

**Chung Hung Steel Corporation and
Subsidiaries**

**Consolidated Financial Statements for the
Nine Months Ended September 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 September 30, 2019 and 2018, and the related consolidated statements of comprehensive income for the three months ended September 30, 2019 and 2018 and for the nine months ended September 30, 2019 and 2018, the consolidated statements of changes in equity and of cash flows for the nine months then ended, and the related 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 September 30, 2019 and 2018, and its consolidated financial performance for the three months and nine months ended September 30, 2019 and 2018, and its consolidated cash flows for the nine months ended September 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

November 7, 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)

	September 30, 2019		December 31, 2018		September 30, 2018	
	(Reviewed)		(Audited)		(Reviewed)	
	Amount	%	Amount	%	Amount	%
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents (Note 6)	\$ 77,140	-	\$ 200,081	1	\$ 609,262	2
Financial assets at fair value through profit or loss - current (Note 7)	184,797	1	217,281	1	211,246	1
Financial assets at fair value through other comprehensive income - current (Note 8)	761,513	2	802,899	2	844,286	2
Notes receivable (Note 9)	-	-	-	-	3	-
Accounts receivable (Note 9)	766,396	2	948,932	3	2,420,163	7
Accounts receivable from related parties (Notes 9 and 29)	131,986	-	183,440	-	258,401	1
Other receivables (Note 9)	176,398	1	16,002	-	197,297	-
Other receivables from related parties (Notes 9 and 29)	151,285	1	348,709	1	304,056	1
Current tax assets	513	-	420	-	281	-
Inventories (Note 10)	7,699,339	24	8,240,151	25	6,203,693	18
Prepayments (Note 11)	232,800	1	373,830	1	271,534	1
Non-current assets held for sale (Note 12)	-	-	22,525	-	-	-
Other financial assets - current (Notes 12, 13 and 30)	301,700	1	302,897	1	302,385	1
Other current assets	379	-	6,590	-	1,121	-
Total current assets	<u>10,484,246</u>	<u>33</u>	<u>11,663,757</u>	<u>35</u>	<u>11,623,728</u>	<u>34</u>
NONCURRENT ASSETS						
Financial assets at fair value through other comprehensive income - noncurrent (Note 8)	66,596	-	75,565	-	77,682	-
Investments accounted for using equity method (Note 14)	2,428,234	8	2,462,217	7	2,602,395	8
Property, plant and equipment (Notes 15, 29, 30 and 31)	12,690,967	40	13,249,030	40	13,473,562	40
Right-of-use assets (Note 16)	79,147	-	-	-	-	-
Investment properties (Note 17)	5,906,764	19	5,907,018	18	5,929,761	18
Prepayments for equipment (Note 31)	46,196	-	57,694	-	14,149	-
Refundable deposits	5,632	-	5,632	-	5,870	-
Total noncurrent assets	<u>21,223,536</u>	<u>67</u>	<u>21,757,156</u>	<u>65</u>	<u>22,103,419</u>	<u>66</u>
TOTAL	<u>\$ 31,707,782</u>	<u>100</u>	<u>\$ 33,420,913</u>	<u>100</u>	<u>\$ 33,727,147</u>	<u>100</u>
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Short-term borrowings (Notes 18 and 30)	\$ 4,111,583	13	\$ 6,381,773	19	\$ 8,412,242	25
Short-term bills payable (Note 18)	2,299,342	7	3,198,953	10	549,833	2
Financial liabilities at fair value through profit or loss – current (Note 7)	-	-	-	-	384	-
Contract liabilities – current (Notes 12 and 23)	38,222	-	96,445	-	339,833	1
Accounts payable (Note 19)	41,002	-	45,304	-	50,002	-
Accounts payable to related parties (Notes 19 and 29)	1,722,541	6	595,764	2	1,566,844	5
Other payables (Note 20)	635,644	2	1,014,578	3	890,808	3
Current tax liabilities	8,645	-	537	-	405	-
Lease liabilities – current (Note 16)	13,420	-	-	-	-	-
Current portion of long-term borrowings (Notes 18 and 30)	1,340,000	4	950,000	3	699,089	2
Refund liabilities	156,592	1	115,720	-	159,693	-
Other current liabilities	15,445	-	30,974	-	15,585	-
Total current liabilities	<u>10,382,436</u>	<u>33</u>	<u>12,430,048</u>	<u>37</u>	<u>12,684,718</u>	<u>38</u>
NONCURRENT LIABILITIES						
Long-term borrowings (Notes 18 and 30)	4,610,000	14	3,900,000	12	4,100,000	12
Long-term bills payable (Note 18)	1,199,793	4	1,679,558	5	1,909,484	6
Deferred tax liabilities	182,222	1	182,222	1	182,222	1
Lease liabilities - noncurrent (Note 16)	66,084	-	-	-	-	-
Net defined benefit liabilities	375,319	1	430,719	1	312,007	1
Guarantee deposits received (Note 17)	35,000	-	35,120	-	35,120	-
Total noncurrent liabilities	<u>6,468,418</u>	<u>20</u>	<u>6,227,619</u>	<u>19</u>	<u>6,538,833</u>	<u>19</u>
Total liabilities	<u>16,850,854</u>	<u>53</u>	<u>18,657,667</u>	<u>56</u>	<u>19,223,551</u>	<u>57</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION (Note 22)						
Ordinary shares	14,355,444	45	14,355,444	43	14,355,444	43
Capital surplus	903	-	903	-	903	-
Retained earnings (Accumulated deficit)						
Legal reserve	90,450	-	-	-	-	-
Special reserve	497,607	2	-	-	-	-
Unappropriated earnings (Accumulated deficit)	594,007	2	904,506	3	464,734	1
Total retained earnings (Accumulated deficit)	<u>1,182,064</u>	<u>4</u>	<u>904,506</u>	<u>3</u>	<u>464,734</u>	<u>1</u>
Other equity	(681,483)	(2)	(497,607)	(2)	(317,485)	(1)
Total equity	<u>14,856,928</u>	<u>47</u>	<u>14,763,246</u>	<u>44</u>	<u>14,503,596</u>	<u>43</u>
TOTAL	<u>\$ 31,707,782</u>	<u>100</u>	<u>\$ 33,420,913</u>	<u>100</u>	<u>\$ 33,727,147</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 September 30				For the Nine Months Ended September 30			
	2019		2018		2019		2018	
	Amount	%	Amount	%	Amount	%	Amount	%
OPERATING REVENUES (Notes 23 and 29)								
Sales	\$ 9,441,340	99	\$ 12,825,952	99	\$ 32,782,857	99	\$ 35,879,524	99
Investment revenue	1,004	-	884	-	1,004	-	884	-
Service revenue	126,153	1	142,867	1	352,269	1	450,203	1
Other operating revenue	14,786	-	18,115	-	46,830	-	49,581	-
Total operating revenue	9,583,283	100	12,987,818	100	33,182,960	100	36,380,192	100
OPERATING COSTS (Notes 10, 24 and 29)	9,345,478	98	11,846,916	91	31,689,864	95	32,971,101	90
GROSS PROFIT	237,805	2	1,140,902	9	1,493,096	5	3,409,091	10
OPERATING EXPENSES (Note 24)								
Selling and marketing expenses	232,578	2	283,677	2	951,690	3	790,747	2
General and administrative expenses	75,814	1	85,200	1	243,885	1	281,556	1
Total operating expenses	308,392	3	368,877	3	1,195,575	4	1,072,303	3
PROFIT FROM OPERATIONS	(70,587)	(1)	772,025	6	297,521	1	2,336,788	7
NON-OPERATING INCOME AND EXPENSES (Notes 14, 17, 24 and 29)								
Other income	55,591	1	50,973	-	111,453	-	105,896	-
Other gains and losses	(270)	-	8,943	-	10,197	-	35,940	-
Finance costs	(30,148)	-	(34,834)	-	(93,381)	-	(104,952)	-
Share of the loss of associates	108,338	1	95,075	1	104,143	-	90,933	-
Total non-operating income and expenses	133,511	2	120,157	1	132,412	-	127,817	-
PROFIT BEFORE INCOME TAX	62,924	1	892,182	7	429,933	1	2,464,605	7
INCOME TAX (Notes 4 and 25)	(133)	-	162	-	8,820	-	493	-
NET PROFIT FOR THE PERIOD	63,057	1	892,020	7	421,113	1	2,464,112	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	(67,763)	(1)	60,712	-	(45,750)	-	28,065	-
Share of the other comprehensive income of associates	(215,475)	(2)	198,927	2	(138,126)	-	85,760	-
	(283,238)	(3)	259,639	2	(183,876)	-	113,825	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	(\$ 220,181)	(2)	\$ 1,151,659	9	\$ 237,237	1	\$ 2,577,937	7
NET PROFIT ATTRIBUTABLE TO:								
Owners of the Corporation	\$ 63,057		\$ 892,020		\$ 421,113		\$ 2,464,112	

