Stock Code: 2006

TUNG HO STEEL ENTERPRISE CORPORATION

Annual Report 2018

Publication Date: April 22, 2019

Annual Report Website:

TWSE Market Observation Post System: http://mops.twse.com.tw

The Company Website: www.tunghosteel.com

1. The name, title telephone number, and e-mail address of the spokesperson or deputy spokesperson

Spokesperson: Hsiu-Chih Chen

Title: Associate Manager

Telephone: (02) 2551-1100 ext705

Email: red@tunghosteel.com

Deputy Spokesperson: Ju-Yu Ho

Title: Associate Manager

Telephone: (02) 2551-1100 ext611

Email: juyu@tunghosteel.com

Deputy Spokesperson: Shu-Mei Ko

Title: Manager

Telephone: (02) 2551-1100 ext568

Email: ksm@tunghosteel.com

2. Contact address and telephone number of the head office, branch offices and factories

Headquarters: 6F., No. 9, Sec. 1, Chang'an East Road, Zhongshan District, Taipei 10441

Telephone: (02)2551-1100 Fax: (02)2562-6620

Kaohsiung Works: No.8 Jiaxing Street, Xiaogang District, Kaohsiung 81257

Telephone: (07)802-3131 Fax: (07)801-0696

Taoyuan Works: No. 116, Caota, Neighborhood 8, Village. Baozhang, Guanyin District, Taoyuan 32847

Telephone: (03)476-1151 Fax: (03)476-1609

Miaoli Works: No. 22, Pingding, Erhu Village. Xihu Twonship, Maioli 36842

Telephone: (037)923-333 Fax: (037)923-311

Taichung Port Logistic Center: No. 455, Section 3, Lingang Road, Wuqi District, Taichung 43547

Telephone: (04)2656-2000 Fax: (04)2656-5500

3. The name, address, website and telephone number of the agency handling shares transfer

Name: The Share Transfer Agency of Yuanta Securities Co., Ltd.

Address: B1, No. 210, Section 3, Chengde Road, Datong District, Taipei 10366

Website: www. yuanta.com

Telephone: (02) 2586-5859 Fax: (02) 2586-5977

4. The name of any exchanges where the Company's securities are traded offshore, and the method by which to access information on said offshore securities

Name of 2018 auditing CPA: Accountant Hui-Zhi Kao and Xin-Yi Kuo

CPA Firm: KPMG Taiwan

Address: 68F., No. 7, Section 5, Xinyi Road. Xinyi District, Taipei City 11049

Website: www.kpmg.com.tw

Telephone: (02)8101-6666

5. The name of any exchanges where the Company's securities are traded offshore, and the method by which to access information on said offshore securities

GDR Listed Trading Place: Luxembourg Stock Exchange

Enquiry Website for GDR: mops.twse.com.tw

6. The Company website: www. tunghosteel.com

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1. Letter to Shareholders

Tung Ho Steel Enterprise Corporation
Business Report

In the early half year of 2018, global economy continued to steadily recover under the support of each country's central bank's easing money policy. As the Trump's administration vigorously pushed Tex reduction policy to attract American business back to invest and actively expand government's public investment, the economic performance was very strong in different areas, such as manufacturing, consumption, and investment and GDP growth rate with higher record. The domestic economy was unprecedented booming, and the unemployment rate went to the lowest points, which show we reach the employment level.

Since the second half of year, the optimistic situation has been affected by several major events. Expect the US economy, other major economies such as EU, Japan, and emerging economies prosperities started to decrease. The major events are: 1. Trump administration's anti-global trade protection and US first policy which derivative US-China trade conflict and political confrontation, unilaterally abandon the regional trade agreement, and levy high traffics. These behaviors directly and indirectly affect the international trade, and slowdown the investment for all businesses. As the result, the global economic has been slow.2. Brexit issue has been postponed which caused European economy recovery to became slow. 3. US Federal Reserve remain raise the rate quarterly and reduce the central bank balance sheet in order to suppress overheated economy and solve inflation pressure. With those tight policies, the global economic was indirectly repressed. 4. China faced the unsustainable difficulties after rapidly economic growth for 30 years. Problems were emerged such as Over-investment, Inadequate Consumption, and Environmental degradation. Adjusting the economic structure slow down the economic grow and the spreading effect affect the global economy.

In general, the international economy in the past year was better than the year before. However, Taiwan has been affected by the US-China trade war and US trade protectionism since we rely on export for the most and have the close interdependence with China. Taiwan technology industry highly relies on the Apple industry chain, therefore, the economic performance for the whole year only edged up a little since apple new smartphone sales wasn't as expected. Develop the domestic industry and strengthen the domestic market are the urgent priorities. Hope the government would propose the effective plans to promote public investment and enhance the domestic economic.

In the steel industry, China strictly enforced to remove the high-pollution production capacity, ban the inferior steels, limit steel production, and improve overcapacity, and as the result, price competition was disappeared. The steel price remains high price in the whole world including Taiwan, and the profit of steel industry was rally. With Us strong demand on steel products and the US-China trade war, which made Us imposes high tariffs on importing China steel and aluminum products, Taiwan steel industry has unexpected benefit and steel factories have great profit.

In 2018, the whole operating environment of Taiwan steel industry was not bad. Although the rebar sales grew, however, the cost increased and reduced the profit. Also, the steelmaking equipment in Vietnam factory was malfunction, and indirectly loss the profit. Therefore, profit of 2018 slightly decreased compare to the year before. Fortunately, the above unwell issues are all solves and the Vietnam in factory begins to put into production. The operating condition in this year will get better.

A consolidated overview of the 2018 business performance of the Company and its primary reinvestment businesses is outlined below:

1.Results of Production and Sales：

unit: NT$1000

	Production			Sales		
	2018	2017	Growth rate	2018	2017	Growth rate
Billet	32,612,323	23,902,710	36.44%	4,213,094	6,096,244	-30.89%
Rebar	14,908,853	9,327,224	59.84%	17,377,738	11,414,934	52.24%
H-beam	9,860,169	7,111,435	38.65%	10,940,317	8,647,207	26.52%
steel plate (self-made)	1,552,989	904,220	71.75%	731,591	631,426	15.86%
steel plate (transaction)	0	0	0.00%	740	4,344	-82.96%
Channel	1,202,075	1,112,139	8.09%	1,274,544	1,203,327	5.92%
I-beam	51,135	36,837	38.81%	52,556	50,141	4.81%
Steel structure	4,406,257	2,909,164	51.46%	4,641,996	2,990,488	55.23%
Sale and purchase of steel	0	0	0.00%	7,098	20,409	-65.22%
Environmental protection processing	314,280	242,790	29.45%	291,342	257,648	13.08%
Steel sheet piles	50,488	9,585	426.73%	57,552	10,000	475.55%
Wind Power Generation	42,120	51,517	-18.24%	51,232	51,517	-0.55%
Construction Revenue	271,775	416,834	-34.80%	113,558	356,348	-68.13%
Others	167,540	108,702	54.13%	16,263	15,238	6.72%
Total	65,440,004	46,133,157	41.85%	39,769,621	31,749,271	25.26%

2. Profitability Analysis：

Unit：NT$1000

	2018	2017	Growth rate
Operating revenue	39,769,621	31,749,271	25.26%
Operating cost	36,444,939	27,947,410	30.41%
Operating profit	3,324,682	3,801,861	-12.55%
Operating expenses	2,049,329	1,959,871	4.56%

