

**Chung Hung Steel Corporation and  
Subsidiaries**

**Consolidated Financial Statements for the  
Six Months Ended June 30, 2019 and 2018 and  
Independent Auditors' Review Report**

## **INDEPENDENT AUDITORS' REVIEW REPORT**

Chung Hung Steel Corporation

### **Introduction**

We have reviewed the accompanying consolidated balance sheets of Chung Hung Steel Corporation (the Corporation) and its subsidiaries as of June 30, 2019 and 2018, and the consolidated statements of comprehensive income for the three months and six months ended June 30, 2019 and 2018, and the consolidated statements of changes in equity and of cash flows for the six months ended June 30, 2019 and 2018, and the notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as 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 International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission (FSC) of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

### **Scope of Review**

We conducted our reviews in accordance with Statement of Auditing Standards No. 65 "Review of Financial Information Performed by the Independent Auditor of the Entity". A review of consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion**

Based on our reviews, nothing has come to our attention that caused us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the financial position of the Corporation and its subsidiaries as of June 30, 2019 and 2018, and its consolidated financial performance for the three months and six months ended June 30, 2019 and 2018, and its consolidated cash flows for the six months ended June 30, 2019 and 2018 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the FSC.

The engagement partners on the reviews resulting in this independent auditor's review report are Jui Hsuan Hsu and Yu-Hsiang Liu.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

August 8, 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 review such consolidated financial statements are those generally applied in the Republic of China.*

*For the convenience of readers, the independent auditors' review 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' review report and consolidated financial statements shall prevail.*

# CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

	June 30, 2019		December 31, 2018		June 30, 2018	
	(Reviewed)		(Audited)		(Reviewed)	
	Amount	%	Amount	%	Amount	%
<b>ASSETS</b>						
<b>CURRENT ASSETS</b>						
Cash and cash equivalents (Note 6)	\$ 430,953	1	\$ 200,081	1	\$ 146,848	-
Financial assets at fair value through profit or loss - current (Note 7)	205,483	1	217,281	1	208,166	1
Financial assets at fair value through other comprehensive income - current (Note 8)	826,075	2	802,899	2	784,689	2
Notes receivable (Note 9)	3	-	-	-	-	-
Accounts receivable (Note 9)	1,549,314	5	948,932	3	1,432,837	5
Accounts receivable from related parties (Notes 9 and 29)	48,595	-	183,440	-	84,024	-
Other receivables (Note 9)	9,765	-	16,002	-	21,635	-
Other receivables from related parties (Notes 9 and 29)	213,050	1	348,709	1	335,218	1
Current tax assets	417	-	420	-	399	-
Inventories (Note 10)	7,048,061	22	8,240,151	25	5,453,815	18
Prepayments (Note 11)	339,191	1	373,830	1	361,889	1
Non-current assets held for sale (Note 12)	-	-	22,525	-	-	-
Other financial assets - current (Notes 12, 13 and 30)	300,000	1	302,897	1	302,385	1
Other current assets	643	-	6,590	-	3,916	-
Total current assets	<u>10,971,550</u>	<u>34</u>	<u>11,663,757</u>	<u>35</u>	<u>9,135,821</u>	<u>29</u>
<b>NONCURRENT ASSETS</b>						
Financial assets at fair value through other comprehensive income - noncurrent (Note 8)	74,402	-	75,565	-	81,529	-
Investments accounted for using equity method (Note 14)	2,535,371	8	2,462,217	7	2,308,393	8
Property, plant and equipment (Notes 15, 30 and 31)	12,868,845	40	13,249,030	40	13,660,207	44
Right-of-use assets (Note 16)	80,955	-	-	-	-	-
Investment properties (Note 17)	5,906,986	18	5,907,018	18	5,921,404	19
Prepayments for equipment (Note 31)	26,077	-	57,694	-	4,058	-
Refundable deposits	5,632	-	5,632	-	5,870	-
Total noncurrent assets	<u>21,498,268</u>	<u>66</u>	<u>21,757,156</u>	<u>65</u>	<u>21,981,461</u>	<u>71</u>
<b>TOTAL</b>	<u>\$ 32,469,818</u>	<u>100</u>	<u>\$ 33,420,913</u>	<u>100</u>	<u>\$ 31,117,282</u>	<u>100</u>
<b>LIABILITIES AND EQUITY</b>						
<b>CURRENT LIABILITIES</b>						
Short-term borrowings (Notes 18 and 30)	\$ 5,604,051	17	\$ 6,381,773	19	\$ 6,279,058	20
Short-term bills payable (Note 18)	1,799,704	6	3,198,953	10	549,875	2
Contract liabilities - current (Notes 12 and 23)	28,600	-	96,445	-	67,540	-
Accounts payable (Note 19)	63,382	-	45,304	-	33,609	-
Accounts payable to related parties (Notes 19 and 29)	876,951	3	595,764	2	1,174,113	4
Other payables (Note 20)	916,182	3	1,014,578	3	715,202	2
Current tax liabilities (Note 25)	8,859	-	537	-	251	-
Lease liabilities - current (Note 16)	13,200	-	-	-	-	-
Current portion of long-term borrowings (Notes 18 and 30)	1,440,000	4	950,000	3	328,543	1
Refund liabilities	211,671	1	115,720	-	181,801	1
Other current liabilities (Note 20)	17,010	-	30,974	-	15,942	-
Total current liabilities	<u>10,979,610</u>	<u>34</u>	<u>12,430,048</u>	<u>37</u>	<u>9,345,934</u>	<u>30</u>
<b>NONCURRENT LIABILITIES</b>						
Long-term borrowings (Notes 18 and 30)	4,780,000	15	3,900,000	12	5,020,000	16
Long-term bills payable (Note 18)	959,773	3	1,679,558	5	2,858,860	9
Deferred tax liabilities	182,222	1	182,222	1	182,302	1
Lease liabilities - noncurrent (Note 16)	67,942	-	-	-	-	-
Net defined benefit liabilities	388,042	1	430,719	1	323,129	1
Guarantee deposits received (Note 17)	35,120	-	35,120	-	35,120	-
Total noncurrent liabilities	<u>6,413,099</u>	<u>20</u>	<u>6,227,619</u>	<u>19</u>	<u>8,419,411</u>	<u>27</u>
Total liabilities	<u>17,392,709</u>	<u>54</u>	<u>18,657,667</u>	<u>56</u>	<u>17,765,345</u>	<u>57</u>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION (Note 22)</b>						
Ordinary shares	14,355,444	44	14,355,444	43	14,355,444	46
Capital surplus	903	-	903	-	903	-
Retained earnings (Accumulated deficit)						
Legal reserve	90,450	-	-	-	-	-
Special reserve	497,607	1	-	-	-	-
Unappropriated earnings (Accumulated deficit)	530,950	2	904,506	3	( 427,286)	(1)
Total retained earnings (Accumulated deficit)	<u>1,119,007</u>	<u>3</u>	<u>904,506</u>	<u>3</u>	<u>( 427,286)</u>	<u>(1)</u>
Other equity	( 398,245)	(1)	( 497,607)	(2)	( 577,124)	(2)
Total equity	<u>15,077,109</u>	<u>46</u>	<u>14,763,246</u>	<u>44</u>	<u>13,351,937</u>	<u>43</u>
<b>TOTAL</b>	<u>\$ 32,469,818</u>	<u>100</u>	<u>\$ 33,420,913</u>	<u>100</u>	<u>\$ 31,117,282</u>	<u>100</u>

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

# CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

(Reviewed, Not Audited)

	For the Three Months Ended June 30				For the Six Months Ended June 30			
	2019		2018		2019		2018	
	Amount	%	Amount	%	Amount	%	Amount	%
OPERATING REVENUES (Notes 23 and 29)								
Sales	\$ 11,493,019	99	\$ 12,108,613	99	\$ 23,341,517	99	\$ 23,053,572	99
Service revenue	108,399	1	141,418	1	226,116	1	307,336	1
Other operating revenue	14,309	-	15,432	-	32,044	-	31,466	-
Total operating revenue	11,615,727	100	12,265,463	100	23,599,677	100	23,392,374	100
OPERATING COSTS (Notes 10, 24 and 29)	10,867,946	94	11,055,709	90	22,344,386	94	21,124,185	90
GROSS PROFIT	747,781	6	1,209,754	10	1,255,291	6	2,268,189	10
OPERATING EXPENSES (Note 24)								
Selling and marketing expenses	374,612	3	282,055	2	719,112	3	507,070	2
General and administrative expenses	87,453	1	96,388	1	168,071	1	196,356	1
Total operating expenses	462,065	4	378,443	3	887,183	4	703,426	3
PROFIT FROM OPERATIONS	285,716	2	831,311	7	368,108	2	1,564,763	7
NON-OPERATING INCOME AND EXPENSES (Notes 14, 17, 24 and 29)								
Other income	23,789	-	22,802	-	55,862	-	54,923	-
Other gains and losses	11,687	-	25,079	-	10,467	-	26,997	-
Finance costs	(30,086)	-	(33,336)	-	(63,233)	-	(70,118)	-
Share of the loss of associates	(2,126)	-	(2,091)	-	(4,195)	-	(4,142)	-
Total non-operating income and expenses	3,264	-	12,454	-	(1,099)	-	7,660	-
PROFIT BEFORE INCOME TAX	288,980	2	843,765	7	367,009	2	1,572,423	7
INCOME TAX (Notes 4 and 25)	8,859	-	160	-	8,953	-	331	-
NET PROFIT FOR THE PERIOD	280,121	2	843,605	7	358,056	2	1,572,092	7
OTHER COMPREHENSIVE INCOME (LOSS) (Note 22)								
Items that will not be reclassified subsequently to profit or loss								
Unrealized gains and losses on investments in equity instruments at fair value through other comprehensive income	(13,872)	-	9,783	-	22,013	-	(32,647)	-
Share of the other comprehensive income of associates	(38,674)	-	27,374	-	77,349	-	(113,167)	(1)
	(52,546)	-	37,157	-	99,362	-	(145,814)	(1)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	\$ 227,575	2	\$ 880,762	7	\$ 457,418	2	\$ 1,426,278	6
NET PROFIT ATTRIBUTABLE TO:								
Owners of the Corporation	\$ 280,121		\$ 843,605		\$ 358,056		\$ 1,572,092	

(Continued)

# CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

(Reviewed, Not Audited)

	For the Three Months Ended June 30				For the Six Months Ended June 30			
	2019		2018		2019		2018	
	Amount	%	Amount	%	Amount	%	Amount	%
TOTAL COMPREHENSIVE INCOME								
ATTRIBUTABLE TO:								
Owners of the Corporation	<u>\$ 227,575</u>		<u>\$ 880,762</u>		<u>\$ 457,418</u>		<u>\$ 1,426,278</u>	
EARNINGS PER SHARE								
(Note 26)								
Basic	<u>\$ 0.20</u>		<u>\$ 0.59</u>		<u>\$ 0.25</u>		<u>\$ 1.10</u>	
Diluted	<u>\$ 0.19</u>		<u>\$ 0.59</u>		<u>\$ 0.25</u>		<u>\$ 1.10</u>	

