opinion with emphasis of a matter paragraphs, 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, 2019 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

February 26, 2020

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, 2019		December 31, 2018	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash (Notes 4 and 6)	\$ 67,028	-	\$ 200,081	1
Financial assets at fair value through profit or loss - current (Notes 4 and 7)	181,351	1	217,281	1
Financial assets at fair value through other comprehensive income - current (Notes 4 and 8)	791,311	3	802,899	2
Accounts receivable (Notes 4 and 9)	466,017	1	948,932	3
Accounts receivable from related parties (Notes 4, 9 and 29)	45,733	-	183,440	-
Other receivables (Note 9)	6,031	-	16,002	-
Other receivables from related parties (Notes 9 and 29)	541,414	2	348,709	1
Current tax assets (Note 25)	661	-	420	-
Inventories (Notes 4, 5 and 10)	6,577,637	21	8,240,151	25
Prepayments (Note 11)	228,531	1	373,830	1
Non-current assets held for sale (Notes 4 and 12)	-	-	22,525	-
Other financial assets - current (Notes 12, 13 and 30)	301,700	1	302,897	1
Other current assets	1,690	-	6,590	-
Total current assets	9,209,104	30	11,663,757	35
<b>NONCURRENT ASSETS</b>				
Financial assets at fair value through other comprehensive income - noncurrent (Notes 4 and 8)	68,838	-	75,565	-
Investments accounted for using equity method (Notes 4 and 14)	2,526,222	9	2,462,217	7
Property, plant and equipment (Notes 4, 15, 30 and 31)	12,552,287	41	13,249,030	40
Right-of-use assets (Notes 3, 4 and 16)	74,901	-	-	-
Investment properties (Notes 4, 12 and 17)	5,984,073	20	5,907,018	18
Prepayments for equipment (Note 31)	42,549	-	57,694	-
Refundable deposits	5,632	-	5,632	-
Total noncurrent assets	21,254,502	70	21,757,156	65
<b>TOTAL</b>	<b>\$ 30,463,606</b>	<b>100</b>	<b>\$ 33,420,913</b>	<b>100</b>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term borrowings (Notes 18, 29 and 30)	\$ 5,154,867	17	\$ 6,381,773	19
Short-term bills payable (Note 18)	1,799,550	6	3,198,953	10
Contract liabilities - current (Notes 4, 12 and 23)	285,052	1	96,445	-
Accounts payable (Note 19)	29,672	-	45,304	-
Accounts payable to related parties (Notes 19 and 29)	65,597	-	595,764	2
Other payables (Note 20 and 29)	504,388	2	1,014,578	3
Current tax liabilities (Note 25)	-	-	537	-
Lease liabilities - current (Notes 3, 4 and 16)	13,273	-	-	-
Current portion of long-term bank borrowings (Notes 18 and 30)	480,000	2	950,000	3
Refund liabilities - current	153,612	-	115,720	-
Other current liabilities	16,434	-	30,974	-
Total current liabilities	8,502,445	28	12,430,048	37
<b>NONCURRENT LIABILITIES</b>				
Long-term bank borrowings (Notes 18 and 30)	4,130,000	13	3,900,000	12
Long-term bills payable (Note 18)	2,609,138	9	1,679,558	5
Deferred tax liabilities (Notes 4 and 25)	182,222	1	182,222	1
Lease liabilities - noncurrent (Notes 3, 4 and 16)	62,044	-	-	-
Net defined benefit liabilities (Notes 4, 5 and 21)	373,860	1	430,719	1
Guarantee deposits received (Note 17)	35,000	-	35,120	-
Total noncurrent liabilities	7,392,264	24	6,227,619	19
Total liabilities	15,894,709	52	18,657,667	56
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION (Notes 4 and 22)</b>				
Ordinary shares	14,355,444	47	14,355,444	43
Capital surplus	903	-	903	-
Retained earnings				
Legal reserve	90,450	-	-	-
Special reserve	497,607	2	-	-
Unappropriated earnings	174,071	1	904,506	3
Total retained earnings	762,128	3	904,506	3
Other equity	(549,578)	(2)	(497,607)	(2)
Total equity	14,568,897	48	14,763,246	44
<b>TOTAL</b>	<b>\$ 30,463,606</b>	<b>100</b>	<b>\$ 33,420,913</b>	<b>100</b>

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

# 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			
	2019		2018	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4, 23 and 29)				
Sales	\$ 39,930,527	99	\$ 47,565,824	99
Investment revenue	1,004	-	884	-
Service revenue	477,071	1	605,202	1
Other operating revenue	<u>61,527</u>	<u>-</u>	<u>66,975</u>	<u>-</u>
Total operating revenue	40,470,129	100	48,238,885	100
OPERATING COSTS (Notes 10, 24 and 29)	<u>39,225,201</u>	<u>97</u>	<u>43,853,999</u>	<u>91</u>
GROSS PROFIT	<u>1,244,928</u>	<u>3</u>	<u>4,384,886</u>	<u>9</u>
OPERATING EXPENSES (Note 24)				
Selling and marketing expenses	1,147,701	3	1,117,746	2
General and administrative expenses	<u>314,816</u>	<u>1</u>	<u>391,363</u>	<u>1</u>
Total operating expenses	<u>1,462,517</u>	<u>4</u>	<u>1,509,109</u>	<u>3</u>
PROFIT (LOSS) FROM OPERATIONS	<u>(217,589)</u>	<u>(1)</u>	<u>2,875,777</u>	<u>6</u>
NON-OPERATING INCOME AND EXPENSES (Notes 14, 17, 24 and 29)				
Other income	175,356	1	129,705	-
Other gains and losses	73,899	-	79,374	-
Finance costs	(123,047)	-	(139,883)	-
Share of the profit of associates	<u>102,266</u>	<u>-</u>	<u>88,875</u>	<u>-</u>
Total non-operating income and expenses	<u>228,474</u>	<u>1</u>	<u>158,071</u>	<u>-</u>
PROFIT BEFORE INCOME TAX	10,885	-	3,033,848	6
INCOME TAX (Notes 4, 5 and 25)	<u>94</u>	<u>-</u>	<u>625</u>	<u>-</u>
NET PROFIT FOR THE YEAR	<u>10,791</u>	<u>-</u>	<u>3,033,223</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	(9,614)	-	(128,800)	-
Unrealized gains and losses on investments in equity instruments at fair value through other comprehensive income	(13,710)	-	(14,477)	-

(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			
	2019		2018	
	Amount	%	Amount	%
Share of the other comprehensive income of associates	\$ (38,261)	-	\$ (52,359)	-
	<u>(61,585)</u>	<u>-</u>	<u>(195,636)</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	\$ <u>(50,794)</u>	<u>-</u>	\$ <u>2,837,587</u>	<u>6</u>
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Corporation	\$ <u>10,791</u>	<u>-</u>	\$ <u>3,033,223</u>	<u>6</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Corporation	\$ <u>(50,794)</u>	<u>-</u>	\$ <u>2,837,587</u>	<u>6</u>
EARNINGS PER SHARE (Note 26)				
Basic	\$ <u>0.01</u>		\$ <u>2.11</u>	
Diluted	\$ <u>0.01</u>		\$ <u>2.11</u>	

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

(Concluded)

## 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
			Legal Reserve	Special Reserve	Unappropriated Earnings	Unrealized Valuation 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, 2018	\$ 14,355,444	\$ 903	\$ -	\$ -	\$ (2,083,776)	\$ -	\$ (346,912)	\$ (346,912)	\$ 11,925,659
Effect of retrospective application	-	-	-	-	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
Appropriation of 2018 earning (Note 22)									
Legal reserve	-	-	90,450	-	(90,450)	-	-	-	-
Special reserve	-	-	-	497,607	(497,607)	-	-	-	-
Cash dividends	-	-	-	-	(143,555)	-	-	-	(143,555)
Net profit for the year ended December 31, 2019	-	-	-	-	10,791	-	-	-	10,791
Other comprehensive loss for the year ended December 31, 2019, net of income tax	-	-	-	-	(9,614)	(51,971)	-	(51,971)	(61,585)
Total comprehensive income for the year ended December 31, 2019	-	-	-	-	1,177	(51,971)	-	(51,971)	(50,794)
BALANCE AT DECEMBER 31, 2019	\$ 14,355,444	\$ 903	\$ 90,450	\$ 497,607	\$ 174,071	\$ (549,578)	\$ -	\$ (549,578)	\$ 14,568,897

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

# CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

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

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before income tax	\$ 10,885	\$ 3,033,848
Adjustments for:		
Depreciation expense	1,213,635	1,181,132
Net loss (gain) on financial assets at fair value through profit or loss	32,516	(3,057)
Finance costs	123,047	139,883
Interest income	(2,026)	(4,157)
Dividend income	(48,605)	(42,778)
Share of the profit of associates	(102,266)	(88,875)
Loss on disposal of property, plant and equipment	8,491	-
Gain on disposal of non - current assets held for sale	(871)	-
Write-downs of inventories	4,624	417,871
Reversal of impairment loss	(77,532)	-
Changes in operating assets and liabilities		
Financial assets mandatorily classified as at fair value through profit or loss	3,414	1,240
Accounts receivable	482,915	342,852
Accounts receivable from related parties	137,707	(15,253)
Other receivables	9,971	(5,579)
Other receivables from related parties	(192,705)	52,615
Inventories	1,657,890	(3,638,397)
Prepayments	144,352	(171,006)
Other current assets	4,900	(197)
Other financial assets	(1,700)	-
Contract liabilities	191,497	(67,300)
Accounts payable	(15,632)	(10,856)
Accounts payable to related parties	(530,167)	(623,501)
Other payables	(497,342)	309,432
Other current liabilities	(14,540)	8,666
Net defined benefit liabilities	(66,473)	(63,837)
Refund liabilities	<u>37,892</u>	<u>(47,715)</u>
Cash generated from operations	2,513,877	705,031
Income taxes paid	<u>(872)</u>	<u>(242)</u>
Net cash generated from operating activities	<u>2,513,005</u>	<u>704,789</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
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	4,605	4,962
Proceeds from disposal of non-current assets held for sale	20,506	-
Acquisition of property, plant and equipment	(507,531)	(412,440)

(Continued)

# CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

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

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Proceeds from disposal of property, plant and equipment	\$ 123	\$ -
Decrease in refundable deposits	-	215
Decrease in other financial assets	2,897	199,488
Interest received	2,026	4,167
Dividends received from others	<u>48,605</u>	<u>42,778</u>
Net cash used in investing activities	<u>(428,769)</u>	<u>(159,868)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from short-term borrowings	76,681,921	109,451,453
Repayments of short-term borrowings	(77,908,827)	(110,534,495)
Increase in short-term bills payable	8,700,597	6,870,101
Decrease in short-term bills payable	(10,100,000)	(4,340,997)
Proceeds from long-term borrowings	7,550,000	3,500,000
Repayments of long-term borrowings	(7,790,000)	(3,900,000)
Proceeds from long-term bills payable	2,589,580	1,600,496
Repayments of long-term bills payable	(1,660,000)	(3,070,000)
Decrease in guarantee deposits	(120)	-
Repayments of principal of lease liabilities	(11,222)	-
Dividends paid to owner of the company	(143,555)	-
Interest paid	<u>(125,663)</u>	<u>(139,353)</u>
Net cash used in financing activities	<u>(2,217,289)</u>	<u>(562,795)</u>
NET DECREASE IN CASH	(133,053)	(17,874)
CASH AT THE BEGINNING OF THE YEAR	<u>200,081</u>	<u>217,955</u>
CASH AT THE END OF THE YEAR	<u>\$ 67,028</u>	<u>\$ 200,081</u>

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

(Concluded)

# CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

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### 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, 2019, and 2018, 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 February 26, 2020.