Operating margin	1,275,353	1,841,990	-30.76%
Net profit before tax	1,255,103	1,999,083	-37.22%
Net income after tax	888,939	1,700,734	-47.73%

3. Financial Structure and profitability analysis：

Analysis Item \ Year			2018	2017
Financial Structure (%)	Debt-to-assets ratio		50.55	41.8
	Long-term fund to fixed assets ratio		150.13	136.18
Profitability	Return on assets (%)		2.38	4.58
	Return on shareholder's equity (%)		3.70	7.15
	Paid-in capital ratio (%)	Operating income	12.7	18.35
		Pre-tax net profit	12.5	19.91
	Net profit ratio (%)		2.24	5.36
	Earnings per share (NT$)		0.88	1.72

4. Overview of Technology and R&D

The company's research and development expenditure for the year 2018 was NT$40,229,868, accounting for 0.1% of consolidated revenue. Major R&D achievements in steelmaking include the development of high-grade marine steel grades and the development of high strength steels. Major R&D achievements in rolling steel include development of high strength rebar, development of high-strength splicing splicers, development of new gradient slat-type steel new technologies and new products, development of ultra-thick H-shaped steels, and development Various kinds of steels with different specifications and shapes, oversized hot-rolled H-beams new technology and new product research and development plans to diversify products to enhance technical capabilities and increase the company’s revenue and profit. The main research and development plans for the year of 2019 will be: 1. H beam steel (Universal Edger) new rolling technology development case (completion of simulated test rolling to confirm the feasibility of new technology). 2. Co-roller development of angle steel and flat steel H/V (horizontal/vertical rolls) (Complete lead block simulation test, confirmed that the innovative hole design concept of this case is indeed feasible, etc.).

The Company's operational strategies include continuous efforts in improving our technical capability and management efficiency, lowering production costs, and ramping up collaboration of production, sales, and purchases so that we can raise the Company's competitive advantages in the domestic market and also simultaneously carry out aggressive expansion of our overseas market and customer. Additionally, another important strategy of the Company is the continual research and development of new steel products and applications, environmental protection, and reduction of greenhouse gas emission to further strengthen the sustainable management of the Company.

In 2019, affected by US-China trade war and uncertainty of Brexit, global economy growth rate has been slow. The US economic performance still need to keep under observation since FED raise the interest rates, trade war and the political opposition between Trump administration and the Congress. Taiwan has been affected by major trading countries ‘economic slowdown, and therefore, economic growth has remained flat. Taiwan’s technology industry has been weak due the Apple supply chain’s operations effectiveness became slow in US-China trade war. On the other hand, domestic demand industry, such as steel industry, generates new demand due to US-China trade war which made Taiwanese businessman adjust the global investment strategies, attracting businessmen return to Taiwan to invest. In addition, housing price will have the opportunity to reach the bottom, and Taiwan construction market is expected to grow. As the government plans to promote Forward-Looking Infrastructure, steel demand will highly increase, and Taiwan steel market will expect to be prosperous. Though, the economic environmental has fluctuations, all employees of the company should keep the spirit of self-discipline, and consistent optimism, strive to strengthen competitiveness, reduce production costs, improve internal management, and commit to developing new markets and products. In order to improve performance and create maximum value for shareholders, we expect to live up to the expectations of shareholders.

Lastly, I would like to wish all our shareholders health and prosperity.

Chairman   Henry C.T. Ho

II. Company Profile

1. Date of Incorporation

May 30, 1962

2. Company History

(1) Company's mergers and acquisitions and transfer of investment of affiliates in the most recent year and up to the date of publication of the annual report

May	1962	Founded by Mr. Chin-Dui in Chiayi County Taiwan. Paid-in capital was NT$4,500,000. It was engaged in ship disintegration, buying and selling old ships, metal iron and mechanical materials.
May	1965	Purchased reclaimed land in Kaohsiung Harbor and built Qianzhen Rolled Steel Works.
Sep	1974	Purchased industrial land in Linhai Industrial Park Xiaogang District Kaohsiung, constructed the office building and steel making works.
Jan	1975	The Board of Directors elected Mr. Cheng-Ting Ho as the Chairman, Mr. Earle J. S. Ho as the General Manager.
Sep	1977	Set up the first continuous casting machine at Kaohsiung works in Taiwan.
Jun	1986	Purchased Bade works in Taoyuan which has two 5—ton electric arc furnaces, and the business of ship disintegration stopped in the same year.
Jul	1988	The arc furnace of Taoyuan Bade Works started production, and the Company's stock was listed in Category I.
Apr	1990	The Board of Directors elected Mr. Earle J. S. Ho as the Chairman as well as the general manager. Mr. Cheng-Ting Ho as the Honorary Chairman.
Jan	1991	Set up Miaoli Works which was approved by Department of Reconstruction Taiwan Government.
Nov	1993	Held the H-Beam Products Presentation.
Jan	1996	Honored as the 3rd Atomic Safety Special Award for Groups by the Atomic Energy Council of Executive Yuan.
May	1996	Expansion project for Kaohsiung Steel Works officially began.
Mar	2007	Kaohsiung Works received OHSAS 18001 by Bureau of Standards, Metrology and Inspection, Ministry of Economic Affairs and TOSHMS (Taiwan Occupational Safe and Health Management System), approval

of the registration.

Oct	2009	The Board of Directors appointed Mr. Henry C. T. Ho as the General Manager.
Jun	2010	The construction of Taoyuan Works completed.
Jul	2010	Taoyuan Works steel mill succeeded in the hot test of directly rolling steel system and it was put into production, which became the first steel mill in Taiwan without a heating furnace and a direct rolling process of hot steel.
Nov	2011	The carbon footprint of Miaoli Works steel and steel products received “BV Company’s Certification Statement”.
May	2012	Held product presentation on deformed rebar and rebar coupler. Established Tung Ho Steel Foundation
Aug	2012	Taoyuan Works received OHSAS 18001 by Bureau of Standards, Metrology and Inspection, Ministry of Economic Affairs and was approved by Occupational Safety and Health Management System of the registration.
Sep	2013	Taoyuan Works and Miaoli Works received “Made in Taiwan Smile MIT Logo” authorized by the Ministry of Economic Affairs.
Jun	2014	The Board of Directors appointed Mr. Henry C. T. Ho as Chairman as well as the General Manager, and invited Mr. Earle J. S. Ho as the Honorary Chairman.
Nov	2014	The carbon footprint of five products of Kaohsiung’s steel and steel products received “BV Company’s Certification Statement” and “Glass Award” by the Industrial Technology Research Institute, which became the first steel works who received the “Carbon Footprint in Taiwan rebar industry.
Dec	2014	Taoyuan Works received TOSHMS by Bureau of Standards, Metrology and Inspection, Ministry of Economic Affairs and was approved of the registration.
Jun	2015	Held steel sheet pile product presentation.
Jul	2015	Was invited to participate in the flag presentation ceremony for energy conservation taskforces in 2015 by Bureau of Energy, Ministry of Economic Affairs.
Sep	2015	The carbon footprint of five products of Taoyuan Works received “BV Company’s Certification Statement”