(Concluded)

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

## CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	Issued and Outstanding Ordinary Shares	Capital Surplus	Retained Earnings (Accumulated Deficit)			Other Equity		Total	Total Equity
			Legal Reserve	Special Reserve	Unappropriated Earnings (Accumulated Deficit)	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, 2019	\$ 14,355,444	\$ 903	\$ -	\$ -	\$ 904,506	(\$ 497,607)	\$ -	(\$ 497,607)	\$ 14,763,246
Appropriation of 2018 earnings (Note 22)									
Legal reserve	-	-	90,450	-	(90,450)	-	-	-	-
Special reserve	-	-	-	497,607	(497,607)	-	-	-	-
Cash dividends	-	-	-	-	(143,555)	-	-	-	(143,555)
Net profit for the six months ended June 30, 2019	-	-	-	-	358,056	-	-	-	358,056
Other comprehensive income for the six months ended June 30, 2019, net of income tax	-	-	-	-	-	99,362	-	99,362	99,362
Total comprehensive income for the six months ended June 30, 2019	-	-	-	-	358,056	99,362	-	99,362	457,418
BALANCE AT JUNE 30, 2019	\$ 14,355,444	\$ 903	\$ 90,450	\$ 497,607	\$ 530,950	(\$ 398,245)	\$ -	(\$ 398,245)	\$ 15,077,109
BALANCE AT JANUARY 1, 2018	\$ 14,355,444	\$ 903	\$ -	\$ -	(\$ 2,083,776)	\$ -	(\$ 346,912)	(\$ 346,912)	\$ 11,925,659
Effect of retrospective application	-	-	-	-	84,398	(431,310)	346,912	(84,398)	-
BALANCE AFTER ADJUSTMENT AT JANUARY 1, 2018	14,355,444	903	-	-	(1,999,378)	(431,310)	-	(431,310)	11,925,659
Net profit for the six months ended June 30, 2018	-	-	-	-	1,572,092	-	-	-	1,572,092
Other comprehensive income for the six months ended June 30, 2018, net of income tax	-	-	-	-	-	(145,814)	-	(145,814)	(145,814)
Total comprehensive income for the six months ended June 30, 2018	-	-	-	-	1,572,092	(145,814)	-	(145,814)	1,426,278
BALANCE AT JUNE 30, 2018	\$ 14,355,444	\$ 903	\$ -	\$ -	(\$ 427,286)	(\$ 577,124)	\$ -	(\$ 577,124)	\$ 13,351,937

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

# CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Six Months Ended June 30	
	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before income tax	\$ 367,009	\$ 1,572,423
Adjustments for:		
Depreciation expense	618,976	575,503
Net loss on financial assets and liabilities at fair value through profit or loss	10,926	6,777
Finance costs	63,233	70,118
Interest income	( 1,232)	( 1,766)
Dividends income	( 3,471)	( 12,758)
Share of the profit of associates	4,195	4,142
Loss on disposal of property, plant and equipment	8,491	-
Gain on disposal of non-current assets held for sale	( 871)	-
Write-downs (reversal) of inventories	( 93,990)	215,901
Changes in operating assets and liabilities		
Financial assets mandatorily classified as at fair value through profit or loss	872	521
Notes receivable	( 3)	-
Accounts receivable	( 600,382)	( 141,053)
Accounts receivable from related parties	134,845	84,163
Other receivables	6,237	( 11,212)
Other receivables from related parties	135,659	66,106
Inventories	1,286,080	( 650,091)
Prepayments	33,692	( 159,065)
Other current assets	5,947	2,477
Contract liabilities	( 64,955)	( 96,205)
Accounts payable	18,078	( 22,551)
Accounts payable to related parties	281,187	( 45,152)
Other payables	( 232,735)	( 31,657)
Other current liabilities	( 13,964)	( 6,366)
Net defined benefit liabilities	( 42,677)	( 42,627)
Refund liabilities	95,951	18,366
Cash generated from operations	2,017,098	1,395,994
Income taxes paid	( 628)	( 133)
Net cash generated from operating activities	<u>2,016,470</u>	<u>1,395,861</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from disposal of non-current assets held for sale	20,506	-
Acquisition of property, plant and equipment	( 218,662)	( 115,093)
Proceeds from disposal of property, plant and equipment	123	-
Increase in refundable deposits	-	( 23)
Decrease in other financial assets	2,897	200,000
Interest received	1,232	1,776
Dividends received from others	3,471	12,758
Net cash generated from (used in) investing activities	<u>( 190,433)</u>	<u>99,418</u>

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# CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Six Months Ended June 30	
	2019	2018
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from short-term borrowings	\$ 38,661,391	\$ 58,520,477
Repayments of short-term borrowings	( 39,439,113)	( 59,706,234)
Proceeds from short-term bills payable	3,650,751	2,021,023
Repayment of short-term bills payable	( 5,050,000)	( 2,140,997)
Proceeds from long-term borrowings	2,200,000	2,800,000
Repayments of long-term borrowings	( 830,000)	( 2,700,000)
Proceeds from long-term bills payable	400,215	900,000
Repayments of long-term bills payable	( 1,120,000)	( 1,190,000)
Repayments of principal of lease liabilities	( 4,606)	-
Interest paid	( 63,803)	( 70,655)
Net cash used in financing activities	<u>( 1,595,165)</u>	<u>( 1,566,386)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	230,872	( 71,107)
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<u>200,081</u>	<u>217,955</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<u>\$ 430,953</u>	<u>\$ 146,848</u> (Concluded)

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

# CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise) (Reviewed, Not Audited)

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### 1. GENERAL INFORMATION

Chung Hung Steel Corporation (the “Corporation”) was incorporated in September 1983 and started operations in September 1985. It mainly manufactures and sells steel products, such as cold and hot rolled coils and steel pipes. 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 June 30, 2019, and 2018, China Steel Corporation (“CSC”), the Corporation’s parent and major shareholder (41%), controls the Corporation’s management and operations.

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

### 2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were reported to the Corporation’s board of directors and approved for issue on August 8, 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:

#### IFRS 16 “Leases”

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

#### 1) Definition of a lease

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

2) The Group as lessee

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

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

The Group also applies the following practical expedients:

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

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

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

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

	<b>Carrying Amount as of December 31, 2018</b>	<b>Adjustments Arising from Initial Application</b>	<b>Adjusted Carrying Amount as of January 1, 2019</b>
Prepayment for leases - current	\$ 2,044	(\$ 947)	\$ 1,097

(Continued)

	Carrying Amount as of December 31, 2018	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2019
Right-of-use assets	-	70,755	70,755
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	-	60,691	60,691
Total effect on liabilities	<u>\$ -</u>	<u>\$ 69,808</u>	<u>\$ 69,808</u> (Concluded)

3) The Group as lessor

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

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

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

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

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

As of the date the consolidated financial statements were reported to the board of directors for issue, the Corporation and its subsidiaries are in the process of assessing the impact of the impending initial application of the aforementioned and other standards and the amendments to interpretations on their financial position and results of operations. Disclosures will be provided after a detailed review of the impact has been completed.

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

New IFRSs	Effective Date Announced by IASB (Note)
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2021

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

As of the date the consolidated financial statements were reported to the board of directors for issue, the Group are in the process of assessing the impact of the impending initial application of the aforementioned and other standards and the amendments to interpretations on their financial position

and results of operations. Disclosures will be provided after a detailed review of the impact has been completed.

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

For readers' convenience, the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the ROC. If inconsistencies arise between the English version and the Chinese version or if differences arise in the interpretations between the two versions, the Chinese version of the consolidated financial statements shall prevail.

##### a. 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 IAS 34 "Interim Financial Reporting" as endorsed and issued into effect by the FSC. The consolidated financial statements do not present full disclosures required for a complete set of IFRSs annual financial statements.

##### b. 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). 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 (%)		
			June 30, 2019	December 31, 2018	June 30, 2018
Chung Hung Steel Corporation Ltd.	Taiwan Steel Corporation	Operation in progress	100	100	100
	Hung Kao Investment Corporation	General investment	100	100	100

##### c. Other significant accounting policies

Except for the following, refer to the summary of significant accounting policy in the consolidated financial statements for the year ended December 31, 2018.

##### 1) Leases

###### 2019

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

##### a) The Group as lessor

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

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

##### b) The Group as lessee

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

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

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

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

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

## 2018

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

### a) The Group as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amounts of the rental assets and recognized as expenses on a straight-line basis over the lease terms.

### b) The Group as lessee

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

## 2) Retirement benefits

Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant plan amendments, settlements, or other significant

one-off events.

### 3) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Interim period income taxes are assessed on an annual basis and calculated on an interim period's pre-tax income by applying to the tax rate that would be applicable to expected total annual earnings.

The effect of a change in tax rate resulting from a change in tax law is recognized consistent with the accounting for the transaction itself which gives rise to the tax consequence, and is recognized in profit or loss, other comprehensive income or directly in equity in full in the period in which the change in tax rate occurs.

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The same critical accounting judgments and key sources of estimation uncertainty of consolidated financial statements have been followed in these consolidated financial statements as those applied in the preparation of the consolidated financial statements for the year ended December 31, 2018.

## 6. CASH AND CASH EQUIVALENTS

	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
Cash on hand	\$ 700	\$ 700	\$ 700
Checking accounts and demand deposits	426,563	199,381	146,148
Cash equivalents			
Time deposits with original maturities less than three months	<u>3,690</u>	<u>-</u>	<u>-</u>
	<u>\$ 430,953</u>	<u>\$ 200,081</u>	<u>\$ 146,848</u>

## 7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS - CURRENT

	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
Financial assets mandatorily classified as at FVTPL			
Emerging market shares	\$ 205,483	\$ 217,281	\$ 207,434
Foreign exchange forward contracts	<u>-</u>	<u>-</u>	<u>732</u>
	<u>\$ 205,483</u>	<u>\$ 217,281</u>	<u>\$ 208,166</u>

The Group entered into foreign exchange forward contract to manage exposures due to exchange rate fluctuations of foreign currency denominated liabilities. The outstanding foreign exchange forward contract not under hedge accounting at the end of the reporting period was as follows:

	Currency	Maturity Date	Contract Amount (In Thousands)
<u>June 30, 2018</u>			
Buy	NTD/JPY	December 28, 2018	NTD 49,034/JPY180,000

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

	June 30, 2019	December 31, 2018	June 30, 2018
<u>Current</u>			
Domestic Listed shares	\$ <u>826,075</u>	\$ <u>802,899</u>	\$ <u>784,689</u>
<u>Noncurrent</u>			
Domestic listed shares	\$ 25,049	\$ 24,346	\$ 23,794
Domestic unlisted shares	<u>49,353</u>	<u>51,219</u>	<u>57,735</u>
	<u>\$ 74,402</u>	<u>\$ 75,565</u>	<u>\$ 81,529</u>

## 9. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

	June 30, 2019	December 31, 2018	June 30, 2018
<u>Notes receivable</u>			
Notes receivable - non-operating	\$ <u>3</u>	\$ <u>-</u>	\$ <u>-</u>
<u>Accounts receivable</u>			
Accounts receivable - non-related parties	\$ <u>1,549,314</u>	\$ <u>948,932</u>	\$ <u>1,432,837</u>
Accounts receivable - related parties	\$ <u>48,595</u>	\$ <u>183,440</u>	\$ <u>84,024</u>
<u>Other receivables (including related parties)</u>			
Discount receivable	\$ 173,002	\$ 302,720	\$ 291,389
Receivables from disposal of scrap	43,887	57,676	58,483
Others	<u>5,926</u>	<u>4,315</u>	<u>6,981</u>
	<u>\$ 222,815</u>	<u>\$ 364,711</u>	<u>\$ 356,853</u>

### a. Accounts receivable

The Group allows an average credit period of 30 days (the aging of receivables from sales of goods is based upon the date of examination and acceptance of the goods settlement is monthly or 60 days after shipment date). Refer to Note 28 for credit risk management policies.

