

**Chung Hung Steel Corporation and
Subsidiaries**

**Consolidated Financial Statements for the
Years Ended December 31, 2018 and 2017 and
Independent Auditors' Report**

REPRESENTATION LETTER

The entities that are required to be included in the combined financial statements of Chung Hung Steel Corporation as of and for the year ended December 31, 2018, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standard 10, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Chung Hung Steel Corporation and its subsidiaries do not prepare a separate set of combined financial statements.

Very truly yours,

Chung Hung Steel Corporation

By

Yi-Chung Han
Chairman

March 19, 2019

INDEPENDENT AUDITORS' REPORT

The Board of Directors and the shareholders
Chung Hung Steel Corporation

Opinion

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

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

Basis for Opinion

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

Emphasis of Matter

As disclosed in Note 3 to the consolidated financial statements, in 2018 the Group adopted the revised Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the FSC. Our opinion is not modified in respect of this matter.

Key Audit Matters

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

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

Measurement of Inventories

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

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

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

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

Other Matter

We have also audited the standalone financial statements of the Corporation as of and for the years ended December 31, 2018 and 2017 on which we have issued an unmodified opinion with emphasis of a matter paragraphs and an unmodified opinion, respectively.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always

detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 19, 2019

Notice to Readers

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

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

CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

ASSETS	December 31, 2018		December 31, 2017		LIABILITIES AND EQUITY	December 31, 2018		December 31, 2017	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash (Notes 4 and 6)	\$ 200,081	1	\$ 217,955	1	Short-term borrowings (Notes 18, 30 and 31)	\$ 6,381,773	19	\$ 7,464,815	24
Financial assets at fair value through profit or loss - current (Notes 3, 4 and 7)	217,281	1	215,464	1	Short-term bills payable (Note 18)	3,198,953	10	669,849	2
Financial assets at fair value through other comprehensive income - current (Notes 3,4 and 8)	802,899	2	-	-	Contract liabilities - current (Notes 3, 4, 13 and 23)	96,445	-	-	-
Available-for-sale financial assets - current (Notes 3, 4 and 9)	-	-	819,454	3	Accounts payable (Note 19)	45,304	-	56,160	-
Accounts receivable (Notes 4, 10 and 23)	948,932	3	1,291,784	4	Accounts payable to related parties (Notes 19 and 30)	595,764	2	1,219,265	4
Accounts receivable from related parties (Notes 4, 10, 23 and 30)	183,440	-	168,187	-	Other payables (Note 20)	1,014,578	3	875,367	3
Other receivables (Note 10)	16,002	-	10,433	-	Current tax liabilities (Note 25)	537	-	73	-
Other receivables from related parties (Notes 10 and 30)	348,709	1	401,324	1	Current portion of long-term bank borrowings (Notes 18 and 31)	950,000	3	150,000	-
Current tax assets (Note 25)	420	-	339	-	Refund liabilities - current (Note 3)	115,720	-	-	-
Inventories (Notes 4, 5 and 11)	8,240,151	25	5,019,625	16	Other current liabilities (Note 20)	<u>30,974</u>	<u>-</u>	<u>183,673</u>	<u>1</u>
Prepayments (Note 12)	373,830	1	202,824	1	Total current liabilities	<u>12,430,048</u>	<u>37</u>	<u>10,619,202</u>	<u>34</u>
Non-current assets held for sale (Notes 4 and 13)	22,525	-	-	-	NONCURRENT LIABILITIES				
Other financial assets - current (Notes 13, 14 and 31)	302,897	1	500,000	1	Long-term bank borrowings (Notes 18 and 31)	3,900,000	12	5,097,450	16
Other current assets	<u>6,590</u>	<u>-</u>	<u>6,393</u>	<u>-</u>	Long-term bills payable (Note 18)	1,679,558	5	3,149,062	10
Total current assets	<u>11,663,757</u>	<u>35</u>	<u>8,853,782</u>	<u>28</u>	Deferred tax liabilities (Notes 4 and 25)	182,222	1	182,222	1
NONCURRENT ASSETS					Net defined benefit liabilities (Notes 4, 5 and 21)	430,719	1	365,756	1
Financial assets at fair value through other comprehensive income - noncurrent (Notes 3, 4 and 8)	75,565	-	-	-	Guarantee deposits received (Note 27)	35,120	-	35,120	-
Available-for-sale financial assets - noncurrent (Notes 3, 4 and 9)	-	-	79,411	-	Other noncurrent liabilities (Notes 3 and 13)	<u>-</u>	<u>-</u>	<u>2,380</u>	<u>-</u>
Investments accounted for using equity method (Notes 4 and 15)	2,462,217	7	2,425,702	8	Total noncurrent liabilities	<u>6,227,619</u>	<u>19</u>	<u>8,831,990</u>	<u>28</u>
Property, plant and equipment (Notes 4, 16, 30 and 31)	13,249,030	40	14,031,648	45	Total liabilities	<u>18,657,667</u>	<u>56</u>	<u>19,451,192</u>	<u>62</u>
Investment properties (Notes 4, 13, 17 and 24)	5,907,018	18	5,940,891	19	EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION				
Prepayments for equipment	57,694	-	37,185	-	(Notes 4 and 22)				
Refundable deposits	5,632	-	5,847	-	Ordinary shares	14,355,444	43	14,355,444	46
Other financial assets - noncurrent (Notes 13 and 14)	<u>-</u>	<u>-</u>	<u>2,385</u>	<u>-</u>	Capital surplus	903	-	903	-
Total noncurrent assets	<u>21,757,156</u>	<u>65</u>	<u>22,523,069</u>	<u>72</u>	Retained earnings (Accumulated deficit)	904,506	3	(2,083,776)	(7)
TOTAL	<u>\$ 33,420,913</u>	<u>100</u>	<u>\$ 31,376,851</u>	<u>100</u>	Other equity	<u>(497,607)</u>	<u>(2)</u>	<u>(346,912)</u>	<u>(1)</u>
					Total equity	<u>14,763,246</u>	<u>44</u>	<u>11,925,659</u>	<u>38</u>
					TOTAL	<u>\$ 33,420,913</u>	<u>100</u>	<u>\$ 31,376,851</u>	<u>100</u>

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

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

CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

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

	For the Year Ended December 31			
	2018		2017	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4, 23 and 30)				
Sales	\$ 47,565,824	99	\$ 39,693,097	97
Investment revenue	884	-	853	-
Service revenue	605,202	1	1,042,391	3
Other operating revenue	<u>66,975</u>	<u>-</u>	<u>56,103</u>	<u>-</u>
Total operating revenue	48,238,885	100	40,792,444	100
OPERATING COSTS (Notes 11, 24 and 30)	<u>43,853,999</u>	<u>91</u>	<u>36,903,341</u>	<u>91</u>
GROSS PROFIT	<u>4,384,886</u>	<u>9</u>	<u>3,889,103</u>	<u>9</u>
OPERATING EXPENSES (Note 24)				
Selling and marketing expenses	1,117,746	2	940,718	2
General and administrative expenses	<u>391,363</u>	<u>1</u>	<u>374,645</u>	<u>1</u>
Total operating expenses	<u>1,509,109</u>	<u>3</u>	<u>1,315,363</u>	<u>3</u>
PROFIT FROM OPERATIONS	<u>2,875,777</u>	<u>6</u>	<u>2,573,740</u>	<u>6</u>
NON-OPERATING INCOME AND EXPENSES (Notes 15, 24, 27 and 30)				
Other income	129,705	-	142,354	-
Other gains and losses	79,374	-	(12,152)	-
Finance costs	(139,883)	-	(180,936)	-
Share of the profit of associates	<u>88,875</u>	<u>-</u>	<u>83,297</u>	<u>-</u>
Total non-operating income and expenses	<u>158,071</u>	<u>-</u>	<u>32,563</u>	<u>-</u>
PROFIT BEFORE INCOME TAX	3,033,848	6	2,606,303	6
INCOME TAX (Notes 4, 5 and 25)	<u>625</u>	<u>-</u>	<u>30</u>	<u>-</u>
NET PROFIT FOR THE YEAR	<u>3,033,223</u>	<u>6</u>	<u>2,606,273</u>	<u>6</u>
OTHER COMPREHENSIVE INCOME (LOSS) (Notes 4, 5, 21 and 22)				
Items that will not be reclassified subsequently to profit or loss				
Remeasurement of defined benefit plans	(128,800)	-	(109,039)	-

(Continued)

CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

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

	For the Year Ended December 31			
	2018		2017	
	Amount	%	Amount	%
Unrealized gains and losses on investments in equity instruments at fair value through other comprehensive income	\$ (14,477)	-	\$ -	-
Share of the other comprehensive income of associates	<u>(52,359)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>(195,636)</u>	<u>-</u>	<u>(109,039)</u>	<u>-</u>
Items that may be reclassified subsequently to profit or loss				
Unrealized gains on available-for-sale financial assets	-	-	7,800	-
Share of the other comprehensive income of associates	<u>-</u>	<u>-</u>	<u>10,811</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>18,611</u>	<u>-</u>
Other comprehensive income (loss) for the year, net of income tax	<u>(195,636)</u>	<u>-</u>	<u>(90,428)</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 2,837,587</u>	<u>6</u>	<u>\$ 2,515,845</u>	<u>6</u>
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Corporation	<u>\$ 3,033,223</u>	<u>6</u>	<u>\$ 2,606,273</u>	<u>6</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Corporation	<u>\$ 2,837,587</u>	<u>6</u>	<u>\$ 2,515,845</u>	<u>6</u>
EARNINGS PER SHARE (Note 26)				
Basic	<u>\$ 2.11</u>		<u>\$ 1.82</u>	
Diluted	<u>\$ 2.11</u>		<u>\$ 1.82</u>	

