

**Chung Hung Steel Corporation and  
Subsidiaries**

**Consolidated Financial Statements for the  
Years Ended December 31, 2019 and 2018 and  
Independent Auditors' Report**

## **REPRESENTATION LETTER**

The entities that are required to be included in the combined financial statements of Chung Hung Steel Corporation as of and for the year ended December 31, 2019, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standard 10, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Chung Hung Steel Corporation and its subsidiaries do not prepare a separate set of combined financial statements.

Very truly yours,

Chung Hung Steel Corporation

By

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Min-Hsiung Liu  
Chairman

February 26, 2020

## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and the shareholders  
Chung Hung Steel Corporation

### **Opinion**

We have audited the accompanying consolidated financial statements of Chung Hung Steel Corporation (the "Corporation") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission (FSC) of the Republic of China.

### **Basis for Opinion**

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

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

#### Measurement of Inventories

Inventories are one of the significant assets in the balance sheet. As of December 31, 2019 the carrying amount of inventories held by the Group was NT\$6,577,637 thousand, which accounted for 21% of total assets. Due to the fluctuations in the prices of raw materials and finished goods in steel the industry and due to the use of accounting estimates, inventory valuation is deemed to be a key audit matter.

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

We focused on the inventory valuation at the end of the reporting period, including evaluation of obsolete inventory and the measurement of inventories during the year. Our main audit procedures performed included the following:

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

#### **Other Matter**

We have also audited the standalone financial statements of the Corporation as of and for the years ended December 31, 2019 and 2018 on which we have issued an unmodified opinion and an unmodified opinion with emphasis of a matter paragraphs, respectively.

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

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

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

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

#### **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2019 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

February 26, 2020

Notice to Readers

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

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

# CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

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

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

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

# CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

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

	For the Year Ended December 31			
	2019		2018	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4, 23 and 29)				
Sales	\$ 39,930,527	99	\$ 47,565,824	99
Investment revenue	1,004	-	884	-
Service revenue	477,071	1	605,202	1
Other operating revenue	<u>61,527</u>	<u>-</u>	<u>66,975</u>	<u>-</u>
Total operating revenue	40,470,129	100	48,238,885	100
OPERATING COSTS (Notes 10, 24 and 29)	<u>39,225,201</u>	<u>97</u>	<u>43,853,999</u>	<u>91</u>
GROSS PROFIT	<u>1,244,928</u>	<u>3</u>	<u>4,384,886</u>	<u>9</u>
OPERATING EXPENSES (Note 24)				
Selling and marketing expenses	1,147,701	3	1,117,746	2
General and administrative expenses	<u>314,816</u>	<u>1</u>	<u>391,363</u>	<u>1</u>
Total operating expenses	<u>1,462,517</u>	<u>4</u>	<u>1,509,109</u>	<u>3</u>
PROFIT (LOSS) FROM OPERATIONS	<u>(217,589)</u>	<u>(1)</u>	<u>2,875,777</u>	<u>6</u>
NON-OPERATING INCOME AND EXPENSES (Notes 14, 17, 24 and 29)				
Other income	175,356	1	129,705	-
Other gains and losses	73,899	-	79,374	-
Finance costs	(123,047)	-	(139,883)	-
Share of the profit of associates	<u>102,266</u>	<u>-</u>	<u>88,875</u>	<u>-</u>
Total non-operating income and expenses	<u>228,474</u>	<u>1</u>	<u>158,071</u>	<u>-</u>
PROFIT BEFORE INCOME TAX	10,885	-	3,033,848	6
INCOME TAX (Notes 4, 5 and 25)	<u>94</u>	<u>-</u>	<u>625</u>	<u>-</u>
NET PROFIT FOR THE YEAR	<u>10,791</u>	<u>-</u>	<u>3,033,223</u>	<u>6</u>
OTHER COMPREHENSIVE INCOME (LOSS) (Notes 4, 5, 21 and 22)				
Items that will not be reclassified subsequently to profit or loss				
Remeasurement of defined benefit plans	(9,614)	-	(128,800)	-
Unrealized gains and losses on investments in equity instruments at fair value through other comprehensive income	(13,710)	-	(14,477)	-

(Continued)

# CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

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

	For the Year Ended December 31			
	2019		2018	
	Amount	%	Amount	%
Share of the other comprehensive income of associates	\$ (38,261)	-	\$ (52,359)	-
	<u>(61,585)</u>	<u>-</u>	<u>(195,636)</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	\$ (50,794)	-	\$ 2,837,587	6
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Corporation	\$ 10,791	-	\$ 3,033,223	6
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Corporation	\$ (50,794)	-	\$ 2,837,587	6
EARNINGS PER SHARE (Note 26)				
Basic	\$ 0.01		\$ 2.11	
Diluted	\$ 0.01		\$ 2.11	

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

(Concluded)

# CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

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

	Issued and Outstanding Ordinary Shares	Capital Surplus	Retained Earnings (Accumulated Deficit)			Other Equity		Total	Total Equity
			Legal Reserve	Special Reserve	Unappropriated Earnings	Unrealized Valuation Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Unrealized Gain (Loss) on Available-for- sale Financial Assets		
BALANCE AT JANUARY 1, 2018	\$ 14,355,444	\$ 903	\$ -	\$ -	\$ (2,083,776)	\$ -	\$ (346,912)	\$ (346,912)	\$ 11,925,659
Effect of retrospective application	-	-	-	-	84,398	(431,310)	346,912	(84,398)	-
BALANCE AFTER ADJUSTMENT AT JANUARY 1, 2018	14,355,444	903	-	-	(1,999,378)	(431,310)	-	(431,310)	11,925,659
Net profit for the year ended December 31, 2018	-	-	-	-	3,033,223	-	-	-	3,033,223
Other comprehensive loss for the year ended December 31, 2018, net of income tax	-	-	-	-	(128,800)	(66,836)	-	(66,836)	(195,636)
Total comprehensive income for the year ended December 31, 2018	-	-	-	-	2,904,423	(66,836)	-	(66,836)	2,837,587
Disposal of investments in equity instruments at fair value through other comprehensive income	-	-	-	-	(539)	539	-	539	-
BALANCE AT DECEMBER 31, 2018	14,355,444	903	-	-	904,506	(497,607)	-	(497,607)	14,763,246
Appropriation of 2018 earning (Note 22)									
Legal reserve	-	-	90,450	-	(90,450)	-	-	-	-
Special reserve	-	-	-	497,607	(497,607)	-	-	-	-
Cash dividends	-	-	-	-	(143,555)	-	-	-	(143,555)
Net profit for the year ended December 31, 2019	-	-	-	-	10,791	-	-	-	10,791
Other comprehensive loss for the year ended December 31, 2019, net of income tax	-	-	-	-	(9,614)	(51,971)	-	(51,971)	(61,585)
Total comprehensive income for the year ended December 31, 2019	-	-	-	-	1,177	(51,971)	-	(51,971)	(50,794)
BALANCE AT DECEMBER 31, 2019	\$ 14,355,444	\$ 903	\$ 90,450	\$ 497,607	\$ 174,071	\$ (549,578)	\$ -	\$ (549,578)	\$ 14,568,897

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

# CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

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

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

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# CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

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

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

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

(Concluded)

# CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

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

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### 1. GENERAL INFORMATION

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

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

As of December 31, 2019, and 2018, China Steel Corporation (“CSC”), the Corporation’s parent and major shareholder (41%), controls the Corporation’s management and operations.

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

### 2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Corporation’s board of directors and authorized for issue on February 26, 2020.

### 3. APPLICATION OF NEW AND AMENDED STANDARDS AND INTERPRETATIONS

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

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

#### IFRS 16 “Leases”

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

#### 1) Definition of a lease

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

## 2) The Group as lessee

The Group recognizes right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for those whose payments under low-value asset and short-term leases are recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, the Group presents the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal and interest portion of lease liabilities are classified within financing activities. Prior to the application of IFRS 16, payments under operating lease contract were recognized as expenses on a straight-line basis. Cash flows for operating leases were classified within operating activities on the consolidated statements of cash flows.

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

The Group also applies the following practical expedients:

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

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

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

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

	As Originally Stated on January 1, 2019	Adjustments Arising from Initial Application	Restated on January 1, 2019
Prepayments for leases - current	\$ 2,044	\$ (947)	\$ 1,097
Right-of-use assets	<u>-</u>	<u>70,755</u>	<u>70,755</u>
Total effect on assets	<u>\$ 2,044</u>	<u>\$ 69,808</u>	<u>\$ 71,852</u>
Lease liabilities - current	\$ -	\$ 9,117	\$ 9,117
Lease liabilities - noncurrent	<u>-</u>	<u>60,691</u>	<u>60,691</u>
Total effect on liabilities	<u>\$ -</u>	<u>\$ 69,808</u>	<u>\$ 69,808</u>

3) The Group as lessor

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

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

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

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

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

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

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

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

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

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

<b>New IFRSs</b>	<b>Effective Date Announced by IASB (Note)</b>
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2022

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

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

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

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

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

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICY**

##### **Statement of Compliance**

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

##### **Basis of Preparation**

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

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

- a. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- b. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- c. Level 3 inputs are unobservable inputs for the asset or liability.

### **Classification of Current and Noncurrent Assets and Liabilities**

Current assets include:

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

Current liabilities include:

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

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

### **Basis of Consolidation**

The consolidated financial statements incorporate the financial statements of the Corporation and the entities controlled by the Corporation (i.e. its subsidiaries).

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation.

The consolidated entities were as follows:

Investor	Investee	Main Businesses	Percentage of Ownership (%)	
			December 31, 2019	December 31, 2018
Chung Hung Steel Corporation Ltd.	Taiwan Steel Corporation (Note)	Operation in progress	-	100
	Hung Kao Investment Corporation	General investment	100	100

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

### **Foreign Currencies**

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

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

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

### **Inventories**

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

### **Investment in Associates**

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

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

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

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

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

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

## **Property, Plant, and Equipment**

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

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

Freehold land is not depreciated.

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

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

## **Investment Properties**

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

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

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

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

## **Impairment of Tangible Assets**

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

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

When an impairment loss subsequently is reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

## **Non-current assets held for sale**

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

## **Financial Instruments**

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

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

### **a. Financial assets**

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

#### **1) Measurement category**

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

##### **a) Financial asset at FVTPL**

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

Financial assets mandatorily classified as at FVTPL were investments in equity instruments which are not designed as at FVTPL. Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. Fair value is determined in the manner described in Note 28.