(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 September 30				For the Nine Months Ended September 30			
	2019		2018		2019		2018	
	Amount	%	Amount	%	Amount	%	Amount	%
TOTAL COMPREHENSIVE INCOME								
ATTRIBUTABLE TO:								
Owners of the Corporation	<u>(\$ 220,181)</u>		<u>\$ 1,151,659</u>		<u>\$ 237,237</u>		<u>\$ 2,577,937</u>	
EARNINGS PER SHARE								
(Note 26)								
Basic	<u>\$ 0.04</u>		<u>\$ 0.62</u>		<u>\$ 0.29</u>		<u>\$ 1.72</u>	
Diluted	<u>\$ 0.04</u>		<u>\$ 0.62</u>		<u>\$ 0.29</u>		<u>\$ 1.72</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 nine months ended September 30, 2019	-	-	-	-	421,113	-	-	-	421,113
Other comprehensive income for the nine months ended September 30, 2019, net of income tax	-	-	-	-	-	(183,876)	-	(183,876)	(183,876)
Total comprehensive income for the nine months ended September 30, 2019	-	-	-	-	421,113	(183,876)	-	(183,876)	237,237
BALANCE AT SEPTEMBER 30, 2019	\$ 14,355,444	\$ 903	\$ 90,450	\$ 497,607	\$ 594,007	(\$ 681,483)	\$ -	(\$ 681,483)	\$ 14,856,928
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 nine months ended September 30, 2018	-	-	-	-	2,464,112	-	-	-	2,464,112
Other comprehensive income for the nine months ended September 30, 2018, net of income tax	-	-	-	-	-	113,825	-	113,825	113,825
Total comprehensive income for the nine months ended September 30, 2018	-	-	-	-	2,464,112	113,825	-	113,825	2,577,937
BALANCE AT SEPTEMBER 30, 2018	\$ 14,355,444	\$ 903	\$ -	\$ -	\$ 464,734	(\$ 317,485)	\$ -	(\$ 317,485)	\$ 14,503,596

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 Nine Months Ended September 30	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	\$ 429,933	\$ 2,464,605
Adjustments for:		
Depreciation expense	920,245	875,299
Net loss on financial assets and liabilities at fair value through profit or loss	29,070	3,981
Finance costs	93,381	104,952
Interest income	(1,264)	(2,304)
Dividends income	(37,584)	(42,778)
Share of the profit of associates	(104,143)	(90,933)
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	(82,587)	355,204
Changes in operating assets and liabilities		
Financial assets mandatorily classified as at fair value through profit or loss	3,414	621
Notes receivable	-	(3)
Accounts receivable	182,536	(1,128,379)
Accounts receivable from related parties	51,454	(90,214)
Other receivables	(160,396)	(186,874)
Other receivables from related parties	197,424	97,268
Inventories	623,399	(1,539,272)
Prepayments	140,083	(68,710)
Other current assets	6,211	5,272
Other financial assets	(1,700)	-
Contract liabilities	(55,333)	176,088
Accounts payable	(4,302)	(6,158)
Accounts payable to related parties	1,126,777	347,579
Other payables	(374,366)	171,791
Other current liabilities	(15,529)	(6,723)
Net defined benefit liabilities	(55,400)	(53,749)
Refund liabilities	40,872	(3,742)
Cash generated from operations	2,959,815	1,382,821
Income taxes paid	(805)	(103)
Net cash generated from operating activities	<u>2,959,010</u>	<u>1,382,718</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the capital reduction on financial assets at fair value through other comprehensive income	4,605	4,962
Proceeds from disposal of non-current assets held for sale	20,506	-
Acquisition of property, plant and equipment	(352,586)	(274,794)
Proceeds from disposal of property, plant and equipment	123	-
Increase in refundable deposits	-	(23)
Decrease in other financial assets	2,897	200,000

(Continued)

CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Nine Months Ended September 30	
	2019	2018
Interest received	1,264	2,314
Dividends received from others	37,584	42,778
Net cash generated used in investing activities	(285,607)	(24,763)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	\$ 55,475,966	\$ 85,014,604
Repayments of short-term borrowings	(57,746,156)	(84,067,177)
Proceeds from short-term bills payable	6,200,389	2,220,981
Repayment of short-term bills payable	(7,100,000)	(2,340,997)
Proceeds from long-term borrowings	4,600,000	3,100,000
Repayments of long-term borrowings	(3,500,000)	(3,550,000)
Proceeds from long-term bills payable	790,235	900,422
Repayments of long-term bills payable	(1,270,000)	(2,140,000)
Decrease in refundable deposits	(120)	-
Repayments of principal of lease liabilities	(7,874)	-
Dividends paid to owners of the Corporation	(143,555)	-
Interest paid	(95,229)	(104,481)
Net cash used in financing activities	(2,796,344)	(966,648)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(122,941)	391,307
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	200,081	217,955
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	\$ 77,140	\$ 609,262

(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 NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise) (Reviewed, Not Audited)

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 September 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 November 7, 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	<u>(4,298)</u>
Undiscounted amounts on January 1, 2019	<u>\$ 74,306</u>
Discounted amounts using the incremental borrowing rate on January 1, 2019	\$ 70,755
Less: 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:

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

(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	<u>-</u>	<u>60,691</u>	<u>60,691</u>
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 9, IAS 39 and IFRS 7 “Interest Rate Benchmark Reform”	January 1, 2020
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 (%)		
			September 30, 2019	December 31, 2018	September 30, 2018
Chung Hung Steel Corporation Ltd.	Taiwan Steel Corporation (Note)	Operation in progress	100	100	100
	Hung Kao Investment Corporation	General investment	100	100	100

Note : The resolution for dissolution adopted by the board of directors on September 25, 2019. As of the date this consolidated financial report approved by the board of directors, the dissolution and liquidation procedures hadn't been finished.

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

	September 30, 2019	December 31, 2018	September 30, 2018
Cash on hand	\$ 700	\$ 700	\$ 700
Checking accounts and demand deposits	75,740	199,381	608,562
Cash equivalents			
Time deposits with original maturities less than three months	<u>700</u>	<u>-</u>	<u>-</u>
	<u>\$ 77,140</u>	<u>\$ 200,081</u>	<u>\$ 609,262</u>

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

	September 30, 2019	December 31, 2018	September 30, 2018
<u>Financial assets at FVTPL - current</u>			
Financial assets mandatorily classified as at FVTPL			
Emerging market shares	<u>\$ 184,797</u>	<u>\$ 217,281</u>	<u>\$ 211,246</u>

Financial liabilities at FVTPL - current

Financial liabilities mandatorily classified as at FVTPL

Foreign exchange forward contracts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 384</u>
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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>September 30, 2018</u>			
Buy	NTD/JPY	December 28, 2018	NTD 44,978/JPY165,152

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	September 30, 2019	December 31, 2018	September 30, 2018
<u>Current</u>			
Domestic Listed shares	<u>\$ 761,513</u>	<u>\$ 802,899</u>	<u>\$ 844,286</u>
<u>Noncurrent</u>			
Domestic listed shares	\$ 23,902	\$ 24,346	\$ 25,601
Domestic unlisted shares	<u>43,504</u>	<u>51,219</u>	<u>52,081</u>
	<u>\$ 66,596</u>	<u>\$ 75,565</u>	<u>\$ 77,682</u>

9. NOTES RECEIVABLE, ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

	September 30, 2019	December 31, 2018	September 30, 2018
<u>Notes receivable</u>			
Notes receivable - non-operating	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3</u>
<u>Accounts receivable</u>			
Accounts receivable - non-related parties	<u>\$ 766,396</u>	<u>\$ 948,932</u>	<u>\$ 2,420,163</u>
Accounts receivable - related parties	<u>\$ 131,986</u>	<u>\$ 183,440</u>	<u>\$ 258,401</u>
<u>Other receivables (including related parties)</u>			
Income tax refund receivable	\$ 169,949	\$ 159	\$ 179,715
Discount receivable	124,540	302,720	249,068
Receivables from disposal of scrap	30,861	57,676	68,850
Others	<u>2,333</u>	<u>4,156</u>	<u>3,720</u>
	<u>\$ 327,683</u>	<u>\$ 364,711</u>	<u>\$ 501,353</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.