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

(Concluded)

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

CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

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

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

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

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

CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

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

	For the Year Ended December 31	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	\$ 3,033,848	\$ 2,606,303
Adjustments for:		
Depreciation expense	1,181,132	1,418,660
Net gain on financial assets at fair value through profit or loss	(3,057)	(7,059)
Finance costs	139,883	180,936
Interest income	(4,157)	(3,847)
Dividend income	(42,778)	(62,252)
Share of the profit of associates	(88,875)	(83,297)
Gain on disposal of property, plant and equipment	-	(290)
Write-downs (reversal) of inventories	417,871	(148,046)
Changes in operating assets and liabilities		
Financial instruments held for trading	-	23,548
Financial assets mandatorily classified as at fair value through profit or loss	1,240	-
Accounts receivable	342,852	(574,617)
Accounts receivable from related parties	(15,253)	76,346
Other receivables	(5,579)	(2,821)
Other receivables from related parties	52,615	(256,298)
Inventories	(3,638,397)	(281,275)
Prepayments	(171,006)	104,257
Other current assets	(197)	(3,088)
Contract liabilities	(67,300)	-
Accounts payable	(10,856)	7,640
Accounts payable to related parties	(623,501)	(111,561)
Other payables	309,432	38,235
Other current liabilities	8,666	39,137
Net defined benefit liabilities	(63,837)	(59,384)
Refund liabilities	(47,715)	-
Cash generated from operations	<u>705,031</u>	<u>2,901,227</u>
Income taxes paid	<u>(242)</u>	<u>(170)</u>
Net cash generated from operating activities	<u>704,789</u>	<u>2,901,057</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of financial assets at fair value through other comprehensive income	962	-
Proceeds from the capital reduction on financial assets at fair value through other comprehensive income	4,962	-
Proceeds from the capital reduction on available-for-sale financial assets	-	4,489
Acquisition of property, plant and equipment	(412,440)	(553,808)
Proceeds from disposal of property, plant and equipment	-	12,233

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CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

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

	For the Year Ended December 31	
	2018	2017
Decrease in refundable deposits	\$ 215	\$ 543
Decrease in other financial assets	199,488	25,498
Interest received	4,167	4,068
Dividends received from others	<u>42,778</u>	<u>62,252</u>
Net cash used in investing activities	<u>(159,868)</u>	<u>(444,725)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	109,451,453	118,734,081
Repayments of short-term borrowings	(110,534,495)	(119,686,547)
Increase (decrease) in short-term bills payable	2,529,104	(1,249,028)
Proceeds from long-term borrowings	3,500,000	2,300,000
Repayments of long-term borrowings	(3,900,000)	(3,272,308)
Proceeds from long-term bills payable	1,600,496	1,200,283
Repayments of long-term bills payable	(3,070,000)	(100,000)
Interest paid	<u>(139,353)</u>	<u>(179,688)</u>
Net cash used in financing activities	<u>(562,795)</u>	<u>(2,253,207)</u>
NET INCREASE (DECREASE) IN CASH	(17,874)	203,125
CASH AT THE BEGINNING OF THE YEAR	<u>217,955</u>	<u>14,830</u>
CASH AT THE END OF THE YEAR	<u>\$ 200,081</u>	<u>\$ 217,955</u>

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

(Concluded)

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

CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

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

1. GENERAL INFORMATION

Chung Hung Steel Corporation (the “Corporation”) was incorporated in September 1983 and started operations in September 1985. It mainly manufactures and sells steel products, such as cold and hot rolled coils and steel pipes. Within these notes to the consolidated financial statement, the Corporation and its subsidiaries are hereto forth referred to as the “Group”.

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

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

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

2. APPROVAL OF FINANCIAL STATEMENTS

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

3. APPLICATION OF NEW AND AMENDED STANDARDS AND INTERPRETATIONS

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

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

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

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

Classification, measurement and impairment of financial assets

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

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

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

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

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

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

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

Impact on assets, liabilities and equity for current year

	As Originally Stated as of January 1, 2018	Adjustments Arising from Initial Application	Restated as of January 1, 2018
Other payables	\$ 875,367	\$ (163,435)	\$ 711,932
Refund liabilities - current	-	163,435	163,435
Other current liabilities	183,673	(161,365)	22,308
Contract liabilities - current	-	161,365	161,365
Other noncurrent liabilities	2,380	(2,380)	-
Contract liabilities - noncurrent	<u>-</u>	<u>2,380</u>	<u>2,380</u>
Total effect on liabilities	<u>\$ 1,061,420</u>	<u>\$ -</u>	<u>\$ 1,061,420</u>

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

Impact on assets, liabilities and equity

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

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

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

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

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

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

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

IFRS 16 “Leases”

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

1) Definition of a lease

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

2) The Group as lessee

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

payments for the principal and interest portion of lease liabilities will be classified within financing activities. Currently, payments under operating lease contracts are recognized as expenses on a straight-line basis. Cash flows for operating leases are classified within operating activities on the consolidated statements of cash flows.

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

The Groups expect to apply the following practical expedients:

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

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

3) The Group as lessor

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

Anticipated impact on assets, liabilities and equity

	Carrying Amount as of December 31, 2018	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2019
Prepayment for leases - current	\$ 2,044	\$ (947)	\$ 1,097
Right-of-use assets	<u>-</u>	<u>70,755</u>	<u>70,755</u>
Total effect on assets	<u>\$ 2,044</u>	<u>\$ 69,808</u>	<u>\$ 71,852</u>
Lease liabilities - current	\$ -	\$ 9,117	\$ 9,117
Lease liabilities - non-current	<u>-</u>	<u>60,691</u>	<u>60,691</u>
Total effect on liabilities	<u>\$ -</u>	<u>\$ 69,808</u>	<u>\$ 69,808</u>

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

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

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

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

Statement of Compliance

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

Basis of Preparation

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

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

- 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, 2018	December 31, 2017
Chung Hung Steel Corporation Ltd.	Hung Li Steel Corporation Ltd. (HLSC)	Steel product processing	-	100
	Taiwan Steel Corporation	Operation in progress	100	100
	Hung Kao Investment Corporation	General investment	100	100

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

Foreign Currencies

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

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

in order to hedge certain foreign currency risks.

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

Inventories

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

Investment in Associates

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

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

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

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

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

When the Group transacts with their associates, profits and losses on these transactions are recognized in the consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Property, Plant, and Equipment

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

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

Freehold land is not depreciated.

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

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

Investment Properties

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

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

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

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

Impairment of Tangible Assets

At each balance sheet date, the Group reviews the carrying amounts of their tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group 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

2018

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

a) Financial asset at FVTPL

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

Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designed as at FVTPL and debt instruments that do not meet the amortized cost criteria or the FVTPL criteria.

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

b) Financial assets at amortized cost

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

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

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

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

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

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

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

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

2017

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

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

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

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

- b) Available-for-sale financial assets

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

Available-for-sale financial assets are measured at fair value. Dividends on available-for-sale equity investments are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and reclassified in profit or loss when the investment is disposed of or is determined to be impaired.

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

c) Loans and receivables

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

2) Impairment of financial assets

2018

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

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

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

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

2017

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

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

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

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

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

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

3) Derecognition of financial assets

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

2018

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

2017

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

b. Equity instruments

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

c. Derivative financial instruments

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

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

Revenue Recognition

2018

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

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

a. Sale of goods

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

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

b. Providing of services

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

2017

a. Sale of goods

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

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

b. Providing of services

Service revenue is recognized when services are provided.

Leasing

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

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

Borrowing Costs

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

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

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

Employee Benefits

a. Short-term employee benefits

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

b. Retirement benefits

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

Defined benefit costs (including service cost, net interest and 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. Rereasurement, 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. Rereasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

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

Taxation

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

Current tax

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

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

Deferred tax

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

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

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

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

Current and deferred taxes for the year

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Measurement of Inventories

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

Realizability of Deferred Tax Assets

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

Recognition and Measurement of Defined Benefit Plan

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

expense and the liability.

6. CASH

	<u>December 31</u>	
	2018	2017
Cash on hand	\$ 700	\$ 820
Checking accounts and demand deposits	<u>199,381</u>	<u>217,135</u>
	<u>\$ 200,081</u>	<u>\$ 217,955</u>

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	December 31, 2018
<u>Current</u>	
Domestic Listed shares	<u>\$ 802,899</u>
<u>Noncurrent</u>	
Domestic listed shares	\$ 24,346
Domestic unlisted shares	<u>51,219</u>
	<u>\$ 75,565</u>

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

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31, 2017
<u>Current</u>	
Domestic listed shares	<u>\$ 819,454</u>
<u>Noncurrent</u>	
Domestic listed shares	\$ 24,848
Domestic unlisted shares	<u>54,563</u>
	<u>\$ 79,411</u>

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

10. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

	<u>December 31</u>	
	2018	2017
<u>Accounts receivable</u>		
Accounts receivable - non-related parties	<u>\$ 948,932</u>	<u>\$ 1,291,784</u>
Accounts receivable - related parties	<u>\$ 183,440</u>	<u>\$ 168,187</u>
<u>Other receivables (including related parties)</u>		
Discount receivable	\$ 302,720	\$ 363,920
Receivables from disposal of scrap	57,676	43,348
Others	<u>4,315</u>	<u>4,489</u>
	<u>\$ 364,711</u>	<u>\$ 411,757</u>

a. Accounts receivable

2018

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

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

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

2018

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

2017

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

The aging of accounts receivable was as follows:

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

The above aging schedule was based on the invoice date.