### 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:

#### 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 “Determining whether an Arrangement contains a Lease”, and a number of related interpretations. Refer to Note 4 for information relating to the relevant accounting policies.

#### 1) Definition of a lease

The Group elects 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 are not reassessed and are accounted for in accordance with the transitional provisions under IFRS 16.

## 2) The Group as lessee

The Group recognizes right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for those whose payments under low-value asset and short-term leases are recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, the Group presents 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 are classified within financing activities. Prior to the application of IFRS 16, payments under operating lease contract were recognized as expenses on a straight-line basis. Cash flows for operating leases were classified within operating activities on the consolidated statements of cash flows.

The Group elects to apply IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized in assets and liabilities on January 1, 2019. Comparative information is not restated.

The Group also applies the following practical expedients:

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

The lessee's weighted average incremental borrowing rate applied to lease liabilities recognized on January 1, 2019 is 1.26%. The difference between the lease liabilities recognized and future minimum lease payments of non-cancellable operating lease commitments disclosed on December 31, 2018 is explained as follows:

The future minimum lease payments of non-cancellable operating lease commitments on December 31, 2018	\$ 85,098
Less: Recognition exemption for short-term leases	(6,494)
Less: Recognition exemption for low-value assets	<u>(4,298)</u>
Undiscounted amounts on January 1, 2019	<u>\$ 74,306</u>
Discounted amounts using the incremental borrowing rate on January 1, 2019	\$ 70,755
Less: Prepayments for leases	<u>947</u>
Lease liabilities recognized on January 1, 2019	<u>\$ 69,808</u>

The impact on assets, liabilities and equity as of January 1, 2019 from the initial application of IFRS 16 is set out as follows:

	<b>As Originally Stated on January 1, 2019</b>	<b>Adjustments Arising from Initial Application</b>	<b>Restated on January 1, 2019</b>
Prepayments 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 - noncurrent	<u>-</u>	<u>60,691</u>	<u>60,691</u>
Total effect on liabilities	<u>\$ -</u>	<u>\$ 69,808</u>	<u>\$ 69,808</u>

3) The Group as lessor

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

b. The IFRSs endorsed by FSC for application starting from 2020

<b>New IFRSs</b>	<b>Effective Date Announced by IASB</b>
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020 (Note 1)
Amendments to IFRS 9, IAS 39 and IFRS 7 “Interest Rate Benchmark Reform”	January 1, 2020 (Note 2)
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020 (Note 3)

Note 1: 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 2: The Group shall apply these amendments retrospectively for annual reporting periods beginning on or after January 1, 2020.

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

Amendments to IAS 1 and IAS 8 “Definition of material”

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRSs. The concept of “obscuring” material information with immaterial information has been included as part of the new definition. The threshold for material has been changed from “could influence” to “could reasonably be expected to influence”.

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group is in the process of assessing the impact of the amendments to other standards and interpretations on Group’s financial position and results of operations. Disclosures will be provided after a detailed review of the impact has been 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)
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 “Classification of Liabilities as Current or Non-current”	January 1, 2022

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

Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”

The amendments clarify that for a liability to be classified as non-current, the Group shall assess whether it has the right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. If such rights are in existence at the end of the reporting period, the liability is classified as non-current regardless of whether the Group will exercise that right. The amendments also clarify that, if the right to defer settlement is subject to compliance with specified conditions, the Group must comply with those conditions at the end of the reporting period even if the lender does not test compliance until a later date.

The amendments stipulate that, for the purpose of liability classification, the aforementioned settlement refers to a transfer of cash, other economic resources or the Group’s own equity instruments to the counterparty that results in the extinguishment of the liability. However, if the terms of a liability that could, at the option of the counterparty, result in its settlement by a transfer of the Group’s own equity instruments, and if such option is recognized separately as equity in accordance with IAS 32: Financial Instruments: Presentation, the aforementioned terms would not affect the classification of the liability.

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group is in the process of assessing the impact of the amendments to other standards and interpretations on Group’s financial position and results of operations. Disclosures will be provided after a detailed review of the impact has been 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:

- 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.

### **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, 2019	December 31, 2018
Chung Hung Steel Corporation Ltd.	Taiwan Steel Corporation (Note)	Operation in progress	-	100
	Hung Kao Investment Corporation	General investment	100	100

Note: The board of directors of Taiwan Steel Corporation authorized the liquidation of the company; the date of liquidation was September 25, 2019; the settlement was completed on December 30, 2019.

### **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.

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's 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.

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 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 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**

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 were investments in equity instruments which are not designed as at FVTPL. 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 28.

##### **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), other financial assets and refundable deposits, 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.

## 2) Impairment of financial assets

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.

## 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.

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

b. Equity instruments

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

c. Financial liabilities

1) Subsequent measurement

All financial liabilities are measured at amortized cost using the effective interest method.

2) Derecognition of financial liabilities

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

### **Revenue Recognition**

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 is transferred to customers. The customer has full discretion over the manner of distribution and price to sell the goods and bears the risks of obsolescence. 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. 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.

### **Leases**

#### 2019

At the inception of a contract, the Group assesses whether the contract is, or contains, a lease.

a. The Group as lessor

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

Lease payments (less any lease incentives payable) from operating leases are recognized as income on a straight-line basis over the terms of the relevant leases. Initial direct costs incurred in obtaining operating leases are added to the carrying amounts of the underlying assets and recognized as expenses on a straight-line basis over the lease terms.

b. The Group as lessee

The Group recognizes right-of-use assets and lease liabilities for all leases at the commencement date of a lease, except for short-term leases and low-value asset leases accounted for applying a recognition exemption where lease payments are recognized as expenses on a straight-line basis over the lease terms.

Right-of-use assets are initially measured at cost, which comprises the initial measurement of lease liabilities adjusted for lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs needed to restore the underlying assets, and less any lease incentives received. Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liabilities. Right-of-use assets are presented on a separate line in the consolidated balance sheets.

Right-of-use assets are depreciated using the straight-line method from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms. However, if leases transfer ownership of the underlying assets to the Group by the end of the lease terms or if the costs of right-of-use assets reflect that the Group will exercise a purchase option, the Group depreciates the right-of-use assets from the commencement dates to the end of the useful lives of the underlying assets.

Lease liabilities are initially measured at the present value of the lease payments, which comprise fixed payments and variable lease payments which depend on an index or a rate. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the lessee's incremental borrowing rate.

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in a lease term, the Group remeasures the lease liabilities with a corresponding adjustment to the right-of-use-assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. Lease liabilities are presented on a separate line in the consolidated balance sheets.

2018

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

a. The Group as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and amortized on a straight-line basis over the lease term.

b. The Group as lessee

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

### **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 rereasurement) 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 and unused loss carryforwards 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

	<u>December 31</u>	
	<b>2019</b>	<b>2018</b>
Cash on hand	\$ 700	\$ 700
Checking accounts and demand deposits	<u>66,328</u>	<u>199,381</u>
	<u>\$ 67,028</u>	<u>\$ 200,081</u>

### 7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>December 31</u>	
	<b>2019</b>	<b>2018</b>
<u>Financial assets at FVTPL - current</u>		
Financial assets mandatorily as at FVTPL		
Emerging market shares	<u>\$ 181,351</u>	<u>\$ 217,281</u>

### 8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	<u>December 31</u>	
	<b>2019</b>	<b>2018</b>
<u>Current</u>		
Domestic Listed shares	<u>\$ 791,311</u>	<u>\$ 802,899</u>
<u>Noncurrent</u>		
Domestic listed shares	\$ 23,995	\$ 24,346
Domestic unlisted shares	<u>44,843</u>	<u>51,219</u>
	<u>\$ 68,838</u>	<u>\$ 75,565</u>

Risalink Venture Capital Corp. conducted capital reduction and refunded NT\$4,605 thousand and NT\$4,962 thousand in August 2019 and August 2018, respectively.

## 9. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
<u>Accounts receivable</u>		
Accounts receivable - non-related parties	<u>\$ 466,017</u>	<u>\$ 948,932</u>
Accounts receivable - related parties	<u>\$ 45,733</u>	<u>\$ 183,440</u>
<u>Other receivables (including related parties)</u>		
Discount receivable	\$ 508,256	\$ 302,720
Receivables from disposal of scrap	37,536	57,676
Others	<u>1,653</u>	<u>4,315</u>
	<u>\$ 547,445</u>	<u>\$ 364,711</u>

### a. Accounts receivable

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 28 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.

### 2019

	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	\$ 511,750	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 511,750
Loss allowance (Lifetime ECL)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Amortized cost	<u>\$ 511,750</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 511,750</u>

### 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>

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

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
A company	\$ 104,591	\$ -
B company	91,491	91,812
C company	67,712	74,340
D company	<u>-</u>	<u>121,361</u>
	<u>\$ 263,794</u>	<u>\$ 287,513</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.

Receivables sold for the year ended December 31, 2019 and 2018 were as follows:

<b>Buyer of Accounts Receivable</b>	<b>Advances Received at Year - Beginning</b>	<b>Receivables Sold</b>	<b>Amounts Collected</b>	<b>Advances Received at Year-end</b>	<b>Interest Rates on Advances Received (%)</b>	<b>Credit Line</b>
<u>For the year ended December 31, 2019</u>						
Mega Bank	\$ 1,033,187	\$ 2,719,821	\$ 2,826,277	\$ 926,731	1.24	NT\$3 billion
Bank of Taiwan	199,960	520,664	596,410	124,214	3.66	USD20 million
	<u>\$ 1,233,147</u>	<u>\$ 3,240,485</u>	<u>\$ 3,422,687</u>	<u>\$ 1,050,945</u>		
<u>For the year ended December 31, 2018</u>						
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>		

b. Other receivables

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 receivables. 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, 2019 and 2018, there was no allowance for doubtful accounts.

## 10. INVENTORIES

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Raw materials	\$ 2,804,063	\$ 3,352,627
Supplies	468,672	421,614
Work in progress	599,299	569,161
Finished goods	2,704,337	3,653,262

(Continued)

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Others	\$ 887	\$ 7,056
Raw materials and supplies in transit	<u>379</u>	<u>236,431</u>
	<u>\$ 6,577,637</u>	<u>\$ 8,240,151</u> (Concluded)

The cost of inventories recognized as operating costs for the years ended December 31, 2019 and 2018 was NT\$38,767,836 thousand and NT\$43,403,860 thousand, respectively, including loss on inventory value decline of NT\$4,624 thousand and NT\$417,871 thousand, respectively.