##### **b) Financial assets at amortized cost**

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

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

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

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

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

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

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

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

## 2) Impairment of financial assets

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

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

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

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

## 3) Derecognition of financial assets

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

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

b. Equity instruments

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

c. Financial liabilities

1) Subsequent measurement

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

2) Derecognition of financial liabilities

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

### **Revenue Recognition**

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

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

a. Sale of goods

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

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

b. Providing of services

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

### **Leases**

#### 2019

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

a. The Group as lessor

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

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

b. The Group as lessee

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

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

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

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

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

2018

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

a. The Group as lessor

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

b. The Group as lessee

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

**Borrowing Costs**

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

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

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

**Employee Benefits**

a. Short-term employee benefits

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

b. Retirement benefits

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

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

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

**Taxation**

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

Current tax

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

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

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences and unused loss carryforwards to

the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

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

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

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

#### Current and deferred taxes for the year

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

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

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

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

### **Measurement of Inventories**

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

### **Realizability of Deferred Tax Assets**

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

## Recognition and Measurement of Defined Benefit Plan

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

### 6. CASH

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

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

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

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

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

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

## 9. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

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

### a. Accounts receivable

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

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

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

### 2019

	Not Past Due	1 to 30 Days	31 to 60 Days	61 to 180 Days	181 to 365 Days	Over 365 Days	Total
Expected credit loss rate (%)	-	-	-	-	-	100	
Gross carrying amount	\$ 511,750	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 511,750
Loss allowance (Lifetime ECL)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Amortized cost	<u>\$ 511,750</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 511,750</u>

### 2018

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

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

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

The Corporation entered into accounts receivable factoring contract (without recourse). Under the contract, the Corporation is authorized to sell accounts receivable to Bank upon the delivery of products to customers and is required to complete related formalities on the next banking day. Under this contract, the Corporation does not bear the risk of the uncollectability of the accounts receivable.

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

<b>Buyer of Accounts Receivable</b>	<b>Advances Received at Year - Beginning</b>	<b>Receivables Sold</b>	<b>Amounts Collected</b>	<b>Advances Received at Year-end</b>	<b>Interest Rates on Advances Received (%)</b>	<b>Credit Line</b>
<u>For the year ended December 31, 2019</u>						
Mega Bank	\$ 1,033,187	\$ 2,719,821	\$ 2,826,277	\$ 926,731	1.24	NT\$3 billion
Bank of Taiwan	199,960	520,664	596,410	124,214	3.66	USD20 million
	<u>\$ 1,233,147</u>	<u>\$ 3,240,485</u>	<u>\$ 3,422,687</u>	<u>\$ 1,050,945</u>		
<u>For the year ended December 31, 2018</u>						
Mega Bank	\$ 1,088,226	\$ 3,114,212	\$ 3,169,251	\$ 1,033,187	1.19	NT\$3 billion
Bank of Taiwan	62,805	534,050	396,895	199,960	3.52	USD20 million
	<u>\$ 1,151,031</u>	<u>\$ 3,648,262</u>	<u>\$ 3,566,146</u>	<u>\$ 1,233,147</u>		

b. Other receivables

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

## 10. INVENTORIES

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

(Continued)

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

(Concluded)

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

## 11. PREPAYMENTS

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

## 12. NON-CURRENT ASSETS HELD FOR SALE

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

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

## 13. OTHER FINANCIAL ASSETS

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

(Continued)

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

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

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

Name of Associate	Nature of Activities	<u>Proportion of Ownership and Voting Rights</u>		
		Principal Place of Business	<u>December 31</u>	
			2019	2018
TIC	General investment	Taiwan	40.91%	40.91%

The investments accounted for by the equity method and the share of profit or loss and other comprehensive loss of those investments for the years ended December 31, 2019 and 2018 was based on the audited financial statements for the same years.

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

#### TIC

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

(Continued)

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

## 15. PROPERTY, PLANT AND EQUIPMENT

### For the year ended December 31, 2019

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

### For the year ended December 31, 2018

	Land	Buildings	Machinery and Equipment	Other Equipment	Spare Parts	Construction in Progress and Equipment to be Inspected	Total
<u>Cost</u>							
Balance at January 1, 2018	\$ 3,974,121	\$ 4,989,193	\$ 21,946,483	\$ 4,340,985	\$ 1,553,194	\$ 366,162	\$ 37,170,138
Additions	-	-	564,602	77,808	34,537	(287,262)	389,685
Disposals	-	-	-	(3,452)	(139,208)	-	(142,660)
Reclassification	11,554	(1,454)	-	-	-	-	10,100
Other	-	(2,519)	-	-	-	-	(2,519)
Balance at December 31, 2018	<u>\$ 3,985,675</u>	<u>\$ 4,985,220</u>	<u>\$ 22,511,085</u>	<u>\$ 4,415,341</u>	<u>\$ 1,448,523</u>	<u>\$ 78,900</u>	<u>\$ 37,424,744</u>
<u>Accumulated depreciation</u>							
Balance at January 1, 2018	\$ -	\$ 1,613,606	\$ 17,112,026	\$ 3,725,590	\$ 687,268	\$ -	\$ 23,138,490
Depreciation expense	-	133,176	702,264	140,286	204,566	-	1,180,292
Disposals	-	-	-	(3,452)	(139,208)	-	(142,660)
Reclassification	-	(408)	-	-	-	-	(408)
Balance at December 31, 2018	<u>\$ -</u>	<u>\$ 1,746,374</u>	<u>\$ 17,814,290</u>	<u>\$ 3,862,424</u>	<u>\$ 752,626</u>	<u>\$ -</u>	<u>\$ 24,175,714</u>
Carrying amount at December 31, 2018	<u>\$ 3,985,675</u>	<u>\$ 3,238,846</u>	<u>\$ 4,696,795</u>	<u>\$ 552,917</u>	<u>\$ 695,897</u>	<u>\$ 78,900</u>	<u>\$ 13,249,030</u>

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

Buildings  
Facility  
Main structure

5-50 years  
31-60 years  
(Continued)

Machinery and equipment	
Power equipment	3-30 years
High-temperature equipment	5-18 years
Other equipment	
Computer equipment	3-10 years
Office, air condition and extinguishment equipment	3-20 years
Transportation equipment	5-16 years
Others	3-18 years
Tank	10 years
	(Concluded)