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

customer segments, the provision for loss allowance based on past due status is not further distinguished according to the Group's different customer base.

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

June 30, 2019

	Not Past Due	1 to 30 Days	31 to 60 Days	61 to 180 Days	181 to 365 Days	Over 365 Days	Total
Expected credit loss rate (%)	-	-	-	-	-	100	
Gross carrying amount	\$ 1,597,909	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,597,909
Loss allowance (Lifetime ECL)	-	-	-	-	-	-	-
Amortized cost	<u>\$ 1,597,909</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,597,909</u>

December 31, 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)	-	-	-	-	-	-	-
Amortized cost	<u>\$ 1,132,372</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,132,372</u>

June 30, 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	\$ 1,516,861	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,516,861
Loss allowance (Lifetime ECL)	-	-	-	-	-	-	-
Amortized cost	<u>\$ 1,516,861</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,516,861</u>

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

	June 30, 2019	December 31, 2018	June 30, 2018
A company	\$ 258,116	\$ -	\$ -
B company	15,907	121,361	31,012
C company	214,331	-	170,875
D company	<u>15,310</u>	<u>10,022</u>	<u>379,211</u>
	<u>\$ 503,664</u>	<u>\$ 131,383</u>	<u>\$ 581,098</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 Period - Beginning	Receivables Sold	Amounts Collected	Advances Received at Period - End	Interest Rates on Advances Received (%)	Credit Line
<u>For the Six Months Ended June 30, 2019</u>						
Mega Bank	\$ 1,033,187	\$ 1,357,839	\$ 1,546,987	\$ 844,039	1.27	NT\$3 billion
Bank of Taiwan	199,960	273,405	203,066	270,299	3.93	USD20 million
	<u>\$ 1,233,147</u>	<u>\$ 1,631,244</u>	<u>\$ 1,750,053</u>	<u>\$ 1,114,338</u>		
<u>For the Six Months Ended June 30, 2018</u>						
Mega Bank	\$ 1,088,226	\$ 1,590,694	\$ 1,438,020	\$ 1,240,900	1.19	NT\$3 billion
Bank of Taiwan	62,805	214,916	128,954	148,767	3.33	USD20 million
	<u>\$ 1,151,031</u>	<u>\$ 1,805,610</u>	<u>\$ 1,566,974</u>	<u>\$ 1,389,667</u>		

b. Other receivables

The Group applies the approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provision for other receivable. The expected credit losses on other receivables are estimated using expected credit loss rate based on the other receivables overdue days. As of June 30, 2019, December 31, 2018 and June 30, 2018, there was no allowance for doubtful accounts.

## 10. INVENTORIES

	June 30, 2019	December 31, 2018	June 30, 2018
Raw materials	\$ 3,436,591	\$ 3,352,627	\$ 2,289,444
Supplies	436,375	421,614	445,331
Work in progress	665,170	569,161	607,026
Finished goods	2,504,433	3,653,262	2,106,921
Others	5,113	7,056	2,876
Raw materials and supplies in transit	<u>379</u>	<u>236,431</u>	<u>2,217</u>
	<u>\$ 7,048,061</u>	<u>\$ 8,240,151</u>	<u>\$ 5,453,815</u>

The cost of inventories recognized as operating costs for the three months and six months ended June 30, 2019 and 2018 was NT\$10,750,719 thousand, NT\$10,961,468 thousand, NT\$22,115,980 thousand and NT\$20,929,090 thousand, respectively, including loss on inventory value decline of NT\$29,877 thousand, loss on inventory value decline of NT\$175,885 thousand, reversal of loss of NT\$93,990 thousand and loss on inventory value decline of NT\$215,901 thousand, respectively.

## 11. PREPAYMENTS

	June 30, 2019	December 31, 2018	June 30, 2018
Input tax	\$ 289,165	\$ 342,442	\$ 309,822

(Continued)

	June 30, 2019	December 31, 2018	June 30, 2018
Prepayments for purchases	\$ 36,132	\$ 22,209	\$ 42,464
Others	<u>13,894</u>	<u>9,179</u>	<u>9,603</u>
	<u>\$ 339,191</u>	<u>\$ 373,830</u>	<u>\$ 361,889</u> (Concluded)

## 12. NON-CURRENT ASSETS HELD FOR SALE

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

The Group joined China Prosperity Development Corporation's (CPDC) contract titled "Qianzhen Residential Building Project", and bought the land from CPDC recognized as investment property. After acquiring the building use permit in November 2018, the Qianzhen Residential Building Project was reclassified to non-current assets held for sale. The Corporation then signed contracts with employees for the sale of the land. The proceeds of the sale are deposited in the Bank of Taiwan. At December 31, 2018 and June 30, 2018, the proceeds of the sale were recognized as other financial assets-current and contract liabilities. The deposits for project was released pledge at the beginning of 2019 and was recognized as cash in banks. The transfer of ownership of the land had been completed in June 2019 and the Corporation recognized gain on disposal of land of NT\$871 thousand.

## 13. OTHER FINANCIAL ASSETS

	June 30, 2019	December 31, 2018	June 30, 2018
<u>Current</u>			
Pledged time deposits (Note 30)	\$ 300,000	\$ 300,000	\$ 300,000
Deposits for project (Note 12)	<u>-</u>	<u>2,897</u>	<u>2,385</u>
	<u>\$ 300,000</u>	<u>\$ 302,897</u>	<u>\$ 302,385</u>

## 14. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	June 30, 2019	December 31, 2018	June 30, 2018
Transglory Investment Corp. (TIC)	<u>\$ 2,535,371</u>	<u>\$ 2,462,217</u>	<u>\$ 2,308,393</u>

Name of Associate	Nature of Activities	Principal Place of Business	Percentage of Ownership and Voting Rights (%)		
			June 30, 2019	December 31, 2018	June 30, 2018
TIC	General investment	Taiwan	40.91	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 six months ended June 30, 2019 and 2018 were based on the associates'

financial statements reviewed by auditors for the same periods.

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

	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
Current assets	\$ 10,781	\$ 1,018	\$ 14,290
Noncurrent assets	6,617,463	6,439,578	6,271,667
Current liabilities	( 430,808)	( 421,976)	( 643,343)
Equity	<u>\$ 6,197,436</u>	<u>\$ 6,018,620</u>	<u>\$ 5,642,614</u>
Proportion of the Group's ownership (%)	40.91	40.91	40.91
Equity attributable to the Group	<u>\$ 2,535,371</u>	<u>\$ 2,462,217</u>	<u>\$ 2,308,393</u>
Carrying amount	<u>\$ 2,535,371</u>	<u>\$ 2,462,217</u>	<u>\$ 2,308,393</u>

	<b>For the Three Months Ended June 30</b>		<b>For the Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Operating revenue	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ 1</u>
Net loss for the year	(\$ 5,196)	(\$ 5,109)	(\$ 10,255)	(\$ 10,124)
Other comprehensive income	( 94,536)	66,912	189,071	( 276,624)
Total comprehensive income for the year	<u>(\$ 99,732)</u>	<u>\$ 61,803</u>	<u>\$ 178,816</u>	<u>(\$ 286,748)</u>
Comprehensive income attributable to the Group	<u>(\$ 40,800)</u>	<u>\$ 25,283</u>	<u>\$ 73,154</u>	<u>(\$ 117,309)</u>

**15. PROPERTY, PLANT AND EQUIPMENT**

For the Six Months Ended June 30, 2019

	<b>Land</b>	<b>Buildings</b>	<b>Machinery and Equipment</b>	<b>Other Equipment</b>	<b>Spare Parts</b>	<b>Construction in Progress and Equipment to be Inspected</b>	<b>Total</b>
<u>Cost</u>							
Balance at January 1, 2019	\$ 3,985,675	\$ 4,985,220	\$ 22,511,085	\$ 4,415,341	\$ 1,448,523	\$ 78,900	\$ 37,424,744
Additions	3,320	4,330	23,155	23,073	49,597	138,158	241,633
Disposals	-	-	-	( 35,466)	( 96,601)	-	( 132,067)
Reclassification	( 12)	( 395)	-	-	-	-	( 407)
Balance at June 30, 2019	<u>\$ 3,988,983</u>	<u>\$ 4,989,155</u>	<u>\$ 22,534,240</u>	<u>\$ 4,402,948</u>	<u>\$ 1,401,519</u>	<u>\$ 217,058</u>	<u>\$ 37,533,903</u>
<u>Accumulated depreciation</u>							
Balance at January 1, 2019	\$ -	\$ 1,746,374	\$ 17,814,290	\$ 3,862,424	\$ 752,626	\$ -	\$ 24,175,714
Depreciation expense	-	65,404	365,574	68,689	113,130	-	612,797
Disposals	-	-	-	( 26,852)	( 96,601)	-	( 123,453)
Balance at June 30, 2019	<u>\$ -</u>	<u>\$ 1,811,778</u>	<u>\$ 18,179,864</u>	<u>\$ 3,904,261</u>	<u>\$ 769,155</u>	<u>\$ -</u>	<u>\$ 24,665,058</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>
Carrying amount at June 30, 2019	<u>\$ 3,988,983</u>	<u>\$ 3,177,377</u>	<u>\$ 4,354,376</u>	<u>\$ 498,687</u>	<u>\$ 632,364</u>	<u>\$ 217,058</u>	<u>\$ 12,868,845</u>

For the Six Months Ended June 30, 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	-	631	315,786	45,111	16,605	( 193,558)	184,575
Disposals	-	-	-	( 3,453)	( 43,581)	-	( 47,034)
Reclassification	19,180	( 138)	-	-	-	-	19,042
Balance at June 30, 2018	<u>\$ 3,993,301</u>	<u>\$ 4,989,686</u>	<u>\$ 22,262,269</u>	<u>\$ 4,382,643</u>	<u>\$ 1,526,218</u>	<u>\$ 172,604</u>	<u>\$ 37,326,721</u>
<u>Accumulated depreciation</u>							
Balance at January 1, 2018	\$ -	\$ 1,613,606	\$ 17,112,026	\$ 3,725,590	\$ 687,268	\$ -	\$ 23,138,490
Depreciation expense	-	66,542	340,081	68,258	100,211	-	575,092
Disposals	-	-	-	( 3,453)	( 43,581)	-	( 47,034)
Reclassification	-	( 34)	-	-	-	-	( 34)
Balance at June 30, 2018	<u>\$ -</u>	<u>\$ 1,680,114</u>	<u>\$ 17,452,107</u>	<u>\$ 3,790,395</u>	<u>\$ 743,898</u>	<u>\$ -</u>	<u>\$ 23,666,514</u>
Carrying amount at June 30, 2018	<u>\$ 3,993,301</u>	<u>\$ 3,309,572</u>	<u>\$ 4,810,162</u>	<u>\$ 592,248</u>	<u>\$ 782,320</u>	<u>\$ 172,604</u>	<u>\$ 13,660,207</u>

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

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

The Group bought farmlands for warehouse at the Jia Xing Section and Quing Shui Section of the Gangshan District in Kaohsiung City. However, certain regulations prohibit the Group from registering the title of these farmlands in the Group's name; thus, the registration was made in the name of an individual person. The individual person consented to fully cooperate with the Group in changing the land title in the future and pledged the land to the Group as collateral. As of June 30, 2019, December 31, 2018 and June 30, 2018, the book value of those remaining farmlands recognized as land were NT\$55,433 thousand, respectively.