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

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

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

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

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

b. Other receivables

2018

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

2017

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

11. INVENTORIES

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

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

12. PREPAYMENTS

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Input tax	\$ 342,442	\$ 162,775
Prepayments for purchases	22,209	26,800
Prepaid insurance	3,443	10,968
Others	<u>5,736</u>	<u>2,881</u>
	<u>\$ 373,830</u>	<u>\$ 202,824</u>

13. NON-CURRENT ASSETS HELD FOR SALE

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

The Group joined China Prosperity Development Corporation's (CPDC) contract titled "Qianzhen Residential Building Project", and bought the land from CPDC recognized as investment property. After acquiring the building use permit in November 2018, the Qianzhen Residential Building Project was reclassified to non-current assets held for sale. The Corporation then signed contracts with employees for the sale of the land. The proceeds of the sale are deposited in the Bank of Taiwan. At December 31, 2018, the proceeds of the sale were recognized as other financial assets-current and contract liabilities. At December 21, 2017, the proceeds of the sale were recognized as other financial assets-noncurrent and other noncurrent liability. When the transfer of ownership of the land has been completed in 2019, the Corporation will recognize gain on disposal of land.

14. OTHER FINANCIAL ASSETS

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

15. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

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

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

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

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

TIC

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

16. PROPERTY, PLANT AND EQUIPMENT

For the year ended December 31, 2018

	Land	Buildings	Machinery and Equipment	Other Equipment	Spare Parts	Construction in Progress and Equipment to be Inspected	Total
<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>

(Continued)

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

(Concluded)

For the year ended December 31, 2017

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

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

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

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

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

17. INVESTMENT PROPERTIES

For the year ended December 31, 2018

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

For the year ended December 31, 2017

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

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

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

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

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

18. BORROWINGS

a. Short-term borrowings and bank overdrafts

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

b. Short-term bills payable

	<u>December 31</u>	
	2018	2017
Commercial paper		
Band of Taiwan	\$ 3,000,000	\$ -
Mega Bills Finance Corporation	200,000	460,000
Grand Bills Finance Corp.	-	100,000
Taiwan Cooperative Bills Finance Corporation	-	100,000
China Bills Finance Corporation	<u>-</u>	<u>10,000</u>
	3,200,000	670,000
	<u>1,047</u>	<u>151</u>
Less: Unamortized discounts	<u>\$ 3,198,953</u>	<u>\$ 669,849</u>
Interest rate (%)	0.68-0.74	0.87-0.90

On December 31, 2018, commercial paper was non-guarantee commercial paper. On December 31, 2017, commercial paper was secured by Mega Bills Finance Corporation, Grand Bills Finance Corp., Taiwan Cooperative Bills Finance Corporation and China Bills Finance Corporation.

c. Long-term borrowings

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Credit bank loans		
Due on various dates through June 2021, interest at 1.18%-1.28% p.a. and 1.11%-1.32% p.a. as of December 2018 and 2017.	\$ 4,850,000	\$ 3,000,000
Syndicated bank loans		
Bank of Taiwan and other banks		
Repaid in March 2018, interest at 1.58% p.a.	-	<u>2,250,000</u>
	4,850,000	5,250,000
Less: Current portion	950,000	150,000
Syndicated loan fee	-	<u>2,550</u>
	<u>\$ 3,900,000</u>	<u>\$ 5,097,450</u>

In December 2011, the Corporation entered into a syndicated credit facility agreement with Bank of Taiwan and 11 other banks, which is as follows:

- 1) The credit line is NT\$16 billion, which consists of two types of loans, namely Type A for NT\$7 billion and Type B for NT\$9 billion. The first drawdown of the Corporation was on March 20, 2012. The loan balance was repaid in December 2017 and March 2018.
- 2) Under the agreement, China Steel Corporation and its related parties should collectively hold at least 30% of the Corporation's issued shares and control the Corporation's operations. From January 1, 2012, the net tangible assets of the Corporation should not be less than half of the capital, and the ratio of financial liabilities to net tangible assets should not exceed 350%.

The amounts referred to in the above restrictions should be based on the Corporation's audited annual standalone financial statements.

As of December 31, 2017, the Corporation was in compliance with this syndicated credit facility agreement.

d. Long-term bills payable

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Mega Bills Finance Corporation		
Repayable in December 2021 with a credit of NT\$600 million	\$ 600,000	\$ -
Repayable in March 2021 with a credit of NT\$1.3 billion, Repaid in December 2018	-	1,300,000
China Bills Finance Corporation		
Repayable in January 2020 with a credit of NT\$600 million	300,000	600,000
Repayable in September 2021 with a credit of NT\$500 million	300,000	500,000
Grand Bills Finance Corporation		
Repayable in January 2020 with a credit of NT\$600 million	300,000	450,000
International Bills Financial Corporation		
Repayable in December 2021 with a credit of NT\$300 million	<u>180,000</u>	<u>300,000</u>
	1,680,000	3,150,000
		(Continued)

	December 31	
	2018	2017
Less: Unamortized discount	\$ 442	\$ 938
	<u>\$ 1,679,558</u>	<u>\$ 3,149,062</u>
Interest rate (%)	0.99-1.20	1.04-1.16 (Concluded)

On December 31, 2018, Mega Bills was non-guarantee commercial paper. The other commercial paper was secured by Agricultural Bank of Taiwan, Taishin International Bank, Hua Nan Commercial Bank and Bangkok Bank. On December 31, 2017, commercial paper was secured by Mega Bank, Agricultural Bank of Taiwan, Taishin International Bank, Hua Nan Commercial Bank and Bangkok Bank.

19. ACCOUNTS PAYABLE

	December 31	
	2018	2017
<u>Accounts payable</u>		
Operating - non related parties	\$ 45,304	\$ 56,160
Operating - related parties	\$ 595,764	\$ 1,219,265

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

20. OTHER LIABILITIES

	December 31	
	2018	2017
<u>Current</u>		
Other payables		
Salaries and incentive bonus	\$ 401,312	\$ 349,322
Outsourced repair and construction	120,532	53,091
Export fees	101,107	65,457
Utilities	64,820	71,104
Employees' compensation and remuneration of directors and supervisors (Note 24)	26,714	-
Sales discounts	-	163,435
Others	<u>300,093</u>	<u>172,958</u>
	<u>\$ 1,014,578</u>	<u>\$ 875,367</u>
Other current liabilities		
Unearned receipts	\$ 5,907	\$ 167,296
Others	<u>25,067</u>	<u>16,377</u>
	<u>\$ 30,974</u>	<u>\$ 183,673</u>

21. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Group adopted a pension plan under the Labor Pension Act (the “LPA”), which is a state-managed defined contribution plan. Based on the LPA, the Group makes monthly contributions to employees’ individual pension accounts at 6% of monthly salaries and wages.

b. Defined benefit plans

The Corporation adopted the defined benefit plan under the Labor Standards Law, under which pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Corporation makes contributions, equal to 12.9% of total monthly salaries, to a pension fund, which is deposited in the Bank of Taiwan in the name of and administered by the pension fund monitoring committee. Before the end of each year, the Corporation assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Corporation is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (“the Bureau”); the Corporation has no right to influence the investment policy and strategy.

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

	December 31	
	2018	2017
Present value of defined benefit obligation	\$ 1,445,603	\$ 1,282,008
Fair value of plan assets	<u>(1,014,884)</u>	<u>(916,252)</u>
Net defined benefit liabilities	<u>\$ 430,719</u>	<u>\$ 365,756</u>

Movements of net defined benefit liabilities (assets) were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities
Balance at January 1, 2018	<u>\$ 1,282,008</u>	<u>\$ (916,252)</u>	<u>\$ 365,756</u>
Service cost			
Current service cost	20,060	-	20,060
Interest expense (income)	<u>16,025</u>	<u>(11,850)</u>	<u>4,175</u>
Recognized in profit or loss	<u>36,085</u>	<u>(11,850)</u>	<u>24,235</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(24,839)	(24,839)
Actuarial loss - changes in demographic assumptions	18,050	-	18,050

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities
Actuarial loss - changes in financial assumptions	\$ 54,247	\$ -	\$ 54,247
Actuarial loss - experience adjustments	<u>81,342</u>	<u>-</u>	<u>81,342</u>
Recognized in other comprehensive income	<u>153,639</u>	<u>(24,839)</u>	<u>128,800</u>
Contributions from the employer	<u>-</u>	<u>(86,350)</u>	<u>(86,350)</u>
Benefits paid	<u>(26,129)</u>	<u>24,407</u>	<u>(1,722)</u>
Balance at December 31, 2018	<u>\$ 1,445,603</u>	<u>\$ (1,014,884)</u>	<u>\$ 430,719</u>
Balance at January 1, 2017	<u>\$ 1,182,038</u>	<u>\$ (865,937)</u>	<u>\$ 316,101</u>
Service cost			
Current service cost	20,694	-	20,694
Interest expense (income)	<u>14,775</u>	<u>(11,247)</u>	<u>3,528</u>
Recognized in profit or loss	<u>35,469</u>	<u>(11,247)</u>	<u>24,222</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	2,611	2,611
Actuarial loss - changes in demographic assumptions	16,585	-	16,585
Actuarial loss - experience adjustments	<u>89,843</u>	<u>-</u>	<u>89,843</u>
Recognized in other comprehensive income	<u>106,428</u>	<u>2,611</u>	<u>109,039</u>
Contributions from the employer	<u>-</u>	<u>(80,260)</u>	<u>(80,260)</u>
Benefits paid	<u>(41,927)</u>	<u>38,581</u>	<u>(3,346)</u>
Balance at December 31, 2017	<u>\$ 1,282,008</u>	<u>\$ (916,252)</u>	<u>\$ 365,756</u>

(Concluded)

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

	For the Year Ended December 31	
	2018	2017
Operating costs	\$ 20,571	\$ 20,733
Operating expenses	<u>3,664</u>	<u>3,489</u>
	<u>\$ 24,235</u>	<u>\$ 24,222</u>

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

1) Investment risk

The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau of Labor Funds, Ministry of Labor or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.