September 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	\$ 898,382	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 898,382
Loss allowance (Lifetime ECL)	-	-	-	-	-	-	-
Amortized cost	<u>\$ 898,382</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 898,382</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>

September 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	\$ 2,678,567	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,678,567
Loss allowance (Lifetime ECL)	-	-	-	-	-	-	-
Amortized cost	<u>\$ 2,678,567</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,678,567</u>

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

	September 30, 2019	December 31, 2018	September 30, 2018
A company	\$ 114,011	\$ -	\$ 26,869
B company	99,332	74,340	36,409
C company	81,680	121,361	146,079
D company	7,609	10,022	824,686
E company	-	-	332,210
	<u>\$ 302,632</u>	<u>\$ 205,723</u>	<u>\$ 1,366,253</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
For the Nine Months Ended September 30, 2019						
Mega Bank	\$ 1,033,187	\$ 1,965,398	\$ 2,177,082	\$ 821,503	1.27	NT\$3 billion
Bank of Taiwan	199,960	410,467	464,086	146,341	3.79	USD20 million
	<u>\$ 1,233,147</u>	<u>\$ 2,375,865</u>	<u>\$ 2,641,168</u>	<u>\$ 967,844</u>		
For the Nine Months Ended September 30, 2018						
Mega Bank	\$ 1,088,226	\$ 2,427,925	\$ 2,321,158	\$ 1,194,993	1.19	NT\$3 billion
Bank of Taiwan	62,805	376,886	261,954	177,737	3.42	USD20 million
	<u>\$ 1,151,031</u>	<u>\$ 2,804,811</u>	<u>\$ 2,583,112</u>	<u>\$ 1,372,730</u>		

b. Other receivables

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

10. INVENTORIES

	September 30, 2019	December 31, 2018	September 30, 2018
Raw materials	\$ 4,378,038	\$ 3,352,627	\$ 1,764,507
Supplies	424,269	421,614	433,588
Work in progress	541,349	569,161	861,784
Finished goods	2,351,938	3,653,262	3,140,834
Others	2,911	7,056	2,233
Raw materials and supplies in transit	<u>834</u>	<u>236,431</u>	<u>747</u>
	<u>\$ 7,699,339</u>	<u>\$ 8,240,151</u>	<u>\$ 6,203,693</u>

The cost of inventories recognized as operating costs for the three months and nine months ended September 30, 2019 and 2018 was NT\$9,222,012 thousand, NT\$11,726,176 thousand, NT\$31,337,992 thousand and NT\$32,655,266 thousand, respectively, including loss on inventory value decline of NT\$11,403 thousand, loss on inventory value decline of NT\$139,303 thousand, reversal of loss of NT\$82,587 thousand and loss on inventory value decline of NT\$355,204 thousand, respectively.

11. PREPAYMENTS

	September 30, 2019	December 31, 2018	September 30, 2018
Input tax	\$ 111,575	\$ 342,442	\$ 204,391
Prepayments for purchases	65,624	22,209	54,279
Offset against business tax payable	42,145	168	168
Others	<u>13,456</u>	<u>9,011</u>	<u>12,696</u>
	<u>\$ 232,800</u>	<u>\$ 373,830</u>	<u>\$ 271,534</u>

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 September 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

	September 30, 2019	December 31, 2018	September 30, 2018
<u>Current</u>			
Pledged time deposits (Note 30)	\$ 300,000	\$ 300,000	\$ 300,000
Deposits for project (Note 12)	-	2,897	2,385
Time deposits with original maturities more than three months	<u>1,700</u>	<u>-</u>	<u>-</u>
	<u>\$ 301,700</u>	<u>\$ 302,897</u>	<u>\$ 302,385</u>

14. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	September 30, 2019	December 31, 2018	September 30, 2018
Transglory Investment Corp. (TIC)	<u>\$ 2,428,234</u>	<u>\$ 2,462,217</u>	<u>\$ 2,602,395</u>

Name of Associate	Nature of Activities	Principal Place of Business	Percentage of Ownership and Voting Rights (%)		
			September 30, 2019	December 31, 2018	September 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 nine months ended September 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

	September 30, 2019	December 31, 2018	September 30, 2018	
Current assets	\$ 7,242	\$ 1,018	\$ 1,620	
Noncurrent assets	6,113,975	6,439,578	6,777,573	
Current liabilities	(185,665)	(421,976)	(417,925)	
Equity	<u>\$ 5,935,552</u>	<u>\$ 6,018,620</u>	<u>\$ 6,361,268</u>	
Proportion of the Group's ownership (%)	40.91	40.91	40.91	
Equity attributable to the Group	<u>\$ 2,428,234</u>	<u>\$ 2,462,217</u>	<u>\$ 2,602,395</u>	
Carrying amount	<u>\$ 2,428,234</u>	<u>\$ 2,462,217</u>	<u>\$ 2,602,395</u>	
	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Operating revenue	<u>\$ 268,887</u>	<u>\$ 236,916</u>	<u>\$ 268,887</u>	<u>\$ 236,917</u>
Net profit for the year	\$ 264,821	\$ 232,400	\$ 254,566	\$ 222,276
Other comprehensive income	(526,705)	486,254	(337,634)	209,630
Total comprehensive income for the year	<u>(\$ 261,884)</u>	<u>\$ 718,654</u>	<u>(\$ 83,068)</u>	<u>\$ 431,906</u>
Comprehensive income attributable to the Group	<u>(\$ 107,137)</u>	<u>\$ 294,002</u>	<u>(\$ 33,983)</u>	<u>\$ 176,693</u>

15. PROPERTY, PLANT AND EQUIPMENT

For the Nine Months Ended September 30, 2019

Cost	Land	Buildings	Machinery and Equipment	Other Equipment	Spare Parts	Construction in Progress and Equipment to be Inspected	Total
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	6,349	23,155	50,369	108,452	169,719	361,364
Disposals	-	-	-	(67,347)	(183,308)	-	(250,655)
Reclassification	(12)	(395)	-	-	-	-	(407)
Balance at September 30, 2019	<u>\$ 3,988,983</u>	<u>\$ 4,991,174</u>	<u>\$ 22,534,240</u>	<u>\$ 4,398,363</u>	<u>\$ 1,373,667</u>	<u>\$ 248,619</u>	<u>\$ 37,535,046</u>

(Continued)

<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	-	98,135	548,837	102,164	161,270	-	910,406
Disposals	-	-	-	(58,733)	(183,308)	-	(242,041)
Balance at September 30, 2019	<u>\$ -</u>	<u>\$ 1,844,509</u>	<u>\$ 18,363,127</u>	<u>\$ 3,905,855</u>	<u>\$ 730,588</u>	<u>\$ -</u>	<u>\$ 24,844,079</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 September 30, 2019	<u>\$ 3,988,983</u>	<u>\$ 3,146,665</u>	<u>\$ 4,171,113</u>	<u>\$ 492,508</u>	<u>\$ 643,079</u>	<u>\$ 248,619</u>	<u>\$ 12,690,967</u> (Concluded)