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

## 16. LEASE ARRANGEMENTS

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

	<b>June 30, 2019</b>
<u>Carrying amounts</u>	
Land	\$ 65,413

(Continued)

	<b>June 30, 2019</b>	
<u>Carrying amounts</u>		
Transportation equipment		<u>\$ 15,542</u>
		<u>\$ 80,955</u> (Concluded)
	<b>For the Three Months Ended June 30, 2019</b>	<b>For the Six Months Ended June 30, 2019</b>
Additions to right-of-use assets		<u>\$ 16,078</u>
Depreciation charge for right-of-use assets		
Land	\$ 2,586	\$ 5,172
Transportation equipment	<u>544</u>	<u>568</u>
	<u>\$ 3,130</u>	<u>\$ 5,740</u>

b. Lease liabilities - 2019

	<b>June 30, 2019</b>	
<u>Carrying amounts</u>		
Current		<u>\$ 13,200</u>
Non-current		<u>\$ 67,942</u>

Range of discount rate for lease liabilities was as follows:

	<b>June 30, 2019</b>
Land(%)	1.10-1.31
Transportation equipment(%)	0.76

c. Material lease activities and terms

The Corporation leases land for the use of steel products storing with lease terms of 5-10 years. The Corporation does not have bargain purchase options to acquire the leasehold land at the end of the lease terms.

d. Other lease information

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

	<b>For the Three Months Ended June 30, 2019</b>	<b>For the Six Months Ended June 30, 2019</b>
Expenses relating to short-term leases	<u>\$ 5,432</u>	<u>\$ 9,970</u>
Expenses relating to low-value assets leases	<u>\$ 197</u>	<u>\$ 515</u>
Total cash outflow for leases	<u>\$ 8,869</u>	<u>\$ 15,539</u>

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

## 17. INVESTMENT PROPERTIES

### For the six months ended June 30, 2019

	<b>Land</b>	<b>Buildings</b>	<b>Total</b>
<u>Cost</u>			
Balance at January 1, 2019	\$ 5,959,062	\$ 40,672	\$ 5,999,734
Transfer from property, plant and equipment	<u>12</u>	<u>395</u>	<u>407</u>
Balance at June 30, 2019	<u>\$ 5,959,074</u>	<u>\$ 41,067</u>	<u>\$ 6,000,141</u>
<u>Accumulated depreciation</u>			
Balance at January 1, 2019	\$ -	\$ 15,184	\$ 15,184
Depreciation expense	<u>-</u>	<u>439</u>	<u>439</u>
Balance at June 30, 2019	<u>\$ -</u>	<u>\$ 15,623</u>	<u>\$ 15,623</u>
<u>Accumulated impairment</u>			
Balance at January 1 and June 30, 2019	<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>
Carrying amount at June 30, 2019	<u>\$ 5,881,542</u>	<u>\$ 25,444</u>	<u>\$ 5,906,986</u>

### For the six months ended June 30, 2018

	<b>Land</b>	<b>Buildings</b>	<b>Total</b>
<u>Cost</u>			
Balance at January 1, 2018	\$ 5,993,141	\$ 39,218	\$ 6,032,359
Reclassification	<u>(19,180)</u>	<u>138</u>	<u>(19,042)</u>
Balance at June 30, 2018	<u>\$ 5,973,961</u>	<u>\$ 39,356</u>	<u>\$ 6,013,317</u>

(Continued)

	<b>Land</b>	<b>Buildings</b>	<b>Total</b>
<u>Accumulated depreciation</u>			
Balance at January 1, 2018	\$ -	\$ 13,936	\$ 13,936
Reclassification	-	34	34
Depreciation expense	<u>-</u>	<u>411</u>	<u>411</u>
Balance at June 30, 2018	<u>\$ -</u>	<u>\$ 14,381</u>	<u>\$ 14,381</u>
<u>Accumulated impairment</u>			
Balance at January 1 and June 30, 2018	<u>\$ 77,532</u>	<u>\$ -</u>	<u>\$ 77,532</u>
Carrying amount at June 30, 2018	<u>\$ 5,896,429</u>	<u>\$ 24,975</u>	<u>\$ 5,921,404</u>

(Concluded)

The Corporation signed a land lease contract of Long-Dong Block in Kaohsiung with non-related parties in June 30, 2010 and operating terms 20 years and according to the contract rent is charged monthly. The rent revenue recognized as other income for the three months ended June 30, 2019 and 2018 and for the six months ended June 30, 2019 and 2018 were NT\$19,933 thousand, NT\$19,544 thousand, NT\$39,865 thousand and NT\$39,087 thousand, respectively. As of June 30, 2019, December 31, 2018 and June 30, 2018, according to the contract, the Corporation received guarantee from the lessee were all NT\$35,000 thousand.

As of June 30, 2019, December 31, 2018 and June 30, 2018, accounting to the abovementioned lease contract, the Corporation had received the amount of notes receivable and recognized as unearned rent revenue as follows:

	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
Notes receivable received	\$ 6,946	\$ 48,622	\$ 6,810
Less: unearned rent revenue	( 6,946)	( 48,622)	( 6,810)
Carrying amount	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The maturity analysis of lease payments receivable under operating leases of investment properties as of June 30, 2019 was as follows:

	<b>June 30, 2019</b>
Year 1	\$ 89,608
Year 2	82,478
Year 3	84,118
Year 4	85,802
Year 5	87,400
Year 6 onwards	<u>679,228</u>
	<u>\$ 1,108,634</u>

The future minimum lease payments of non-cancellable operating lease commitments as of December 31 and June 30, 2018 were as follows:

	<b>December 31, 2018</b>	<b>June 30, 2018</b>
Not later than 1 year	\$ 88,508	\$ 84,064
Later than 1 year and not later than 5 years	424,771	420,014
Later than 5 years	<u>634,820</u>	<u>679,228</u>
	<u>\$ 1,148,099</u>	<u>\$ 1,183,306</u>

The land and 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 conducted in March and December, 2017 by appraisers. The valuation was measured under the market approach, income approach, cost approach and land developing analysis approach, and Level 3 inputs were used when performing the abovementioned approaches. The important assumptions and fair value were as follows:

	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
Fair value	<u>\$ 8,952,120</u>	<u>\$ 8,952,560</u>	<u>\$ 9,015,489</u>
Expense rate (%)	19.61-25.61	19.61-25.61	19.61-25.61
Depreciation rate (%)	1.90-2.57	1.90-2.57	1.90-2.57

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

## 18. BORROWINGS

### a. Short-term borrowings and bank overdrafts

	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
Unsecured loans - interest at 0.69%-0.90% p.a., 0.86%-0.90% p.a. and 0.85%-1.00% p.a. as of June 30, 2019, December 31, 2018 and June 30, 2018, respectively	\$ 1,450,000	\$ 2,120,000	\$ 3,150,000
Letters of credit - interest at 0.88%-0.99% p.a., 0.88%-0.99% p.a. and 0.98% p.a. as of June 30, 2019, December 31, 2018 and June 30, 2018, respectively	1,486,669	1,599,305	486,205
Loans from related parties - interest at 0.62%-0.63% p.a., 0.54% p.a. and 0.52% p.a. as of June 30, 2019, December 31, 2018 and June 30, 2018, respectively (Note 29)	2,450,000	2,450,000	2,550,000
Bank overdrafts - interest at 0.35% p.a. as of June 30, 2019, December 31, 2018 and June 30, 2018	<u>217,382</u>	<u>212,468</u>	<u>92,853</u>
	<u>\$ 5,604,051</u>	<u>\$ 6,381,773</u>	<u>\$ 6,279,058</u>

### b. Short-term bills payable

	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
Commercial paper			
Band of Taiwan	\$ 1,400,000	\$ 3,000,000	\$ -
Hua Nan Bank	400,000	-	-
Mega Bills Finance Corporation	-	200,000	250,000
Grand Bills Finance Corporation	-	-	200,000
Taiwan Cooperative Bills Finance Corporation	-	-	100,000
	<u>1,800,000</u>	<u>3,200,000</u>	<u>550,000</u>
Less: Unamortized discounts	<u>296</u>	<u>1,047</u>	<u>125</u>
	<u>\$ 1,799,704</u>	<u>\$ 3,198,953</u>	<u>\$ 549,875</u>
Interest rate (%)	0.69-0.79	0.68-0.74	0.87-0.89

On June 30, 2019 and December 31, 2018, commercial paper was non-guarantee commercial paper. On June 30, 2018, commercial paper was secured by Mega Bills Finance Corporation, Grand Bills Finance Corporation and Taiwan Cooperative Bills Finance Corporation.

c. Long-term borrowings

	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
Credit bank loans			
Due on various dates through January 2022, interest at 0.80%-1.29% p.a., 1.18%-1.28% p.a. and 1.11%-1.22% p.a. as of June 30, 2019, December 31, 2018 and June 30, 2018, respectively	\$ 6,220,000	\$ 4,850,000	\$ 5,350,000
Less: Current portion	1,440,000	950,000	328,543
Syndicated loan fee	<u>-</u>	<u>-</u>	<u>1,457</u>
	<u>\$ 4,780,000</u>	<u>\$ 3,900,000</u>	<u>\$ 5,020,000</u>

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

- 1) The credit line is NT\$16 billion, which consists of two types of loans, namely Type A for NT\$7 billion and Type B for NT\$9 billion. The first drawdown of the Corporation was on March 20, 2012. 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.

d. Long-term bills payable

	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
Mega Bills Finance Corporation			
Repayable in December 2021 with a credit of NT\$600 million	\$ 570,000	\$ 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 September 2021 with a credit of NT\$500 million, Repaid in April 2019	-	300,000	500,000
Repayable in January 2020 with a credit of NT\$600 million, Repaid in January 2019	-	300,000	400,000
Repayable in March 2022 with a credit of NT\$300 million	210,000	-	-
Grand Bills Finance Corporation			
Repayable in January 2020 with a credit of NT\$600 million, Repaid in January 2019	-	300,000	400,000
International Bills Finance Corporation			
Repayable in December 2021 with a credit of NT\$300 million	<u>180,000</u>	<u>180,000</u>	<u>260,000</u>
	960,000	1,680,000	2,860,000
Less: Unamortized discount	<u>227</u>	<u>442</u>	<u>1,140</u>
	<u>\$ 959,773</u>	<u>\$ 1,679,558</u>	<u>\$ 2,858,860</u>
Interest rate (%)	1.01-1.08	0.99-1.20	1.02-1.16

In December 2018 and April 2019, Mega Bills and China Bills were non-guarantee commercial paper. On June 30, 2019, commercial paper was secured by Bangkok Bank. On December 31, 2018, commercial paper was secured by Agricultural Bank of Taiwan, Hua Nan Commercial Bank, Taishin International Bank and Bangkok Bank. On June 30, 2018, commercial paper was secured by Mega Bank, Agricultural Bank of Taiwan, Taishin International Bank, Hua Nan Commercial Bank and Bangkok Bank.