Jan	2016	Invested and acquired Vietnam Fuco Steel Company and established the rolling mill expansion committee
Aug	2016	Tung Kang Wind Power Corp. received the 25-year business electrical license by Bureau of Energy, Ministry of Economic Affairs and began to wholesale the electricity force.
Sep	2016	The H-Beam products and steel products were certificated by KS (Korean Industrial Standards.)
Sep	2016	Vietnam Fuco Steel Company was renamed as Tung Ho Steel Vietnam Corporation Limited, THSVC.
Oct	2016	Was honored the 17th National Standardization Award “CNS Mark” of the Standards Inspection Bureau of the Ministry of Economic Affairs.
Nov	2016	Was honored “2016 TCSA, Taiwan Corporation Sustainable Award, Corporate Sustainability Report (Traditional Manufacture Industry) Silver Award.
Jul	2017	The steel and steel products of Miaoli Works have been verified by BV and received the “Water Footprint Certification Statement”.
Sep	2017	The second-line expansion product of the Taoyuan rolling mill was completed and was put into production.
Nov	2017	Taoyuan Works is certified by the ISO 50001 Energy Resource Management System.
Nov	2017	Was honored 2017 TCSA, Taiwan Corporation Sustainable Award, Corporate Sustainability Report (Traditional Manufacture Industry) Sliver Award.
Dec	2017	Conversion of corporate bonds with capital of NT$10,002,240,690.
Jan	2018	Steel embryo from Miaoli Works electric furnace carbon steel passed and received “Resource Regeneration Green Product Certification”.
Jan	2018	The Company became an official member of WSA (World Steel Association).
Mar	2018	Conversion of corporate bonds with capital of NT$10,040,606,080.
Nov	2018	Was honored 2018 TCSA, Taiwan Corporation Sustainable Award, Corporate Sustainability Report (Traditional Manufacture Industry) Gold Award.

(2) The situation of the Company reorganization in the most recent year and up to the date of publication of the annual report: None.

(3) Mass transfer or replacement of shares of directors, supervisors, or large shareholders holding more than 10% of the shares in the most recent year and up to the date of publication of the annual report: None.

(4) Changes in the operating rights in the most recent year and up to the date of publication of the annual report: None.

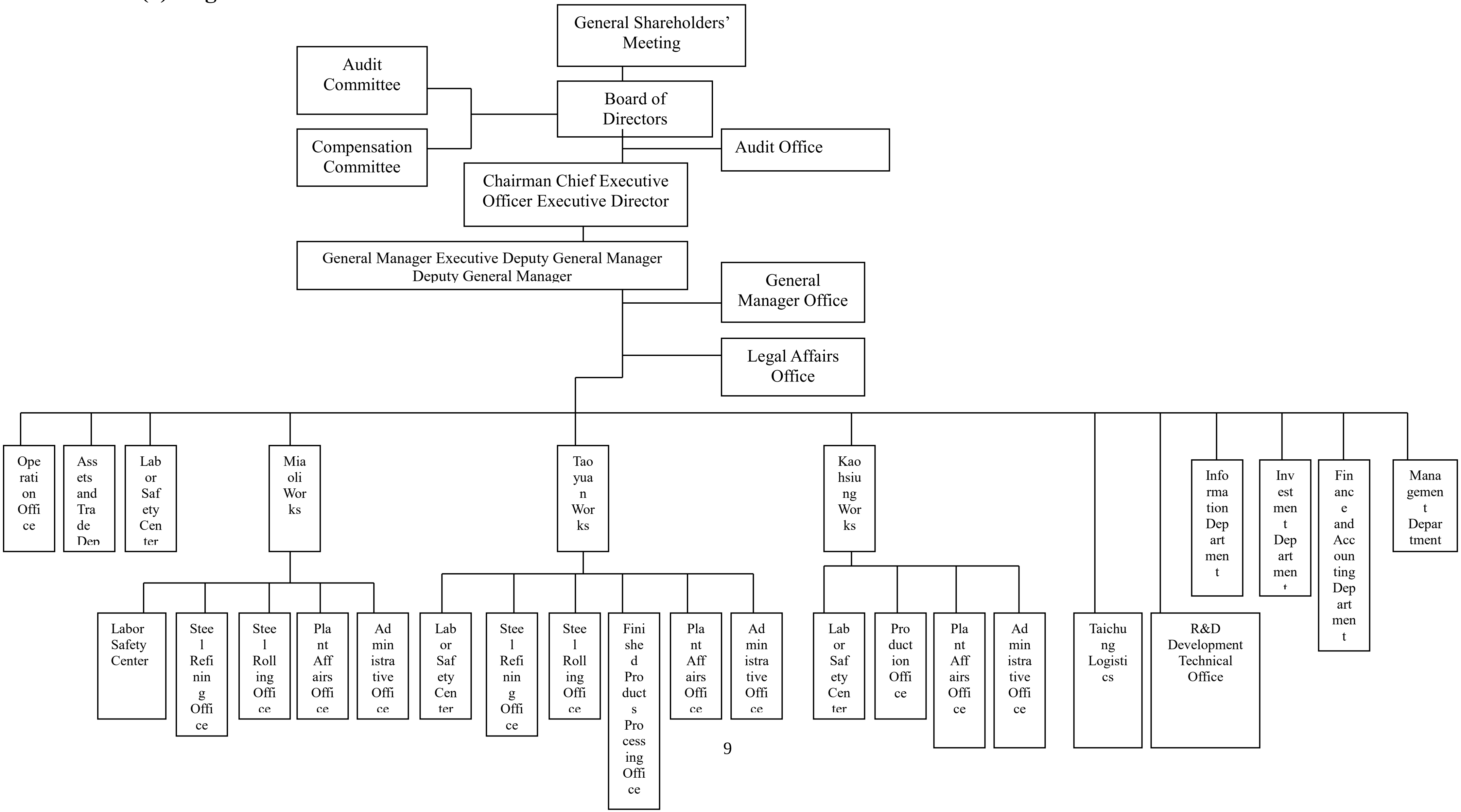
(5) Significant changes in the operating methods or business contents in the most recent year and up to the date of publication of the annual report: None.

(6) Other important matters that may affect shareholders' equity and their impact on the Company in the most recent year and up to the date of publication of the annual report: None.

III. Corporate Governance Report

1. Organization System

(1) Organization chart



(2) Business carried out by major departments

i. General Manager’s Office: Handles matters relating to budget control, operational analysis, bonus systems, special project planning, credit management, and customer services etc.

ii. Legal Affairs Office: Handles matters relating to research, processing, and consulting for legal affairs.

iii. Audit Office: Handles matters relating to establishing, promoting and implementing the internal audit system.

iv. Management Department: Handles matters relating to company organization, establishment of management systems, human resources, educational training, general affairs and asset management.

v. Finance and Accounting Department: Handles matters relating to establishing the Company’s accounting systems, accounting, costs, finance, foreign exchange, investments in negotiable securities, and stock affairs.

vi. Investment Department: Handles matters relating to short-term, mid-term, and long-term investment strategies and planning as well as reinvestment management.

vii. Information Department: Handles matters relating to information management and computer work planning, development, and maintenance, as well as efficiency improvements.

viii. Operations Department: Handles matters relating to local and overseas customer quoting, bidding, and sales.

ix. Assets and Trade Department: Handles matters relating to purchasing commodities and raw materials, as well as machinery and equipment.

x. Miaoli Works: Handles matters relating to H-Beam steel and steel plate production and other plant management affairs.

xi. Taoyuan Works: Handles matters relating to steel rebar production and other plant management affairs.

xii. Kaohsiung Works: Handles matters relating to rebar and H-beam steel production and other plant management affairs.

xiii. Research and Development Technical Office: Handles matters relating to research and development on metallurgical technology, product development, and special project technology.

xiv. Labor Safety Center: Handles and oversees matters relating to safety and hygiene in various departments (factory areas).