#### 11. PREPAYMENTS

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Input tax	\$ 99,167	\$ 342,442
Prepayments for purchases	70,532	22,209
Tax overpaid retained for offsetting future tax payable	52,332	168
Others	<u>6,500</u>	<u>9,011</u>
	<u>\$ 228,531</u>	<u>\$ 373,830</u>

#### 12. NON-CURRENT ASSETS HELD FOR SALE

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

The Corporation joined China Prosperity Development Corporation's (CPDC) contract titled "Qianzhen Residential Building Project", and bought 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 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, which was pledged until the beginning of 2019 and turned to be normal bank account afterwards, and contract liabilities. The transfer of ownership of the land had been completed in June 2019, and the Corporation recognized gain on disposal of land of NT\$871 thousand.

#### 13. OTHER FINANCIAL ASSETS

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Current		
Pledged time deposits (Note 30)	\$ 300,000	\$ 300,000
Deposits for project (Note 12)	-	2,897
		(Continued)

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
One-year time deposits	\$ <u>1,700</u>	\$ <u>-</u>
	<u>\$ 301,700</u>	<u>\$ 302,897</u> (Concluded)

#### 14. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Transglory Investment Corp. (TIC)	<u>\$ 2,526,222</u>	<u>\$ 2,462,217</u>

Name of Associate	<u>Proportion of Ownership and Voting Rights</u>			
	Nature of Activities	Principal Place of Business	<u>December 31</u>	
			<u>2019</u>	<u>2018</u>
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, 2019 and 2018 was based on the audited financial statements for the same years.

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

#### TIC

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Current assets	\$ 1,304	\$ 1,018
Noncurrent assets	6,373,775	6,439,578
Current liabilities	<u>(200,008)</u>	<u>(421,976)</u>
Equity	<u>\$ 6,175,071</u>	<u>\$ 6,018,620</u>
Proportion of the Group's ownership (%)	40.91	40.91
Equity attributable to the Group	<u>\$ 2,526,222</u>	<u>\$ 2,462,217</u>
Carrying amount	<u>\$ 2,526,222</u>	<u>\$ 2,462,217</u>
	<u>For the Year Ended December 31</u>	
	<u>2019</u>	<u>2018</u>
Operating revenue	<u>\$ 268,506</u>	<u>\$ 236,539</u>

(Continued)

	<u>For the Year Ended December 31</u>	
	<u>2019</u>	<u>2018</u>
Net profit for the year	\$ 249,976	\$ 217,245
Other comprehensive income	<u>(93,524)</u>	<u>(127,987)</u>
Total comprehensive income for the year	<u>\$ 156,452</u>	<u>\$ 89,258</u>
Comprehensive income attributable to the Group	<u>\$ 64,005</u>	<u>\$ 36,516</u> (Concluded)

## 15. PROPERTY, PLANT AND EQUIPMENT

### For the year ended December 31, 2019

	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, 2019	\$ 3,985,675	\$ 4,985,220	\$ 22,511,085	\$ 4,415,341	\$ 1,448,523	\$ 78,900	\$ 37,424,744
Additions	3,320	8,564	222,952	72,515	167,664	37,429	512,444
Disposals	-	-	-	(67,977)	(187,892)	-	(255,869)
Items reclassified to investment properties	(12)	(395)	-	-	-	-	(407)
Balance at December 31, 2019	<u>\$ 3,988,983</u>	<u>\$ 4,993,389</u>	<u>\$ 22,734,037</u>	<u>\$ 4,419,879</u>	<u>\$ 1,428,295</u>	<u>\$ 116,329</u>	<u>\$ 37,680,912</u>
<u>Accumulated depreciation</u>							
Balance at January 1, 2019	\$ -	\$ 1,746,374	\$ 17,814,290	\$ 3,862,424	\$ 752,626	\$ -	\$ 24,175,714
Depreciation expense	-	130,957	725,059	135,688	208,462	-	1,200,166
Disposals	-	-	-	(59,363)	(187,892)	-	(247,255)
Balance at December 31, 2019	<u>\$ -</u>	<u>\$ 1,877,331</u>	<u>\$ 18,539,349</u>	<u>\$ 3,938,749</u>	<u>\$ 773,196</u>	<u>\$ -</u>	<u>\$ 25,128,625</u>
Carrying amount at December 31, 2019	<u>\$ 3,988,983</u>	<u>\$ 3,116,058</u>	<u>\$ 4,194,688</u>	<u>\$ 481,130</u>	<u>\$ 655,099</u>	<u>\$ 116,329</u>	<u>\$ 12,552,287</u>

### 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
<u>Cost</u>							
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>
<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>

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  
Main structure

5-50 years  
31-60 years  
(Continued)

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	10 years
	(Concluded)

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 Group 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, 2019 and 2018, the book value of those remaining farmlands recognized as land were both NT\$55,433 thousand, respectively.

Refer to Note 30 for the carrying amount of property, plant and equipment that are pledged by the Group to secure borrowings.

## 16. LEASE ARRANGEMENTS

### a. Right-of-use assets - 2019

	<b>December 31, 2019</b>
<u>Carrying amounts</u>	
Land	\$ 61,775
Transportation equipment	<u>13,126</u>
	<u>\$ 74,901</u>
	<b>For the Year Ended December 31, 2019</b>
Additions to right-of-use assets	<u>\$ 17,708</u>
Depreciation charge for right-of-use assets	
Land	\$ 10,440
Transportation equipment	<u>2,145</u>
	<u>\$ 12,585</u>

b. Lease liabilities - 2019

	<b>December 31, 2019</b>
<u>Carrying amounts</u>	
Current	<u>\$ 13,273</u>
Non-current	<u>\$ 62,044</u>

Range of discount rate (%) for lease liabilities was as follows:

	<b>December 31, 2019</b>
Land	1.10-1.31
Transportation equipment	0.76

c. Material lease activities and terms

The Corporation leases several pieces of land to store steel products, with the lease terms of 5 to 10 years. The Corporation does not have bargain purchase options to acquire the leasehold land at the end of the lease terms.

d. Other lease information

Lease arrangements under operating leases for the leasing out of investment properties are set out in Note 17.

2019

	<b>For the Year Ended December 31, 2019</b>
Expenses relating to short-term leases	<u>\$ 24,877</u>
Expenses relating to low-value asset leases	<u>\$ 1,294</u>
Total cash outflow for leases	<u>\$ 38,303</u>

For transportation equipment which qualified as short-term leases and several other equipment which qualified as low-value asset leases, the Group has elected to apply the recognition exemption and, thus, did not recognize right-of-use assets and lease liabilities for these leases.

## 17. INVESTMENT PROPERTIES

For the year ended December 31, 2019

	<b>Land</b>	<b>Buildings</b>	<b>Total</b>
<u>Cost</u>			
Balance at January 1, 2019	\$ 5,959,062	\$ 40,672	\$ 5,999,734
Transferred from property, plant and equipment	<u>12</u>	<u>395</u>	<u>407</u>
Balance at December 31, 2019	<u>\$ 5,959,074</u>	<u>\$ 41,067</u>	<u>\$ 6,000,141</u>
<u>Accumulated depreciation</u>			
Balance at January 1, 2019	\$ -	\$ 15,184	\$ 15,184
Depreciation expense	<u>-</u>	<u>884</u>	<u>884</u>
Balance at December 31, 2019	<u>\$ -</u>	<u>\$ 16,068</u>	<u>\$ 16,068</u>
<u>Accumulated impairment</u>			
Balance at January 1, 2019	\$ 77,532	\$ -	\$ 77,532
Reversal of impairment loss	<u>(77,532)</u>	<u>-</u>	<u>(77,532)</u>
Balance at December 31, 2019	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Carrying amount at December 31, 2019	<u>\$ 5,959,074</u>	<u>\$ 24,999</u>	<u>\$ 5,984,073</u>

For the year ended December 31, 2018

	<b>Land</b>	<b>Buildings</b>	<b>Total</b>
<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 12)	<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>

The Corporation as lessor leased land in Longdong section in Kaohsiung 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, 2019 and 2018 were NT\$80,290 thousand and NT\$78,722 thousand, respectively, and were included in other income. As of December 31, 2019 and 2018, the Corporation received the same margin of NT\$35,000 thousand based on the lease contract.

As of December 31, 2019 and 2018, notes receivable and advance rental were as follows:

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Notes receivable	\$ 49,595	\$ 48,622
Less: Advance rental	<u>(49,595)</u>	<u>(48,622)</u>
	<u>\$ -</u>	<u>\$ -</u>

The future rentals to be received under operating leases for the leasing out of investment properties as of December 31, 2019 are as follows:

	<b>December 31, 2019</b>
1st year	\$ 91,251
2nd year	83,296
3rd year	84,956
4th year	86,618
5th year	88,232
Later than 5 years	<u>634,820</u>
	<u>\$ 1,069,173</u>

The future minimum rentals to be received under non-cancellable operating lease commitments as of December 31, 2018 are as follows:

	<b>December 31, 2018</b>
Not later than 1 year	\$ 88,508
Later than 1 year and not later than 5 years	424,771
Later than 5 years	<u>634,820</u>
	<u>\$ 1,148,099</u>

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

The Group appointed real estate appraiser to reevaluate land at Guo An Section in Tainan in November 2019, and recognized gain on reversal of impairment loss NT\$77,532 thousand within the scope of accumulated impairment recognized originally.

The fair value of the investment properties was arrived at on the basis of valuations carried out in March and December 2017 and November 2019 by real estate appraiser 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, cost approach, income approach, and land development analysis approach. The important assumptions and fair value were as follows:

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Fair value	<u>\$ 9,980,290</u>	<u>\$ 8,952,560</u>
Expense rate (%)	25.14	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

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Unsecured loans - interest at 0.69%-0.88% p.a. and 0.86%-0.90% p.a. as of December 31, 2019 and 2018, respectively	\$ 1,900,000	\$ 2,120,000
Letters of credit - interest at 0%-0.95% p.a. and 0.88%-0.99% p.a. as of December 31, 2019 and 2018, respectively	646,187	1,599,305
Loans from related parties - interest at 0.69% p.a. and 0.54% p.a. as of December 31, 2019 and 2018, respectively (Note 29)	2,450,000	2,450,000
Bank overdrafts - interest both at 0.35% p.a. as of December 31, 2019 and 2018 (Note 30)	<u>158,680</u>	<u>212,468</u>
	<u>\$ 5,154,867</u>	<u>\$ 6,381,773</u>

### b. Short-term bills payable

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Commercial paper		
Bank of Taiwan	\$ 1,300,000	\$ 3,000,000
Hua Nan Bank	500,000	-
Mega Bills Finance Corporation	<u>-</u>	<u>200,000</u>
	1,800,000	3,200,000
	<u>450</u>	<u>1,047</u>
Less: Unamortized discounts	<u>\$ 1,799,550</u>	<u>\$ 3,198,953</u>
Interest rate (%)	0.70-0.71	0.68-0.74

On December 31, 2019 and 2018, all commercial papers were non-guarantee commercial paper.