**19. ACCOUNTS PAYABLE**

	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
<u>Accounts payable</u>			
Operating - non related parties	<u>\$ 63,382</u>	<u>\$ 45,304</u>	<u>\$ 33,609</u>
Operating - related parties	<u>\$ 876,951</u>	<u>\$ 595,764</u>	<u>\$ 1,174,113</u>

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

## 20. OTHER LIABILITIES

	June 30, 2019	December 31, 2018	June 30, 2018
<u>Current</u>			
Other payables			
Salaries and incentive bonus	\$ 227,426	\$ 401,312	\$ 259,943
Dividends	143,555	-	-
Export fees	88,602	101,107	69,754
Outsourced repair and construction	85,464	120,532	49,989
Utilities	70,863	64,820	66,676
Employees' compensation and remuneration of directors	54,895	27,914	-
Purchase of equipment	9,998	19,649	61,583
Others	<u>235,379</u>	<u>279,244</u>	<u>207,257</u>
	<u>\$ 916,182</u>	<u>\$ 1,014,578</u>	<u>\$ 715,202</u>
Other current liabilities			
Unearned receipts	\$ 5,763	\$ 5,907	\$ 7,493
Others	<u>11,247</u>	<u>25,067</u>	<u>8,449</u>
	<u>\$ 17,010</u>	<u>\$ 30,974</u>	<u>\$ 15,942</u>

## 21. RETIREMENT BENEFIT PLANS

Employee benefit expenses in respect of the Corporation and its subsidiaries' defined benefit retirement plans were calculated using the actuarially determined pension cost discount rate as of December 31, 2018 and 2017, and the amounts were NT\$6,382 thousand, NT\$6,058 thousand, NT\$12,765 thousand and NT\$12,117 thousand for the three months ended June 30, 2019 and 2018, and for the six months ended June 30, 2019 and 2018, respectively.

## 22. EQUITY

### a. Ordinary shares

	June 30, 2019	December 31, 2018	June 30, 2018
Numbers of shares authorized (in thousands)	<u>2,043,160</u>	<u>2,043,160</u>	<u>2,043,160</u>
Shares authorized	<u>\$ 20,431,600</u>	<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>	<u>1,435,544</u>
Shares issued	<u>\$ 14,355,444</u>	<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. 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

	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
Additional paid-in capital	<u>\$ 903</u>	<u>\$ 903</u>	<u>\$ 903</u>

In 2009, CSC had transferred its treasury stocks to its employees and subsidiaries. The Corporation recognized a compensation cost and capital surplus of NT\$743 thousand. In July 2011, CSC issued ordinary shares for cash capital. Under the Company Law, CSC should reserve 10% of the stocks for its employees and subsidiaries. The Corporation recognized NT\$160 thousand of compensation cost and capital surplus.

Such capital surplus may be used only to offset deficits.

c. Retained earnings and dividend policy

The Corporation's Articles of Incorporation provide that 10% of the annual net income less any deficit should be appropriated as a legal reserve; a certain percentage should be appropriated as special reserve; the remainder may be declared as dividends or retained as proposed by the Corporation's board of directors and approved in the shareholders' meetings.

The Corporation is in a mature steel industry. Thus, dividends will be appropriated in cash or in stock at an appropriate ratio, with cash dividends to be at least 50% of total dividends.

Under the Company Law, legal reserve should be appropriated from retained earnings until its balance equals the Corporation's paid-in capital. Legal reserve may be used to offset a deficit. If the Corporation has no deficit and the legal reserve has exceeded 25% of the Corporation's paid-in capital, the excess may be transferred to capital or distributed in cash.

Items referred to under Rule No. 1010012865, Rule No. 1010047490 and Rule No. 1030006415 issued by the FSC and in the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs" should be appropriated to or reversed from a special reserve by the Corporation.

The use of NT\$2,606,273 thousand of net profit for 2017 to offset the accumulated deficit was proposed by the board of directors and approved in the shareholders' meeting in June 2018. The appropriations of earnings for 2018 had been approved in the shareholders' meeting in June, 2019. The appropriation and dividends per share were as follows:

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

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

	<b>For the Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>
Balance, beginning of period	(\$ 497,607)	(\$ 431,310)
Recognized during the period		
Unrealized gains and losses - equity instruments	22,013	( 32,647)
Share from associates accounted for using the equity method	<u>77,349</u>	<u>( 113,167)</u>
Other comprehensive income recognized in the period	<u>99,362</u>	<u>( 145,814)</u>
Balance, end of period	(\$ 398,245)	(\$ 577,124)

### 23. OPERATING REVENUES

#### a. Contract balances

	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>	<b>January 1, 2018</b>
Accounts receivable	<u>\$ 1,597,909</u>	<u>\$ 1,132,372</u>	<u>\$ 1,516,861</u>	<u>\$ 1,459,971</u>
Contract liabilities - current				
Sale of goods	\$ 28,600	\$ 93,555	\$ 65,160	\$ 161,365
Advances received	<u>-</u>	<u>2,890</u>	<u>2,380</u>	<u>2,380</u>
	<u>\$ 28,600</u>	<u>\$ 96,445</u>	<u>\$ 67,540</u>	<u>\$ 163,745</u>

#### b. Disaggregation of revenue

##### For the Six Months Ended June 30, 2019

<u>Type of goods or services</u>	<b>Reportable segments</b>		
	<b>Chung Hung</b>	<b>Others</b>	<b>Total</b>
Sale of goods	\$ 23,341,517	\$ -	\$ 23,341,517
Rendering of services	224,362	1,754	226,116
Others	<u>32,044</u>	<u>-</u>	<u>32,044</u>
	<u>\$ 23,597,923</u>	<u>\$ 1,754</u>	<u>\$ 23,599,677</u>

##### For the Six Months Ended June 30, 2018

<u>Type of goods or services</u>	<b>Reportable segments</b>		
	<b>Chung Hung</b>	<b>Others</b>	<b>Total</b>
Sale of goods	\$ 23,053,572	\$ -	\$ 23,053,572
Rendering of services	305,403	1,933	307,336
			(Continued)

Type of goods or services	Reportable segments		
	Chung Hung	Others	Total
Others	\$ 31,466	\$ -	\$ 31,466
	<u>\$ 23,390,441</u>	<u>\$ 1,933</u>	<u>\$ 23,392,374</u> (Concluded)

## 24. PROFIT BEFORE INCOME TAX

Profit before income tax consisted of following items:

a. Other income

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Rental income	\$ 19,217	\$ 18,448	\$ 38,292	\$ 36,650
Dividend income	3,471	875	3,471	12,758
Interest income	529	1,296	1,232	1,766
Others	<u>572</u>	<u>2,183</u>	<u>12,867</u>	<u>3,749</u>
	<u>\$ 23,789</u>	<u>\$ 22,802</u>	<u>\$ 55,862</u>	<u>\$ 54,923</u>

b. Other gains and losses

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Net foreign exchange gain	\$ 20,036	\$ 37,105	\$ 35,151	\$ 41,867
Gain on disposal of non-current assets held for sale	871	-	871	-
Loss arising from financial assets at fair value through profit or loss	( 6,796)	( 7,807)	( 10,926)	( 6,777)
Loss on disposal of property, plant and equipment	-	-	( 8,491)	-
Fees	( 2,460)	( 4,106)	( 5,810)	( 7,807)
Others	<u>36</u>	<u>( 113)</u>	<u>( 328)</u>	<u>( 286)</u>
	<u>\$ 11,687</u>	<u>\$ 25,079</u>	<u>\$ 10,467</u>	<u>\$ 26,997</u>

The components of net foreign exchange gain were as follows:

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Foreign exchange gain	\$ 33,057	\$ 30,817	\$ 52,187	\$ 72,985
Foreign exchange loss	( 13,021)	6,288	( 17,036)	( 31,118)
				(Continued)

	<b>For the Three Months Ended June 30</b>		<b>For the Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Net exchange gain	\$ <u>20,036</u>	\$ <u>37,105</u>	\$ <u>35,151</u>	\$ <u>41,867</u> (Concluded)

c. Finance costs

	<b>For the Three Months Ended June 30</b>		<b>For the Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Interest on bank overdrafts and loans	\$ 26,989	\$ 30,727	\$ 56,525	\$ 65,826
Interest on loans from related parties (Note 29)	3,404	3,101	7,265	5,949
Interest on lease liabilities	<u>230</u>	<u>-</u>	<u>448</u>	<u>-</u>
Total interest expense financial liabilities measured at amortized cost	30,623	33,828	64,238	71,775
Less: Amounts included in the cost of qualifying assets	<u>537</u>	<u>492</u>	<u>1,005</u>	<u>1,657</u>
	\$ <u>30,086</u>	\$ <u>33,336</u>	\$ <u>63,233</u>	\$ <u>70,118</u>

Information about capitalized interest was as follows:

	<b>For the Three Months Ended June 30</b>		<b>For the Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Capitalized amounts	\$ 537	\$ 492	\$ 1,005	\$ 1,657
Capitalized annual rates (%)	0.90-0.92	0.83-0.98	0.90-0.94	0.78-1.04

d. Depreciation

	<b>For the Three Months Ended June 30</b>		<b>For the Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Property, plant and equipment	\$ 304,872	\$ 288,459	\$ 612,797	\$ 575,092
Investment properties	222	206	439	411
Right-of-use assets	<u>3,130</u>	<u>-</u>	<u>5,740</u>	<u>-</u>
	\$ <u>308,224</u>	\$ <u>288,665</u>	\$ <u>618,976</u>	\$ <u>575,503</u>
Analysis of depreciation by function				
Operating costs	\$ 286,561	\$ 266,591	\$ 575,109	\$ 531,779
Operating expenses	21,441	21,868	43,428	43,313
Deduction of other income	<u>222</u>	<u>206</u>	<u>439</u>	<u>411</u>
	\$ <u>308,224</u>	\$ <u>288,665</u>	\$ <u>618,976</u>	\$ <u>575,503</u>

e. Operating expenses directly related to investment properties

	<b>For the Three Months Ended June 30</b>		<b>For the Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Direct operating expenses of investment properties that generated rental income	\$ 4,025	\$ 3,974	\$ 8,420	\$ 8,201
Direct operating expenses of investment properties that did not generate rental income	<u>440</u>	<u>505</u>	<u>880</u>	<u>1,046</u>
	<u>\$ 4,465</u>	<u>\$ 4,479</u>	<u>\$ 9,300</u>	<u>\$ 9,247</u>

f. Employee benefits

	<b>For the Three Months Ended June 30</b>		<b>For the Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Short-term employee benefits				
Salaries	\$ 299,254	\$ 282,032	\$ 573,520	\$ 578,274
Labor and health insurance	23,829	22,690	45,481	43,340
Others	<u>42,140</u>	<u>48,595</u>	<u>85,213</u>	<u>94,073</u>
	<u>365,223</u>	<u>353,317</u>	<u>704,214</u>	<u>715,687</u>
Post-employment benefits				
Defined contribution plans	6,360	5,881	12,694	11,728
Defined benefit plans (Note 21)	<u>6,382</u>	<u>6,058</u>	<u>12,765</u>	<u>12,117</u>
	<u>12,742</u>	<u>11,939</u>	<u>25,459</u>	<u>23,845</u>
	<u>\$ 377,965</u>	<u>\$ 365,256</u>	<u>\$ 729,673</u>	<u>\$ 739,532</u>
Analysis of employee benefits expense by function				
Operating costs	\$ 313,000	\$ 304,197	\$ 606,940	\$ 607,776
Operating expenses	<u>64,965</u>	<u>61,059</u>	<u>122,733</u>	<u>131,756</u>
	<u>\$ 377,965</u>	<u>\$ 365,256</u>	<u>\$ 729,673</u>	<u>\$ 739,532</u>

g. Employees' compensation and remuneration of directors

In accordance with the Corporation's Articles of Incorporation, the Corporation distributes employees' compensation and remuneration of directors at rates no less than 1‰ and no higher than 1%, respectively, of the pre-tax profit to deducting, employees' compensation, and remuneration of directors less any deficit. There was no bonus to employees and remuneration to directors on June 30, 2018 because the Corporation had accumulated deficits.

For the three months ended June 30, 2019 and for the six months ended June 30, 2019, the employees' compensation and remuneration of directors were as follows:

	<b>For the Three Months Ended June 30, 2019</b>	<b>For the Six Months Ended June 30, 2019</b>
Employees' compensation	\$ 18,887	\$ 22,448
Remuneration of directors	3,225	3,932

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

	<b>Amount</b>	<b>%</b>
Employees' compensation	\$ 22,262	2.10
Remuneration of directors	4,452	0.42

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:

	<b>For the Three Months Ended June 30</b>		<b>For the Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Current tax				
In respect of the current period	\$ 214	\$ 160	\$ 308	\$ 251
Income tax on unappropriated earnings	8,645	-	8,645	-
Deferred tax				
In respect of the current period	-	-	-	80
	<u>\$ 8,859</u>	<u>\$ 160</u>	<u>\$ 8,953</u>	<u>\$ 331</u>

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

### b. No income tax was recognized in equity or other comprehensive loss.

### c. Income tax assessments

- 1) The Group's income tax returns through 2016 have been assessed by the tax authorities.
- 2) Income tax returns of the subsidiaries Taiwan Steel Corporation and Hong Kao Investment Corporation through 2017 have been assessed by the tax authorities.

## 26. EARNINGS PER SHARE

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 period

	<b>For the Three Months Ended June 30</b>		<b>For the Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Attributable to owners of the Corporation	\$ <u>280,121</u>	\$ <u>843,605</u>	\$ <u>358,056</u>	\$ <u>1,572,092</u>

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

	<b>For the Three Months Ended June 30</b>		<b>For the Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Weighted average number of ordinary shares in computation of basic earnings per share	1,435,544	1,435,544	1,435,544	1,435,544
Effect of dilutive potential ordinary shares: Employees' compensation	<u>2,138</u>	<u>-</u>	<u>2,938</u>	<u>-</u>
Weighted average number of ordinary shares used in computation of diluted earnings per share	<u>1,437,682</u>	<u>1,435,544</u>	<u>1,438,482</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. CAPITAL MANAGEMENT

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

## 28. FINANCIAL INSTRUMENTS

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

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

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

1) Fair value hierarchy

	Level 1	Level 2	Level 3	Total
<u>June 30, 2019</u>				
Financial assets at fair value through profit or loss				
Emerging market shares	\$ -	\$ -	\$ 205,483	\$ 205,483
Financial assets at FVOCI				
Domestic listed shares	\$ 851,124	\$ -	\$ -	\$ 851,124
Domestic unlisted shares	-	-	49,353	49,353
	<u>\$ 851,124</u>	<u>\$ -</u>	<u>\$ 49,353</u>	<u>\$ 900,477</u>
<u>December 31, 2018</u>				
Financial assets at fair value through profit or loss				
Emerging market shares	\$ -	\$ -	\$ 217,281	\$ 217,281
Financial assets at FVOCI				
Domestic listed shares	\$ 827,245	\$ -	\$ -	\$ 827,245
Domestic unlisted shares	-	-	51,219	51,219
	<u>\$ 827,245</u>	<u>\$ -</u>	<u>\$ 51,219</u>	<u>\$ 878,464</u>
<u>June 30, 2018</u>				
Financial assets at fair value through profit or loss				
Emerging market shares	\$ -	\$ -	\$ 207,434	\$ 207,434
Forward exchange contracts	-	732	-	732
	<u>\$ -</u>	<u>\$ 732</u>	<u>\$ 207,434</u>	<u>\$ 208,166</u>
Financial assets at FVOCI				
Domestic listed shares	\$ 808,483	\$ -	\$ -	\$ 808,483
Domestic unlisted shares	-	-	57,735	57,735
	<u>\$ 808,483</u>	<u>\$ -</u>	<u>\$ 57,735</u>	<u>\$ 866,218</u>

There was no transfer between Level 1 and Level 2 for the six months ended June 30, 2019 and 2018.

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

	<b>Financial Assets at Fair Value Through Profit or Loss - Equity Instruments</b>	<b>Financial Assets at Fair value through Other Comprehensive Income - Equity Instruments</b>	<b>Total</b>
<u>For the six months ended June 30, 2019</u>			
Balance, beginning of period	\$ 217,281	\$ 51,219	\$ 268,500
Total profit or loss			
Recognized in profit or loss	( 10,926)	-	( 10,926)
Recognized in other comprehensive income	-	( 1,866)	( 1,866)
Disposal	( 872)	-	( 872)
Balance, end of period	<u>\$ 205,483</u>	<u>\$ 49,353</u>	<u>\$ 254,836</u>
Unrealized gains and losses recognized in other profit or loss	( <u>\$ 11,018</u> )	<u>\$ -</u>	( <u>\$ 11,018</u> )
<u>For the six months ended June 30, 2018</u>			
Balance, beginning of period (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 period (IFRS 9)	215,464	54,563	270,027
Total profit or loss			
Recognized in profit or loss	( 7,509)	-	( 7,509)
Recognized in other comprehensive income	-	3,172	3,172
Disposal	( 521)	-	( 521)
Balance, end of period	<u>\$ 207,434</u>	<u>\$ 57,735</u>	<u>\$ 265,169</u>
Unrealized gains and losses recognized in other profit or loss	( <u>\$ 7,583</u> )	<u>\$ -</u>	( <u>\$ 7,583</u> )

- 3) Valuation techniques and inputs applied for the purpose of measuring Level 2 fair value measurement

<u>Financial Instrument</u>	<u>Valuation Techniques and Inputs</u>
Derivatives - forward exchange contracts	Discounted cash flows - Future cash flows are estimated based on observable forward exchange rates at the end of the period and contract forward exchange rates, discounted at rates that reflected the credit risk of various counterparties. The estimates and assumptions used by the Group were consistent with those that market participants would use in setting a price for the financial instrument.

- 4) Valuation techniques and inputs applied for the purpose of measuring Level 3 fair value measurement
  - a) The fair value of emerging stocks was based on the closing price adjusted for liquidity risk premium.
  - b) The fair value of unlisted stocks was based on the current net value.

c. Categories of financial instruments

	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
<u>Financial assets</u>			
Fair value through profit or loss			
Mandatorily at fair value through profit or loss	\$ 205,483	\$ 217,281	\$ 208,166
Measured at amortized cost (see 1 below)	2,557,312	2,005,693	2,328,658
Financial assets at fair value through other comprehensive income			
Equity instruments	900,477	878,464	866,218
<u>Financial liabilities</u>			
Measured at amortized cost (see 2 below)	16,686,834	17,916,770	17,176,181

- 1) The balances included financial assets measured at amortized cost, which comprise cash and cash equivalents, notes receivable, accounts receivable (including related parties), other receivables (including related parties but not tax refund receivable), other financial assets and refundable deposits.
- 2) The balances included financial liabilities measured at amortized cost, which comprise short-term borrowings, short-term bills payable, accounts payable (including related parties), other payables, refund liability, long-term borrowings (including current portion), long-term bills payable, and guarantee deposits received.

d. Financial risk management objectives and policies

The Group's major financial instruments include accounts receivable, investments accounted for using equity method, other financial assets, accounts payable, short-term borrowings, short-term bills payable, long-term borrowings (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 32.

Sensitivity analysis

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

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

	<b>USD Impact (Note)</b>	
	<b>For the six months ended</b>	
	<b>June 30</b>	
	<b>2019</b>	<b>2018</b>
Profit before income tax	\$ 16,615	\$ 11,977

Note: This was mainly attributable to the exposure of outstanding USD cash and cash equivalents, 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:

	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
Fair value interest rate risk			
Financial liabilities	\$ 1,040,915	\$ 1,679,558	\$ 2,858,860

(Continued)

	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
Cash flow interest rate risk			
Financial assets	\$ 722,752	\$ 499,231	\$ 412,984
Financial liabilities	11,824,051	11,231,773	11,627,601
			(Concluded)

If interest rates had been 1% higher and all other variables were held constant, the Group's pre-tax profit for the six months ended June 30, 2019 and 2018 would have been lower by NT\$55,507 thousand and lower by NT\$56,073 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 six months ended June 30, 2019 and 2018 would have both been lower by NT\$34,113 thousand, respectively.

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.