For the Nine Months Ended September 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	365,145	67,882	21,165	(148,740)	306,083
Disposals	-	-	-	(3,453)	(80,095)	-	(83,548)
Reclassification	11,554	(1,454)	-	-	-	-	10,100
Balance at September 30, 2018	<u>\$ 3,985,675</u>	<u>\$ 4,988,370</u>	<u>\$ 22,311,628</u>	<u>\$ 4,405,414</u>	<u>\$ 1,494,264</u>	<u>\$ 217,422</u>	<u>\$ 37,402,773</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	-	100,044	519,254	104,339	151,111	-	874,748
Disposals	-	-	-	(3,453)	(80,095)	-	(83,548)
Reclassification	-	(479)	-	-	-	-	(479)
Balance at September 30, 2018	<u>\$ -</u>	<u>\$ 1,713,171</u>	<u>\$ 17,631,280</u>	<u>\$ 3,826,476</u>	<u>\$ 758,284</u>	<u>\$ -</u>	<u>\$ 23,929,211</u>
Carrying amount at September 30, 2018	<u>\$ 3,985,675</u>	<u>\$ 3,275,199</u>	<u>\$ 4,680,348</u>	<u>\$ 578,938</u>	<u>\$ 735,980</u>	<u>\$ 217,422</u>	<u>\$ 13,473,562</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 September 30, 2019, December 31, 2018 and September 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

Carrying amounts	September 30, 2019	
Land	\$	64,409
Transportation equipment		<u>14,738</u>
		<u>\$ 79,147</u>
	For the Three Months Ended September 30, 2019	For the Nine Months Ended September 30, 2019
Additions to right-of-use assets		<u>\$ 17,708</u>
Depreciation charge for right-of-use assets		
Land	\$ 2,634	\$ 7,806
Transportation equipment	<u>804</u>	<u>1,372</u>
	<u>\$ 3,438</u>	<u>\$ 9,178</u>

b. Lease liabilities - 2019

Carrying amounts	September 30, 2019	
Current	\$	<u>13,420</u>
Non-current		<u>66,084</u>

Range of discount rate for lease liabilities was as follows:

	September 30, 2019
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.

	For the Three Months Ended September 30, 2019	For the Nine Months Ended September 30, 2019
Expenses relating to short-term leases	<u>\$ 7,495</u>	<u>\$ 17,465</u>
Expenses relating to low-value assets leases	<u>\$ 459</u>	<u>\$ 974</u>
Total cash outflow for leases	<u>\$ 11,457</u>	<u>\$ 26,996</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 Nine months ended September 30, 2019

	Land	Buildings	Total
<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 September 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>661</u>	<u>661</u>
Balance at September 30, 2019	<u>\$ -</u>	<u>\$ 15,845</u>	<u>\$ 15,845</u>
<u>Accumulated impairment</u>			
Balance at January 1 and September 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 September 30, 2019	<u>\$ 5,881,542</u>	<u>\$ 25,222</u>	<u>\$ 5,906,764</u>

For the nine months ended September 30, 2018

	Land	Buildings	Total
<u>Cost</u>			
Balance at January 1, 2018	\$ 5,993,141	\$ 39,218	\$ 6,032,359
Reclassification	<u>(11,554)</u>	<u>1,454</u>	<u>(10,100)</u>
Balance at September 30, 2018	<u>\$ 5,981,587</u>	<u>\$ 40,672</u>	<u>\$ 6,022,259</u>

(Continued)

	Land	Buildings	Total
<u>Accumulated depreciation</u>			
Balance at January 1, 2018	\$ -	\$ 13,936	\$ 13,936
Depreciation expense	-	551	551
Reclassification	-	479	479
Balance at September 30, 2018	<u>\$ -</u>	<u>\$ 14,966</u>	<u>\$ 14,966</u>
<u>Accumulated impairment</u>			
Balance at January 1 and September 30, 2018	<u>\$ 77,532</u>	<u>\$ -</u>	<u>\$ 77,532</u>
Carrying amount at September 30, 2018	<u>\$ 5,904,055</u>	<u>\$ 25,706</u>	<u>\$ 5,929,761</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 September 30, 2019 and 2018 and for the nine months ended September 30, 2019 and 2018 were NT\$20,095 thousand, NT\$19,703 thousand, NT\$59,960 thousand and NT\$58,790 thousand, respectively. As of September 30, 2019, December 31, 2018 and September 30, 2018, according to the contract, the Corporation received guarantee from the lessee were all NT\$35,000 thousand.

As of September 30, 2019, December 31, 2018 and September 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:

	September 30, 2019	December 31, 2018	September 30, 2018
Notes receivable received	\$ 70,849	\$ 48,622	\$ 69,460
Less: unearned rent revenue	(70,849)	(48,622)	(69,460)
Carrying amount	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

	September 30, 2019
Year 1	\$ 88,940
Year 2	82,885
Year 3	84,533
Year 4	86,227
Year 5	87,794
Year 6 onwards	<u>657,170</u>
	<u>\$ 1,087,549</u>

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

	December 31, 2018	September 30, 2018
Not later than 1 year	\$ 88,508	\$ 84,661
Later than 1 year and not later than 5 years	424,771	422,690
Later than 5 years	<u>634,820</u>	<u>657,170</u>
	<u>\$ 1,148,099</u>	<u>\$ 1,164,521</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:

	September 30, 2019	December 31, 2018	September 30, 2018
Fair value	<u>\$ 8,951,898</u>	<u>\$ 8,952,560</u>	<u>\$ 8,988,811</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

	September 30, 2019	December 31, 2018	September 30, 2018
Unsecured loans - interest at 0.69%-0.90% p.a., 0.86%-0.90% p.a. and 0.86%-0.90% p.a. as of September 30, 2019, December 31, 2018 and September 30, 2018, respectively	\$ 1,200,000	\$ 2,120,000	\$ 4,100,000
Letters of credit - interest at 0.89% p.a., 0.88%-0.99% p.a. and 0.98-0.99% p.a. as of September 30, 2019, December 31, 2018 and September 30, 2018, respectively	418,359	1,599,305	1,581,669
Loans from related parties - interest at 0.66% p.a., 0.54% p.a. and 0.54% p.a. as of September 30, 2019, December 31, 2018 and September 30, 2018, respectively (Note 29)	2,450,000	2,450,000	2,550,000
Bank overdrafts - interest at 0.35% p.a. as of September 30, 2019, December 31, 2018 and September 30, 2018	<u>43,224</u>	<u>212,468</u>	<u>180,573</u>
	<u>\$ 4,111,583</u>	<u>\$ 6,381,773</u>	<u>\$ 8,412,242</u>

b. Short-term bills payable

	September 30, 2019	December 31, 2018	September 30, 2018
Commercial paper			
Band of Taiwan	\$ 1,600,000	\$ 3,000,000	\$ -
Hua Nan Bank	500,000	-	-
Union Bank of Taiwan	200,000	-	-
Mega Bills Finance Corporation	-	200,000	450,000
Taiwan Cooperative Bills Finance Corporation	-	-	100,000
	<u>2,300,000</u>	<u>3,200,000</u>	<u>550,000</u>
Less: Unamortized discounts	<u>658</u>	<u>1,047</u>	<u>167</u>
	<u>\$ 2,299,342</u>	<u>\$ 3,198,953</u>	<u>\$ 549,833</u>
Interest rate (%)	0.70-0.71	0.68-0.74	0.89-0.90

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

c. Long-term borrowings

	September 30, 2019	December 31, 2018	September 30, 2018
Credit bank loans			
Due on various dates through June 2022, interest at 0.87%-1.29% p.a., 1.18%-1.28% p.a. and 1.11%-1.22% p.a. as of September 30, 2019, December 31, 2018 and September 30, 2018, respectively	\$ 5,950,000	\$ 4,850,000	\$ 4,800,000
Less: Current portion	1,340,000	950,000	699,089
Syndicated loan fee	<u>-</u>	<u>-</u>	<u>911</u>
	<u>\$ 4,610,000</u>	<u>\$ 3,900,000</u>	<u>\$ 4,100,000</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