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

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

## 16. LEASE ARRANGEMENTS

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

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

b. Lease liabilities - 2019

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

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

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

c. Material lease activities and terms

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

d. Other lease information

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

2019

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

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

## 17. INVESTMENT PROPERTIES

For the year ended December 31, 2019

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

For the year ended December 31, 2018

	<b>Land</b>	<b>Buildings</b>	<b>Total</b>
<u>Cost</u>			
Balance at January 1, 2018	\$ 5,993,141	\$ 39,218	\$ 6,032,359
Transferred from (to) property, plant and equipment	(11,554)	1,454	(10,100)
Reclassified as held for sale (Note 12)	<u>(22,525)</u>	<u>-</u>	<u>(22,525)</u>
Balance at December 31, 2018	<u>\$ 5,959,062</u>	<u>\$ 40,672</u>	<u>\$ 5,999,734</u>
<u>Accumulated depreciation</u>			
Balance at January 1, 2018	\$ -	\$ 13,936	\$ 13,936
Depreciation expense	<u>-</u>	<u>840</u>	<u>840</u>
Transferred from property, plant and equipment	<u>-</u>	<u>408</u>	<u>408</u>
Balance at December 31, 2018	<u>\$ -</u>	<u>\$ 15,184</u>	<u>\$ 15,184</u>
<u>Accumulated impairment</u>			
Balance at January 1 and December 31, 2018	<u>\$ 77,532</u>	<u>\$ -</u>	<u>\$ 77,532</u>
Carrying amount at December 31, 2018	<u>\$ 5,881,530</u>	<u>\$ 25,488</u>	<u>\$ 5,907,018</u>

The Corporation as lessor leased land in Longdong section in Kaohsiung on June 30, 2010 for 20 years under an operating lease agreement; the Corporation collects rental monthly. The rental revenues for the years ended December 31, 2019 and 2018 were NT\$80,290 thousand and NT\$78,722 thousand, respectively, and were included in other income. As of December 31, 2019 and 2018, the Corporation received the same margin of NT\$35,000 thousand based on the lease contract.

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

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

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

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

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

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

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

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

The fair value of the investment properties was arrived at on the basis of valuations carried out in March and December 2017 and November 2019 by real estate appraiser and on the basis of information at the Ministry of the Interior's real estate transaction database website. Appraised lands and buildings were evaluated using Level 3 inputs under market approach, cost approach, income approach, and land development analysis approach. The important assumptions and fair value were as follows:

	<u>December 31</u>	
	<b>2019</b>	<b>2018</b>
Fair value	<u>\$ 9,980,290</u>	<u>\$ 8,952,560</u>
Expense rate (%)	25.14	19.61-25.61
Depreciation rate (%)	1.90-2.57	1.90-2.57

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

## 18. BORROWINGS

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

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

### b. Short-term bills payable

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

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

c. Long-term borrowings

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Credit bank loans		
Due on various dates through December 2024, interest at 0.87%-1.29% p.a. and 1.18%-1.28% p.a. as of December 2019 and 2018.	\$ 4,610,000	\$ 4,850,000
Less: Current portion	<u>480,000</u>	<u>950,000</u>
	<u>\$ 4,130,000</u>	<u>\$ 3,900,000</u>

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

- 1) The credit line is NT\$16 billion, which consists of two types of loans, namely Type A for NT\$7 billion and Type B for NT\$9 billion. The first drawdown of the Corporation was on March 20, 2012 and expired in March 2019.
- 2) Under the agreement, China Steel Corporation and its related parties should collectively hold at least 30% of the Corporation's issued shares and control the Corporation's operations. From January 1, 2012, the net tangible assets of the Corporation should not be less than half of the capital, and the ratio of financial liabilities to net tangible assets should not exceed 350%.

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

As of December 31, 2018, the Corporation was in compliance with this syndicated credit facility agreement.

d. Long-term bills payable

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

(Continued)

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

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

## 19. ACCOUNTS PAYABLE

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

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

## 20. OTHER PAYABLES

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

## 21. RETIREMENT BENEFIT PLANS

### a. Defined contribution plans

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

### b. Defined benefit plans

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

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

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

Movements of net defined benefit liabilities were as follows:

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

(Continued)

	<b>Present Value of the Defined Benefit Obligation</b>	<b>Fair Value of the Plan Assets</b>	<b>Net Defined Benefit Liabilities</b>
Actuarial loss - changes in financial assumptions	\$ 37,144	\$ -	\$ 37,144
Actuarial loss - experience adjustments	<u>2,419</u>	<u>-</u>	<u>2,419</u>
Recognized in other comprehensive income	<u>43,140</u>	<u>(33,526)</u>	<u>9,614</u>
Contributions from the employer	<u>-</u>	<u>(86,943)</u>	<u>(86,943)</u>
Benefits paid	<u>(50,371)</u>	<u>45,310</u>	<u>(5,061)</u>
Balance at December 31, 2019	<u>\$ 1,475,725</u>	<u>\$ (1,101,865)</u>	<u>\$ 373,860</u>
Balance at January 1, 2018	<u>\$ 1,282,008</u>	<u>\$ (916,252)</u>	<u>\$ 365,756</u>
Service cost			
Current service cost	20,060	-	20,060
Interest expense (income)	<u>16,025</u>	<u>(11,850)</u>	<u>4,175</u>
Recognized in profit or loss	<u>36,085</u>	<u>(11,850)</u>	<u>24,235</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(24,839)	(24,839)
Actuarial loss - changes in demographic assumptions	18,050	-	18,050
Actuarial loss - changes in financial assumptions	54,247	-	54,247
Actuarial loss - experience adjustments	<u>81,342</u>	<u>-</u>	<u>81,342</u>
Recognized in other comprehensive income	<u>153,639</u>	<u>(24,839)</u>	<u>128,800</u>
Contributions from the employer	<u>-</u>	<u>(86,350)</u>	<u>(86,350)</u>
Benefits paid	<u>(26,129)</u>	<u>24,407</u>	<u>(1,722)</u>
Balance at December 31, 2018	<u>\$ 1,445,603</u>	<u>\$ (1,014,884)</u>	<u>\$ 430,719</u> (Concluded)