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 June 30, 2019, the current liabilities of the Group exceed current assets by NT\$8,060 thousand and the unutilized credit facility of the Group was NT\$33 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:

<u>June 30, 2019</u>	<b>Less Than 1 Year</b>	<b>1-5 Years</b>	<b>Over 5 Years</b>	<b>Total</b>
Short-term borrowings	\$ 5,641,542	\$ -	\$ -	\$ 5,641,542
				(Continued)

	<b>Less Than 1 Year</b>	<b>1-5 Years</b>	<b>Over 5 Years</b>	<b>Total</b>
<u>June 30, 2019</u>				
Short-term bills payable	\$ 1,800,000	\$ -	\$ -	\$ 1,800,000
Accounts payable (including related parties)	940,333	-	-	940,333
Other payables	916,182	-	-	916,182
Refund liabilities	211,671	-	-	211,671
Lease liabilities	14,069	50,733	19,749	84,551
Long-term bank borrowings	1,481,268	4,794,146	-	6,275,414
Long-term bills payable	-	960,000	-	960,000
Guarantee deposits received	-	120	35,000	35,120
	<u>\$ 11,005,065</u>	<u>\$ 5,804,999</u>	<u>\$ 54,749</u>	<u>\$ 16,864,813</u>
<u>December 31, 2018</u>				
Short-term borrowings	\$ 6,424,499	\$ -	\$ -	\$ 6,424,499
Short-term bills payable	3,200,000	-	-	3,200,000
Accounts payable (including related parties)	641,068	-	-	641,068
Other payables	1,014,578	-	-	1,014,578
Refund liabilities	115,720	-	-	115,720
Long-term bank borrowings	997,864	3,931,840	-	4,929,704
Long-term bills payable	-	1,680,000	-	1,680,000
Guarantee deposits received	-	120	35,000	35,120
	<u>\$ 12,393,729</u>	<u>\$ 5,611,960</u>	<u>\$ 35,000</u>	<u>\$ 18,040,689</u>
<u>June 30, 2018</u>				
Short-term borrowings	\$ 6,321,441	\$ -	\$ -	\$ 6,321,441
Short-term bills payable	550,000	-	-	550,000
Accounts payable (including related parties)	1,207,722	-	-	1,207,722
Other payables	715,202	-	-	715,202
Refund liabilities	181,801	-	-	181,801
Long-term bank borrowings	386,289	5,075,564	-	5,461,853
Long-term bills payable	-	2,860,000	-	2,860,000
Guarantee deposits received	-	35,120	-	35,120
	<u>\$ 9,362,455</u>	<u>\$ 7,970,684</u>	<u>\$ -</u>	<u>\$ 17,333,139</u>

(Concluded)

## 29. TRANSACTIONS WITH RELATED PARTIES

Balances and transactions between the Corporation and its subsidiaries, which are related parties of the Corporation, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

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

<u>Company</u>	<u>Relationship</u>
China Steel Corporation	Parent entity
Dragon Steel Corporation (DSC)	Fellow subsidiaries

(Continued)

Company	Relationship
CHC Resources Corporation (CHC)	Fellow subsidiaries
CSC Steel SDN. BHD. (CSSB)	Fellow subsidiaries
United Steel Engineering & Construction Corp.	Fellow subsidiaries
China Steel Precision Metals Kunshan Co., Ltd.	Fellow subsidiaries
China Steel Global Trading Corporation	Fellow subsidiaries
Info Champ Systems Corporation (ICSC)	Fellow subsidiaries
China Ecotek Corporation	Fellow subsidiaries
China Steel Machinery Corporation	Fellow subsidiaries
Steel Castle Technology Corporation	Fellow subsidiaries
China Steel Security Corporation	Fellow subsidiaries
China Steel Express Corporation	Fellow subsidiaries
China Steel Structure Co., Ltd	Fellow subsidiaries
Universal Exchange Inc.	Fellow subsidiaries
Union Steel Development Corp.	Fellow subsidiaries
Himag Magnetic Corporation	Fellow subsidiaries
China Steel Management Consulting Corp.	Fellow subsidiaries
China Steel Chemical Corporation	Fellow subsidiaries
Yu Cheng Lime 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.	Director of the Corporation

(Concluded)

b. Sale of goods

Account Items	Related Parties Types	For the Three Months Ended June 30		For the Six Months Ended June 30	
		2019	2018	2019	2018
Sales	Fellow subsidiaries related to others	\$ 357,126	\$ 322,391	\$ 611,398	\$ 743,982
	Parent entity	-	177	1,310	336
		<u>\$ 357,126</u>	<u>\$ 322,568</u>	<u>\$ 612,708</u>	<u>\$ 744,318</u>
Service Revenue	Parent entity	\$ 107,231	\$ 137,681	\$ 222,840	\$ 299,779
	Fellow subsidiaries related to others	-	8	18	16
		<u>\$ 107,231</u>	<u>\$ 137,689</u>	<u>\$ 222,858</u>	<u>\$ 299,795</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/Name Types	For the Three Months Ended June 30		For the Six Months Ended June 30	
		2019	2018	2019	2018
Other operating revenue	Fellow subsidiaries related to others				
	DSC	\$ 10,264	\$ 13,872	\$ 23,484	\$ 27,712
	Others	<u>2,662</u>	<u>822</u>	<u>5,846</u>	<u>822</u>
		<u>\$ 12,926</u>	<u>\$ 14,694</u>	<u>\$ 29,330</u>	<u>\$ 28,534</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 Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Parent entity	<u>\$ 5,796,898</u>	<u>\$ 7,205,024</u>	<u>\$ 10,724,396</u>	<u>\$ 12,758,273</u>
Fellow subsidiaries related to others				
DSC	2,767,804	2,280,495	5,574,881	4,259,316
Others	<u>111,422</u>	<u>165,598</u>	<u>210,412</u>	<u>272,066</u>
	<u>2,879,226</u>	<u>2,446,093</u>	<u>5,785,293</u>	<u>4,531,382</u>
Other related parties	<u>-</u>	<u>73,391</u>	<u>122,810</u>	<u>471,349</u>
	<u>\$ 8,676,124</u>	<u>\$ 9,724,508</u>	<u>\$ 16,632,499</u>	<u>\$ 17,761,004</u>

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

d. Accounts receivable from related parties

Account Items	Related Parties Types/Name	June 30, 2019	December 31, 2018	June 30, 2018
Accounts receivable from related parties	Parent entity	<u>\$ 25,590</u>	<u>\$ 36,256</u>	<u>\$ 34,514</u>
	Fellow subsidiaries related to others			
	CSSB	15,907	121,361	31,012
	Others	<u>7,098</u>	<u>25,823</u>	<u>18,498</u>
		<u>23,005</u>	<u>147,184</u>	<u>49,510</u>
		<u>\$ 48,595</u>	<u>\$ 183,440</u>	<u>\$ 84,024</u>
Other receivables from related parties	Parent entity	<u>\$ 178,905</u>	<u>\$ 306,845</u>	<u>\$ 296,117</u>

(Continued)

<b>Account Items</b>	<b>Related Parties Types/Name</b>	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
Other receivables from related parties	Fellow subsidiaries related to others			
	CHC	\$ 33,971	\$ 41,513	\$ 38,755
	Others	<u>174</u>	<u>351</u>	<u>346</u>
		<u>34,145</u>	<u>41,864</u>	<u>39,101</u>
		<u>\$ 213,050</u>	<u>\$ 348,709</u>	<u>\$ 335,218</u>

(Concluded)

No guarantee had been received for accounts receivable and other receivable from related parties. No expense had been recognized for the six months ended June 30, 2019 and 2018 for allowance for impairment of accounts receivable in respect of the amounts owed by related parties.

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

<b>Account Items</b>	<b>Related Parties Types</b>	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
Accounts payable	Parent entity	\$ 859,537	\$ 582,549	\$ 1,095,322
	Fellow subsidiaries related to others	6,895	1,196	69,441
	Others	<u>10,519</u>	<u>12,019</u>	<u>9,350</u>
		<u>\$ 876,951</u>	<u>\$ 595,764</u>	<u>\$ 1,174,113</u>

The outstanding accounts payable to related parties were unsecured.

f. Loans from related parties

<b>Related Parties Types</b>	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
Parent entity	<u>\$ 2,450,000</u>	<u>\$ 2,450,000</u>	<u>\$ 2,550,000</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.

As of June 30, 2019, December 31, 2018 and June 30, 2018, the loans from the parent entity were unsecured loans with interest expense of NT\$3,404 thousand, NT\$3,101 thousand, NT\$7,265 thousand and NT\$5,949 thousand for the three months ended June 30, 2019 and 2018 and for the six months ended June 30, 2019 and 2018, respectively.

g. Other transactions with related parties

1) Authorization fees

In May 2003, CSC, Sumitomo Metal Industries, Ltd. (SMI, renamed to Nippon Steel Corporation in April, 2019) 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\$25,789 thousand, NT\$29,383 thousand, NT\$48,434 thousand and NT\$55,778 thousand for the three months ended June 30, 2019 and 2018 and for the six months ended June 30, 2019 and 2018, respectively. As of June 30, 2019, December 31, 2018 and June 30, 2018, authorization fees payable (included in payables to related parties) were NT\$26,921 thousand, NT\$27,043 thousand and NT\$31,173 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 three months ended June 30, 2019 and 2018 and for the six months ended June 30, 2019 and 2018 were NT\$964 thousand, NT\$643 thousand, NT\$1,876 thousand and NT\$1,257 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 three months ended June 30, 2019 and 2018 and for the six months ended June 30, 2019 and 2018 were NT\$1,327 thousand, NT\$1,326 thousand, NT\$2,655 thousand and NT\$2,654 thousand, respectively.

3) Construction in progress and other expenditures

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

	<b>For the Three Months Ended June 30</b>		<b>For the Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
a) Other expenditures				
Others	\$ 56,356	\$ 50,869	\$ 100,577	\$ 83,850
Parent entity	41,669	32,754	74,252	80,824
Fellow subsidiaries related to others	<u>19,312</u>	<u>15,639</u>	<u>39,185</u>	<u>43,736</u>
	<u>\$ 117,337</u>	<u>\$ 99,262</u>	<u>\$ 214,014</u>	<u>\$ 208,410</u>
b) Capital expenditure				
Fellow subsidiaries related to others	\$ 1,750	\$ 46,192	\$ 28,779	\$ 47,652
Parent entity	<u>2,723</u>	<u>-</u>	<u>2,723</u>	<u>3,530</u>
	<u>\$ 4,473</u>	<u>\$ 46,192</u>	<u>\$ 31,502</u>	<u>\$ 51,182</u>

4) Income from supplies and scrap

	<b>For the Three Months Ended June 30</b>		<b>For the Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Fellow subsidiaries related to others				
CHC	\$ 109,172	\$ 124,251	\$ 218,247	\$ 256,838
Others	<u>3,619</u>	<u>3,827</u>	<u>7,651</u>	<u>8,806</u>
	<u>\$ 112,791</u>	<u>\$ 128,078</u>	<u>\$ 225,898</u>	<u>\$ 265,644</u>

h. Compensation of key management personnel

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Short-term employee benefits	\$ 9,434	\$ 8,079	\$ 15,416	\$ 12,141
Post-employment benefits	<u>444</u>	<u>101</u>	<u>888</u>	<u>201</u>
	<u>\$ 9,878</u>	<u>\$ 8,180</u>	<u>\$ 16,304</u>	<u>\$ 12,342</u>

**30. ASSETS PLEDGED AS COLLATERAL OR SECURITY**

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

	June 30, 2019	December 31, 2018	June 30, 2018
Time deposits (included in other financial assets - current)	\$ 300,000	\$ 300,000	\$ 300,000
Net property, plant and equipment	<u>-</u>	<u>3,911,003</u>	<u>3,831,985</u>
	<u>\$ 300,000</u>	<u>\$ 4,211,003</u>	<u>\$ 4,131,985</u>

**31. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS**

In addition to those disclosed in other notes, significant commitments and contingencies of the Group as of June 30, 2019 were as follows:

- a. Unused letters of credit for purchases of raw materials and machinery and equipment amounted to about NT\$2,600,876 thousand
- b. The Group had signed agreements to buy equipment for NT\$545,424 thousand, of which NT\$241,960 thousand had been paid (included in construction-in-progress and prepayments for equipment).