2. Information on the Company's Directors, General Managers, Assistant General Managers, and the Supervisors of all the Company's Divisions and Branch Units

(1) Information on the Company's directors-1

Date: April 19, 2019

Title	Nationality or Place of Registration	Name	Gender	Date Elected	Term	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Current Shareholding		Current Shareholding in the Name of Others		Experience (Education)	Current Position at the Company and Other Companies	Spouse or Second-degree Relative Holding a Position as a Manager, Director or Supervisor		
							Share	%	Share	%	Share	%	Share	%			Title	Name	Relations
Institutional Director	Taiwan	Mao Sheng Investment Co., Ltd.	N/A	2017.06.16	3 years	2017.06.16	51,888,877	5.20%	53,765,877	5.35%	N/A	N/A	0	0%	N/A	N/A	N/A	N/A	N/A
Chairman	Taiwan	Mao Shen Investment Co., Ltd Representative: Henry C. T. Ho	Male	2017.06.16	3 years	2002.06.27	142,426	0.01%	142,426	0.01%	113,000	0.01%	0	0%	Department of Economics at Harvard University USA	Chairman of Tung Kang Steel Structure Co., Ltd. Chairman of Tung Kang Wid Power Corp. Chairman of Far East Steel Enterprise Co., Ltd. Chairman of ShenYuan Investment Co., Ltd. Chairman of Wan Nian Department Store Co., Ltd. Chairman of He Zhao Investment Co., Ltd. Chairman of Mao Shen Investment Co., Ltd. Chairman of Haxawave, Inc. Director of Shang Fu Industrial Inc.	Vice Chairman Director	Shu-Chau Wang Ho George Y. S. Ho	Mother/ Son Brothers

Title	Nationality or Place of Registration	Name	Gender	Date Elected	Term	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Current Shareholding		Current Shareholding in the Name of Others		Experience (Education)	Current Position at the Company and Other Companies	Spouse or Second-degree Relative Holding a Position as a Manager, Director or Supervisor		
							Share	%	Share	%	Share	%	Share	%			Title	Name	Relations
																Director of Katec Creative Resources Corp. Director of Katec R&D Corp. Director of Tung Kang Engineering & Construction Co., Ltd. Director of Fata Xingye Co., Ltd. Supervisor of Delta Design Corp. Director of Tung Ho Steel Vietnam Corp. Ltd. Director of Goldham Development Ltd. Director of 3 Oceans International Inc. Director of Tung Yuan International Corp. Director of Best-Steel Trade Corp. Director of Fujian Sino-Japan Metal Corp. Director of Tung Ho Steel Foundation			
Director	Taiwan	Mao Sheng Investment o., Ltd. Representative: George Y. S. Ho	Male	2017.06.16	3 years	1996.05.23	100,000	0.01%	40,000	0%	0	0%	0	0%	Department of Environment and Visual Art at Harvard University, USA	Supervisor of ShenYuan Investment Co., Ltd. Director of He Zhao Investment Co., Ltd. Director of He Xing Investment Co., Ltd. Chairman of Spring Foundation	Chairman Vice Chairman	Henry C. T. Ho Shu-Chau Wang Ho	Brothers Mother/ Son

Title	Nationality or Place of Registration	Name	Gender	Date Elected	Term	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Current Shareholding		Current Shareholding in the Name of Others		Experience (Education)	Current Position at the Company and Other Companies	Spouse or Second-degree Relative Holding a Position as a Manager, Director or Supervisor		
							Share	%	Share	%	Share	%	Share	%			Title	Name	Relations
Institutional Director	Taiwan	Shen Yuan Investment Co., Ltd. (Note)	N/A	2017.06.16	3 years	1988.08.18	120,199,779	12.04%	120,199,779	11.97%	N/A	N/A	0	0%	N/A	N/A	N/A	N/A	N/A
Director	Taiwan	Shen Yuan Investment Co., Ltd. Representative: Hui-Ming Wu	Male	2017.06.16	3 years	2014.06.18	128,432	0.01%	128,432	0.01%	0	0%	0	0%	Department of Mining and Metallurgical Engineering at Taipei Engineering Professional School	None	None	None	None
Institutional Director	Taiwan	Episil Holding Incorporation	N/A	2017.06.16	3 years	2014.06.18	5,055,649	0.51%	5,055,649	0.50%	N/A	N/A	0	0%	N/A	N/A	N/A	N/A	N/A
Director	Taiwan	Episil Holding Incorporation Representative: Chih-	Male	2017.06.16	3 years	1988.08.18	4,591,397	0.46%	4,591,397	0.46%	0	0%	0	0%	MBA from California State University	Director of Episil Holding Incorporation Supervisor of Far East Steel Enterprise Co., Ltd. Yu Tai Investment Co., Ltd.	None	None	None

Title	Nationality or Place of Registration	Name	Gender	Date Elected	Term	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Current Shareholding		Current Shareholding in the Name of Others		Experience (Education)	Current Position at the Company and Other Companies	Spouse or Second-degree Relative Holding a Position as a Manager, Director or Supervisor		
							Share	%	Share	%	Share	%	Share	%			Title	Name	Relations
		Ming Huang																	
Institutional Director	Taiwan	Liang Cheng Investment Co., Ltd.	N/A	2017.06.16	3 years	2016.06.18	11,185,973	1.12%	11,185,973	1.11%	N/A	N/A	0	0%	N/A	N/A	N/A	N/A	N/A
Director	Taiwan	Liang Cheng Investment Co., Ltd. Representative: Pao-He Chen	Male	2017.06.16	3 years	1988.08.18	4,533,205	0.45%	4,533,205	0.45%	5,106	0%	0	0%	MBA from Canada Royal University	Chairman of He Cheng Investment Co., Ltd. Chairman of Chi Cheng Investment Co., Ltd. Chairman of Jian Qing Investment Co., Ltd. Chairman of Liang Cheng Investment Co., Ltd. Chairman of Ching Beauty Biology Co., Ltd.	None	None	None
Director	Taiwan	Yen-Liang Ho	Male	2017.06.16	3 years	1999.05.23	361,670	0.04%	361,670	0.04%	0	0%	0	0%	Department of Business Management at University of Sothern California USA	Chairman of Hao Han Investment Co., Ltd. Chairman of Enzen GS Chemical Co., Ltd.	None	None	None
Institutional	Taiwan	Taiwan Zhi Di	N/A	2017.06.16	3 year	2014.06.18	65,000	0.01%	65,000	0.01%	N/A	N/A	0	0%	N/A	N/A	N/A	N/A	N/A