2) Interest risk

A decrease in the government and the corporate bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.

3) Salary risk

The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

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

	December 31	
	2018	2017
Discount rate (%)	1.125	1.25
Expected rate of salary increase (%)	2.25	2.00
Turnover rate (%)	0-7	0-8

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

	December 31	
	2018	2017
Discount rate		
0.25% increase	<u>\$ (37,335)</u>	<u>\$ (34,176)</u>
0.25% decrease	<u>\$ 38,750</u>	<u>\$ 35,507</u>
Expected rate of salary increase		
0.25% increase	<u>\$ 37,644</u>	<u>\$ 34,607</u>
0.25% decrease	<u>\$ (36,462)</u>	<u>\$ (33,482)</u>

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

	December 31	
	2018	2017
The expected contributions to the plan for the next year	<u>\$ 90,640</u>	<u>\$ 63,600</u>
The average duration of the defined benefit obligation	10.7 years	11.1 years

22. EQUITY

a. Ordinary shares

	<u>December 31</u>	
	<u>2018</u>	<u>2017</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. However, because the Company Law prohibits the Corporation from revising the number of authorized shares before the full issuance of the original authorized shares, the number of authorized shares remained unchanged.

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

b. Capital surplus

	<u>December 31</u>	
	<u>2018</u>	<u>2017</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 proposed by the Corporation's board of directors on March 19, 2019. The appropriation and dividends per share were as follows:

	Appropriation of Earnings	Dividend Per Share (NT\$)
Legal reserve	\$ 90,451	
Special reserve	497,607	
Cash dividends	143,554	<u>\$ 0.1</u>

The appropriations of earnings for 2018 are subject to the resolution in the shareholders' meeting to be held in June, 2019.

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

d. Unrealized gain and loss on available-for-sale financial assets

	For the Year Ended December 31, 2017
Balance, beginning of year	<u>\$ (365,523)</u>
Unrealized gain or loss on available-for-sale financial assets	7,800
Share of unrealized loss on available-for-sale financial assets of associates accounted for using the equity method	<u>10,811</u> <u>18,611</u>
Balance, end of year	<u>\$ (346,912)</u>
Balance at January 1, 2018 (IAS 39)	\$ (346,912)
Adjustment on initial application of IFRS 9	<u>346,912</u>
Balance at January 1, 2018 (IFRS 9)	<u>\$ -</u>

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

	For the Year Ended December 31, 2018
Balance at January 1, 2018 (IAS 39)	\$ -
Adjustment on initial application of IFRS 9	<u>(431,310)</u>
Balance at January 1, 2018 (IFRS 9)	<u>(431,310)</u>
Recognized during the period	
Unrealized gains and losses - equity instruments	(14,477)
Share from associates accounted for using the equity method	<u>(52,359)</u>
Other comprehensive income recognized in the year	<u>(66,836)</u>

(Continued)

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

23. OPERATING REVENUES

a. Contract balances

	December 31, 2018
Accounts receivable (Note 10)	<u>\$ 1,132,372</u>
Contract liabilities	
Sale of goods	\$ 93,555
Advances received	<u>2,890</u>
	<u>\$ 96,445</u>

The change in contract liabilities is mainly due to differences in customer payment timing and there is no significant change in contract liabilities in 2018.

b. Disaggregation of revenue

For year ended December 31, 2018

<u>Type of goods or services</u>	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	
	2018	2017
Rental income	\$ 74,629	\$ 70,202
Dividend income	41,894	61,399
Interest income	4,157	3,847
Others	<u>9,025</u>	<u>6,906</u>
	<u>\$ 129,705</u>	<u>\$ 142,354</u>

b. Other gains and losses

	For the Year Ended December 31	
	2018	2017
Net foreign exchange gain (loss)	\$ 91,264	\$ (686)
Gain arising on financial assets at fair value through profit or loss	3,057	7,059
Fees	(14,523)	(18,214)
Gain on disposal of property, plant and equipment	-	290
Other losses	<u>(424)</u>	<u>(601)</u>
	<u>\$ 79,374</u>	<u>\$ (12,152)</u>

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

	For the Year Ended December 31	
	2018	2017
Foreign exchange gain	\$ 157,840	\$ 64,004
Foreign exchange loss	<u>(66,576)</u>	<u>(64,690)</u>
Net exchange gain (loss)	<u>\$ 91,264</u>	<u>\$ (686)</u>

c. Finance costs

	For the Year Ended December 31	
	2018	2017
Interest on bank overdrafts and loans	\$ 129,806	\$ 170,187
Interest on loans from related parties (Note 30)	<u>12,548</u>	<u>14,483</u>
Total interest expense financial liabilities measured at amortized cost	142,354	184,670
Less: Amounts included in the cost of qualifying assets	<u>2,471</u>	<u>3,734</u>
	<u>\$ 139,883</u>	<u>\$ 180,936</u>

Information about capitalized interest was as follows:

	For the Year Ended December 31	
	2018	2017
Capitalized amounts	\$ 2,471	\$ 3,734
Capitalized annual rates (%)	0.77-1.04	1.01-1.15

d. Depreciation

	For the Year Ended December 31	
	2018	2017
Property, plant and equipment	\$ 1,180,292	\$ 1,417,837
Investment properties	<u>840</u>	<u>823</u>
	<u>\$ 1,181,132</u>	<u>\$ 1,418,660</u>
Analysis of depreciation by function		
Operating costs	\$ 1,092,116	\$ 1,332,810
Operating expenses	88,176	85,027
Deduction of other income	<u>840</u>	<u>823</u>
	<u>\$ 1,181,132</u>	<u>\$ 1,418,660</u>

e. Operating expenses directly related to investment properties

	For the Year Ended December 31	
	2018	2017
Direct operating expenses of investment properties that generated rental income	\$ 17,348	\$ 16,857
Direct operating expenses of investment properties that did not generate rental income	<u>1,940</u>	<u>2,163</u>
	<u>\$ 19,288</u>	<u>\$ 19,020</u>

f. Employee benefits

	For the Year Ended December 31	
	2018	2017
Short-term employee benefits		
Salaries	\$ 1,194,080	\$ 1,097,875
Labor and health insurance	88,005	83,815
Others	<u>207,097</u>	<u>142,593</u>
	<u>1,489,182</u>	<u>1,324,283</u>
Post-employment benefits		
Defined contribution plans	23,987	22,556
Defined benefit plans (Note 21)	<u>24,235</u>	<u>24,222</u>
	<u>48,222</u>	<u>46,778</u>
	<u>\$ 1,537,404</u>	<u>\$ 1,371,061</u>
Analysis of employee benefits expense by function		
Operating costs	\$ 1,272,890	\$ 1,114,861
Operating expenses	<u>264,514</u>	<u>256,200</u>
	<u>\$ 1,537,404</u>	<u>\$ 1,371,061</u>

g. Employees' compensation and remuneration of directors

In accordance with the Corporation's Articles of Incorporation, the Corporation distributes employees' compensation and remuneration of directors and supervisors at rates of no less than 1‰ and no higher than 1%, respectively, of net profit before income tax less any deficit, employees' compensation, and remuneration of directors and supervisors. There was no bonus to employees and remuneration to directors and supervisors in 2017 because the Corporation had accumulated deficits.

The appropriations of employees' compensation and remuneration of directors for the year ended December 31, 2018, which were approved by the board of directors on March 19, 2019, respectively, were as follows:

	For the Year Ended December 31, 2018
<u>Accrual rate</u>	
Employees' compensation (%)	2.1
Remuneration of directors (%)	0.42
<u>Amount</u>	
Employees' compensation	\$ 22,262
Remuneration of directors	4,452

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

Information on employees' compensation and remuneration of directors resolved by the Corporation's board of directors are available on the Market Observation Post System website of the Taiwan Stock Exchange.

25. INCOME TAX

a. Income tax recognized in profit or loss

The major components of income tax expense were as follows:

	<u>For the Year Ended December 31</u>	
	2018	2017
Current tax		
In respect of the current year	\$ 625	\$ 185
Deferred tax		
In respect of the current year	_____ -	_____(155)
	<u>\$ 625</u>	<u>\$ 30</u>

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

	For the Year Ended December 31	
	2018	2017
Profit before income tax	\$ 3,033,848	\$ 2,606,303
Income tax expense at the statutory rate	\$ 606,770	\$ 443,072
Permanent differences		
Profit on investments under equity method	(17,775)	(14,161)
Others	(5,573)	(7,965)
Unrecognized deductible temporary differences	52,923	(54,192)
Loss carryforwards	(635,721)	(366,755)
Unrecognized loss carryforwards	1	21
Land value increment tax	-	10
	<u>\$ 625</u>	<u>\$ 30</u>

The Income Tax Act in the ROC was amended in 2018, and the corporate income tax rate was adjusted from 17% to 20%, effective in 2018. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings will be reduced from 10% to 5%. As the status of the 2019 appropriation of earnings is uncertain, the potential income tax consequences of the 2018 unappropriated earnings are not reliably determinable.