c. Long-term borrowings

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Credit bank loans		
Due on various dates through December 2024, interest at 0.87%-1.29% p.a. and 1.18%-1.28% p.a. as of December 2019 and 2018.	\$ 4,610,000	\$ 4,850,000
Less: Current portion	<u>480,000</u>	<u>950,000</u>
	<u>\$ 4,130,000</u>	<u>\$ 3,900,000</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 and expired in March 2019.
- 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, 2018, the Corporation was in compliance with this syndicated credit facility agreement.

d. Long-term bills payable

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Taishin Bank		
Repayable in September 2022 with a revolving credit of NT\$1.8 Billion	\$ 1,800,000	\$ -
Mega Bills Finance Corporation		
Repayable in December 2021 with a revolving credit of NT\$600 million	420,000	600,000
China Bills Finance Corporation		
Repayable in March 2022 with a revolving credit of NT\$300 million	210,000	-
Repayable in September 2021, terminated in April 2019 in advance, with a credit of NT\$500 million	-	300,000
Repayable in January 2020, terminated in January 2019 in advance, with a credit of NT\$600 million	-	300,000
International Bills Financial Corporation		
Repayable in December 2021 with a revolving credit of NT\$300 million	180,000	180,000

(Continued)

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Grand Bills Finance Corporation		
Repayable in January 2020, terminated in January 2019 in advance, with a credit of NT\$600 million	\$ <u>          -</u>	\$ <u>  300,000</u>
	2,610,000	1,680,000
Less: Unamortized discount	<u>          862</u>	<u>          442</u>
	<u>\$ 2,609,138</u>	<u>\$ 1,679,558</u>
Interest rate (%)	0.84-1.06	0.99-1.20 (Concluded)

Commercial papers have revolving credit lines within the payment terms according to the contracts, and need to be utilized to some extent. Contracts with Mega Bills and China Bills were re-signed to be unsecured in December 2018 and April 2019, and the contract with Taishin Bank was unsecured. The borrowing from International Bills Financial Corporation was secured by Bangkok Bank as of December 31, 2019 and secured by Agricultural Bank of Taiwan, Hua Nan Commercial Bank, Taishin Bank, and Bangkok Bank as of December 31, 2018.

## 19. ACCOUNTS PAYABLE

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
<u>Accounts payable</u>		
Operating - non related parties	<u>\$ 29,672</u>	<u>\$ 45,304</u>
Operating - related parties	<u>\$ 65,597</u>	<u>\$ 595,764</u>

The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

## 20. OTHER PAYABLES

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Salaries and incentive bonus	\$ 184,613	\$ 401,312
Utilities	65,964	64,820
Export fees	41,375	101,107
Outsourced repair and construction	40,107	120,532
Freight	29,247	41,842
Processing fee	26,859	28,700
Employees' compensation and remuneration of directors	1,211	27,914
Others	<u>115,012</u>	<u>228,351</u>
	<u>\$ 504,388</u>	<u>\$ 1,014,578</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 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 a portion 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:

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Present value of defined benefit obligation	\$ 1,475,725	\$ 1,445,603
Fair value of plan assets	<u>(1,101,865)</u>	<u>(1,014,884)</u>
Net defined benefit liabilities	<u>\$ 373,860</u>	<u>\$ 430,719</u>

Movements of net defined benefit liabilities were as follows:

	<b>Present Value of the Defined Benefit Obligation</b>	<b>Fair Value of the Plan Assets</b>	<b>Net Defined Benefit Liabilities</b>
Balance at January 1, 2019	<u>\$ 1,445,603</u>	<u>\$ (1,014,884)</u>	<u>\$ 430,719</u>
Service cost			
Current service cost	21,195	-	21,195
Interest expense (income)	<u>16,158</u>	<u>(11,822)</u>	<u>4,336</u>
Recognized in profit or loss	<u>37,353</u>	<u>(11,822)</u>	<u>25,531</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(33,526)	(33,526)
Actuarial loss - changes in demographic assumptions	3,577	-	3,577

(Continued)

	<b>Present Value of the Defined Benefit Obligation</b>	<b>Fair Value of the Plan Assets</b>	<b>Net Defined Benefit Liabilities</b>
Actuarial loss - changes in financial assumptions	\$ 37,144	\$ -	\$ 37,144
Actuarial loss - experience adjustments	<u>2,419</u>	<u>-</u>	<u>2,419</u>
Recognized in other comprehensive income	<u>43,140</u>	<u>(33,526)</u>	<u>9,614</u>
Contributions from the employer	<u>-</u>	<u>(86,943)</u>	<u>(86,943)</u>
Benefits paid	<u>(50,371)</u>	<u>45,310</u>	<u>(5,061)</u>
Balance at December 31, 2019	<u>\$ 1,475,725</u>	<u>\$ (1,101,865)</u>	<u>\$ 373,860</u>
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
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>

(Concluded)

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

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Operating costs	\$ 21,472	\$ 20,571
Operating expenses	<u>4,059</u>	<u>3,664</u>
	<u>\$ 25,531</u>	<u>\$ 24,235</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:

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Discount rate (%)	0.75	1.125
Expected rate of salary increase (%)	2.125	2.25
Turnover rate (%)	0-6	0-7

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:

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Discount rate		
0.25% increase	<u>\$ (36,641)</u>	<u>\$ (37,335)</u>
0.25% decrease	<u>\$ 37,986</u>	<u>\$ 38,750</u>
Expected rate of salary increase		
0.25% increase	<u>\$ 36,810</u>	<u>\$ 37,644</u>
0.25% decrease	<u>\$ (35,698)</u>	<u>\$ (36,462)</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.

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
The expected contributions to the plan for the next year	<u>\$ 81,579</u>	<u>\$ 90,640</u>
The average duration of the defined benefit obligation	10.2 years	10.7 years

## 22. EQUITY

### a. Ordinary shares

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
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. Change registration of aforementioned revised authorized shares has not been conducted.

Fully paid ordinary shares, which have a par value NT\$10, carry one vote per share and the right to dividends.

### b. Capital surplus

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
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 approved in the shareholders' meeting in June 2019 as follows:

	<b>Appropriation of Earnings</b>	<b>Dividend Per Share (NT\$)</b>
Legal reserve	\$ 90,450	
Special reserve	497,607	
Cash dividends	143,555	<u>\$ 0.1</u>

The appropriations of earnings for 2019 had been proposed by the Corporation's board of directors on February 26, 2020 as follows:

	<b>Appropriations of Earnings</b>
Legal reserve	\$ 118
Special reserve	51,971

The appropriations of earnings for 2019 are subject to the resolution of the shareholders' meeting to be held on June 2020.

Information about the appropriation of earnings and offsetting deficits, proposed by the shareholders' meetings and the Corporation's board of directors, is available at the Market Observation Post System website of the Taiwan Stock Exchange.

- d. Unrealized gains and losses on financial assets at fair value through other comprehensive income

	<b><u>For the Year Ended December 31</u></b>	
	<b>2019</b>	<b>2018</b>
Balance, beginning of year	<u>\$ (497,607)</u>	<u>\$ (431,310)</u>
Recognized during the period		
Unrealized gains and losses - equity instruments	(13,710)	(14,477)
Share from associates accounted for using the equity method	<u>(38,261)</u>	<u>(52,359)</u>
Other comprehensive income recognized in the year	<u>(51,971)</u>	<u>(66,836)</u>
Cumulative unrealized gain of equity instruments transferred to retained earnings due to disposal	<u>-</u>	<u>539</u>
Balance end of year	<u>\$ (549,578)</u>	<u>\$ (497,607)</u>

## 23. OPERATING REVENUES

- a. Contract balances

	<b>December 31, 2019</b>	<b>December 31, 2018</b>	<b>January 1, 2018</b>
Accounts receivable (Note 9)	<u>\$ 511,750</u>	<u>\$ 1,132,372</u>	<u>\$ 1,459,971</u>

(Continued)

	December 31, 2019	December 31, 2018	January 1, 2018
Contract liabilities - current			
Sale of goods	\$ 285,052	\$ 93,555	\$ 161,365
Advances received	<u>          -</u>	<u>          2,890</u>	<u>          2,380</u>
	<u>\$ 285,052</u>	<u>\$ 96,445</u>	<u>\$ 163,745</u>
			(Concluded)

b. Disaggregation of revenue

For the year ended December 31, 2019

Type of goods or services	Reportable segments		
	Chung Hung	Others	Total
Sale of goods	\$ 39,930,527	\$ -	\$ 39,930,527
Rendering of services	475,462	1,609	477,071
Others	<u>61,527</u>	<u>1,004</u>	<u>62,531</u>
	<u>\$ 40,467,516</u>	<u>\$ 2,613</u>	<u>\$ 40,470,129</u>

For the year ended December 31, 2018

Type of goods or services	Reportable segments		
	Chung Hung	Others	Total
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	
	2019	2018
Rental income	\$ 83,649	\$ 74,629
Dividend income	47,601	41,894
Indemnity income	30,113	1,621
Interest income	2,026	4,157
Others	<u>11,967</u>	<u>7,404</u>
	<u>\$ 175,356</u>	<u>\$ 129,705</u>

b. Other gains and losses

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Reversal of impairment loss	\$ 77,532	\$ -
Net foreign exchange gain	49,511	91,264
Gain on disposal of non - current assets held for sale	871	-
Loss on disposal of property, plant and equipment	(8,491)	-
Service charge	(10,426)	(14,523)
Gain (loss) arising on financial assets at fair value through profit or loss	(32,516)	3,057
Other losses	<u>(2,582)</u>	<u>(424)</u>
	<u>\$ 73,899</u>	<u>\$ 79,374</u>

The components of net foreign exchange gain (loss) were as follows:

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Foreign exchange gain	\$ 91,352	\$ 157,840
Foreign exchange loss	<u>(41,841)</u>	<u>(66,576)</u>
Net exchange gain (loss)	<u>\$ 49,511</u>	<u>\$ 91,264</u>

c. Finance costs

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Interest on bank overdrafts and loans	\$ 109,084	\$ 129,806
Interest on loans from related parties (Note 29)	15,145	12,548
Interest on lease liabilities	<u>910</u>	<u>-</u>
Total interest expense financial liabilities measured at amortized cost	125,139	142,354
Less: Amounts included in the cost of qualifying assets	<u>2,092</u>	<u>2,471</u>
	<u>\$ 123,047</u>	<u>\$ 139,883</u>

Information about capitalized interest was as follows:

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Capitalized amounts	\$ 2,092	\$ 2,471
Capitalized annual rates (%)	0.87-0.94	0.77-1.04

d. Depreciation

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Property, plant and equipment	\$ 1,200,166	\$ 1,180,292
Investment properties	884	840
Right-of-use assets	<u>12,585</u>	<u>-</u>
	<u>\$ 1,213,635</u>	<u>\$ 1,181,132</u>
Analysis of depreciation by function		
Operating costs	\$ 1,128,006	\$ 1,092,116
Operating expenses	84,745	88,176
Deduction of other income	<u>884</u>	<u>840</u>
	<u>\$ 1,213,635</u>	<u>\$ 1,181,132</u>

e. Operating expenses directly related to investment properties

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Direct operating expenses of investment properties that generated rental income	\$ 11,181	\$ 17,348
Direct operating expenses of investment properties that did not generate rental income	<u>1,665</u>	<u>1,940</u>
	<u>\$ 12,846</u>	<u>\$ 19,288</u>

f. Employee benefits

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Short-term employee benefits		
Salaries	\$ 951,616	\$ 1,194,080
Labor and health insurance	90,264	88,005
Others	<u>157,459</u>	<u>207,097</u>
	<u>1,199,339</u>	<u>1,489,182</u>
Post-employment benefits		
Defined contribution plans	25,617	23,987
Defined benefit plans (Note 21)	<u>25,531</u>	<u>24,235</u>
	<u>51,148</u>	<u>48,222</u>
	<u>\$ 1,250,487</u>	<u>\$ 1,537,404</u>
Analysis of employee benefits expense by function		
Operating costs	\$ 1,042,100	\$ 1,272,890
Operating expenses	<u>208,387</u>	<u>264,514</u>
	<u>\$ 1,250,487</u>	<u>\$ 1,537,404</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 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.