Title	Nationality or Place of Registration	Name	Gender	Date Elected	Term	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Current Shareholding		Current Shareholding in the Name of Others		Experience (Education)	Current Position at the Company and Other Companies	Spouse or Second-degree Relative Holding a Position as a Manager, Director or Supervisor		
							Share	%	Share	%	Share	%	Share	%			Title	Name	Relations
Director		Co., Ltd.			s														
Director	Taiwan	Taiwan Zhi Di Co., Ltd. Representative: Chao-He Lin	Male	2017.06.16	3 years	2014.06.18	318,887	0.03%	318,887	0.03%	0	0%	0	0%	Department of Economics from Soochow University	Chairman of Rui Nian Management & Consulting Co., Ltd.	None	None	None
Independent Director	Taiwan	Yi-Chi Liu	Male	2017.06.16	3 years	2014.06.18	0	0%	0	0%	0	0%	0	0%	Mater Degree on Department of Accounting at National Chengchi University	Supervisor of Tah Tong Textile Co., Ltd. Independent Director of MiTwell Co., Ltd.	None	None	None
Independent Director	Taiwan	Chung-Hsi Chang	Male	2017.06.16	3 years	2014.06.18	6,685	0%	6,685	0%	6,685	0%	0	0%	PhD in Law and Political Science from the Pantheon-Assas University	None	None	None	None
Independent	Taiwan	De-Ming Liu	Male	2017.06.16	3 year	2017.06.16	0	0%	0	0%	0	0%	0	0%	PhD in Economics	Independent Director of Lasertek Co., Ltd.	None	None	None

Title	Nationality or Place of Registration	Name	Gender	Date Elected	Term	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Current Shareholding		Current Shareholding in the Name of Others		Experience (Education)	Current Position at the Company and Other Companies	Spouse or Second-degree Relative Holding a Position as a Manager, Director or Supervisor		
							Share	%	Share	%	Share	%	Share	%			Title	Name	Relations
Director					s										Ohio State University	Independent Director of CSBC Co., Taiwan			

Note: The Representative of Shen Yuan Investment Co., Ltd. Ms. Shu-Chau Wang Ho passed away on January 8, 2019, the board has yet appointed a representative.

Table 1: Major shareholders of the institutional shareholders

Date: March 31, 2019

Name of Institutional Shareholder (Note 1)	Major Shareholders of Institutional Shareholders (Note 2)
Mao Sheng Investment Co., Ltd	Shu-Chau Wang Ho 41.78%, Henry C. T. Ho11.73%
Shen Yuan Investment Co., Ltd.	Shu-Chau Wang Ho 78.92%
Epsil Holding Incorporation	Chih-Ming Huang 25%, Mei-Chu Cheng 25%
Liang Cheng Investment Co., Ltd.	British Virgin Islands JUSTIN Investment Management 100%
Taiwan Zhi Di Co., Ltd.	Sheng-Yu Chen 52%, Shu-Zhen Ho46%

Note 1: If the institutional shareholder is a representative for a director, the institutional shareholder's name shall be stated.

Note 2: Fill in the name of the main shareholder of the institutional shareholder (its shareholding ratio is in the top ten) and its shareholding ratio. If the major shareholders are institutional shareholders, Table 2 shall be filled.

Table 2: Major shareholders in Table 1 of the Company's major institutional shareholders

Date: March 31, 2019

Name of Institutional Shareholders	Major shareholders
N/A	None

Information on the Company's directors-2

December 31, 2018

Criteria / Name	Meet one of the Following Professional Qualification Requirements, Together with at least Five Years Work Experience			Independence Attribute (Note)										Number of Holding Concurrent Independent Director Position in Other Public Companies
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or other Professional or Technical Specialist who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10	
Mao Sheng Investment Co., Ltd Representative : Henry C. T. Ho			✓			✓				✓		✓		0

Criteria / Name	Meet one of the Following Professional Qualification Requirements, Together with at least Five Years Work Experience			Independence Attribute (Note)										Number of Holding Concurrent Independent Director Position in Other Public Companies
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or other Professional or Technical Specialist who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10	
Shen Yuan Investment Co., Ltd. Representative: Shu-Chau Wang Ho			✓							✓		✓		0

Name \ Criteria	Meet one of the Following Professional Qualification Requirements, Together with at least Five Years Work Experience			Independence Attribute (Note)										Number of Holding Concurrent Independent Director Position in Other Public Companies
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or other Professional or Technical Specialist who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10	
Mao Sheng Investment Co., Ltd Representative: George Y. S. Ho				✓	✓	✓			✓	✓		✓		0

Criteria / Name	Meet one of the Following Professional Qualification Requirements, Together with at least Five Years Work Experience			Independence Attribute (Note)										Number of Holding Concurrent Independent Director Position in Other Public Companies
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or other Professional or Technical Specialist who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10	
Shen Yuan Investment Co., Ltd. Representative: Hui-Ming Wu			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		0

Criteria / Name	Meet one of the Following Professional Qualification Requirements, Together with at least Five Years Work Experience			Independence Attribute (Note)										Number of Holding Concurrent Independent Director Position in Other Public Companies
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or other Professional or Technical Specialist who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10	
Epsil Holding Incorporation Representative: Chih-Ming Huang			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		0

Criteria Name	Meet one of the Following Professional Qualification Requirements, Together with at least Five Years Work Experience			Independence Attribute (Note)										Number of Holding Concurrent Independent Director Position in Other Public Companies
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or other Professional or Technical Specialist who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10	
Liang Cheng Investment Co., Ltd. Representative: Pao-He Chen			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		0
Yen-Liang Ho			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0

Name / Criteria	Meet one of the Following Professional Qualification Requirements, Together with at least Five Years Work Experience			Independence Attribute (Note)										Number of Holding Concurrent Independent Director Position in Other Public Companies
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or other Professional or Technical Specialist who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10	
Taiwan Zhi Di Co., Ltd. Representative: Chao-He Lin			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		0
Independent Director: Yi-Chi Liu		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1

Name \ Criteria	Meet one of the Following Professional Qualification Requirements, Together with at least Five Years Work Experience			Independence Attribute (Note)										Number of Holding Concurrent Independent Director Position in Other Public Companies
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or other Professional or Technical Specialist who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10	
Independent Director: Chung-Hsi Chang	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Independent Director: De-Ming Liu	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2

Note: The Directors and Supervisors comply with the following conditions from two years before being elected and appointed, and during his term of office, please tick the appropriate corresponding boxes.

(1) Not an employee of this Company or its affiliates.
(2) Not a Director or Supervisor of the Company or its affiliates, (However, this does not apply, in case where the person is an Independent Director of the Company or its parent company, subsidiary are set up according to this Act or local country ordinances).
(3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children or held by the person under others' names, in an aggregate amount of one percent or more of the total number of outstanding shares of the Company or ranking in the top ten in holdings.
(4) Not a spouse, second-degree relative or third-degree relative of those listed in the above three items.
(5) Not a director, supervisor, or employees of a corporate shareholder that directly holds five percent or more of the total number of outstand shares of the Company or that holds shares ranking in the top five in holdings.
(6) Not a director, supervisor, manager or a shareholder holing five percent or more of the shares of a company or institution that has a business or financial relationship with the Company.
(7) Not a professional who provides commercial legal, financial, accounting, or consulting services to the Company or its affiliates, nor is an owner, partner, director, supervisor, or manager, or the spouse of any of the above, of a sole proprietorship, partnership, company, or organization that provides such service to the Company or its affiliates. Excluding members of compensation committee who exercise power in accordance with Article 7 of the Regulations Governing the Appointment and Exercise of Powers by the Compensation committee of a company whose stock is listed on the stock exchange or traded over the counter.
(8) Not a spouse or relative of second degree or closer to any other directors.
(9) Does to meet the criteria listed in any Sections of Article 30 of the Company Act.
(10) Not an elect in the name of a government institution, or its representative as defined in Article 27 of the Company Law.