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

	December 31	
	2018	2017
Current tax assets		
Tax refund receivable	\$ 420	\$ 339
Current tax liabilities		
Income tax payable	\$ 537	\$ 73

- d. Deferred tax liabilities

The movements of deferred tax liabilities were as follows:

For the year ended December 31, 2018

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

For the year ended December 31, 2017

	Balance, Beginning of Year	Recognized in Profit or Loss	Balance, End of Year
<u>Deferred Tax Liabilities</u>			
Temporary differences			
Realized foreign exchange gain	\$ (155)	\$ 155	\$ -
Land value increment tax	<u>(182,222)</u>	<u>-</u>	<u>(182,222)</u>
	<u>\$ (182,377)</u>	<u>\$ 155</u>	<u>\$ (182,222)</u>

e. Items for which no deferred tax assets have been recognized

	<u>December 31</u>	
	2018	2017
Loss carryforwards		
2021 maturity	\$ -	\$ 61,050
2022 maturity	1,460,084	4,641,513
2023 maturity	187,880	187,880
2025 maturity	2,655,245	2,655,245
2027 maturity	125	125
2028 maturity	<u>6</u>	<u>-</u>
	<u>\$ 4,303,340</u>	<u>\$ 7,545,813</u>
Deductible temporary differences		
Gain on disposal of nonperforming loans	\$ -	\$ 575,992
Amortization of deferred credits	509,636	-
Impairment loss on assets	447,663	447,663
Net defined benefit liabilities	430,719	365,756
Sales discount payable	109,982	163,174
Provision for inventory loss	423,614	5,743
Others	<u>90,672</u>	<u>60,389</u>
	<u>\$ 2,012,286</u>	<u>\$ 1,618,717</u>

f. Income tax assessments

The Group's income tax returns through 2016 have been assessed by the tax authorities.

26. BASIC EARNINGS PER SHARE

	<u>For the Year Ended December 31</u>	
	2018	2017
Basic earnings per share	<u>\$ 2.11</u>	<u>\$ 1.82</u>
Diluted earnings per share	<u>\$ 2.11</u>	<u>\$ 1.82</u>

The net profit and weighted average number of ordinary shares outstanding in the computation of earnings per share were as follows:

Net profit for the year

	For the Year Ended December 31	
	2018	2017
Attributable to owners of the Corporation	\$ <u>3,033,223</u>	\$ <u>2,606,273</u>

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

	For the Year Ended December 31	
	2018	2017
Weighted average number of ordinary shares in computation of basic earnings per share	1,435,544	1,435,544
Effect of dilutive potential ordinary shares:		
Employees' compensation	<u>2,081</u>	<u>-</u>
Weighted average number of ordinary shares used in computation of diluted earnings per share	<u>1,437,625</u>	<u>1,435,544</u>

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

27. OPERATING LEASE ARRANGEMENTS

The Corporation as lessor leased a building on June 30, 2010 for 20 years under an operating lease agreement; the Corporation collects rental monthly. The rental revenues for the years ended December 31, 2018 and 2017 were NT\$78,722 thousand and NT\$75,775 thousand, respectively, and were included in other income. Based on the lease contract, as of December 31, 2018 and 2017, the Corporation obtained the same amount of deposit of NT\$35,000 thousand which was recognized as guaranteed deposits received.

As of December 31, 2018 and 2017, notes receivable and advance rental were as follows:

	December 31	
	2018	2017
Notes receivable	\$ 48,622	\$ 47,669
Less: Advance rental	<u>(48,622)</u>	<u>(47,669)</u>
	\$ <u>-</u>	\$ <u>-</u>

The future minimum rentals to be received under non-cancellable operating lease commitments are as follows:

	December 31	
	2018	2017
Not later than 1 year	\$ 88,508	\$ 85,363
Later than 1 year and not later than 5 years	424,771	415,880

(Continued)

	December 31	
	2018	2017
Later than 5 years	<u>\$ 634,820</u>	<u>\$ 723,052</u>
	<u>\$ 1,148,099</u>	<u>\$ 1,224,295</u> (Concluded)

28. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue their operations while maximizing the return to shareholders through the optimization of the debt and equity balance.

29. FINANCIAL INSTRUMENTS

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

Management of the Group considers the carrying amount of financial assets and liabilities not carried at fair value approximates fair value.

b. Fair value of financial instruments that are measured at fair value on a recurring basis.

1) Fair value hierarchy

	Level 1	Level 2	Level 3	Total
<u>December 31, 2018</u>				
Financial assets at fair value through profit or loss				
Emerging market shares	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 217,281</u>	<u>\$ 217,281</u>
Financial assets at FVOCI				
Domestic listed shares	\$ 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>
<u>December 31, 2017</u>				
Financial assets at fair value through profit or loss				
Emerging market shares	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 215,464</u>	<u>\$ 215,464</u>
Available-for-sale financial assets				
Domestic listed shares	\$ 844,302	\$ -	\$ -	\$ 844,302
Domestic unlisted shares	<u>-</u>	<u>-</u>	<u>54,563</u>	<u>54,563</u>
	<u>\$ 844,302</u>	<u>\$ -</u>	<u>\$ 54,563</u>	<u>\$ 898,865</u>

There was no transfer between Level 1 and Level 2 for the years ended December 31, 2018 and 2017.

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

	Financial Assets at Fair Value Through Profit or Loss - Equity Instruments	Financial Assets at Fair value through Other Comprehensive Income - Equity Instruments	Total
<u>For the year ended December 31, 2018</u>			
Balance, beginning of year (IAS 39)	\$ 215,464	\$ -	\$ 215,464
Adjustment on initial application of IFRS 9	<u>-</u>	<u>54,563</u>	<u>54,563</u>
Balance, beginning of year (IFRS 9)	215,464	54,563	270,027
Total profit or loss			
Recognized in profit or loss	2,338	-	2,338
Recognized in other comprehensive income	-	2,580	2,580
Disposal	(521)	(962)	(1,483)
Capital reduction refunded	<u>-</u>	<u>(4,962)</u>	<u>(4,962)</u>
Balance, end of year	<u>\$ 217,281</u>	<u>\$ 51,219</u>	<u>\$ 268,500</u>
Unrealized gains and losses recognized in other profit or loss	<u>\$ 2,264</u>	<u>\$ -</u>	<u>\$ 2,264</u>
<u>For the year ended December 31, 2017</u>			
Balance, beginning of year	\$ 231,953	\$ 54,663	\$ 286,616
Total profit or loss			
Recognized in profit or loss	7,195	-	7,195
Recognized in other comprehensive income	-	4,389	4,389
Disposal	(23,684)	-	(23,684)
Capital reduction refunded	<u>-</u>	<u>(4,489)</u>	<u>(4,489)</u>
Balance, end of year	<u>\$ 215,464</u>	<u>\$ 54,563</u>	<u>\$ 270,027</u>
Unrealized gains and losses recognized in other profit or loss	<u>\$ 4,297</u>	<u>\$ -</u>	<u>\$ 4,297</u>

3) Valuation techniques and inputs applied for the purpose of measuring Level 3 fair value measurement

- a) The fair value of emerging stocks was based on the closing price adjusted for liquidity risk premium.
- b) The fair value of unlisted stocks was based on the current net value.

c. Categories of financial instruments

	December 31	
	2018	2017
Financial assets		
Fair value through profit or loss		
Held for trading	\$ -	\$ 215,464
Mandatorily at fair value through profit or loss	217,281	-
Available-for-sale financial assets (including noncurrent)	-	898,865
Loans and receivables (see 1 below)	-	2,597,915
Measured at amortized cost (see 2 below)	2,005,693	-
Financial assets at fair value through other comprehensive income		
Equity instruments	878,464	-
Financial liabilities		
Measured at amortized cost (see 3 below)	17,916,770	18,717,088

- 1) The balances included loans and receivables measured at amortized cost, which comprise cash, accounts receivable (including related parties), other receivables (including related parties), other financial assets (including current and noncurrent) and refundable deposits.
- 2) The balances included financial assets measured at amortized cost, which comprise cash, accounts receivable (including related parties), other receivables (including related parties), other financial assets (including current and non-current) and refundable deposits.
- 3) The balances included financial liabilities measured at amortized cost, which comprise short-term borrowings, short-term bills payable, accounts payable (including related parties), other payables, refund liability long-term borrowings (including current portion), long-term bills payable, and guarantee deposits received.

d. Financial risk management objectives and policies

The Group's major financial instruments include accounts receivable, investments accounted for using equity method, other financial assets, accounts payable, short-term borrowings, short-term bills payable, long-term borrows (including current portion of long-term bank borrowings) and long-term bills payable. The Group's financial management department provides service to the business units, coordinates domestic and international financial operations, prepares and analyzes internal risk reports to monitor and manage financial risks related to the operation of the Group. These risks include market risk (including exchange rate risk, interest rate risk and other price risk), credit risk and liquidity risk.

The Group sought to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives was governed by the Group's policies approved by the board of directors, which provided written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits was reviewed by the internal auditors on a continuous basis. The Group did not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

1) Market risk

The main financial risks arising from operating activities are to the risk of change in foreign exchange rates (see (a) below), the risk of changes in interest rates (see (b) below) and the risk of other price (see (c) below).