	September 30, 2019	December 31, 2018	September 30, 2018
Mega Bills Finance Corporation			
Repayable in December 2021 with a credit of NT\$600 million	\$ 600,000	\$ 600,000	\$ -
Repayable in March 2021 with a credit of NT\$1.3 billion, Repaid in December 2018	-	-	800,000
China Bills Finance Corporation			
Repayable in September 2021 with a credit of NT\$500 million, Repaid in April 2019	-	300,000	300,000
Repayable in January 2020 with a credit of NT\$600 million, Repaid in January 2019	-	300,000	300,000
Repayable in March 2022 with a credit of NT\$300 million	300,000	-	-
Grand Bills Finance Corporation			
Repayable in January 2020 with a credit of NT\$600 million, Repaid in January 2019	-	300,000	300,000
International Bills Finance Corporation			
Repayable in December 2021 with a credit of NT\$300 million	<u>300,000</u>	<u>180,000</u>	<u>210,000</u>
	1,200,000	1,680,000	1,910,000
Less: Unamortized discount	<u>207</u>	<u>442</u>	<u>516</u>
	<u>\$ 1,199,793</u>	<u>\$ 1,679,558</u>	<u>\$ 1,909,484</u>
Interest rate (%)	0.99-1.06	0.99-1.20	1.05-1.16

In December 2018 and April 2019, Mega Bills and China Bills were non-guarantee commercial paper. On September 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 September 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

	September 30, 2019	December 31, 2018	September 30, 2018
<u>Accounts payable</u>			
Operating - non related parties	<u>\$ 41,002</u>	<u>\$ 45,304</u>	<u>\$ 50,002</u>
Operating - related parties	<u>\$ 1,722,541</u>	<u>\$ 595,764</u>	<u>\$ 1,566,844</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

	September 30, 2019	December 31, 2018	September 30, 2018
Current			
Other payables			
Salaries and incentive bonus	\$ 224,656	\$ 401,312	\$ 321,736
Utilities	65,101	64,820	86,542
Outsourced repair and construction	64,287	120,532	53,084
Export fees	50,345	101,107	96,741
Employees' compensation and remuneration of directors	13,965	27,914	900
Others	<u>217,290</u>	<u>298,893</u>	<u>331,805</u>
	<u>\$ 635,644</u>	<u>\$ 1,014,578</u>	<u>\$ 890,808</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\$6,383 thousand, NT\$6,059 thousand, NT\$19,148 thousand and NT\$18,176 thousand for the three months ended September 30, 2019 and 2018, and for the nine months ended September 30, 2019 and 2018, respectively.

22. EQUITY

a. Ordinary shares

	September 30, 2019	December 31, 2018	September 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

	September 30, 2019	December 31, 2018	September 30, 2018
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:

	Appropriation of Earnings	Dividend Per Share (NT\$)
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

	For the Nine Months Ended September 30	
	2019	2018
Balance, beginning of period	(\$ 497,607)	(\$ 431,310)
Recognized during the period		
Unrealized gains and losses - equity instruments	(45,750)	28,065
Share from associates accounted for using the equity method	(138,126)	85,760
Other comprehensive income recognized in the period	(183,876)	113,825
Balance, end of period	(\$ 681,483)	(\$ 317,485)

23. OPERATING REVENUES

a. Contract balances

	September 30, 2019	December 31, 2018	September 30, 2018	January 1, 2018
Accounts receivable	\$ 898,382	\$ 1,132,372	\$ 2,678,564	\$ 1,459,971
Contract liabilities - current				
Sale of goods	\$ 38,222	\$ 93,555	\$ 337,453	\$ 161,365
Advances received	-	2,890	2,380	2,380
	<u>\$ 38,222</u>	<u>\$ 96,445</u>	<u>\$ 339,833</u>	<u>\$ 163,745</u>

b. Disaggregation of revenue

For the Nine Months Ended September 30, 2019

<u>Type of goods or services</u>	Reportable segments		
	Chung Hung	Others	Total
Sale of goods	\$ 32,782,857	\$ -	\$ 32,782,857
Rendering of services	350,292	1,977	352,269
Others	46,830	1,004	47,834
	<u>\$ 33,179,979</u>	<u>\$ 2,981</u>	<u>\$ 33,182,960</u>

For the Nine Months Ended September 30, 2018

<u>Type of goods or services</u>	Reportable segments		
	Chung Hung	Others	Total
Sale of goods	\$ 35,879,524	\$ -	\$ 35,879,524
Rendering of services	446,872	3,331	450,203

(Continued)

Type of goods or services	Reportable segments		
	Chung Hung	Others	Total
Others	\$ 49,581	\$ 884	\$ 50,465
	<u>\$ 36,375,977</u>	<u>\$ 4,215</u>	<u>\$ 36,380,192</u> (Concluded)

24. PROFIT BEFORE INCOME TAX

Profit before income tax consisted of following items:

a. Other income

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Rental income	\$ 19,483	\$ 19,349	\$ 57,775	\$ 55,999
Dividend income	33,109	29,136	36,580	41,894
Interest income	32	538	1,264	2,304
Others	<u>2,967</u>	<u>1,950</u>	<u>15,834</u>	<u>5,699</u>
	<u>\$ 55,591</u>	<u>\$ 50,973</u>	<u>\$ 111,453</u>	<u>\$ 105,896</u>

b. Other gains and losses

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Net foreign exchange gain	\$ 19,808	\$ 9,306	\$ 54,959	\$ 51,173
Gain on disposal of non-current assets held for sale	-	-	871	-
Gain (loss) arising from financial assets at fair value through profit or loss	(18,144)	2,796	(29,070)	(3,981)
Loss on disposal of property, plant and equipment	-	-	(8,491)	-
Fees	(2,155)	(3,061)	(7,965)	(10,868)
Others	<u>221</u>	<u>(98)</u>	<u>(107)</u>	<u>(384)</u>
	<u>(\$ 270)</u>	<u>\$ 8,943</u>	<u>\$ 10,197</u>	<u>\$ 35,940</u>

The components of net foreign exchange gain were as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Foreign exchange gain	\$ 28,635	\$ 27,227	\$ 80,822	\$ 100,212
Foreign exchange loss	<u>(8,827)</u>	<u>(17,921)</u>	<u>(25,863)</u>	<u>(49,039)</u>
				(Continued)

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Net exchange gain	\$ <u>19,808</u>	\$ <u>9,306</u>	\$ <u>54,959</u>	\$ <u>51,173</u> (Concluded)

c. Finance costs

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Interest on bank overdrafts and loans	\$ 26,592	\$ 31,972	\$ 83,117	\$ 97,798
Interest on loans from related parties (Note 29)	3,948	3,386	11,213	9,335
Interest on lease liabilities	<u>236</u>	<u>-</u>	<u>684</u>	<u>-</u>
Total interest expense financial liabilities measured at amortized cost	30,776	35,358	95,014	107,133
Less: Amounts included in the cost of qualifying assets	<u>628</u>	<u>524</u>	<u>1,663</u>	<u>2,181</u>
	\$ <u>30,148</u>	\$ <u>34,834</u>	\$ <u>93,381</u>	\$ <u>104,952</u>

Information about capitalized interest was as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Capitalized amounts	\$ 628	\$ 524	\$ 1,633	\$ 2,181
Capitalized annual rates (%)	0.88-0.90	0.83-0.97	0.88-0.94	0.78-1.04

d. Depreciation

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Property, plant and equipment	\$ 297,609	\$ 299,656	\$ 910,406	\$ 874,748
Investment properties	222	140	661	551
Right-of-use assets	<u>3,438</u>	<u>-</u>	<u>9,178</u>	<u>-</u>
	\$ <u>301,269</u>	\$ <u>299,796</u>	\$ <u>920,245</u>	\$ <u>875,299</u>
Analysis of depreciation by function				
Operating costs	\$ 280,367	\$ 277,180	\$ 855,476	\$ 808,959
Operating expenses	20,680	22,476	64,108	65,789
Deduction of other income	<u>222</u>	<u>140</u>	<u>661</u>	<u>551</u>
	\$ <u>301,269</u>	\$ <u>299,796</u>	\$ <u>920,245</u>	\$ <u>875,299</u>

e. Operating expenses directly related to investment properties

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Direct operating expenses of investment properties that generated rental income	\$ 4,671	\$ 4,212	\$ 13,091	\$ 12,413
Direct operating expenses of investment properties that did not generate rental income	<u>439</u>	<u>433</u>	<u>1,319</u>	<u>1,479</u>
	<u>\$ 5,110</u>	<u>\$ 4,645</u>	<u>\$ 14,410</u>	<u>\$ 13,892</u>