(2) Information on general managers, vice general managers, assistant managers, and managers of various divisions and branch units

Date: April 19, 2019

Title	Nationality or Place of Registration	Name	Gender	Date Elected	Shareholding		Spouse & Minor Current Shareholding		Current Shareholding in the Name of Others		Experience (Education)	Current Position at the Company and Other Companies	Spouse or Second Degree Relative Holding a Position as a Manager		
					Share	%	Share	%	Share	%			Title	Name	Relations
Chief Executive Officer	Taiwan	Shu-Chau Wang Ho (Note 1)	Female	1995.05.15	10,695,847	1.07%	20,429,294	2.03%	0	0%	Department of Secretarial Science at Ming Chuan College of Business Department of Advanced Studies at Utah State University		General Manager	Henry C. T. Ho	Mother/son

Title	Nationality or Place of Registration	Name	Gender	Date Elected	Shareholding		Spouse & Minor Current Shareholding		Current Shareholding in the Name of Others		Experience (Education)	Current Position at the Company and Other Companies	Spouse or Second Degree Relative Holding a Position as a Manager		
					Share	%	Share	%	Share	%			Title	Name	Relations
General Manager	Taiwan	Henry C. T. Ho	Male	2009.10.16	142,426	0.01%	113,000	0.01%	0	0%	Department of Economics at Harvard University	Director of Tung Kang Steel Structure Co., Ltd. Chairman of Tung Kang Wind Power Corp. Chairman of Far East Steel Enterprise Co., Ltd. Chairman of Shen Yuan Investment Co., Ltd. Chairman of Wan Nian Department Store Co., Ltd. Chairman of He Zhao Investment Co., Ltd. Chairman of Mao Sheng Investment Co., Ltd Chairman of Haxawave, Inc. Director of Shang Fu Industrial Inc. Director of Katec Creative Resources Corp. Director of Katec R&D Corp. Director of Tung Kang Engineering & Construction Co., Ltd. Director of Fata Xinge C., Ltd. Supervisor of Delta Design Corp. Director of Tung Ho Steel Vietnam Corp. Ltd. Director of Goldham Director of	Chief Executive Officer	Shu-Chau Wang Ho	Mother/son

Title	Nationality or Place of Registration	Name	Gender	Date Elected	Shareholding		Spouse & Minor Current Shareholding		Current Shareholding in the Name of Others		Experience (Education)	Current Position at the Company and Other Companies	Spouse or Second Degree Relative Holding a Position as a Manager		
					Share	%	Share	%	Share	%			Title	Name	Relations
												Development Ltd. Director of 3 Oceans International Inc. Director of Tung Yuan International Corp. Director of Best-Steel Trade Corp. Director of Fujian Sino-Japan Metal Corp. Director of Tung Ho Steel Foundation			
Vice General Manager of Production Department	Taiwan	Fu-Jin Chen	Male	2017.01.01	589	0%	0	0%	235,000	0.02%	Kaohsiung Municipal Kaohsiung Industrial High School	Chairman of Katec Creative Resources Corp. Director of Taiwan Steel Union	None	None	None
Vice General Manager of Sales	Taiwan	Kuan-Ren Gu	Male	2007.10.16	56,855	0%	100	0%	0	0%	Department of Economics at Chinese	Director of Tung Kang Engineering & Construction Co., Ltd.	None	None	None

Title	Nationality or Place of Registration	Name	Gender	Date Elected	Shareholding		Spouse & Minor Current Shareholding		Current Shareholding in the Name of Others		Experience (Education)	Current Position at the Company and Other Companies	Spouse or Second Degree Relative Holding a Position as a Manager		
					Share	%	Share	%	Share	%			Title	Name	Relations
Department											Culture University	Chairman of Fata Xingye Co., Ltd. Vice Chairman of Tung Kang Engineering & Construction Co., Ltd. Supervisor of Fujian Fujian Tung Kang Steel Co., Ltd. Director of Tung Ho Steel Foundation			
Vice General Manager of Operations Department	Taiwan	Bing-Hua Huang	Male	2007.10.16	6,444	0%	642	0%	1,075,000	0.11%	Master's degree from Material Development Institute of National Cheng Kung University	Chairman of Tung Ho Steel Vietnam Corp. Ltd. Director of Tung Kang Engineering & Construction Co., Ltd. Director of Dongjing Investment Co., Ltd. Director of Tung Ho Steel Foundation Director of Best-Steel Trade Corp.	None	None	None
Vice General Manager of Assets and Trade Department	Taiwan	Qi-Xie Lin	Male	2007.10.16	21,799	0%	0	0%	0	0%	Department of Materials and Science and Engineering from Tsinghua University	Chairman of Fujian Sino-Japan Metal Corp. Director of 3 Oceans International Inc. Director of Tung Yuan International Corp. Director of Xiaogang Warehousing Inc.	None	None	None

Title	Nationality or Place of Registration	Name	Gender	Date Elected	Shareholding		Spouse & Minor Current Shareholding		Current Shareholding in the Name of Others		Experience (Education)	Current Position at the Company and Other Companies	Spouse or Second Degree Relative Holding a Position as a Manager		
					Share	%	Share	%	Share	%			Title	Name	Relations
												Director of Chien Shing Harbour Service Co., Ltd. Director of Tung Ho Steel Vietnam Corp. Ltd. Director of Tung Ho Steel Foundation			
Vice General Manager of Financial Department	Taiwan	Bo-Xun Dong	Male	2014.07.10	23,381	0%	0	0%	130,000	0.01%	Master's degree in Business Management from the Business Institute of National Chengchi University Department of Economics at National Taiwan University	Director of Tung Kang Wind Power Corp. Supervisor of Hexawave Inc. Director of Tung Kang Engineering & Construction Co., Ltd. Director of Tung Yuan International Corp. Director of Goldham Development Ltd.	None	None	None
Assistant Manager of the General Manager's Office	Taiwan	Chang-Hong Li	Male	2011.10.01	3,137	0%	0	0%	0	0%	Mater degree from Institute of Management Science, Chiao Tung	None	None	None	None

Title	Nationality or Place of Registration	Name	Gender	Date Elected	Shareholding		Spouse & Minor Current Shareholding		Current Shareholding in the Name of Others		Experience (Education)	Current Position at the Company and Other Companies	Spouse or Second Degree Relative Holding a Position as a Manager		
					Share	%	Share	%	Share	%			Title	Name	Relations
											Unicersity				
Assistant Manager of Operations Department	Taiwan	Ru-Yin Fan	Female	2009.11.01	7,000	0%	0	0%	0	0%	Department of International Trade at International Business Professional School	None	None	None	None
Assistant Manager of Investment Department	Taiwan	Zhen-Yuan Chen	Male	2009.11.01	0	0%	0	0%	0	0%	Department of International Trade at Feng Chia University	None	None	None	None
Assistant Manager of Investment Department	Taiwan	Jun-Sheng Jian	Male	2009.11.01	870	0%	0	0%	0	0%	Master's degree from College of Technology Management at National Tsing Hua University	Chairman of De He International Enterprise Co., Ltd. Vice General Manager of De He International Enterprise Co., Ltd.	None	None	None