There had been no change to the Group's exposure to market risks or the manner in which these risks were managed and measured.

a) Foreign currency risk

The Group was exposed to foreign currency risk due to sales and purchases, denominated in foreign currencies. Exchange rate exposures were managed within approved policy parameters utilizing the same currency for accounts receivable and payable.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities and of the derivatives exposed foreign currency risk at the end of the reporting period are set out in Note 33.

Sensitivity analysis

The Group was mainly exposed to the USD. The following table details the Group's sensitivity to a 1% increase and decrease in the New Taiwan dollars (the functional currency) against the relevant foreign currencies. The sensitivity rate of 1% is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates.

The sensitivity analysis included only the outstanding foreign currency denominated monetary items. A positive number below indicates an increase in profit or loss when the New Taiwan dollars strengthens by 1% against the relevant currency.

	USD Impact (Note)	
	For the Year Ended December 31	
	2018	2017
Profit before income tax	\$ 7,660	\$ 10,116

Note: This was mainly attributable to the exposure of outstanding USD cash, accounts receivables, accounts payable and other payables, which were not hedged at the balance sheet date.

b) Interest rate risk

The Group was exposed to interest rate risk because the Group borrowed funds at both fixed and floating interest rates.

The carrying amounts of the Group's financial assets and liabilities with exposure to interest rates at the balance sheet date were as follows:

	December 31	
	2018	2017
Fair value interest rate risk		
Financial liabilities	\$ 1,679,558	\$ 3,149,062

(Continued)

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Cash flow interest rate risk		
Financial assets	\$ 499,231	\$ 697,108
Financial liabilities	11,231,773	12,712,265
		(Concluded)

If interest rates had been 1% higher and all other variables were held constant, the Group's pre-tax profit for the years ended December 31, 2018 and 2017 would have been lower by NT\$107,325 thousand and lower by NT\$120,152 thousand, respectively.

c) Other price risk

The Group was exposed to equity price risk through their investments in domestic listed shares.

The equity price of the group was evaluated by the closing price of the equity securities on a monthly basis.

Sensitivity analysis

If equity price of fair value through other comprehensive income financial assets had been lower by one dollar, the pre-tax-other comprehensive income, for the years ended December 31, 2018 would have been lower by NT\$34,113 thousand.

If equity prices of available-for-sale financial assets had been lower by one dollar, the pre-tax other comprehensive income, for the years ended December 31, 2017 would have been lower by NT\$34,113 thousand.

2) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. As at the balance sheet date, the Group's maximum exposure to credit risk is the carrying amount of the financial assets on the consolidated balance sheets and the amount of contingent liabilities in relation to financial guarantee issued by the Group.

The Group made transactions only with the parties with good credit. The goods were delivered after the cash or L/C was received, and the Group did not provide financial guarantee to any company. Accounts receivable were due to time differences of L/C negotiation and there were no bad debt in the recent years; therefore, the credit risk is very low.

3) Liquidity risk

The Group manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group relies on bank borrowings as a significant source of liquidity. The management monitors the utilization of bank borrowings and ensures compliance with loan covenants. As of December 31, 2018, the current liabilities of the Group exceed current assets by NT\$766,291 thousand and the unutilized credit facility of the Group was NT\$34.6 billion; therefore, there is no liquidity risk or incapacity of financing capital to meet contractual obligations.

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

	Less Than 1 Year	1-5 Years	Total
<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
Long-term bank borrowings	997,864	3,931,840	4,929,704
Long-term bills payable	-	1,680,000	1,680,000
Guarantee deposits received	<u>-</u>	<u>35,120</u>	<u>35,120</u>
	<u>\$ 12,278,009</u>	<u>\$ 5,646,960</u>	<u>\$ 17,924,969</u>
<u>December 31, 2017</u>			
Short-term borrowings	\$ 7,515,246	\$ -	\$ 7,515,246
Short-term bills payable	670,000	-	670,000
Accounts payable (including related parties)	1,275,425	-	1,275,425
Other payables	875,367	-	875,367
Long-term bank borrowings	223,403	5,162,475	5,385,878
Long-term bills payable	-	3,150,000	3,150,000
Guarantee deposits received	<u>-</u>	<u>35,120</u>	<u>35,120</u>
	<u>\$ 10,559,441</u>	<u>\$ 8,347,595</u>	<u>\$ 18,907,036</u>

30. TRANSACTIONS WITH RELATED PARTIES

Balances and transactions between the Corporation and its subsidiaries, which are related parties of the Corporation, have been eliminated on consolidation and are not disclosed in this note. The subsidiary, Hung Li Steel Corporation Ltd merged with the Corporation on June 1, 2018, and the Corporation has assumed the related rights and obligations. Details of transactions between the Group and other related parties are disclosed below.

- a. The name of the company and its relationship with the Group

<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
United Steel Engineering & Construction Corp. (USECC)	Fellow subsidiaries
Himag Magnetic Corporation (HMC)	Fellow subsidiaries
China Steel Security Corporation	Fellow subsidiaries
China Steel Precision Metals Kunshan Co., Ltd.	Fellow subsidiaries
China Ecotek Corporation	Fellow subsidiaries
Steel Castle Technology Corporation	Fellow subsidiaries
China Steel Express Corporation	Fellow subsidiaries
China Steel Structure Co., Ltd	Fellow subsidiaries
Universal Exchange Inc.	Fellow subsidiaries
Union Steel Development Corp.	Fellow subsidiaries
Thintech Materials Technology Co., Ltd.	Fellow subsidiaries

(Continued)

<u>Company</u>	<u>Relationship</u>
China Steel Management Consulting Corp.	Fellow subsidiaries
China Steel Chemical Corporation	Fellow subsidiaries
Yu Cheng Lime Corporation	Fellow subsidiaries
CSEI Transport Corporation (Panama)	Fellow subsidiaries
Wabo Global Trading Corporation	Fellow subsidiaries
CSC SOLAR CORP.	Fellow subsidiaries
Transglory Investment Corporation	Associates
Formosa Ha Tinh Steel Corporation	Other related parties
Pacific Harbour Stevedoring Corporation	Other related parties as supervisors of the Corporation
Cheng Shin Management for Building Co., Ltd. (former name: Cheng Shin Building Company)	Director of the Corporation

(Concluded)

b. Sale of goods

<u>Account Items</u>	<u>Related Parties Types</u>	<u>For the Year Ended December 31</u>	
		<u>2018</u>	<u>2017</u>
Sales	Fellow subsidiaries related to others	\$ 1,780,397	\$ 1,345,685
	Parent entity	<u>531</u>	<u>5,508</u>
		<u>\$ 1,780,928</u>	<u>\$ 1,351,193</u>
Service Revenue	Parent entity	\$ 594,009	\$ 1,021,535
	Fellow subsidiaries related to others	25	18
		<u>\$ 594,034</u>	<u>\$ 1,021,553</u>

The parent entity and some fellow subsidiaries related to others paid by telegraphic transfers (T/T) within 7 days from product shipment, T/T within 60 days from product shipment, monthly billing by T/T after acceptance sale of, steel pipe products collected at the beginning of next month; these payment terms differed from those for third parties, from whom payments were negotiated to be on Tuesday and Friday. The price of iron oxide that the Corporation sells to fellow subsidiaries related to others does not have comparable price because the Corporation does not sell iron oxide to third parties and the collection term for selling iron oxide is negotiated to be on Tuesday and Friday.

The abovementioned service revenue is from the agreements that the Corporation entered into with parent entity in which the Corporation has to do certain processing work and charged based on the formula stated in the agreements. The Corporation bills the parent entity within one month after approval of delivery.

The Corporation entered into an agreement with fellow subsidiaries related to others under which the Corporation sells waste acid and the price is charged based on the formula stated in the agreement. The Corporation bills the fellow subsidiaries related to others within a month after acceptance by T/T based on the monthly amount of processing.

Account Items	Related Parties Types /Name	For the Year Ended December 31	
		2018	2017
Other operating revenue	Fellow subsidiaries related to others		
	DSC	\$ 52,604	\$ 47,024
	HMC	7,843	-
	Parent entity	<u>-</u>	<u>619</u>
		<u>\$ 60,447</u>	<u>\$ 47,643</u>

There is no significant revenue from the sale of the materials of the Company.

c. Purchase of goods

Related Parties Types/Name	For the Year Ended December 31	
	2018	2017
Parent entity	<u>\$ 25,257,677</u>	<u>\$ 20,345,694</u>
Fellow subsidiaries related to others		
DSC	10,349,774	9,404,310
Others	<u>489,636</u>	<u>371,746</u>
	10,839,410	9,776,056
Other related parties	<u>1,584,678</u>	<u>-</u>
	<u>\$ 37,681,765</u>	<u>\$ 30,121,750</u>

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

d. Accounts receivable from related parties

Related Parties Types/Name	December 31	
	2018	2017
Parent entity	<u>\$ 36,256</u>	<u>\$ 121,529</u>
Fellow subsidiaries related to others		
CSSB	121,361	35,356
Others	<u>25,823</u>	<u>11,302</u>
	<u>147,184</u>	<u>46,658</u>
	<u>\$ 183,440</u>	<u>\$ 168,187</u>
Other receivable from related parties		
Parent entity	<u>\$ 306,845</u>	<u>\$ 366,735</u>
Fellow subsidiaries related to others		
CHC	41,513	\$ 34,292
Others	<u>351</u>	<u>297</u>
	<u>41,864</u>	<u>34,589</u>
	<u>\$ 348,709</u>	<u>\$ 401,324</u>

No guarantee had been received for accounts receivable and other receivable from related parties. No expense had been recognized for the years ended December 31, 2018 and 2017 for allowance for impairment of accounts receivable in respect of the amounts owed by related parties.

e. Accounts payable to related parties (excluding loans from related parties)

Related Parties Types/Name	December 31	
	2018	2017
Parent entity	\$ 582,549	\$ 1,196,582
Others	12,019	12,927
Fellow subsidiaries related to others	<u>1,196</u>	<u>9,756</u>
	<u>\$ 595,764</u>	<u>\$ 1,219,265</u>

The outstanding accounts payable to related parties were unsecured.

f. Loans from related parties

Related Parties Types/Name	December 31, 2018
Parent entity	<u>\$ 2,450,000</u>

The Corporation borrowed money from the parent entity because of the need for short-term fund. The interest rate of the loan was based on average daily short-term interest the parent entity financed for the same currency from financial institutions in the last 30 days and adjusted monthly.