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

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

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

1) Investment risk

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

2) Interest risk

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

3) Salary risk

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

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

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

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

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

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

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

## 22. EQUITY

### a. Ordinary shares

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

In June 2009, the Corporation revised the number of its authorized shares to 3,000,000 thousand shares upon obtaining the approval in the shareholders' meeting. Change registration of aforementioned revised authorized shares has not been conducted.

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

### b. Capital surplus

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

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

Such capital surplus may be used only to offset deficits.

### c. Retained earnings and dividend policy

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

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

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

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

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

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

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

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

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

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

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

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

## 23. OPERATING REVENUES

- a. Contract balances

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

(Continued)

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

b. Disaggregation of revenue

For the year ended December 31, 2019

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

For the year ended December 31, 2018

Type of goods or services	Reportable segments		
	Chung Hung	Others	Total
Sale of goods	\$ 47,565,824	\$ -	\$ 47,565,824
Rendering of services	600,922	4,280	605,202
Others	<u>66,975</u>	<u>884</u>	<u>67,859</u>
	<u>\$ 48,233,721</u>	<u>\$ 5,164</u>	<u>\$ 48,238,885</u>

## 24. PROFIT BEFORE INCOME TAX

Profit before income tax consisted of following items:

a. Other income

	<u>For the Year Ended December 31</u>	
	2019	2018
Rental income	\$ 83,649	\$ 74,629
Dividend income	47,601	41,894
Indemnity income	30,113	1,621
Interest income	2,026	4,157
Others	<u>11,967</u>	<u>7,404</u>
	<u>\$ 175,356</u>	<u>\$ 129,705</u>

b. Other gains and losses

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

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

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

c. Finance costs

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

Information about capitalized interest was as follows:

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

d. Depreciation

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

e. Operating expenses directly related to investment properties

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

f. Employee benefits

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

g. Employees' compensation and remuneration of directors

In accordance with the Corporation's Articles of Incorporation, the Corporation distributes employees' compensation and remuneration of directors at rates of no less than 1‰ and no higher than 1%, respectively, of net profit before income tax less any deficit, employees' compensation, and remuneration of directors.

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

Amount

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

Accrual rate

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

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

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

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

## 25. INCOME TAX

a. Income tax recognized in profit or loss

The major components of income tax expense were as follows:

	<u>For the Year Ended December 31</u>	
	<u>2019</u>	<u>2018</u>
Current tax		
In respect of the current year	\$ <u>94</u>	\$ <u>625</u>

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

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

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

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

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

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

- d. Deferred tax liabilities

The movements of deferred tax liabilities were as follows:

For the year ended December 31, 2019

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

For the year ended December 31, 2018

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

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

## 26. BASIC EARNINGS PER SHARE

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

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

Net profit for the year

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

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

	<b><u>For the Year Ended December 31</u></b>	
	<b>2019</b>	<b>2018</b>
Weighted average number of ordinary shares in computation of basic earnings per share	1,435,544	1,435,544
Effect of dilutive potential ordinary shares:		
Employees' compensation	<u>401</u>	<u>2,081</u>
Weighted average number of ordinary shares used in computation of diluted earnings per share	<u>1,435,945</u>	<u>1,437,625</u>

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

## 27. CAPITAL MANAGEMENT

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

## 28. FINANCIAL INSTRUMENTS

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

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

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

- 1) Fair value hierarchy

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

(Continued)

	Level 1	Level 2	Level 3	Total
Financial assets at FVTOCI				
Domestic listed shares	\$ 815,306	\$ -	\$ -	\$ 815,306
Domestic unlisted shares	<u>-</u>	<u>-</u>	<u>44,843</u>	<u>44,843</u>
	<u>\$ 815,306</u>	<u>\$ -</u>	<u>\$ 44,843</u>	<u>\$ 860,149</u>
<hr/>				
December 31, 2018				
Financial assets at FVTPL				
Emerging market shares	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 217,281</u>	<u>\$ 217,281</u>
Financial assets at FVTOCI				
Domestic listed shares	\$ 827,245	\$ -	\$ -	\$ 827,245
Domestic unlisted shares	<u>-</u>	<u>-</u>	<u>51,219</u>	<u>51,219</u>
	<u>\$ 827,245</u>	<u>\$ -</u>	<u>\$ 51,219</u>	<u>\$ 878,464</u>
				(Concluded)

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

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

	Financial Assets at FVTPL - Equity Instruments	Financial Assets at FVTOCI - Equity Instruments	Total
<hr/>			
For the year ended December 31, 2019			
Balance, beginning of year	\$ 217,281	\$ 51,219	\$ 268,500
Total profit or loss			
Recognized in profit or loss	(32,516)	-	(32,516)
Recognized in other comprehensive income	-	(1,771)	(1,771)
Disposal	(3,414)	-	(3,414)
Capital reduction refunded	<u>-</u>	<u>(4,605)</u>	<u>(4,605)</u>
Balance, end of year	<u>\$ 181,351</u>	<u>\$ 44,843</u>	<u>\$ 226,194</u>
Unrealized gains and losses recognized in other profit or loss	<u>\$ (32,620)</u>	<u>\$ -</u>	<u>\$ (32,620)</u>
<hr/>			
For the year ended December 31, 2018			
Balance, beginning of year	\$ 215,464	\$ 54,563	\$ 270,027
Total profit or loss			
Recognized in profit or loss	2,338	-	2,338
Recognized in other comprehensive income	-	2,580	2,580
			(Continued)