Title	Nationality or Place of Registration	Name	Gender	Date Elected	Shareholding		Spouse & Minor Current Shareholding		Current Shareholding in the Name of Others		Experience (Education)	Current Position at the Company and Other Companies	Spouse or Second Degree Relative Holding a Position as a Manager		
					Share	%	Share	%	Share	%			Title	Name	Relations
											Department of Industrial Engineering at Taipei Engineering Professional School				
Assistant Manager of Investment Department	Taiwan	Zheng-Bin Chiu	Male	2010.06.01	5,027	0%	0	0%	0	0%	Department of Mechanical Engineering at United Engineering Professional School	Chairman of Fujian Tung Kang Steel Co., Ltd. Director of Goldham Development Ltd. General Manager of Tung Kang Engineering & Construction Co., Ltd. Director of Liyu Venture Capital Co., Ltd. Supervisor of Fujian Dongsheng Metal Processing Co., Ltd. Director of Lishi Venture Capital Co., Ltd.	None	None	None
Assistant Manager of Investment Department	Taiwan	Hsiu-Chih Chen	Male	2011.10.01	0	0%	0	0%	0	0%	Master's degree in Finance, from College of Management, at National Taiwan	Supervisor of Fata Xingye Co., Ltd. Supervisor of Fujian Sino-Japan Metal Corp. Director of Katec Creative Resources Crop. Director of Tung Kang Wind	None	None	None

Title	Nationality or Place of Registration	Name	Gender	Date Elected	Shareholding		Spouse & Minor Current Shareholding		Current Shareholding in the Name of Others		Experience (Education)	Current Position at the Company and Other Companies	Spouse or Second Degree Relative Holding a Position as a Manager		
					Share	%	Share	%	Share	%			Title	Name	Relations
											University Department of Accounting from National Chung Hsing University	Power Corp.			
Assistant Manager of Investment Department	Taiwan	Yi-Zhi Hsu (Note 2)	Male	2019.02.11	307	0%	0	0%	0	0%	Master's degree in Business Management from National Tsing Hua University Master's degree in Department of Materials Science from National Cheng Kung University	General Manager of Tung Ho Steel Vietnam Corp. Ltd.	None	None	None

Title	Nationality or Place of Registration	Name	Gender	Date Elected	Shareholding		Spouse & Minor Current Shareholding		Current Shareholding in the Name of Others		Experience (Education)	Current Position at the Company and Other Companies	Spouse or Second Degree Relative Holding a Position as a Manager		
					Share	%	Share	%	Share	%			Title	Name	Relations
Manager of Corporate Governance and Assistant Manager of Administration Department	Taiwan	Ru-Yu He (Note 3)	Female	2011.10.01	2,000	0%	0	0%	0	0%	Master's degree in Business Administration from Institute of Business, Chung Yuan Christian University	Director of Katec R&D Supervisor of Katec Creative Resources Corp. Supervisor of Tung Kang Wind Power Corp.	None	None	None
Assistant Manager of Systems Engineering Department	Taiwan	Zhe-Chong Lin	Male	2005.05.01	9,822	0%	0	0%	0	0%	Master's degree in Information Management from Institute of Management from Sun Yat-Sen University	Director of Han Jing Optoelectronics Inc. Director of Han Wei Optoelectronics Inc.	None	None	None
Manager of Work Safety Center	Taiwan	Yi-Lin Wang	Male	2008.12.01	10,444	0%	8,242	0%	0	0%	Department of Economics at Tamkang University	None	None	None	None

Title	Nationality or Place of Registration	Name	Gender	Date Elected	Shareholding		Spouse & Minor Current Shareholding		Current Shareholding in the Name of Others		Experience (Education)	Current Position at the Company and Other Companies	Spouse or Second Degree Relative Holding a Position as a Manager		
					Share	%	Share	%	Share	%			Title	Name	Relations
Manager of Legal Affairs Office	Taiwan	Jun-Xian Zhao	Male	2012.09.01	4,318	0%	0	0%	0	0%	Department of Law, Chinese Culture University	None	None	None	None
Assistant Deputy Manager of Auditing Office	Taiwan	Yi-Ru Chen	Female	2011.10.01	0	0%	0	0%	0	0%	Department of Statistics at Feng Chia University	None	None	None	None
Director of Taoyuan Works	Taiwan	De-Xiu Chen (Note 2)	Male	2019.02.11	56,911	0.01%	0	0%	0	0%	Master's degree in Information from New Jersey Institute of Technology, USA	Director of De He International Enterprise Co., Ltd.	None	None	None
Director of Miaoli Works	Taiwan	Ming-Zong Liu	Male	2008.09.01	3,112	0%	0	0%	220,000	0.02%	Master's degree in Materials Science and Engineering from National Taiwan University	Director of Taiwan Steel United Inc. Director of Fujian Sino-Japan Metal Corp.	None	None	None

Title	Nationality or Place of Registration	Name	Gender	Date Elected	Shareholding		Spouse & Minor Current Shareholding		Current Shareholding in the Name of Others		Experience (Education)	Current Position at the Company and Other Companies	Spouse or Second Degree Relative Holding a Position as a Manager		
					Share	%	Share	%	Share	%			Title	Name	Relations
Director of Kaohsiung	Taiwan	Zong-Yu Wang	Male	2011.07.01	37	0%	0	0%	245,000	0.02%	Master's degree in Financial Management from National Sun Yat-Sen University	None	None	None	None

Note 1: Ms. Shu-Chau Wang Ho passed away on January 8, 2019
Note 2: Mr. Yi-Zhi Hsu had a handover with Mr. De-Xiu Chen on February 11, 2019.
Note 3: First term as a corporate governance manager on March 26, 2019.

3. Remuneration Paid to Directors, General Managers and Deputy General Managers in the Most Recent Year

(1) Remuneration paid to directors (including independent directors)

December 31, 2018

Title	Name	Directors Compensation								Ratio of Total Remuneration (A+B+C+D) to Net Income (%)		Relevant Remuneration Received by Directors who are also Employees								Ratio of Total Remuneration (A+B+C+D+E+F+G) to Net Income (%)		Compensation Paid from an Invested Company other than the Company's Subsidiary
		Base Compensation (A)		Pension (B)		Directors' Compensation (C)		Business Execution Expenses (D)				Salaries, Bonuses and Allowances (E)		Pension (F)		Employee Compensation (G)						
		The Company	All Companies in the Consolidated Financial Statements	The Company	All Companies in the Consolidated Financial Statements	The Company	All Companies in the Consolidated Financial Statements	The Company	All Companies in the Consolidated Financial Statements	The Company	All Companies in the Consolidated Financial Statements	The Company	All Companies in the Consolidated Financial Statements	The Company	All Companies in the Consolidated Financial Statements	The Company		All Companies in the Consolidated Financial Statements		The Company	All Companies in the Consolidated Financial Statements	
																Cash	Stock	Cash	Stock			
Chairman	Mao Sheng Investment Co., Ltd. Representative: Henry C. T. Ho	2,400,000	2,400,000	0	0	3,620,667	3,620,667	30,000	30,000	0.68%	0.68%	9,568,859	9,568,859	504,628	504,628	250,679	0	250,679	0	1.84%	1.84%	None
Vice Chairman	Shen Yuan Investment Co., Ltd. Representative: Shu-Chau Wang Ho	1,800,000	1,800,000	0	0	8,101,951	8,101,951	30,000	30,000	1.12%	1.12%	10,247,489	11,807,489	359,751	359,751	284,544	0	284,544	0	2.35%	2.52%	None
Director	Mao Shen Investment Co., Ltd.	360,000	360,000	0	0	3,620,667	3,620,667	30,000	30,000	0.45%	0.45%	0	0	0	0	0	0	0	0	0.45%	0.45%	None