f. Employee benefits

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Short-term employee benefits				
Salaries	\$ 219,982	\$ 298,427	\$ 793,502	\$ 876,701
Labor and health insurance	22,246	21,530	67,727	64,870
Others	<u>37,831</u>	<u>58,282</u>	<u>123,044</u>	<u>152,355</u>
	<u>280,059</u>	<u>378,239</u>	<u>984,273</u>	<u>1,093,926</u>
Post-employment benefits				
Defined contribution plans	6,441	6,069	19,135	17,797
Defined benefit plans (Note 21)	<u>6,383</u>	<u>6,059</u>	<u>19,148</u>	<u>18,176</u>
	<u>12,824</u>	<u>12,128</u>	<u>38,283</u>	<u>35,973</u>
	<u>\$ 292,883</u>	<u>\$ 390,367</u>	<u>\$ 1,022,556</u>	<u>\$ 1,129,899</u>
Analysis of employee benefits expense by function				
Operating costs	\$ 246,979	\$ 329,359	\$ 853,919	\$ 937,135
Operating expenses	<u>45,904</u>	<u>61,008</u>	<u>168,637</u>	<u>192,764</u>
	<u>\$ 292,883</u>	<u>\$ 390,367</u>	<u>\$ 1,022,556</u>	<u>\$ 1,129,899</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 September 30, 2018 because the Corporation had accumulated deficits.

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

	For the Three Months Ended September 30, 2019	For the Nine Months Ended September 30, 2019
Employees' compensation	(\$ 11,583)	\$ 10,865
Remuneration of directors	(1,732)	2,200

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:

	Amount	%
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:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Current tax				
In respect of the current period	(\$ 133)	\$ 242	\$ 175	\$ 493
Income tax on unappropriated earnings	-	-	8,645	-
Deferred tax				
In respect of the current period	-	(80)	-	-
	<u>(\$ 133)</u>	<u>\$ 162</u>	<u>\$ 8,820</u>	<u>\$ 493</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

The Group's income tax returns 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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Attributable to owners of the Corporation	<u>\$ 63,057</u>	<u>\$ 892,020</u>	<u>\$ 421,113</u>	<u>\$ 2,464,112</u>

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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
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>1,116</u>	<u>-</u>	<u>1,650</u>	<u>-</u>
Weighted average number of ordinary shares used in computation of diluted earnings per share	<u>1,436,660</u>	<u>1,435,544</u>	<u>1,437,194</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>September 30, 2019</u>				
Financial assets at fair value through profit or loss				
Emerging market shares	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 184,797</u>	<u>\$ 184,797</u>
Financial assets at FVOCI				
Domestic listed shares	\$ 784,605	\$ -	\$ -	\$ 784,605
Domestic unlisted shares	<u>-</u>	<u>-</u>	<u>43,504</u>	<u>43,504</u>
	<u>\$ 784,605</u>	<u>\$ -</u>	<u>\$ 43,504</u>	<u>\$ 828,109</u>
<u>December 31, 2018</u>				
Financial assets at fair value through profit or loss				
Emerging market shares	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 217,281</u>	<u>\$ 217,281</u>
Financial assets at FVOCI				
Domestic listed shares	\$ 827,245	\$ -	\$ -	\$ 827,245
Domestic unlisted shares	<u>-</u>	<u>-</u>	<u>51,219</u>	<u>51,219</u>
	<u>\$ 827,245</u>	<u>\$ -</u>	<u>\$ 51,219</u>	<u>\$ 878,464</u>
<u>September 30, 2018</u>				
Financial assets at fair value through profit or loss				
Emerging market shares	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 211,246</u>	<u>\$ 211,246</u>
Financial assets at FVOCI				
Domestic listed shares	\$ 869,887	\$ -	\$ -	\$ 869,887
Domestic unlisted shares	<u>-</u>	<u>-</u>	<u>52,081</u>	<u>52,081</u>
	<u>\$ 869,887</u>	<u>\$ -</u>	<u>\$ 52,081</u>	<u>\$ 921,968</u>
Financial liabilities at fair value through profit or loss				
Foreign exchange forward contracts	<u>\$ -</u>	<u>\$ 384</u>	<u>\$ -</u>	<u>\$ 384</u>

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

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

	Financial Assets at Fair Value Through Profit or Loss - Equity Instruments	Financial Assets at Fair value through Other Comprehensive Income - Equity Instruments	Total
For the nine months ended September 30, 2019			
Balance, beginning of period	\$ 217,281	\$ 51,219	\$ 268,500
Total profit or loss			
Recognized in profit or loss	(29,070)	-	(29,070)
Recognized in other comprehensive income	-	(3,110)	(3,110)
Disposal	(3,414)	-	(3,414)
Reduction of capital and return of shares	<u>-</u>	<u>(4,605)</u>	<u>(4,605)</u>
Balance, end of period	<u>\$ 184,797</u>	<u>\$ 43,504</u>	<u>\$ 228,301</u>
Unrealized gains and losses recognized in other profit or loss	<u>(\$ 29,175)</u>	<u>\$ -</u>	<u>(\$ 29,175)</u>
For the nine months ended September 30, 2018			
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	(3,697)	-	(3,697)
Recognized in other comprehensive income	-	2,480	2,480
Disposal	(521)	-	(521)
Reduction of capital and return of shares	<u>-</u>	<u>(4,962)</u>	<u>(4,962)</u>
Balance, end of period	<u>\$ 211,246</u>	<u>\$ 52,081</u>	<u>\$ 263,327</u>
Unrealized gains and losses recognized in other profit or loss	<u>(\$ 3,771)</u>	<u>\$ -</u>	<u>(\$ 3,771)</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

	September 30, 2019	December 31, 2018	September 30, 2018
<u>Financial assets</u>			
Fair value through profit or loss			
Mandatorily at fair value through profit or loss	\$ 184,797	\$ 217,281	\$ 211,246
Measured at amortized cost (see 1 below)	1,440,588	2,005,693	3,917,722
Financial assets at fair value through other comprehensive income			
Equity instruments	828,109	878,464	921,968
<u>Financial liabilities</u>			
Fair value through profit or loss			
Mandatorily at fair value through profit or loss	-	-	384
Measured at amortized cost (see 2 below)	16,151,497	17,916,770	18,373,115

- 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.

	USD Impact (Note)	
	For the nine months ended	
	September 30	
	2019	2018
Profit before income tax	\$ 4,103	\$ 24,868

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:

	September 30, 2019	December 31, 2018	September 30, 2018
Fair value interest rate risk			
Financial liabilities	\$ 1,279,297	\$ 1,679,558	\$ 1,909,484
Cash flow interest rate risk			
Financial assets	364,827	499,231	896,264
Financial liabilities	10,061,583	11,231,773	13,211,331

If interest rates had been 1% higher and all other variables were held constant, the Group's pre-tax profit for the nine months ended September 30, 2019 and 2018 would have been lower by NT\$72,726 thousand and lower by NT\$92,363 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 nine months ended September 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 September 30, 2019, the unutilized credit facility of the Group was NT\$32.4 billion; therefore, there is no liquidity risk or incapacity of financing capital to meet contractual obligations.