The employees' compensation and remuneration of directors for the years ended December 31, 2019 and 2018 which have been approved by the Corporation's board of directors in February 2020 and March 2019, respectively, were as follows:

Amount

	<u>For the Year Ended December 31</u>	
	<u>2019</u>	<u>2018</u>
Employees' compensation	\$ 11	\$ 22,262
Remuneration of directors	-	4,452

Accrual rate

	<u>For the Year Ended December 31</u>	
	<u>2019</u>	<u>2018</u>
Employees' compensation (%)	0.1	2.10
Remuneration of directors (%)	-	0.42

If there is a change in the proposed amounts after the annual consolidated financial statements are authorized for issue, the difference is recorded as a change in accounting estimate and recognized in the next year.

There was no difference between the actual amounts of employees' compensation and remuneration of directors paid and the amounts recognized in the consolidated financial statements for the year ended December 31, 2018.

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>	
	<u>2019</u>	<u>2018</u>
Current tax		
In respect of the current year	\$ <u>94</u>	\$ <u>625</u>

The reconciliation of accounting profit and income tax expense was as follows:

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Profit before income tax	\$ 10,885	\$ 3,033,848
Income tax expense at the statutory rate	\$ 2,195	\$ 606,770
Permanent differences		
Profit on investments under equity method	(20,453)	(17,775)
Others	(15,693)	(5,573)
Unrecognized deductible temporary differences	(15,565)	52,923
Loss carryforwards	-	(635,721)
Unrecognized loss carryforwards	49,516	1
Land value increment tax	94	-
	<u>\$ 94</u>	<u>\$ 625</u>

The Income Tax Act in the ROC was amended in 2018, and the corporate income tax rate was adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings has been reduced from 10% to 5%.

In July 2019, the president of the ROC announced the amendments to the Statute for Industrial Innovation, which stipulate that the amounts of unappropriated earnings in 2018 and thereafter that are reinvested in the construction or purchase of certain assets or technologies are allowed as deduction when computing the income tax on unappropriated earnings. The Group has already deducted the amount of the unappropriated earnings in 2018 that was reinvested as capital expenditure when calculating the tax on unappropriated earnings for the year ended December 2019.

- b. No income tax was recognized in other comprehensive loss.
- c. Current tax assets and liabilities

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Current tax assets		
Tax refund receivable	\$ 661	\$ 420
Current tax liabilities		
Income tax payable	\$ -	\$ 537

- d. Deferred tax liabilities

The movements of deferred tax liabilities were as follows:

For the year ended December 31, 2019

	<b>Balance, Beginning of Year</b>	<b>Recognized in Profit or Loss</b>	<b>Balance, End of Year</b>
<u>Deferred Tax Liabilities</u>			
Temporary differences			
Land value increment tax	\$ (182,222)	\$ -	\$ (182,222)

For the year ended December 31, 2018

	<b>Balance, Beginning of Year</b>	<b>Recognized in Profit or Loss</b>	<b>Balance, End of Year</b>
<u>Deferred Tax Liabilities</u>			
Temporary differences			
Land value increment tax	<u>\$ (182,222)</u>	<u>\$ -</u>	<u>\$ (182,222)</u>
e. Items for which no deferred tax assets have been recognized			
		<u>December 31</u>	
		<b>2019</b>	<b>2018</b>
Loss carryforwards			
2022 maturity		\$ 1,457,780	\$ 1,460,084
2023 maturity		187,880	187,880
2025 maturity		2,655,245	2,655,245
2027 maturity		-	125
2028 maturity		-	6
2029 maturity		<u>247,577</u>	<u>-</u>
		<u>\$ 4,548,482</u>	<u>\$ 4,303,340</u>
Deductible temporary differences			
Amortization of deferred credits		\$ 454,558	\$ 509,636
Impairment loss on assets		-	447,663
Net defined benefit liabilities		373,860	430,719
Sales discount payable		140,124	109,982
Provision for inventory loss		428,239	423,614
Others		<u>100,114</u>	<u>90,672</u>
		<u>\$ 1,496,895</u>	<u>\$ 2,012,286</u>
f. Income tax assessments			

The Group's income tax returns through 2017 have been assessed by the tax authorities.

## 26. BASIC EARNINGS PER SHARE

	<u>For the Year Ended December 31</u>	
	<b>2019</b>	<b>2018</b>
Basic earnings per share	<u>\$ 0.01</u>	<u>\$ 2.11</u>
Diluted earnings per share	<u>\$ 0.01</u>	<u>\$ 2.11</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

	<b><u>For the Year Ended December 31</u></b>	
	<b>2019</b>	<b>2018</b>
Attributable to owners of the Corporation	\$ <u>10,791</u>	\$ <u>3,033,223</u>

Weighted average number of ordinary shares outstanding (in thousand shares)

	<b><u>For the Year Ended December 31</u></b>	
	<b>2019</b>	<b>2018</b>
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	<u>401</u>	<u>2,081</u>
Weighted average number of ordinary shares used in computation of diluted earnings per share	<u>1,435,945</u>	<u>1,437,625</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. 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.

## 28. 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

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<u>December 31, 2019</u>				
Financial assets at FVTPL				
Emerging market shares	\$ <u>-</u>	\$ <u>-</u>	\$ <u>181,351</u>	\$ <u>181,351</u>

(Continued)

	Level 1	Level 2	Level 3	Total
Financial assets at FVTOCI				
Domestic listed shares	\$ 815,306	\$ -	\$ -	\$ 815,306
Domestic unlisted shares	<u>-</u>	<u>-</u>	<u>44,843</u>	<u>44,843</u>
	<u>\$ 815,306</u>	<u>\$ -</u>	<u>\$ 44,843</u>	<u>\$ 860,149</u>
<u>December 31, 2018</u>				
Financial assets at FVTPL				
Emerging market shares	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 217,281</u>	<u>\$ 217,281</u>
Financial assets at FVTOCI				
Domestic listed shares	\$ 827,245	\$ -	\$ -	\$ 827,245
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>
				(Concluded)

There was no transfer between Level 1 and Level 2 for the years ended December 31, 2019 and 2018.

2) Reconciliation of Level 3 fair value measurements of financial assets

	Financial Assets at FVTPL - Equity Instruments	Financial Assets at FVTOCI - Equity Instruments	Total
<u>For the year ended December 31, 2019</u>			
Balance, beginning of year	\$ 217,281	\$ 51,219	\$ 268,500
Total profit or loss			
Recognized in profit or loss	(32,516)	-	(32,516)
Recognized in other comprehensive income	-	(1,771)	(1,771)
Disposal	(3,414)	-	(3,414)
Capital reduction refunded	<u>-</u>	<u>(4,605)</u>	<u>(4,605)</u>
Balance, end of year	<u>\$ 181,351</u>	<u>\$ 44,843</u>	<u>\$ 226,194</u>
Unrealized gains and losses recognized in other profit or loss	<u>\$ (32,620)</u>	<u>\$ -</u>	<u>\$ (32,620)</u>
<u>For the year ended December 31, 2018</u>			
Balance, beginning of year	\$ 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
			(Continued)

	<b>Financial Assets at FVTPL - Equity Instruments</b>	<b>Financial Assets at FVTOCI - Equity Instruments</b>	<b>Total</b>
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> (Concluded)

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

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
<u>Financial assets</u>		
Fair value through profit or loss		
Mandatorily at fair value through profit or loss	\$ 181,351	\$ 217,281
Measured at amortized cost (see 1 below)	1,433,387	2,005,693
Financial assets at fair value through other comprehensive income		
Equity instruments	860,149	878,464
<u>Financial liabilities</u>		
Measured at amortized cost (see 2 below)	14,961,824	17,916,770

- 1) The balances included financial assets measured at amortized cost, which comprise cash, accounts receivable (including related parties), other receivables (including related parties and excluding tax refund receivable), other financial assets and refundable deposits.
- 2) 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 to alleviate foreign currency risk and risk to manage futures.

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 32.

##### 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, refer to Note 32. The following table shows the impact on profit of 1% decrease in NTD against USD.

	<b>USD Impact (Note)</b>	
	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Profit before income tax	\$ 841	\$ 7,660

Note: This was mainly attributable to the exposure of outstanding USD cash, accounts receivable, 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:

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Fair value interest rate risk		
Financial liabilities	\$ 2,684,455	\$ 1,679,558
Cash flow interest rate risk		
Financial assets	366,068	499,231
Financial liabilities	9,764,867	11,231,773

If interest rates had been 0.25% higher/lower and all other variables were held constant, the Group's pre-tax profit for the years ended December 31, 2019 and 2018 would have been lower/higher by NT\$23,497 thousand and NT\$26,831 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, 2019 and 2018 would both 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 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, 2019, the unutilized credit facility of the Group was NT\$ 33.3 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:

	<b>Less Than 1 Year</b>	<b>1-5 Years</b>	<b>Over 5 Years</b>	<b>Total</b>
<u>December 31, 2019</u>				
Short-term borrowings	\$ 5,188,373	\$ -	\$ -	\$ 5,188,373
Short-term bills payable	1,800,000	-	-	1,800,000
Accounts payable (including related parties)	95,269	-	-	95,269
Other payables	504,388	-	-	504,388
Refund liabilities	153,612	-	-	153,612
Lease liabilities	14,082	47,037	17,228	78,347
Long-term bank borrowings	499,363	4,173,943	-	4,673,306
Long-term bills payable	-	2,610,000	-	2,610,000
Guarantee deposits received	-	-	35,000	35,000
	<u>\$ 8,255,087</u>	<u>\$ 6,830,980</u>	<u>\$ 52,228</u>	<u>\$ 15,138,295</u>
<u>December 31, 2018</u>				
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
Refund liabilities	115,720	-	-	115,720
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	-	120	35,000	35,120
	<u>\$ 12,393,729</u>	<u>\$ 5,611,960</u>	<u>\$ 35,000</u>	<u>\$ 18,040,689</u>

## 29. 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. 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

<u>Company</u>	<u>Relationship</u>
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
China Ecotek Corporation (CEC)	Fellow subsidiaries
Himag Magnetic Corporation (HMC)	Fellow subsidiaries
China Steel Security Corporation	Fellow subsidiaries
China Steel Precision Metals Kunshan Co., Ltd.	Fellow subsidiaries
United Steel Engineering & Construction Corp.	Fellow subsidiaries