	<b>Financial Assets at FVTPL - Equity Instruments</b>	<b>Financial Assets at FVTOCI - Equity Instruments</b>	<b>Total</b>
Disposal	\$ (521)	\$ (962)	\$ (1,483)
Capital reduction refunded	<u>-</u>	<u>(4,962)</u>	<u>(4,962)</u>
Balance, end of year	<u>\$ 217,281</u>	<u>\$ 51,219</u>	<u>\$ 268,500</u>
Unrealized gains and losses recognized in other profit or loss	<u>\$ 2,264</u>	<u>\$ -</u>	<u>\$ 2,264</u> (Concluded)

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

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

c. Categories of financial instruments

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

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

d. Financial risk management objectives and policies

The Group's major financial instruments include accounts receivable, investments accounted for using equity method, other financial assets, accounts payable, short-term borrowings, short-term bills payable, long-term borrows (including current portion of long-term bank borrowings) and long-term bills

payable. The Group's financial management department provides service to the business units, coordinates domestic and international financial operations, prepares and analyzes internal risk reports to monitor and manage financial risks related to the operation of the Group. These risks include market risk (including exchange rate risk, interest rate risk and other price risk), credit risk and liquidity risk.

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

#### 1) Market risk

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

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

##### a) Foreign currency risk

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

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities and of the derivatives exposed foreign currency risk at the end of the reporting period are set out in Note 32.

##### Sensitivity analysis

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

The sensitivity analysis included only the outstanding foreign currency denominated monetary items, refer to Note 32. The following table shows the impact on profit of 1% decrease in NTD against USD.

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

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

b) Interest rate risk

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

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

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

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

c) Other price risk

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

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

Sensitivity analysis

If equity price of fair value through other comprehensive income financial assets had been lower by one dollar, the pre-tax-other comprehensive income, for the years ended December 31, 2019 and 2018 would both have been lower by NT\$34,113 thousand.

2) Credit risk

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

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

3) Liquidity risk

The Group manages liquidity risk by monitoring and maintaining a level of cash deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group relies on bank borrowings as a significant source of liquidity. The management monitors the utilization of bank borrowings and ensures compliance with loan covenants. As of December 31, 2019, the unutilized credit facility of the Group was NT\$ 33.3 billion; therefore, there is no liquidity risk or incapacity of financing capital to meet contractual obligations.

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

	<b>Less Than 1 Year</b>	<b>1-5 Years</b>	<b>Over 5 Years</b>	<b>Total</b>
<u>December 31, 2019</u>				
Short-term borrowings	\$ 5,188,373	\$ -	\$ -	\$ 5,188,373
Short-term bills payable	1,800,000	-	-	1,800,000
Accounts payable (including related parties)	95,269	-	-	95,269
Other payables	504,388	-	-	504,388
Refund liabilities	153,612	-	-	153,612
Lease liabilities	14,082	47,037	17,228	78,347
Long-term bank borrowings	499,363	4,173,943	-	4,673,306
Long-term bills payable	-	2,610,000	-	2,610,000
Guarantee deposits received	-	-	35,000	35,000
	<u>\$ 8,255,087</u>	<u>\$ 6,830,980</u>	<u>\$ 52,228</u>	<u>\$ 15,138,295</u>
<u>December 31, 2018</u>				
Short-term borrowings	\$ 6,424,499	\$ -	\$ -	\$ 6,424,499
Short-term bills payable	3,200,000	-	-	3,200,000
Accounts payable (including related parties)	641,068	-	-	641,068
Other payables	1,014,578	-	-	1,014,578
Refund liabilities	115,720	-	-	115,720
Long-term bank borrowings	997,864	3,931,840	-	4,929,704
Long-term bills payable	-	1,680,000	-	1,680,000
Guarantee deposits received	-	120	35,000	35,120
	<u>\$ 12,393,729</u>	<u>\$ 5,611,960</u>	<u>\$ 35,000</u>	<u>\$ 18,040,689</u>

## 29. TRANSACTIONS WITH RELATED PARTIES

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

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

<u>Company</u>	<u>Relationship</u>
China Steel Corporation	Parent entity
Dragon Steel Corporation (DSC)	Fellow subsidiaries
CHC Resources Corporation (CHC)	Fellow subsidiaries
Info Champ Systems Corporation (ICSC)	Fellow subsidiaries
China Steel Machinery Corporation (CSMC)	Fellow subsidiaries
CSC Steel Sdn. Bhd. (CSSB)	Fellow subsidiaries
China Steel Global Trading Corporation (CSGTC)	Fellow subsidiaries
China Ecotek Corporation (CEC)	Fellow subsidiaries
Himag Magnetic Corporation (HMC)	Fellow subsidiaries
China Steel Security Corporation	Fellow subsidiaries
China Steel Precision Metals Kunshan Co., Ltd.	Fellow subsidiaries
United Steel Engineering & Construction Corp.	Fellow subsidiaries

(Continued)