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

	Less Than 1 Year	1-5 Years	Over 5 Years	Total
<u>September 30, 2019</u>				
Short-term borrowings	\$ 4,137,281	\$ -	\$ -	\$ 4,137,281
Short-term bills payable	2,300,000	-	-	2,300,000
Accounts payable (including related parties)	1,763,543	-	-	1,763,543
Other payables	635,644	-	-	635,644
Refund liabilities	156,592	-	-	156,592
Lease liabilities	14,272	49,680	18,823	82,775
Long-term bank borrowings	1,373,210	4,616,963	-	5,990,173
Long-term bills payable	-	1,200,000	-	1,200,000
Guarantee deposits received	-	-	35,000	35,000
	<u>\$ 10,380,542</u>	<u>\$ 5,866,643</u>	<u>\$ 53,823</u>	<u>\$ 16,301,008</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>September 30, 2018</u>				
Short-term borrowings	\$ 8,468,436	\$ -	\$ -	\$ 8,468,436
Short-term bills payable	550,000	-	-	550,000
Accounts payable (including related parties)	1,616,846	-	-	1,616,846
Other payables	890,808	-	-	890,808
Long-term bank borrowings	753,595	4,143,176	-	4,896,771
Long-term bills payable	-	1,910,000	-	1,910,000
Guarantee deposits received	-	120	35,000	35,120
	<u>\$ 12,279,685</u>	<u>\$ 6,053,296</u>	<u>\$ 35,000</u>	<u>\$ 18,367,981</u>

29. TRANSACTIONS WITH RELATED PARTIES

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

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

<u>Company</u>	<u>Relationship</u>
China Steel Corporation	Parent entity
Dragon Steel Corporation (DSC)	Fellow subsidiaries
CHC Resources Corporation (CHC)	Fellow subsidiaries
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 Corporation	Fellow subsidiaries
Kaohsiung Rapid Transit Corporation	Fellow subsidiaries
CGST Metals Vietnam Joint Stock Company	Fellow subsidiaries
Wabo Global Trading Corporation	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

b. Sale of goods

Account Items	Related Parties Types	<u>For the Three Months Ended September 30</u>		<u>For the Nine Months Ended September 30</u>	
		2019	2018	2019	2018
Sales	Fellow subsidiaries related to others	\$ 406,754	\$ 544,635	\$ 1,018,152	\$ 1,288,617
	Parent entity	<u>330</u>	<u>125</u>	<u>1,640</u>	<u>461</u>
		<u>\$ 407,084</u>	<u>\$ 544,760</u>	<u>\$ 1,019,792</u>	<u>\$ 1,289,078</u>
Service Revenue	Parent entity	\$ 125,477	\$ 140,562	\$ 348,317	\$ 440,341
	Fellow subsidiaries related to others	<u>10</u>	<u>3</u>	<u>28</u>	<u>19</u>
		<u>\$ 125,487</u>	<u>\$ 140,565</u>	<u>\$ 348,345</u>	<u>\$ 440,360</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 September 30		For the Nine Months Ended September 30	
		2019	2018	2019	2018
Other operating revenue	Fellow subsidiaries related to others				
	DSC	\$ 11,107	\$ 13,082	\$ 34,591	\$ 40,794
	Others	<u>2,468</u>	<u>3,273</u>	<u>8,314</u>	<u>4,095</u>
		<u>\$ 13,575</u>	<u>\$ 16,355</u>	<u>\$ 42,905</u>	<u>\$ 44,889</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 September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Parent entity	<u>\$ 5,662,526</u>	<u>\$ 6,584,092</u>	<u>\$ 16,386,922</u>	<u>\$ 19,342,365</u>
Fellow subsidiaries related to others				
DSC	2,330,219	2,864,949	7,905,100	7,124,265
Others	<u>31,894</u>	<u>120,165</u>	<u>242,306</u>	<u>392,231</u>
	<u>2,362,113</u>	<u>2,985,114</u>	<u>8,147,406</u>	<u>7,516,496</u>
Other related parties	<u>-</u>	<u>215,138</u>	<u>122,810</u>	<u>686,487</u>
	<u>\$ 8,024,639</u>	<u>\$ 9,784,344</u>	<u>\$ 24,657,138</u>	<u>\$ 27,545,348</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	September 30, 2019	December 31, 2018	September 30, 2018
Accounts receivable	Parent entity	<u>\$ 46,303</u>	<u>\$ 36,256</u>	<u>\$ 103,081</u>
	Fellow subsidiaries related to others			
	CSSB	81,680	121,361	146,079
	Others	<u>4,003</u>	<u>25,823</u>	<u>9,241</u>
		<u>85,683</u>	<u>147,184</u>	<u>155,320</u>
		<u>\$ 131,986</u>	<u>\$ 183,440</u>	<u>\$ 258,401</u>
Other receivables	Parent entity	<u>\$ 126,383</u>	<u>\$ 306,845</u>	<u>\$ 252,080</u>

(Continued)

Account Items	Related Parties Types/Name	September 30, 2019	December 31, 2018	September 30, 2018
Other receivables	Fellow subsidiaries related to others			
	CHC	\$ 24,203	\$ 41,513	\$ 51,421
	Others	<u>699</u>	<u>351</u>	<u>555</u>
		<u>24,902</u>	<u>41,864</u>	<u>51,976</u>
		<u>\$ 151,285</u>	<u>\$ 348,709</u>	<u>\$ 304,056</u>

(Concluded)

No guarantee had been received for accounts receivable and other receivable from related parties. No expense had been recognized for the nine months ended September 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)

Account Items	Related Parties Types	September 30, 2019	December 31, 2018	September 30, 2018
Accounts payable	Parent entity	\$ 1,713,433	\$ 582,549	\$ 1,554,641
	Fellow subsidiaries related to others	1,112	1,196	1,077
	Others	<u>7,996</u>	<u>12,019</u>	<u>11,126</u>
		<u>\$ 1,722,541</u>	<u>\$ 595,764</u>	<u>\$ 1,566,844</u>

The outstanding accounts payable to related parties were unsecured.

f. Loans from related parties

Related Parties Types	September 30, 2019	December 31, 2018	September 30, 2018
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 September 30, 2019, December 31, 2018 and September 30, 2018, the loans from the parent entity were unsecured loans with interest expense of NT\$3,947 thousand, NT\$3,386 thousand, NT\$11,212 thousand and NT\$9,335 thousand for the three months ended September 30, 2019 and 2018 and for the nine months ended September 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\$30,318 thousand, NT\$25,073 thousand, NT\$78,752 thousand and NT\$80,851 thousand for the three months ended September 30, 2019 and 2018 and for the nine months ended September 30, 2019 and 2018, respectively. As of September 30, 2019, December 31, 2018 and September 30, 2018, authorization fees payable (included in payables to related parties) were NT\$31,756 thousand, NT\$27,043 thousand and NT\$26,463 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 September 30, 2019 and 2018 and for the nine months ended September 30, 2019 and 2018 were NT\$583 thousand, NT\$495 thousand, NT\$1,751 thousand and NT\$1,752 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 September 30, 2019 and 2018 and for the nine months ended September 30, 2019 and 2018 were NT\$1,327 thousand, NT\$1,328 thousand, NT\$3,982 thousand and NT\$3,982 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:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
a) Other expenditures				
Others	\$ 49,232	\$ 47,329	\$ 149,809	\$ 131,179
Parent entity	23,847	16,672	98,099	97,496
Fellow subsidiaries related to others	<u>11,868</u>	<u>12,653</u>	<u>51,053</u>	<u>56,389</u>
	<u>\$ 84,947</u>	<u>\$ 76,654</u>	<u>\$ 298,961</u>	<u>\$ 285,064</u>
b) Capital expenditure				
Fellow subsidiaries related to others	\$ 1,300	\$ 57,049	\$ 30,079	\$ 104,701
Parent entity	<u>-</u>	<u>-</u>	<u>2,723</u>	<u>3,530</u>
	<u>\$ 1,300</u>	<u>\$ 57,049</u>	<u>\$ 32,802</u>	<u>\$ 108,231</u>

4) Income from supplies and scrap

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Fellow subsidiaries related to others				
CHC	\$ 86,358	\$ 138,370	\$ 304,605	\$ 395,208
Others	<u>3,953</u>	<u>4,254</u>	<u>11,604</u>	<u>13,060</u>
	<u>\$ 90,311</u>	<u>\$ 142,624</u>	<u>\$ 316,209</u>	<u>\$ 408,268</u>

h. Compensation of key management personnel

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Short-term employee benefits	\$ 7,517	\$ 8,307	\$ 22,933	\$ 20,448
Post-employment benefits	<u>445</u>	<u>100</u>	<u>1,333</u>	<u>301</u>
	<u>\$ 7,962</u>	<u>\$ 8,407</u>	<u>\$ 24,266</u>	<u>\$ 20,749</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):