(Continued)

<u>Company</u>	<u>Relationship</u>
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
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 Corporation.	Fellow subsidiaries
CGST Metals Vietnam Joint Stock Company	Fellow subsidiaries
Kaohsiung Rapid Transit Corporation	Fellow subsidiaries
Transglory Investment Corporation	Associates
Formosa Ha Tinh Steel Corporation	Other related parties
Pacific Harbour Stevedoring Corporation	The Corporation as supervisor of other company
Cheng Shin Management for Building Co., Ltd.	The Corporation as director of other Company
	(Concluded)

b. Sale of goods

Account Items	Related Parties Types /Name	<u>For the Year Ended December 31</u>	
		<u>2019</u>	<u>2018</u>
Sales	Fellow subsidiaries related to others	\$ 1,333,043	\$ 1,780,397
	Parent entity	<u>4,544</u>	<u>531</u>
		<u>\$ 1,337,587</u>	<u>\$ 1,780,928</u>
Service Revenue	China Steel Corporation	\$ 471,880	\$ 598,289
	Fellow subsidiaries related to others	37	25
		<u>\$ 471,917</u>	<u>\$ 598,314</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	
		2019	2018
Other operating revenue	Fellow subsidiaries related to others		
	DSC	\$ 44,762	\$ 52,604
	HMC	<u>11,474</u>	<u>7,843</u>
		<u>\$ 56,236</u>	<u>\$ 60,447</u>

There is no significant profit or loss from the sale of the materials of the Company to fellow subsidiaries.

c. Purchase of goods

Related Parties Types/Name	For the Year Ended December 31	
	2019	2018
Parent entity	<u>\$ 20,764,285</u>	<u>\$ 25,257,677</u>
Fellow subsidiaries related to others		
DSC	8,712,164	10,349,774
Others	<u>334,062</u>	<u>489,636</u>
	<u>9,046,226</u>	<u>10,839,410</u>
Other related parties	<u>122,810</u>	<u>1,584,678</u>
	<u>\$ 29,933,321</u>	<u>\$ 37,681,765</u>

Purchases from related parties, mainly slabs and hot rolling coil, were made under normal terms.

d. Accounts receivable from related parties

Account Items	Related Parties Types /Name	December 31	
		2019	2018
Accounts receivable from related parties	Parent entity	<u>\$ 43,118</u>	<u>\$ 36,256</u>
	Fellow subsidiaries related to others		
	CSSB	-	121,361
	Others	<u>2,615</u>	<u>25,823</u>
		<u>2,615</u>	<u>147,184</u>
		<u>\$ 45,733</u>	<u>\$ 183,440</u>

(Continued)

Account Items	Related Parties Types /Name	December 31	
		2019	2018
Other receivable from related parties	Parent entity	\$ 509,734	\$ 306,845
	Fellow subsidiaries related to others		
	CHC	31,578	41,513
	Others	<u>102</u>	<u>351</u>
		<u>31,680</u>	<u>41,864</u>
		<u>\$ 541,414</u>	<u>\$ 348,709</u>

(Concluded)

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, 2019 and 2018 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)

Account Items	Related Parties Types /Name	December 31	
		2019	2018
Accounts payable to related parties	Parent entity	\$ 56,343	\$ 582,549
	Other related parties	7,924	12,019
	Fellow subsidiaries related to others	<u>1,330</u>	<u>1,196</u>
		<u>\$ 65,597</u>	<u>\$ 595,764</u>

The outstanding accounts payable to related parties were unsecured.

f. Loans from related parties

Related Parties Types	December 31	
	2019	2018
Parent entity	<u>\$ 2,450,000</u>	<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\$15,145 thousand and NT\$12,548 thousand for 2019 and 2018, respectively.

g. Other transactions with related parties

1) Authorization fees

In May 2003, the parent company, Sumitomo Metal Industries, Ltd. (renamed as Nippon Steel Corporation in April 2019) and Sumitomo Corporation entered into a joint venture agreement and established the joint venture company East Asia United Steel Corporation (EAUS) in July 2003. The parent company thus has a stable supply of high quality slab through this joint venture. The parent company 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 the parent company under the

contract. These fees (included in the purchase cost of materials) were NT\$99,527 thousand and NT\$106,775 thousand in 2019 and 2018, respectively. As of December 31, 2019 and 2018, authorization fees payable (included in payables to related parties) were NT\$21,550 thousand and NT\$27,043 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 2020. The rental revenue for the years ended December 31, 2019 and 2018 were NT\$2,335 thousand and NT\$2,336 thousand, respectively.
- b) The Corporation entered into a contract with parent entity on the lease of the Corporation's part of the land lease period is until December 2020. The rental revenue for the years ended December 31, 2019 and 2018 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:

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
a) Other expenditures		
Other related parties	\$ 190,046	\$ 188,799
Parent entity	118,932	171,368
Fellow subsidiaries related to others	<u>60,637</u>	<u>109,088</u>
	<u>\$ 369,615</u>	<u>\$ 469,255</u>
b) Capital expenditure		
Parent entity	<u>\$ 2,723</u>	<u>\$ 3,530</u>
Fellow subsidiaries related to others		
ICSC	21,742	100,021
CSMC	22,430	34,100
CEC	8,500	-
Others	<u>3,536</u>	<u>1,460</u>
	<u>56,208</u>	<u>135,581</u>
	<u>\$ 58,931</u>	<u>\$ 139,111</u>

4) Income from selling supplies and scrap (included in deductions of cost of goods sold)

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Fellow subsidiaries related to others		
CHC	\$ 377,925	\$ 523,518
CSGTC	<u>15,102</u>	<u>17,876</u>
	<u>\$ 393,027</u>	<u>\$ 541,394</u>

h. Compensation of key management personnel

The remuneration to directors and other members of key management personnel were as follows:

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Short-term employee benefits	\$ 29,509	\$ 29,596
Post-employment benefits	<u>1,777</u>	<u>401</u>
	<u>\$ 31,286</u>	<u>\$ 29,997</u>

**30. 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):

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Time deposits (included in other financial assets - current)	\$ 300,000	\$ 300,000
Net property, plant and equipment	<u>-</u>	<u>3,911,003</u>
	<u>\$ 300,000</u>	<u>\$ 4,211,003</u>

**31. 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, 2019 were as follows:

- a. Unused letters of credit for purchases of raw materials and machinery and equipment amounted to about NT\$1,577,206 thousand
- b. The Group had signed agreements to buy equipment for NT\$493,339 thousand, of which NT\$155,725 thousand had been paid (included in construction-in-progress and prepayments for equipment).

**32. 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:

	<b>Foreign Currencies (In Thousands)</b>	<b>Exchange Rate</b>		<b>Carrying Amount (In Thousands of New Taiwan Dollars)</b>
<u>December 31, 2019</u>				
Monetary financial assets				
USD	\$ 4,321	29.98	(USD:NTD)	\$ 129,550
Monetary financial liabilities				
USD	1,515	29.98	(USD:NTD)	45,416
JPY	49,145	0.276	(JPY:NTD)	13,564
<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

For the years ended December 31, 2019 and 2018, realized and unrealized net foreign exchange gain or loss were gain of NT\$49,511 thousand and gain of NT\$91,264 thousand, respectively. It is impractical to disclose net foreign exchange gains and losses by each significant foreign currency due to the variety of the foreign currency transactions.

### 33. 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)

### 34. 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 started operation and had become end of settlement on December 30, 2019.

a. Segment revenues and operating results

The following is an analysis of the Group revenues and results of operations by reportable segment.

	<b>The Corporation</b>	<b>Others</b>	<b>Adjustment and Elimination</b>	<b>Total</b>
For the year ended December 31, 2019				
Revenues from external customers	<u>\$ 40,467,516</u>	<u>\$ 2,613</u>	<u>\$ -</u>	<u>\$ 40,470,129</u>
Segment loss	\$ (217,532)	\$ (177)	\$ 120	\$ (217,589)
Interest revenue	2,013	13	-	2,026
Other income	173,450	-	(120)	173,330
Other income and expenses	73,899	-	-	73,899
Finance costs	(123,047)	-	-	(123,047)
Share of the profit of associates	<u>102,102</u>	<u>-</u>	<u>164</u>	<u>102,266</u>
Profit before income tax for the year	10,885	(164)	164	10,885
Income tax expense	<u>94</u>	<u>-</u>	<u>-</u>	<u>94</u>
Net profit (loss) for the year	<u>\$ 10,791</u>	<u>\$ (164)</u>	<u>\$ 164</u>	<u>\$ 10,791</u>
Identifiable assets	\$ 27,909,011	\$ 28,373	\$ -	\$ 27,937,384
Investments accounted for using equity method	<u>2,553,395</u>	<u>-</u>	<u>(27,173)</u>	<u>2,526,222</u>
Total assets	<u>\$ 30,462,406</u>	<u>\$ 28,373</u>	<u>\$ (27,173)</u>	<u>\$ 30,463,606</u>
Total liabilities	<u>\$ 15,893,509</u>	<u>\$ 1,200</u>	<u>\$ -</u>	<u>\$ 15,894,709</u>

(Continued)

	<b>The Corporation</b>	<b>Others</b>	<b>Adjustment and Elimination</b>	<b>Total</b>
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	<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> (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 (benefit). 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:

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Sales		
Hot Rolled Steel	\$ 28,424,804	\$ 32,068,496
Cold Rolled Steel	5,455,299	8,508,017
Galvanized Steel	2,313,888	2,481,563
Steel Pipe	3,736,536	4,500,973
Iron Oxide Powder	-	6,775
Service revenue	477,071	605,202
Investments revenue	1,004	884
Other operating revenue	<u>61,527</u>	<u>66,975</u>
	<u>\$ 40,470,129</u>	<u>\$ 48,238,885</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.

	<b>Revenues from External Customers</b>		<b>Noncurrent Assets</b>	
	<b>For the Year Ended December 31</b>		<b>December 31</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Taiwan	\$ 19,203,193	\$ 25,088,110	\$ 18,653,810	\$ 19,213,742
Asia	15,903,466	15,011,568	-	-
America	3,406,230	4,564,690	-	-
Europe	1,050,194	3,000,886	-	-
Others	<u>907,046</u>	<u>573,631</u>	<u>-</u>	<u>-</u>
	<u>\$ 40,470,129</u>	<u>\$ 48,238,885</u>	<u>\$ 18,653,810</u>	<u>\$ 19,213,742</u>

Noncurrent assets excluded financial instruments.

d. Information about major customers

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Sales revenue		
A Company	\$ 4,462,556	\$ 6,045,004
B Company	<u>4,403,377</u>	<u>1,734,650</u>
	<u>\$ 8,865,933</u>	<u>\$ 7,779,654</u>

**CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES**

**ENDORSEMENTS/GUARANTEES PROVIDED**

**FOR THE YEAR ENDED DECEMBER 31, 2019**

**(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 (Note 1)	Having business relationship	\$ 4,370,669	\$ 10,000	\$ -	\$ -	\$ -	-	\$ 7,284,449	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/guarantees” 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.

## CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

## MARKETABLE SECURITIES HELD

DECEMBER 31, 2019

(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, 2019				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	39,151,800	\$ 181,351	1	\$ 181,351	Note 1	
	Shouh Hwang Enterprise Co., Ltd.		Financial assets at fair value through profit or loss - current	730,000	-	15	-	Note 2	
						<u>\$ 181,351</u>		<u>\$ 181,351</u>	
	Common Stock China Steel Corporation		Financial assets at fair value through other comprehensive income - current	33,109,239	<u>\$ 791,311</u>	-	<u>\$ 791,311</u>		
	Common Stock Taiwan Ves-Power Co., Ltd.		Financial assets at fair value through other comprehensive income - noncurrent	958,333	\$ 35,305	2	\$ 35,305	2019.11.30 net value	
	Riselink Venture Capital Corp.		Financial assets at fair value through other comprehensive income - noncurrent	197,381	3,580	3	3,580	2019.11.30 net value	
Chung Hung Steel Corporation	Pacific Harbour Stevedoring Corp.	The company as its supervisor	Financial assets at fair value through other comprehensive income - noncurrent	250,000	5,958	5	5,958	2019.11.30 net value	
					<u>\$ 44,843</u>		<u>\$ 44,843</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>\$ 23,995</u>	-	<u>\$ 23,995</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.

**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, 2019  
(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	\$ (1,288,652 )	(3 )	T/T within 7 business days after lading date (not included)	\$ -	- NO THIRD-PARTY COULD BE COMPARED (Note)	\$ -	-	
	China Steel Corporation	Parent company	Service revenue	(470,271 )	(1 )	T/T as the end of the month of when invoice is issued after final acceptance	-	- NO THIRD-PARTY COULD BE COMPARED (Note)	43,118	8	
	Dragon Steel Corporation	Fellow subsidiary	Purchase of goods	8,712,164	27	Letter of credit at sight	-	- NO THIRD-PARTY COULD BE COMPARED (Note)	-	-	
	China Steel Global Trading Corporation	Fellow subsidiary	Purchase of goods	259,405	1	Letter of credit at sight/Payment after final acceptance	-	- NO THIRD-PARTY COULD BE COMPARED (Note)	-	-	
	China Steel Corporation	Parent company	Purchase of goods	20,764,285	63	Letter of credit at sight/Payment after final acceptance	-	- NO THIRD-PARTY COULD BE COMPARED (Note)	(56,343 )	(59 )	
	Formosa Ha Tinh Steel Corporation	Other related parties	Purchase of goods	122,810	-	Letter of credit at sight	-	- NO THIRD-PARTY COULD BE COMPARED (Note)	-	-	

Note: Refer to Note 29.

**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, 2019  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Company Name	Related Party	Relationship	Ending Balance	Turnover Rate	Overdue		Amount Received in Subsequent Period (Note 2)	Allowance for Impairment Loss
					Amount	Actions Taken		
Chung Hung Steel Corporation	China Steel Corporation	Parent company	\$ 508,259 (Note 1)	-	\$ -	-	\$ 3	\$ -

Note 1: Discount receivable (included in other receivables).

Note 2: Amounts received until report date.

**CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES**

**INFORMATION ON INVESTEEES  
FOR THE YEAR ENDED DECEMBER 31, 2019  
(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, 2019	December 31, 2018						
Chung Hung Steel Corporation	Hung Kao Investment Corporation	Republic of China	General investment	\$ 26,000	\$ 26,000	2,600,000	100.00	\$ 27,173	\$ (74)	\$ (74)	Subsidiaries (Note 1)
Chung Hung Steel Corporation	Taiwan Steel Corporation	Republic of China	Iron and steel industry chain industry	-	1,000	-	-	-	(90)	(90)	Subsidiaries (Notes 1 and 2)
Chung Hung Steel Corporation	Transglory Investment Corporation	Republic of China	General investment	2,001,152	2,001,152	297,619,989	40.91	2,526,222	249,976	102,266	

Note 1: Amount was eliminated in the consolidated financial statements.

Note 2: End of settlement on December 30, 2019.

**vi. Effects of financial difficulties experienced by the company and its affiliated companies on the Company's financial status:None.**

## **VII. Review, Analysis, and Risks of Financial Conditions and Performance**

### **i. Financial conditions**

#### **1. Comparative analysis of financial status - International Financial Reporting Standards (consolidated)**

Unit: NTS1000

Item \ Year	2019	2018	Difference	
			Amount	%
Current assets	9,209,104	11,663,757	(2,454,653)	(21.05)
Property, plant and equipment	12,552,287	13,249,030	(696,743)	(5.26)
Other assets	8,702,215	8,508,126	194,089	2.28
Total assets	30,463,606	33,420,913	(2,957,307)	(8.85)
Current liabilities	8,502,445	12,430,048	(3,927,603)	(31.60)
Long-term liabilities	7,392,264	6,227,619	1,164,645	18.70
Total liabilities	15,894,709	18,657,667	(2,762,958)	(14.81)
Capital stock	14,355,444	14,355,444	0	0.00
Capital reserve	903	903	0	0.00
Retained earnings	762,128	904,506	(142,378)	(15.74)
Other equity	(549,578)	(497,607)	(51,971)	(10.44)
Net shareholder equity	14,568,897	14,763,246	(194,349)	(1.32)
Explanation (change of 20% or more and over 10,000):				
1. Current assets fell from the previous year mainly due to the decrease in inventory.				
2. Current liabilities fell from the previous year mainly due to the decrease in short-term notes payable.				

**2. Comparative analysis of financial status - International Financial Reporting Standards (individual)**

Unit: NT\$1000

Item \ Year	2019	2018	Difference	
			Amount	%
Current assets	9,204,726	11,654,994	(2,450,268)	(21.02)
Property, plant and equipment	12,552,287	13,249,030	(696,743)	(5.26)
Other assets	8,705,393	8,515,140	190,253	2.23
Total assets	30,462,406	33,419,164	(2,956,758)	(8.85)
Current liabilities	8,501,245	12,428,299	(3,927,054)	(31.60)
Long-term liabilities	7,392,264	6,227,619	1,164,645	18.70
Total liabilities	15,893,509	18,655,918	(2,762,409)	(14.81)
Capital stock	14,355,444	14,355,444	0	0.00
Capital reserve	903	903	0	0.00
Retained earnings	762,128	904,506	(142,378)	(15.74)
Other equity	(549,578)	(497,607)	(51,971)	(10.44)
Net shareholder equity	14,568,897	14,763,246	(194,349)	(1.32)
Explanation (change of 20% or more and over 10,000):				
1. Current assets fell from the previous year mainly due to the decrease in inventory.				
2. Current liabilities fell from the previous year mainly due to the decrease in short-term notes payable.				

## ii. Financial performance

### (i) Comparative Analysis of Operational Performance

#### 1. Comparative analysis of financial performance - International Financial Reporting Standards (consolidated)

Unit: NT\$1000

	2019	2018	Increase (decrease) amount	Percentage of change (%)
Net operating revenues	40,470,129	48,238,885	(7,768,756)	(16.10)
Operating costs	39,225,201	43,853,999	(4,628,798)	(10.56)
Gross profit	1,244,928	4,384,886	(3,139,958)	(71.61)
Operating expenses	1,462,517	1,509,109	(46,592)	(3.09)
Operating profit (loss)	(217,589)	2,875,777	(3,093,366)	(107.57)
Non-operating income (expenses)	228,474	158,071	70,403	44.54
Pre-tax profit	10,885	3,033,848	(3,022,963)	(99.64)
Income tax expenses	94	625	(531)	(84.96)
Net income for the year	10,791	3,033,223	(3,022,432)	(99.64)
Other comprehensive income (net of income tax)	(61,585)	(195,636)	134,051	68.52
Total comprehensive income	(50,794)	2,837,587	(2,888,381)	(101.79)

Analysis description for items with increase and decrease ratio (changes of over 20%):

1. Gross profit and operating profit fell from the previous year mainly due to the decrease in average unit gross profit this year.
2. Non-operating income rose from the previous year mainly due to the reversal of impairment loss of the land on Guo'an Section in Tainan this year.
3. Income tax expenses decreased from the previous year mainly due to higher costs in income tax expenses of subsidiaries in the previous year.
4. Profit before tax and net income in this year fell from the previous year mainly due to the decrease in average unit gross profit this year.
5. Other comprehensive income increased from the previous year mainly due to the more favorable remeasurement of defined benefit plans this year compared to the previous year.

2. Comparative analysis of financial performance - International Financial Reporting Standards (individual)

Unit: NT\$1000

	2019	2018	Increase (decrease) amount	Percentage of change (%)
Net operating revenues	40,467,516	48,233,721	(7,766,205)	(16.10)
Operating costs	39,225,201	43,853,999	(4,628,798)	(10.56)
Gross profit	1,242,315	4,379,722	(3,137,407)	(71.63)
Operating expenses	1,459,847	1,507,824	(47,977)	(3.18)
Operating profit (loss)	(217,532)	2,871,898	(3,089,430)	(107.57)
Non-operating income (expenses)	228,417	161,325	67,092	41.59
Pre-tax profit	10,885	3,033,223	(3,022,338)	(99.64)
Income tax expenses	94	0	94	-
Net income for the year	10,791	3,033,223	(3,022,432)	(99.64)
Other comprehensive income (net of income tax)	(61,585)	(195,636)	134,051	68.52
Total comprehensive income	(50,794)	2,837,587	(2,888,381)	(101.79)
Analysis description for items with increase and decrease ratio (changes of over 20%):				
1. Gross profit and operating profit fell from the previous year mainly due to the decrease in average unit gross profit this year.				
2. Non-operating income rose from the previous year mainly due to the reversal of impairment loss of the land on Guo'an Section in Tainan this year.				
3. Income tax expenses increased from the previous year mainly due to the impact of the land value increment tax.				
4. Profit before tax and net income in this year fell from the previous year mainly due to the decrease in average unit gross profit this year.				
5. Other comprehensive income increased from the previous year mainly due to the more favorable remeasurement of defined benefit plans this year compared to the previous year.				

- (2) The expected sales and its basis, and the possible impact on the company's future financial operations and response plans are detailed in page 5 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\$133,053 thousand in 2019 and cash flows changed as follows:

- (1) Operating activities: The net cash inflow of NT\$2,513,005 thousand was mainly due to the pre-tax profit of NT\$10,885 thousand plus depreciation of NT\$1,213,635 thousand plus the cash inflow of NT\$1,657,890 thousand due to the decrease in inventory.
- (2) Investing activities: Net cash outflow of NT\$428,769 thousand was mainly due to the fixed asset purchases of NT\$507,531 thousand.
- (3) Financing activities: Net cash outflow of NT\$2,217,289 thousand was mainly due to the repayment in short-term borrowing of NT\$1,226,906 thousand, and repayment of short-term notes payable of NT\$1,399,403 thousand.