<u>Company</u>	<u>Relationship</u>
Steel Castle Technology Corporation	Fellow subsidiaries
China Steel Express Corporation	Fellow subsidiaries
China Steel Structure Co., Ltd	Fellow subsidiaries
Universal Exchange Inc.	Fellow subsidiaries
Union Steel Development Corp.	Fellow subsidiaries
Thintech Materials Technology Co., Ltd.	Fellow subsidiaries
China Steel Management Consulting Corp.	Fellow subsidiaries
China Steel Chemical Corporation	Fellow subsidiaries
Yu Cheng Lime Corporation	Fellow subsidiaries
CSEI Transport Corporation (Panama)	Fellow subsidiaries
Wabo Global Trading Corporation	Fellow subsidiaries
CSC Solar Corporation.	Fellow subsidiaries
CGST Metals Vietnam Joint Stock Company	Fellow subsidiaries
Kaohsiung Rapid Transit Corporation	Fellow subsidiaries
Transglory Investment Corporation	Associates
Formosa Ha Tinh Steel Corporation	Other related parties
Pacific Harbour Stevedoring Corporation	The Corporation as supervisor of other company
Cheng Shin Management for Building Co., Ltd.	The Corporation as director of other Company

(Concluded)

b. Sale of goods

Account Items	Related Parties Types /Name	<u>For the Year Ended December 31</u>	
		<u>2019</u>	<u>2018</u>
Sales	Fellow subsidiaries related to others	\$ 1,333,043	\$ 1,780,397
	Parent entity	<u>4,544</u>	<u>531</u>
		<u>\$ 1,337,587</u>	<u>\$ 1,780,928</u>
Service Revenue	China Steel Corporation	\$ 471,880	\$ 598,289
	Fellow subsidiaries related to others	37	25
		<u>\$ 471,917</u>	<u>\$ 598,314</u>

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

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

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

Account Items	Related Parties Types /Name	For the Year Ended December 31	
		2019	2018
Other operating revenue	Fellow subsidiaries related to others		
	DSC	\$ 44,762	\$ 52,604
	HMC	<u>11,474</u>	<u>7,843</u>
		<u>\$ 56,236</u>	<u>\$ 60,447</u>

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

c. Purchase of goods

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

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

d. Accounts receivable from related parties

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

(Continued)

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

(Concluded)

No guarantee had been received for accounts receivable and other receivable from related parties. No expense had been recognized for the years ended December 31, 2019 and 2018 for allowance for impairment of accounts receivable in respect of the amounts owed by related parties.

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

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

The outstanding accounts payable to related parties were unsecured.

f. Loans from related parties

Related Parties Types	December 31	
	2019	2018
Parent entity	<u>\$ 2,450,000</u>	<u>\$ 2,450,000</u>

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

The loans from the parent entity were unsecured loans with interest expense of NT\$15,145 thousand and NT\$12,548 thousand for 2019 and 2018, respectively.

g. Other transactions with related parties

1) Authorization fees

In May 2003, the parent company, Sumitomo Metal Industries, Ltd. (renamed as Nippon Steel Corporation in April 2019) and Sumitomo Corporation entered into a joint venture agreement and established the joint venture company East Asia United Steel Corporation (EAUS) in July 2003. The parent company thus has a stable supply of high quality slab through this joint venture. The parent company then signed a contract with the Corporation, transferring to the Corporation the right to buy slab from EAUS. The Corporation should pay authorization fees to the parent company

under the contract. These fees (included in the purchase cost of materials) were NT\$99,527 thousand and NT\$106,775 thousand in 2019 and 2018, respectively. As of December 31, 2019 and 2018, authorization fees payable (included in payables to related parties) were NT\$21,550 thousand and NT\$27,043 thousand, respectively. The calculation of slab purchase prices was based on the formula stated in the agreement.

2) Leases

a) The Corporation entered into a contract with fellow subsidiaries related to others on the lease of the Corporation's part of the land and warehouse. Lease period is until August 2020. The rental revenue for the years ended December 31, 2019 and 2018 were NT\$2,335 thousand and NT\$2,336 thousand, respectively.

b) The Corporation entered into a contract with parent entity on the lease of the Corporation's part of the land lease period is until December 2020. The rental revenue for the years ended December 31, 2019 and 2018 were both NT\$5,310 thousand.

3) Construction in progress and other expenditures

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

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

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

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

h. Compensation of key management personnel

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

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

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

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

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

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

In addition to those disclosed in other notes, significant commitments and contingencies of the Group as of December 31, 2019 were as follows:

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

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

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

	<b>Foreign Currencies (In Thousands)</b>	<b>Exchange Rate</b>		<b>Carrying Amount (In Thousands of New Taiwan Dollars)</b>
<u>December 31, 2019</u>				
Monetary financial assets				
USD	\$ 4,321	29.98	(USD:NTD)	\$ 129,550
Monetary financial liabilities				
USD	1,515	29.98	(USD:NTD)	45,416
JPY	49,145	0.276	(JPY:NTD)	13,564
<u>December 31, 2018</u>				
Monetary financial assets				
USD	26,413	30.72	(USD:NTD)	811,269
Monetary financial liabilities				
USD	1,471	30.72	(USD:NTD)	45,187

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

### 33. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and b. investees:

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

10) Intercompany relationships and significant intercompany transactions (None)

11) Information on investees (Table 5)

c. Information on investments in mainland China (None)

### 34. SEGMENT INFORMATION

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

- The Corporation - manufacture, process and sell steel products.
- Other corporations - Hung Kao Investment Corporation engaged in general investment, and Taiwan Steel Corporation which has not started operation and had become end of settlement on December 30, 2019.

a. Segment revenues and operating results

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

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

(Continued)

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

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

b. Revenues from major products and services

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

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

c. Geographical information

The Group operates in Taiwan.