	September 30, 2019	December 31, 2018	September 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>3,799,292</u>
	<u>\$ 300,000</u>	<u>\$ 4,211,003</u>	<u>\$ 4,099,292</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 September 30, 2019 were as follows:

- Unused letters of credit for purchases of raw materials and machinery and equipment amounted to about NT\$2,987,572 thousand
- The Group had signed agreements to buy equipment for NT\$633,914 thousand, of which NT\$288,054 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>September 30, 2019</u>			
Monetary financial assets			
USD	\$ 15,038	31.04 (USD:NTD)	\$ 466,784 (Continued)

	Foreign Currencies (In Thousands)	Exchange Rate		Carrying Amount (In Thousands of New Taiwan Dollars)
<u>September 30, 2019</u>				
Monetary financial liabilities USD	\$ 1,820	31.04	(USD:NTD)	\$ 56,505
<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>September 30, 2018</u>				
Monetary financial assets USD	83,109	30.525	(USD:NTD)	2,536,905
Monetary financial liabilities USD	1,643	30.525	(USD:NTD)	50,148 (Concluded)

For the three months ended September 30, 2019 and 2018 and for the nine months ended September 30, 2019 and 2018, realized and unrealized net foreign exchange gains were NT\$19,808 thousand, NT\$9,306 thousand, NT\$54,959 thousand and NT\$51,173 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 nine months ended September 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.

	The Corporation	Others	Adjustment and Elimination	Total
For the nine months ended September 30, 2019				
Revenues from external customers	<u>\$ 33,179,979</u>	<u>\$ 2,981</u>	<u>\$ -</u>	<u>\$ 33,182,960</u>
Segment profit	\$ 296,886	\$ 515	\$ 120	\$ 297,521
Interest revenue	1,256	8	-	1,264
Other income	110,309	-	(120)	110,189
Other income and expenses	10,197	-	-	10,197
Finance costs	(93,381)	-	-	(93,381)
Share of the profit of associates	<u>104,585</u>	<u>-</u>	<u>(442)</u>	<u>(104,143)</u>
Profit before income tax for the period	429,852	523	(442)	429,933
Income tax expense	<u>8,739</u>	<u>81</u>	<u>-</u>	<u>8,820</u>
Net profit for the period	<u>\$ 421,113</u>	<u>\$ 442</u>	<u>(\$ 442)</u>	<u>\$ 421,113</u>
Identifiable assets	\$ 29,250,841	\$ 28,707	\$ -	\$ 29,279,548
Investments accounted for using equity method	<u>2,455,951</u>	<u>-</u>	<u>(27,717)</u>	<u>2,428,234</u>

(Continued)

	The Corporation	Others	Adjustment and Elimination	Total
<u>For the nine months ended September 30, 2019</u>				
Total assets	<u>\$ 31,706,792</u>	<u>\$ 28,707</u>	<u>(\$ 27,717)</u>	<u>\$ 31,707,782</u>
Total liabilities	<u>\$ 16,849,864</u>	<u>\$ 990</u>	<u>\$ -</u>	<u>\$ 16,850,854</u>
<u>For the nine months ended September 30, 2018</u>				
Revenues from external customers	<u>\$ 36,375,977</u>	<u>\$ 4,215</u>	<u>\$ -</u>	<u>\$ 36,380,192</u>
Segment profit	\$ 2,333,558	\$ 3,110	\$ 120	\$ 2,336,788
Interest revenue	2,303	1	-	2,304
Other income	103,712	-	(120)	103,592
Other income and expenses	35,940	-	-	35,940
Finance costs	(104,952)	-	-	(104,952)
Share of the profit of associates	<u>93,551</u>	<u>-</u>	<u>(2,618)</u>	<u>90,933</u>
Profit before income tax for the period	2,464,112	3,111	(2,618)	2,464,605
Income tax expense	<u>-</u>	<u>493</u>	<u>-</u>	<u>493</u>
Net profit for the period	<u>\$ 2,464,112</u>	<u>\$ 2,618</u>	<u>(\$ 2,618)</u>	<u>\$ 2,464,112</u>
Identifiable assets	\$ 31,091,328	\$ 33,487	(\$ 63)	\$ 31,124,752
Investments accounted for using equity method	<u>2,634,491</u>	<u>-</u>	<u>(32,096)</u>	<u>2,602,395</u>
Total assets	<u>\$ 33,725,819</u>	<u>\$ 33,487</u>	<u>(\$ 32,159)</u>	<u>\$ 33,727,147</u>
Total liabilities	<u>\$ 19,222,223</u>	<u>\$ 1,391</u>	<u>(\$ 63)</u>	<u>\$ 19,223,551</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 SEPTEMBER 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	\$ 4,457,078	\$ 10,000	\$ -	\$ -	\$ -	-	\$ 7,428,464	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
SEPTEMBER 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	September 30, 2019				Note	
				Shares/Units	Carrying Value	Percentage of Ownership (%)	Fair Value		
Chung Hung Steel Corporation	Common Stock Yieh United Steel Corp.	Parent company	Financial assets at fair value through profit or loss - current	39,151,800	\$ 184,797	1	\$ 184,797	Note1	
	Shouh Hwang Enterprise Co., Ltd.		Financial assets at fair value through profit or loss - current	730,000	-	15	-	Note2	
						<u>\$ 184,797</u>		<u>\$ 184,797</u>	
	Common Stock China Steel Corporation		Financial assets at fair value through other comprehensive income - current	33,109,239	<u>\$ 761,513</u>		<u>\$ 761,513</u>		
	Common Stock Taiwan Ves-Power Co., Ltd.		Financial assets at fair value through other comprehensive income - noncurrent	958,333	\$ 34,442	2	\$ 34,442	2019.8.31 net value	
	Riselink Venture Capital Corp.		Financial assets at fair value through other comprehensive income - noncurrent	197,381	3,545	3	3,545	2019.8.31 net value	
Chung Hung Steel Corporation	Pacific Harbour Stevedoring Corp.	The company as its supervisor	Financial assets at fair value through other comprehensive income - noncurrent	250,000	5,517	5	5,517	2019.6.30 net value	
					<u>\$ 43,504</u>		<u>\$ 43,504</u>		
Hung Kao Investment Corporation	Common Stock China Steel Corporation	The ultimate parent of the Company	Financial assets at fair value through other comprehensive income - noncurrent	1,003,980	<u>\$ 23,092</u>	-	<u>\$ 23,092</u>		

Note 1: The fair value of emerging stock was based on the closing price adjusted for liquidity risk premium on September 27, 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 SEPTEMBER 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	\$ 16,386,922	60	Letter of credit at sight/Payment after final acceptance	Note1	Note1	(\$ 1,713,433)	(97)	
	Dragon Steel Corporation	Fellow subsidiary	Purchase of goods	7,905,100	29	Letter of credit at sight	Note1	Note1	-	-	
	CSC Steel Sdn. Bhd.	Fellow subsidiary	Revenue from sale of goods	(975,395)	(3)	T/T within 7 business days after lading date(not included)	NO THIRD-PARTY COULD BE COMPARED Note1	NO THIRD-PARTY COULD BE COMPARED Note1	81,680	9	
	China Steel Global Trading Corporation	Fellow subsidiary	Purchase of goods	184,926	1	Letter of credit at sight	Note1	Note1	-	-	
	China Steel Corporation	Parent company	Service revenue	(346,340)	(1)	T/T as the end of the month of after final acceptance	NO THIRD-PARTY COULD BE COMPARED Note1	NO THIRD-PARTY COULD BE COMPARED Note1	46,303	5	
	Formosa Ha Tinh Steel Corporation	Other related parties	Purchase of goods	122,810	-	Letter of credit at sight	Note1	Note1	-	-	

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
 SEPTEMBER 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	\$ 124,540 (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 SEPTEMBER 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 September 30, 2019			Net Income (Loss) of the Investee	Share of Profit (Loss)	Note
				September 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	843	(89)	(89)	Subsidiaries (Note)
Chung Hung Steel Corporation	Transglory Investment Corporation	Republic of China	General investment	2,001,152	2,001,152	297,619,989	40.91	2,428,234	254,566	104,143	

Note: Amount was eliminated in the consolidated financial statements.