Cash flow analysis for the following year:

Unit: NT\$1000

Cash balance at the 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
67,028	3,786,052	3,803,393	49,687	N/A	N/A
1. Analysis of estimated annual cash flow changes in the 2020 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\$129,538 thousand in 2019 and cash flows changed as follows:

- (1) Operating activities: The net cash inflow of NT\$2,514,035 thousand was mainly due to the pre-tax profit of NT\$10,885 thousand plus depreciation of NT\$1,213,635 thousand plus the cash inflow of NT\$1,657,890 thousand due to the decrease in inventory.

(2) Investing activities: Net cash outflow of NT\$426,284 thousand was mainly due to the fixed asset purchases of NT\$507,531 thousand.

(3) Financing activities: Net cash outflow of NT\$2,217,289 thousand was mainly due to the repayment in short-term borrowing of NT\$1,226,906 thousand, and repayment of short-term notes payable of NT\$1,399,403 thousand.

Cash flow analysis for the following year:

Unit: NT\$1,000

Cash balance at the 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
66,137	3,786,052	3,803,393	48,796	N/A	N/A
<p>1. Analysis of estimated annual cash flow changes in the 2020 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.</p> <p>2. Expected cash deficit remedies and liquidity analysis: Not applicable.</p>					

**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 2019	Policy	Main reasons for profit or loss	Improvement plan	Other investment plan in the future
Hung Kao Investment Co., Ltd.	NT\$26 million	Investment	The main source of income in 2019 was remuneration for Directors and Supervisors of China Steel Corporation and income from cash dividends for investment in China Steel Corporation.	None	None
Transglory Investment Corporation	NT\$2,001 million	Investment	Recognized as profits from dividends from China Steel Corporation.	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 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 2019 were NT\$366,068 thousand and NT\$9,764,867 thousand. If the interest rate increases/decreases by 0.25% while all other variables remain unchanged, the Group's net profit before tax in 2019 will decrease/increase by NT\$23,497 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\$841 thousand 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 2019 increased by 1.13% and the annual average increase was 0.56%. 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 Making 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	2017	2018	2019
Item			
R&D and equipment improvement expenses	204,977	252,100	214,429

2. The R&D and equipment improvement projects in 2020 are as follows:

- (1) Hot rolling - Establishment of high-end composite CVC roll grinding technology.
- (2) Hot rolling - Design and application of high-end composite CVC roll forming.
- (3) Hot rolling - Development of product EN 10149-2 S355MC.
- (4) Hot rolling - Development of product EN 10025-2 S355JR.
- (5) Hot rolling - Acquisition of spare parts for universal connector used on roll end in roughing mill.
- (6) Hot rolling - Replacement of width gauge on entrance/exit of roughing mill.
- (7) Hot rolling - Replacement of information collection system and equipment.
- (8) Hot rolling - Replacement of rolling process information system.
- (9) Hot rolling - Addition of D/C zone pinch roll grinding equipment.
- (10) Hot rolling - Replacement of F3 main motor.
- (11) Cold-rolling - Establishment of an intelligent monitoring system for the production of reciprocating cold-rolling mill.
- (12) Cold-rolling - Replacement of power factor system equipment.

- (13) Pickling and galvanizing - Replacement of cooling water pump.
- (14) Pickling and galvanizing - Digitization of finished product storage area.
- (15) Pickling and galvanizing - Replacement of protective relay for power system.
- (16) Steel pipes - Development of API 5CT K55 5".
- (17) Steel pipes - Development of API 5CT J55U2 7-5/8".
- (18) Steel pipes - Development of CSA Z245.1 Grade 359 Cat. M45C.

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 2020: The total is approximately NT\$47,055 thousand.
- 4. Current progress of uncompleted R&D and equipment improvement projects in 2019:  
The uncompleted projects are as follows. The average progress is approximately 56% and they shall be continued in 2020.
  - (1) Hot rolling - Development of low-temperature rolling and fine blanking materials S55C.
  - (2) Hot-rolling - Revamping of Grinder No. 2.
  - (3) Hot rolling - Revamping of Grinder No. 3.
  - (4) Hot rolling - Replacement of 400hp public spiral air compressors.
  - (5) Hot rolling - Addition of automated surface inspection system (ASIS) to skin pass mills.
  - (6) Hot rolling - Upgrade of D/C width gauges.
  - (7) Hot rolling - Optimization of PDA inspection system for reheating furnaces.
  - (8) Hot rolling - Improvement of F3 thickness automatic control server system.
  - (9) Cold rolling - Establishment of the optimized technology for cold-rolling CQC annealing process and medium carbon & high carbon steel pre-annealing process.
  - (10) Cold rolling - Development of high-grade fine blanking materials for gears.
  - (11) Cold-rolling - Replacement of electric welding machine for finishing lines.
  - (12) Pickling and galvanizing - Upgrading of electrical control equipment at pickling lines.
  - (13) Pickling and galvanizing - Addition of automated surface inspection system (ASIS) to

pickling lines.

- (14) Pickling and galvanizing - Reconstruction of KATHABAR and establishment of K7 and K8 coil storage areas.
- (15) Steel pipes - Development of API 5L X70M PSL2 steel pipe with diameter 16" or above.
- (16) Steel pipes - Establishment of forming performance simulation technology for pipe production line No. 4.
- (17) Steel pipes - Development of CH300YU3 steel pipes.

- 5. Expected R&D and equipment improvement expenses for R&D projects not completed in 2019: The total is approximately NT\$279,231 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 broad 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 16 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: No such occurrences as of the publication date of the Annual Report.
- (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 Nippon Steel Corporation 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 14 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

<b>Risk Category</b>	<b>Potential risks</b>	<b>Response management measures</b>
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.
	Hacking incidents	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.
	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.
	Access control	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

Risk Category	Potential risks	Response management measures
		<p>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.</p> <p>8. Establish a virtual private network (VPN) for emergency connection for external personnel and retain related communication records for verification and follow-up.</p> <p>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.</p>

**vii. Other critical matters: None**

## **VIII. Special Notes**

### **i. Profile on affiliates**

- (i) Consolidated business report of affiliated companies: Refer to Attachment 1.
- (ii) Affiliation Report: Refer to Attachment 2.
- (iii) Consolidated Financial Statement of Affiliates: Please refer to pages 195 to 268.
- (iv) Endorsement and guarantee with regard to affiliated companies: None.
- (v) Loans related to affiliated companies: None.
- (vi) Affiliated companies that conduct transactions in derivative products: None.

**ii. Private Placement of Securities in the Most Recent Year up to the Publication Date of this Annual Report: None.**

**iii. Shares of the Company Held or Disposed of by Subsidiaries in the Most Recent Year up to the Publication Date of this Annual Report: None.**

**iv. Other necessary supplemental information: None.**

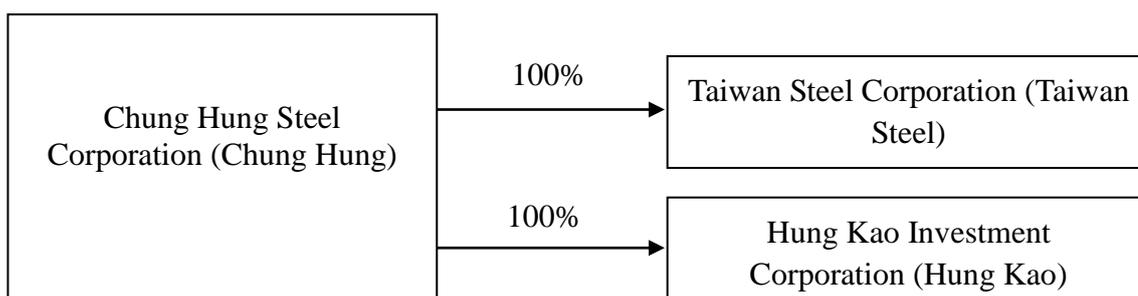
**IX. Corporate events with material impact on shareholders' equity or stock prices set forth in Subparagraph 2, Paragraph 2, Article 36 of Securities Exchange Act in the Most Recent Year up to the Publication Date of this Annual Report: None.**

Attachment 1

**Chung Hung Steel Corporation**  
**Consolidated business report of affiliated companies**  
**2019**

**i. Profiles and status of affiliated companies:**

(i) Organization chart for the affiliated companies



(ii) Basic information of the affiliated companies

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

Note: Liquidation of Taiwan Steel was completed on December 30, 2019.

(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 companies' overall operations are as follows:

Company name	Industry
Chung Hung	Steel and Iron Industry
Taiwan Steel	Steel and Iron Industry
Hung Kao	Investment

Note: Liquidation of Taiwan Steel was completed on December 30, 2019.

## (v) Information on directors, supervisors, and general managers of affiliated companies

Unit: shares; %

Company name	Title	Name or representative	Shares held		Remarks
			Number of Shares	Shareholding %	
Chung Hung	Chairman of the Board	Min-Hsiung Liu	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	Kung-Ching Wu	582,673,153	40.59	Representative of China Steel Corporation
	Director	Kai-Ming Huang	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	Kung-Ching Wu	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 2019 and it does not include retained decision-making trust shares.

Note 2: The status of representatives was as of March 31, 2020.

## ii. Status of operations of affiliated companies

(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	30,462,406	15,893,509	14,568,897	40,467,516	-217,532	10,791	0.01
Taiwan Steel	0	0	0	0	0	-93	-90	NA
Hung Kao	26,000	28,373	1,200	27,173	2,613	-85	-74	-0.03

## **Affiliation Report Statement**

The Company's 2019 affiliation report is formulated based on the "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Companies" 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: Min-Hsiung Liu

March 31, 2020

## Chung Hung Steel Corporation Affiliation Report 2019

## 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 designated 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	Min-Hsiung Liu (Representative of China Steel Corporation)
					Director	Chao-Tung Wong (Representative of China Steel Corporation)
					Director	Kung-Ching Wu (Representative of China Steel Corporation)
					Director	Kai-Ming Huang (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, 2020.

## 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)	Gross Profit	Unit price (NT\$1,000/ton)	Credit period	Unit price (NT\$1,000/ton)	Credit period	
Sales	4,544	-	-	-	Issuance of sight L/C	-	Cash advance received L/C	None
Procurement	20,764,285	63	-	-	Issuance of sight L/C	-	L/C	None

Unit: NT\$1000; %

Accounts/Notes receivable (payable)		Overdue accounts receivable			Remarks
Balance	Ratio of total accounts/notes receivable (payable)	Amount	Processing method	Allowance for bad debts	
43,118	8	0	0	0	Note 1
(56,343)	(59)	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 2019 consisted mainly of hot-rolled steel coils, slabs, and materials.

- (ii) Property transactions: None.
  - (iii) Status of fund accommodation: As of the end of 2019, the parent company provided the Company with NT\$3.45 billion in short-term loan credit limit and the Company has applied for NT\$2.45 billion in loans.
  - (iv) Status of asset leasing: The Company leased certain land to the parent company and the lease shall expire in December 2020. 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 2019 totaled approximately NT\$99,527 thousand. The payable royalties as of the end of December 2019 totaled NT\$21,550 thousand. The procurement price of the aforementioned slabs is calculated based on the formula specified in the agreement.

## Chung Hung Steel Corporation

Chairman of the Board      Min-Hsiung Liu

-  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