The loans from the parent entity were unsecured loans with interest expense of NT\$12,548 thousand and NT\$14,483 thousand for 2018 and 2017, respectively.

g. Other transactions with related parties

1) Authorization fees

In May 2003, CSC, Sumitomo Metal Industries, Ltd. (SMI) and Sumitomo Corporation (SC) entered into a joint venture agreement and established a holding company named East Asia United Steel Corporation (EAUS) in July 2003. CSC will have a stable supply of good quality slab through this joint venture. CSC then signed a contract with the Corporation, transferring to the Corporation the right to buy slab from EAUS. The Corporation should pay authorization fees to CSC under the contract. These fees (included in the purchase cost of materials) were NT\$106,775 thousand in 2018 and NT\$113,656 thousand in 2017. As of December 31, 2018 and 2017, authorization fees payable (included in payables to related parties) were NT\$27,043 thousand and NT\$35,083 thousand, respectively. The calculation of slab purchase prices was based on the formula stated in the agreement.

2) Leases

a) The Corporation entered into a contract with fellow subsidiaries related to others on the lease of the Corporation's part of the land and warehouse. Lease period is until August 2019. The rental revenue for the years ended December 31, 2018 and 2017 were NT\$2,501 thousand and NT\$2,292 thousand, respectively.

b) The Corporation entered into a contract with parent entity on the lease of the Corporation's part of the land until December 2019. The rental revenue for the years ended December 31, 2018 and 2017 were both NT\$5,310 thousand.

3) Construction in progress and other expenditures

Other expenditures paid to related parties, which pertained to construction or maintenance, purchased supplies, waste acid and security fee, etc., were as follows:

	For the Year Ended December 31	
	2018	2017
a) Other expenditures		
Others	\$ 188,799	\$ 150,124
Parent entity	171,368	128,873
Fellow subsidiaries related to others	<u>109,088</u>	<u>186,088</u>
	<u>\$ 469,255</u>	<u>\$ 465,085</u>
b) Capital expenditure		
Parent entity	<u>\$ 3,530</u>	<u>\$ 6,039</u>
Fellow subsidiaries related to others		
ICSC	100,021	16,650
CSMC	34,100	30,600
USECC	-	2,477
Others	<u>1,460</u>	<u>5,968</u>
	<u>135,581</u>	<u>55,695</u>
	<u>\$ 139,111</u>	<u>\$ 61,734</u>
4) Income from supplies and scrap		

	For the Year Ended December 31	
	2018	2017
Fellow subsidiaries related to others		
CHC	\$ 523,518	\$ 363,868
CSGTC	<u>17,876</u>	<u>18,161</u>
	<u>\$ 541,394</u>	<u>\$ 382,029</u>

h. Compensation of key management personnel

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

	For the Year Ended December 31	
	2018	2017
Short-term employee benefits	\$ 29,596	\$ 27,886
Post-employment benefits	<u>401</u>	<u>234</u>
	<u>\$ 29,997</u>	<u>\$ 28,120</u>

31. ASSETS PLEDGED AS COLLATERAL OR SECURITY

The Group's assets mortgaged or pledged as collateral for long-term borrowings and short-term borrowings were as follows (listed based on their carrying amounts):

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Time deposits (included in other financial assets - current)	\$ 300,000	\$ 500,000
Net property, plant and equipment	<u>3,911,003</u>	<u>3,696,986</u>
	<u>\$ 4,211,003</u>	<u>\$ 4,196,986</u>

32. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Group as of December 31, 2018 were as follows:

- a. Unused letters of credit for purchases of raw materials and machinery and equipment amounted to about NT\$2,535,220 thousand
- b. The Group had signed agreements to buy equipment for NT\$493,913 thousand, of which NT\$132,478 thousand had been paid (included in construction-in-progress and prepayments for equipment).

33. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currencies of the Group and the exchange rates between foreign currencies and respective functional currencies were disclosed. The significant assets and liabilities denominated in foreign currencies were as follows:

	Foreign Currencies (In Thousands)	Exchange Rate	Carrying Amount (In Thousands of New Taiwan Dollars)
<u>December 31, 2018</u>			
Monetary financial assets			
USD	\$ 26,413	30.72 (USD:NTD)	\$ 811,269
Monetary financial liabilities			
USD	1,471	30.72 (USD:NTD)	45,187
<u>December 31, 2017</u>			
Monetary financial assets			
USD	36,110	29.76 (USD:NTD)	1,074,655
Monetary financial liabilities			
USD	2,118	29.76 (USD:NTD)	63,026

The significant realized and unrealized foreign exchange gains (losses) were as follows:

Foreign Currencies	Exchange Rate	Net Foreign Exchange Gain (Loss)
For the Year Ended December 31, 2018		
USD	30.72 (USD:NTD)	\$ 91,193
EUR	35.20 (EUR:NTD)	45
Other		<u>26</u>
		<u>\$ 91,264</u>
For the Year Ended December 31, 2017		
USD	29.76 (USD:NTD)	\$ (774)
EUR	35.57 (EUR:NTD)	(187)
Other		<u>275</u>
		<u>\$ (686)</u>

34. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and b. investees:

- 1) Financing provided to others (None)
- 2) Endorsements/guarantees provided (Table 1)
- 3) Marketable securities held (excluding investments in subsidiaries and associates) (Table 2)
- 4) Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital (None)
- 5) Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital (None)
- 6) Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital (None)
- 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital (Table 3)
- 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital (Table 4)
- 9) Trading in derivative instruments (None)
- 10) Intercompany relationships and significant intercompany transactions (None)
- 11) Information on investees (Table 5)

c. Information on investments in mainland China (None)

35. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. Reportable segments of the Group were as follows:

- The Corporation - manufacture, process and sell steel products.
- Other corporations - Hung Kao Investment Corporation engaged in general investment, and Taiwan Steel Corporation which has not yet started is operation.

a. Segment revenues and operating results

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

	The Corporation	Others	Adjustment and Elimination	Total
<u>For the year ended December 31, 2018</u>				
Revenues from external customers	<u>\$ 48,233,721</u>	<u>\$ 5,164</u>	<u>\$ -</u>	<u>\$ 48,238,885</u>
Segment profit	\$ 2,871,898	\$ 3,759	\$ 120	\$ 2,875,777
Interest revenue	4,154	3	-	4,157
Other income	125,668	-	(120)	125,548
Other income and expenses	79,374	-	-	79,374
Finance costs	(139,883)	-	-	(139,883)
Share of the profit of associates and joint ventures	<u>92,012</u>	<u>-</u>	<u>(3,137)</u>	<u>88,875</u>
Profit before income tax for the year	3,033,223	3,762	(3,137)	3,033,848
Income tax expense	<u>-</u>	<u>625</u>	<u>-</u>	<u>625</u>
Net profit for the year	<u>\$ 3,033,223</u>	<u>\$ 3,137</u>	<u>\$ (3,137)</u>	<u>\$ 3,033,223</u>
Identifiable assets	\$ 30,925,587	\$ 33,109	\$ -	\$ 30,958,696
Investments accounted for using equity method	<u>2,493,577</u>	<u>-</u>	<u>(31,360)</u>	<u>2,462,217</u>
Total assets	<u>\$ 33,419,164</u>	<u>\$ 33,109</u>	<u>\$ (31,360)</u>	<u>\$ 33,420,913</u>
Total liabilities	<u>\$ 18,655,918</u>	<u>\$ 1,749</u>	<u>\$ -</u>	<u>\$ 18,657,667</u>
<u>For the year ended December 31, 2017</u>				
Revenues from external customers	<u>\$ 40,788,590</u>	<u>\$ 3,854</u>	<u>\$ -</u>	<u>\$ 40,792,444</u>
Segment profit	\$ 2,571,306	\$ 1,102	\$ 1,332	\$ 2,573,740
Interest revenue	3,749	98	-	3,847

(Continued)

	The Corporation	Others	Adjustment and Elimination	Total
Other income	\$ 139,839	\$ -	\$ (1,332)	\$ 138,507
Other income and expenses	(12,152)	-	-	(12,152)
Finance costs	(180,936)	-	-	(180,936)
Share of the profit of associates and joint ventures	<u>84,322</u>	<u>-</u>	<u>(1,025)</u>	<u>83,297</u>
Profit before income tax for the year	2,606,128	1,200	(1,025)	2,606,303
Income tax expense (benefit)	<u>(145)</u>	<u>175</u>	<u>-</u>	<u>30</u>
Net profit for the year	<u>\$ 2,606,273</u>	<u>\$ 1,025</u>	<u>\$ (1025)</u>	<u>\$ 2,606,273</u>
Identifiable assets	\$ 28,920,078	\$ 31,071	\$ -	\$ 28,951,149
Investments accounted for using equity method	<u>2,455,462</u>	<u>-</u>	<u>(29,760)</u>	<u>2,425,702</u>
Total assets	<u>\$ 31,375,540</u>	<u>\$ 31,071</u>	<u>\$ (29,760)</u>	<u>\$ 31,376,851</u>
Total liabilities	<u>\$ 19,449,881</u>	<u>\$ 1,311</u>	<u>\$ -</u>	<u>\$ 19,451,192</u> (Concluded)