**32. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES**

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

	Foreign Currencies (In Thousands)	Exchange Rate	Carrying Amount (In Thousands of New Taiwan Dollars)
<u>June 30, 2019</u>			
Monetary financial assets			
USD	\$ 54,847	31.06 (USD:NTD)	\$ 1,703,550 (Continued)

	<b>Foreign Currencies (In Thousands)</b>	<b>Exchange Rate</b>		<b>Carrying Amount (In Thousands of New Taiwan Dollars)</b>
<u>June 30, 2019</u>				
Monetary financial liabilities USD	\$ 1,354	31.06	(USD:NTD)	\$ 42,051
<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>June 30, 2018</u>				
Monetary financial assets USD	40,650	30.46	(USD:NTD)	1,238,202
Monetary financial liabilities USD	1,330	30.46	(USD:NTD)	40,512 (Concluded)

For the three months ended June 30, 2019 and 2018 and for the six months ended June 30, 2019 and 2018, realized and unrealized net foreign exchange gains were NT\$20,036 thousand, NT\$37,105 thousand, NT\$35,151 thousand and NT\$41,867 thousand, respectively. It is impractical to disclose net foreign exchange gains and losses by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of each entity.

### 33. SEPARATELY DISCLOSED ITEMS

- a. For the six months ended June 30, 2019, 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 (Note 7)

10) Intercompany relationships and significant intercompany transactions (None)

11) Information on investees (Table 5)

c. Information on investments in mainland China (None)

### 34. SEGMENT INFORMATION

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

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

Segment revenues and operating results

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

	<b>The Corporation</b>	<b>Others</b>	<b>Adjustment and Elimination</b>	<b>Total</b>
For the six months ended June 30, 2019				
Revenues from external customers	<u>\$ 23,597,923</u>	<u>\$ 1,754</u>	<u>\$ -</u>	<u>\$ 23,599,677</u>
Segment profit	\$ 366,976	\$ 1,072	\$ 60	\$ 368,108
Interest revenue	1,231	1	-	1,232
Other income	54,690	-	( 60)	54,630
Other income and expenses	10,467	-	-	10,467
Finance costs	( 63,233)	-	-	( 63,233)
Share of the profit of associates	( 3,337)	-	( 858)	( 4,195)
Profit before income tax for the period	366,794	1,073	( 858)	367,009
Income tax expense	<u>8,738</u>	<u>215</u>	<u>-</u>	<u>8,953</u>
Net profit for the period	<u>\$ 358,056</u>	<u>\$ 858</u>	<u>(\$ 858)</u>	<u>\$ 358,056</u>
Identifiable assets	\$ 29,902,340	\$ 34,936	(\$ 2,829)	\$ 29,934,447
Investments accounted for using equity method	<u>2,565,463</u>	<u>-</u>	<u>( 30,092)</u>	<u>2,535,371</u>

(Continued)

	<b>The Corporation</b>	<b>Others</b>	<b>Adjustment and Elimination</b>	<b>Total</b>
For the six months ended June 30, 2019				
Total assets	<u>\$ 32,467,803</u>	<u>\$ 34,936</u>	<u>(\$ 32,921)</u>	<u>\$ 32,469,818</u>
Total liabilities	<u>\$ 17,390,694</u>	<u>\$ 4,844</u>	<u>(\$ 2,829)</u>	<u>\$ 17,392,709</u>
For the six months ended June 30, 2018				
Revenues from external customers	<u>\$ 23,390,441</u>	<u>\$ 1,933</u>	<u>\$ -</u>	<u>\$ 23,392,374</u>
Segment profit	\$ 1,563,455	\$ 1,248	\$ 60	\$ 1,564,763
Interest revenue	1,765	1	-	1,766
Other income	53,217	-	( 60)	53,157
Other income and expenses	26,997	-	-	26,997
Finance costs	( 70,118)	-	-	( 70,118)
Share of the profit of associates	( 3,144)	-	( 998)	( 4,142)
Profit before income tax for the period	1,572,172	1,249	( 998)	1,572,423
Income tax expense	<u>80</u>	<u>251</u>	<u>-</u>	<u>331</u>
Net profit for the period	<u>\$ 1,572,092</u>	<u>\$ 998</u>	<u>(\$ 998)</u>	<u>\$ 1,572,092</u>
Identifiable assets	\$ 28,778,161	\$ 31,763	(\$ 1,035)	\$ 28,808,889
Investments accounted for using equity method	<u>2,337,061</u>	<u>-</u>	<u>( 28,668)</u>	<u>2,308,393</u>
Total assets	<u>\$ 31,115,222</u>	<u>\$ 31,763</u>	<u>(\$ 29,703)</u>	<u>\$ 31,117,282</u>
Total liabilities	<u>\$ 17,763,285</u>	<u>\$ 3,095</u>	<u>(\$ 1,035)</u>	<u>\$ 17,765,345</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.

**CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES**

**ENDORSEMENTS/GUARANTEES PROVIDED**

**FOR THE PERIOD ENDED JUNE 30, 2019**

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

NO.	Endorsement/Guarantee Provider	Endorsee/Guarantee		Limits on Endorsement/Guarantee Amount Provided to Each Guaranteed Party	Maximum Balance for the Period	Ending Balance	Amount Actually Drawn	Amount of Endorsement/Guarantee Collateralized by Properties	Ratio of Accumulated Endorsement/Guarantee to Net Equity per Latest Financial Statements (%)	Maximum Endorsement/Guarantee Amount Allowable	Guarantee Provided by Parent Company	Guarantee Provided by a Subsidiary	Guarantee Provided to Subsidiaries in Mainland China	Note
		Name	Nature of Relationship											
0	Chung Hung Steel Corporation	Chung Hung Steel Corporation (Note1)	Having business relationship	\$ 4,523,133	\$ 10,000	\$ 10,000	\$ 10,000	\$ -	-	\$ 7,538,555	N	N	N	Note 2

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

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

## CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

## MARKETABLE SECURITIES HELD

JUNE 30, 2019

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

Held Company Name	Type and Name of Marketable Securities	Relationship with The Company	Financial Statement Account	MARCH 31, 2019				Note	
				Shares/Units	Carrying Value	Percentage of Ownership (%)	Fair Value		
Chung Hung Steel Corporation	Common Stock Yieh United Steel Corp.	Parent company	Financial assets at fair value through profit or loss - current	39,576,800	\$ 205,483	2	\$ 205,483	Note1	
	Shouh Hwang Enterprise Co., Ltd.		Financial assets at fair value through profit or loss - current	730,000	-	15	-	Note2	
						<u>\$ 205,483</u>		<u>\$ 205,483</u>	
	Common Stock China Steel Corporation		Financial assets at fair value through other comprehensive income - current	33,109,239	<u>\$ 826,075</u>		<u>\$ 826,075</u>		
	Common Stock Taiwan Ves-Power Co., Ltd.		Financial assets at fair value through other comprehensive income - noncurrent	958,333	\$ 34,529	2	\$ 34,529	2019.5.30 net value	
	Riselink Venture Capital Corp.		Financial assets at fair value through other comprehensive income - noncurrent	657,936	8,422	3	8,422	2019.5.30 net value	
Chung Hung Steel Corporation	Pacific Harbour Stevedoring Corp.	The company as its supervisor	Financial assets at fair value through other comprehensive income - noncurrent	250,000	6,402	5	6,402	2019.4.30 net value	
					<u>\$ 49,353</u>		<u>\$ 49,353</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>\$ 25,049</u>		<u>\$ 25,049</u>		

Note 1: The fair value of emerging stock was based on the closing price adjusted for liquidity risk premium on June 28, 2019.

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 PERIOD ENDED JUNE 30, 2019  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Buyer	Related Party	Relationship	Relationship			Abnormal Transaction		Notes/Accounts Receivable (Payable)		Note	
			Purchase/Sale	Amount	% of Total	Payment Terms	Unit Price	Payment Terms	Ending Balance		% of Total
Chung Hung Steel Corporation	China Steel Corporation	Parent company	Purchase of goods	\$ 10,724,396	57	Letter of credit at sight/Payment after final acceptance	Note1	Note1	(\$ 859,537 )	( 91 )	
	Dragon Steel Corporation	Fellow subsidiary	Purchase of goods	5,574,881	30	Letter of credit at sight	Note1	Note1	-	-	
	CSC Steel Sdn. Bhd.	Fellow subsidiary	Revenue from sale of goods	( 581,127 )	( 2 )	T/T within 7 business days after lading date(not included)	NO THIRD-PARTY COULD BE COMPARED	NO THIRD-PARTY COULD BE COMPARED	15,907	1	
	China Steel Global Trading Corporation	Fellow subsidiary	Purchase of goods	169,602	1	Letter of credit at sight	Note1	Note1	( 4,089 )	-	
	Formosa Ha Tinh Steel Corporation China Steel Corporation	Other related parties Parent company	Purchase of goods Service revenue	122,810 ( 221,086 )	1 ( 1 )	Letter of credit at sight T/T as the end of the month of after final acceptance	Note1 NO THIRD-PARTY COULD BE COMPARED	Note1 NO THIRD-PARTY COULD BE COMPARED	- 25,590	- 2	

Note 1: Refer to Note 29.

**CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES**

**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
 JUNE 30, 2019  
 (In Thousands of New Taiwan Dollars)**

Company Name	Related Party	Relationship	Ending Balance	Turnover Rate	Overdue		Amount Received in Subsequent Period (Note2)	Allowance for Impairment Loss
					Amount	Actions Taken		
Chung Hung Steel Corporation	China Steel Corporation	Parent company	\$ 173,002 (Note1)	-	\$ -	-	\$ -	\$ -

Note 1: Discount receivable.

Note 2: At the report date, amounts were received.

**CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES**

**INFORMATION ON INVESTEEES**

**FOR THE PERIOD ENDED JUNE 30, 2019**

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

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		As of June 30, 2019			Net Income (Loss) of the Investee	Share of Profit (Loss)	Note
				June 30, 2019	December 31, 2018	Number of Shares	%	Carrying Amount			
				Chung Hung Steel Corporation	Hung Kao Investment Corporation	Republic of China	General investment	\$ 26,000			
Chung Hung Steel Corporation	Taiwan Steel Corporation	Republic of China	Iron and steel industry chain industry	1,000	1,000	100,000	100.00	932	( 1 )	( 1 )	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	2,535,371	( 10,255 )	( 4,195 )	

Note: Amount was eliminated in the consolidated financial statements.