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

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

Noncurrent assets excluded financial instruments.

d. Information about major customers

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

**CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES**

**ENDORSEMENTS/GUARANTEES PROVIDED**

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

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

NO.	Endorsement/Guarantee Provider	Endorsee/Guarantee		Limits on Endorsement/Guarantee Amount Provided to Each Guaranteed Party	Maximum Balance for the Period	Ending Balance	Amount Actually Drawn	Amount of Endorsement/Guarantee Collateralized by Properties	Ratio of Accumulated Endorsement/Guarantee to Net Equity per Latest Financial Statements (%)	Maximum Endorsement/Guarantee Amount Allowable	Guarantee Provided by Parent Company	Guarantee Provided by a Subsidiary	Guarantee Provided to Subsidiaries in Mainland China	Note
		Name	Nature of Relationship											
0	Chung Hung Steel Corporation	Chung Hung Steel Corporation (Note 1)	Having business relationship	\$ 4,370,669	\$ 10,000	\$ -	\$ -	\$ -	-	\$ 7,284,449	N	N	N	Note 2

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

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

## CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

## MARKETABLE SECURITIES HELD

DECEMBER 31, 2019

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

Held Company Name	Type and Name of Marketable Securities	Relationship with The Company	Financial Statement Account	DECEMBER 31, 2019				Note	
				Shares/Units	Carrying Value	Percentage of Ownership (%)	Fair Value		
Chung Hung Steel Corporation	Common Stock Yieh United Steel Corp.	Parent company	Financial assets at fair value through profit or loss - current	39,151,800	\$ 181,351	1	\$ 181,351	Note 1	
	Shouh Hwang Enterprise Co., Ltd.		Financial assets at fair value through profit or loss - current	730,000	-	15	-	Note 2	
						<u>\$ 181,351</u>		<u>\$ 181,351</u>	
	Common Stock China Steel Corporation		Financial assets at fair value through other comprehensive income - current	33,109,239	<u>\$ 791,311</u>	-	<u>\$ 791,311</u>		
	Common Stock Taiwan Ves-Power Co., Ltd.		Financial assets at fair value through other comprehensive income - noncurrent	958,333	\$ 35,305	2	\$ 35,305	2019.11.30 net value	
	Riselink Venture Capital Corp.		Financial assets at fair value through other comprehensive income - noncurrent	197,381	3,580	3	3,580	2019.11.30 net value	
Chung Hung Steel Corporation	Pacific Harbour Stevedoring Corp.	The company as its supervisor	Financial assets at fair value through other comprehensive income - noncurrent	250,000	5,958	5	5,958	2019.11.30 net value	
					<u>\$ 44,843</u>		<u>\$ 44,843</u>		
Hung Kao Investment Corporation	Common Stock China Steel Corporation	The ultimate parent of the Company	Financial assets at fair value through other comprehensive income - noncurrent	1,003,980	<u>\$ 23,995</u>	-	<u>\$ 23,995</u>		

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

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

**CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES**

**TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
FOR THE YEAR ENDED DECEMBER 31, 2019  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Buyer	Related Party	Relationship	Relationship			Abnormal Transaction		Notes/Accounts Receivable (Payable)		Note	
			Purchase/Sale	Amount	% of Total	Payment Terms	Unit Price	Payment Terms	Ending Balance		% of Total
Chung Hung Steel Corporation	CSC Steel Sdn. Bhd.	Fellow subsidiary	Revenue from sale of goods	\$ (1,288,652 )	(3 )	T/T within 7 business days after lading date (not included)	\$ -	NO THIRD-PARTY COULD BE COMPARED (Note)	\$ -	-	
	China Steel Corporation	Parent company	Service revenue	(470,271 )	(1 )	T/T as the end of the month of when invoice is issued after final acceptance	-	NO THIRD-PARTY COULD BE COMPARED (Note)	43,118	8	
	Dragon Steel Corporation	Fellow subsidiary	Purchase of goods	8,712,164	27	Letter of credit at sight	-	NO THIRD-PARTY COULD BE COMPARED (Note)	-	-	
	China Steel Global Trading Corporation	Fellow subsidiary	Purchase of goods	259,405	1	Letter of credit at sight/Payment after final acceptance	-	NO THIRD-PARTY COULD BE COMPARED (Note)	-	-	
	China Steel Corporation	Parent company	Purchase of goods	20,764,285	63	Letter of credit at sight/Payment after final acceptance	-	NO THIRD-PARTY COULD BE COMPARED (Note)	(56,343 )	(59 )	
	Formosa Ha Tinh Steel Corporation	Other related parties	Purchase of goods	122,810	-	Letter of credit at sight	-	NO THIRD-PARTY COULD BE COMPARED (Note)	-	-	

Note: Refer to Note 29.

**CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES**

**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
DECEMBER 31, 2019  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

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

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

Note 2: Amounts received until report date.

**CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES**

**INFORMATION ON INVESTEEES  
FOR THE YEAR ENDED DECEMBER 31, 2019  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Number of Shares	%	Carrying Amount	Net Income (Loss) of the Investee	Share of Profit (Loss)	Note
				December 31, 2019	December 31, 2018						
Chung Hung Steel Corporation	Hung Kao Investment Corporation	Republic of China	General investment	\$ 26,000	\$ 26,000	2,600,000	100.00	\$ 27,173	\$ (74)	\$ (74)	Subsidiaries (Note 1)
Chung Hung Steel Corporation	Taiwan Steel Corporation	Republic of China	Iron and steel industry chain industry	-	1,000	-	-	-	(90)	(90)	Subsidiaries (Notes 1 and 2)
Chung Hung Steel Corporation	Transglory Investment Corporation	Republic of China	General investment	2,001,152	2,001,152	297,619,989	40.91	2,526,222	249,976	102,266	

Note 1: Amount was eliminated in the consolidated financial statements.

Note 2: End of settlement on December 30, 2019.