Segment profit represented the profit before tax earned by each segment without allocation of central administration costs and directors' salaries, rental revenue, interest income, gain or loss on disposal of property, plant and equipment, exchange gain or loss, finance costs and income tax expense. This was the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

b. Revenues from major products and services

Revenues from major products and services of the Group were as follows:

	For the Year Ended December 31	
	2018	2017
Sales		
Hot Rolled Steel	\$ 32,068,496	\$ 26,371,392
Cold Rolled Steel	8,508,017	7,946,076
Galvanized Steel	2,481,563	2,438,093
Steel Pipe	4,500,973	2,920,540
Iron Oxide Powder	6,775	16,996
Service revenue	605,202	1,042,391
Investments revenue	884	853
Other operating revenue	<u>66,975</u>	<u>56,103</u>
	<u>\$ 48,238,885</u>	<u>\$ 40,792,444</u>

c. Geographical information

The Group operates in Taiwan.

The Group's revenues from external customers and information about its noncurrent assets by geographical location were detailed below.

	Revenues from External Customers		Noncurrent Assets	
	For the Year Ended December 31		December 31	
	2018	2017	2018	2017
Taiwan	\$ 25,088,110	\$ 24,868,698	\$ 19,213,742	\$ 20,009,724
Asia	15,011,568	11,419,006	-	-
America	4,564,690	3,077,960	-	-
Europe	3,000,886	1,053,070	-	-
Others	<u>573,631</u>	<u>373,710</u>	<u>-</u>	<u>-</u>
	<u>\$ 48,238,885</u>	<u>\$ 40,792,444</u>	<u>\$ 19,213,742</u>	<u>\$ 20,009,724</u>

Noncurrent assets excluded financial instruments.

d. Information about major customers

	For the Year Ended December 31	
	2018	2017
Sales revenue		
A Company	\$ 6,045,004	\$ 5,693,645
B Company	3,929,398	3,550,931
C Company	<u>3,191,882</u>	<u>178,113</u>
	<u>\$ 13,166,284</u>	<u>\$ 9,422,689</u>

CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

ENDORSEMENTS/GUARANTEES PROVIDED

FOR THE YEAR ENDED DECEMBER 31, 2018

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

NO.	Endorsement/Guarantee Provider	Endorsee/Guarantee		Limits on Endorsement/Guarantee Amount Provided to Each Guaranteed Party	Maximum Balance for the Period	Ending Balance	Amount Actually Drawn	Amount of Endorsement/Guarantee Collateralized by Properties	Ratio of Accumulated Endorsement/Guarantee to Net Equity per Latest Financial Statements (%)	Maximum Endorsement/Guarantee Amount Allowable	Guarantee Provided by Parent Company	Guarantee Provided by a Subsidiary	Guarantee Provided to Subsidiaries in Mainland China	Note
		Name	Nature of Relationship											
0	Chung Hung Steel Corporation	Chung Hung Steel Corporation (Note1)	Having business relationship	\$ 4,428,974	\$ 10,000	\$ 10,000	\$ 10,000	\$ -	-	\$ 7,381,623	N	N	N	Note 2

Note 1: For importation of goods, letters of credits were provided to Customs Administration, Ministry of Finance Kaohsiung Customs and guaranteed by banks.

Note 2: According to "The Process of marking endorsements/quadrants" of the Company, the ceiling on the amounts for any single entity or the aggregate amounts to the entities shall not exceed 30% and 50% of the net worth of the Company, respectively.

CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

MARKETABLE SECURITIES HELD

DECEMBER 31, 2018

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

Held Company Name	Type and Name of Marketable Securities	Relationship with The Company	Financial Statement Account	DECEMBER 31, 2018				Note	
				Shares/Units	Carrying Value	Percentage of Ownership (%)	Fair Value		
Chung Hung Steel Corporation	Common Stock Yieh United Steel Corp.	Parent company	Financial assets at fair value through profit or loss - current	39,707,800	\$ 217,281	2	\$ 217,281	Note1	
	Shouh Hwang Enterprise Co., Ltd.		Financial assets at fair value through profit or loss - current	730,000	-	15	-	Note2	
						<u>\$ 217,281</u>		<u>\$ 217,281</u>	
	Common Stock China Steel Corporation		Financial assets at fair value through other comprehensive income - current	33,109,239	<u>\$ 802,899</u>	-	<u>\$ 802,899</u>		
	Common Stock Riselinck Venture Capital Corp.		Financial assets at fair value through other comprehensive income - noncurrent	657,936	\$ 7,764	3	\$ 7,764	2018.11.30 net value	
	Taiwan Ves-Power Co., Ltd.		Financial assets at fair value through other comprehensive income - noncurrent	958,333	37,662	2	37,662	2018.11.30 net value	
	Pacific Harbour Stevedoring Corp.	The company as its supervisor	Financial assets at fair value through other comprehensive income - noncurrent	250,000	5,793	5	5,793	2018.08.31 net value	
					<u>\$ 51,219</u>		<u>\$ 51,219</u>		
Hung Kao Investment Corporation	Common Stock China Steel Corporation	The ultimate parent of the Company	Financial assets at fair value through other comprehensive income - noncurrent	1,003,980	<u>\$ 24,346</u>	-	<u>\$ 24,346</u>		

Note 1: The fair value of emerging stock was based on the closing price adjusted for liquidity risk premium.

Note 2: The impairment loss has been recognized that resulted in zero book value.

CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

**TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Buyer	Related Party	Relationship	Relationship				Abnormal Transaction		Notes/Accounts Receivable (Payable)		Note
			Purchase/Sale	Amount	% of Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
Chung Hung Steel Corporation	CSC Steel Sdn. Bhd.	Fellow subsidiary	Revenue from sale of goods	\$ (1,662,350)	(3)	T/T within 7 business days after lading date(not included)	Note1	Note1	\$ 121,361	11	
	China Steel Corporation	Parent company	Service revenue	(349,717)	(1)	T/T as the end of the month of when invoice is issued after final acceptance	NO THIRD-PARTY COULD BE COMPARED	NO THIRD-PARTY COULD BE COMPARED	36,256	3	
	Dragon Steel Corporation	Fellow subsidiary	Purchase of goods	10,349,774	25	Letter of credit at sight/Payment after final acceptance	Note1	Note1	-	-	
	China Steel Global Trading Corporation	Fellow subsidiary	Purchase of goods	416,442	1	Letter of credit at sight/Payment after final acceptance	Note1	Note1	-	-	
	China Steel Corporation	Parent company	Purchase of goods	25,257,677	61	Letter of credit at sight/Payment after final acceptance	Note1	Note1	(582,549)	(91)	
	Formosa Ha Tinh Steel Corporation	Other related parties	Purchase of goods	1,584,678	4	Letter of credit at sight/Payment after final acceptance	Note1	Note1	-	-	
Hung Li Steel Corporation (Note2)	China Steel Corporation	The ultimate parent of the Company	Service revenue	(244,292)	(39)	T/T as the end of the month of when invoice is issued	NO THIRD-PARTY COULD BE COMPARED	NO THIRD-PARTY COULD BE COMPARED	-	-	
	Chung Hung Steel Corporation	Parent company	Service revenue	(157,170)	(25)	T/T within a week after final acceptance/T/T as the end of the month of when invoice is issued	NO THIRD-PARTY COULD BE COMPARED	NO THIRD-PARTY COULD BE COMPARED	-	-	

Note 1: Refer to Note 30.

Note 2: Hung Li Steel Corporation was merged with the Corporation on June 1, 2018.

CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
 DECEMBER 31, 2018
 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Related Party	Relationship	Ending Balance	Turnover Rate	Overdue		Amount Received in Subsequent Period (Note3)	Allowance for Impairment Loss
					Amount	Actions Taken		
Chung Hung Steel Corporation	China Steel Corporation CSC Steel Sdn. Bhd.	Parent company Fellow subsidiary	\$ 302,696 (Note1)	-	\$ -	-	\$ -	\$ -
			121,361 (Note2)	21	-	-	121,361	-

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

Note 2: Accounts receivable.

Note 3: At the report date, amounts were received.

CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

**INFORMATION ON INVESTEEES
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Number of Shares	%	Carrying Amount	Net Income (Loss) of the Investee	Share of Profit (Loss)	Note
				December 31, 2018	December 31, 2017						
Chung Hung Steel Corporation	Hung Kao Investment Corporation	Republic of China	General investment	\$ 26,000	\$ 26,000	2,600,000	100.00	\$ 30,427	\$ 3,143	\$ 3,143	Subsidiaries (Note)
Chung Hung Steel Corporation	Taiwan Steel Corporation	Republic of China	Iron and steel industry chain industry	1,000	1,000	100,000	100.00	933	(6)	(6)	Subsidiaries (Note)
Chung Hung Steel Corporation	Transglory Investment Corporation	Republic of China	General investment	2,001,152	2,001,152	289,620,871	40.91	2,462,217	217,245	88,875	Associates

Note: Amount was eliminated in the consolidated financial statements.