Title	Name	Directors Compensation								Ratio of Total Remuneration (A+B+C+D) to Net Income (%)		Relevant Remuneration Received by Directors who are also Employees								Ratio of Total Remuneration (A+B+C+D+E+F+G) to Net Income (%)		Compensation Paid from an Invested Company other than the Company's Subsidiary
		Base Compensation (A)		Pension (B)		Directors' Compensation (C)		Business Execution Expenses (D)				Salaries, Bonuses and Allowances (E)		Pension (F)		Employee Compensation (G)						
		The Company	All Companies in the Consolidated Financial Statements	The Company	All Companies in the Consolidated Financial Statements	The Company	All Companies in the Consolidated Financial Statements	The Company	All Companies in the Consolidated Financial Statements	The Company	All Companies in the Consolidated Financial Statements	The Company	All Companies in the Consolidated Financial Statements	The Company	All Companies in the Consolidated Financial Statements	The Company		All Companies in the Consolidated Financial Statements		The Company	All Companies in the Consolidated Financial Statements	
																Cash	Stock	Cash	Stock			
	Representative: George Y. S. Ho																					
Director	Shen Yuan Investment Co., Ltd. Representative: Hui-Ming Wu	360,000	360,000	0	0	8,101,950	8,101,950	30,000	30,000	0.96%	0.96%	0	0	0	0	0	0	0	0	0.96%	0.96%	None
Director	Epsil Holding Incorporation Representative:Chih-Ming Huang	360,000	360,000	0	0	681,542	681,542	30,000	30,000	0.12%	0.12%	0	0	0	0	0	0	0	0	0.12%	0.12%	None
Director	Liang Cheng Investment	360,000	360,000	0	0	1,507,960	1,507,960	30,000	30,000	0.21%	0.21%	0	0	0	0	0	0	0	0	0.21%	0.21%	None

Title	Name	Directors Compensation								Ratio of Total Remuneration (A+B+C+D) to Net Income (%)		Relevant Remuneration Received by Directors who are also Employees								Ratio of Total Remuneration (A+B+C+D+E+F+G) to Net Income (%)		Compensation Paid from an Invested Company other than the Company's Subsidiary
		Base Compensation (A)		Pension (B)		Directors' Compensation (C)		Business Execution Expenses (D)				Salaries, Bonuses and Allowances (E)		Pension (F)		Employee Compensation (G)						
																The Company		All Companies in the Consolidated Financial Statements				
		The Company	All Companies in the Consolidated Financial Statements	The Company	All Companies in the Consolidated Financial Statements	The Company	All Companies in the Consolidated Financial Statements	The Company	All Companies in the Consolidated Financial Statements	The Company	All Companies in the Consolidated Financial Statements	The Company	All Companies in the Consolidated Financial Statements	The Company	All Companies in the Consolidated Financial Statements	Cash	Stock	Cash	Stock	The Company	All Companies in the Consolidated Financial Statements	
	Co., Ltd. Representative: Pao-He Chen																					
Director	Yen-Liang Ho	360,000	360,000	0	0	48,756	48,756	30,000	30,000	0.05%	0.05%	0	0	0	0	0	0	0	0	0.05%	0.05%	None
Director	Taiwan Zhi Di Co., Ltd. Representative: Chao-He Lin	360,000	360,000	0	0	8,763	8,763	30,000	30,000	0.04%	0.04%	0	0	0	0	0	0	0	0	0.04%	0.04%	None
Independent Director	Yi-Chi Liu	1,080,000	1,080,000	0	0	0	0	75,000	75,000	0.13%	0.13%	0	0	0	0	0	0	0	0	0.13%	0.13%	None
Independent Director	Chung-Hsi Chang	1,080,000	1,080,000	0	0	0	0	75,000	75,000	0.13%	0.13%	0	0	0	0	0	0	0	0	0.13%	0.13%	None
Independent Director	De-Ming Liu	960,000	960,000	0	0	0	0	65,000	65,000	0.12%	0.12%	0	0	0	0	0	0	0	0	0.12%	0.12%	None

Note 1: A driver has been appointed to the Chairman and a total of NT$800,735 was paid in 2018. A driver has been appointed to the Vice Chairman, and a total of NT$638,344 was paid in 2018.
Note 2: The remuneration received by the directors of the Company for the services provided by all companies in the financial report for the year 2018: None.

(2) Remuneration of the General Managers and Vice General Managers

Date: December 31, 2018

<table>
<tr><th rowspan="3">Title</th><th rowspan="3">Name</th><th colspan="2">Salary (A)</th><th colspan="2">Pension (B)</th><th colspan="2">Bonus and Special Fees (C)</th><th colspan="4">Employee Remuneration(D)</th><th colspan="2">The Sum of A, B, C and D as a Percentage of After-tax Net Profit (%)</th><th rowspan="3">Remuneration from Reinvested Business other than Subsidiaries</th></tr>
<tr><th rowspan="2">The Company</th><th rowspan="2">All Companies in the Consolidated Financial Statements</th><th rowspan="2">The Company</th><th rowspan="2">All Companies in the Consolidated Financial Statements</th><th rowspan="2">The Company</th><th rowspan="2">All Companies in the Consolidated Financial Statements</th><th colspan="2">The Company</th><th colspan="2">All Companies in the Consolidated Financial Statements</th><th rowspan="2">The Company</th><th rowspan="2">All Companies in the Consolidated Financial Statements</th></tr>
<tr><th>Cash</th><th>Stock</th><th>Cash</th><th>Stock</th></tr>
<tr><td>Chief Executive Office</td><td>Shu-Chau Wang Ho</td><td rowspan="6">25,934,091</td><td rowspan="6">27,494,091</td><td rowspan="6">2,362,017</td><td rowspan="6">2,362,017</td><td rowspan="6">16,296,090</td><td rowspan="6">16,296,090</td><td rowspan="6">1,168,888</td><td rowspan="6">0</td><td rowspan="6">1,168,888</td><td rowspan="6">0</td><td rowspan="6">5.15%</td><td rowspan="6">5.33%</td><td rowspan="6">None</td></tr>
<tr><td>General Manager</td><td>Henry C. T. Ho</td></tr>
<tr><td>Vice General Manager of Production Department</td><td>Fu-Jin Chen</td></tr>
<tr><td>Vice General Manager</td><td>Kuan-Ren Gu</td></tr>
<tr><td>Vice General Manager</td><td>Bing-Hua Huang</td></tr>
<tr><td>Vice</td><td>Bo-Xun</td></tr>
</table>

General Manager	Dong												
Vice General Manager	Qi-Xie Lin												

Range of Remuneration

Range of Remuneration (NT$)	Names of General Managers and Deputy General Managers	
	The Company	Companies in the Consolidated Financial Statements
Under NT$2,000,000 元	None	None
NT$2,000,000 (included) ~ 5,000,000 (excluded)	Kuan-Ren Gu, Bo-Xun Dong, Qi-Xie Lin	Kuan-Ren Gu, Bo-Xun Dong, Qi-Xie Lin
NT$5,000,000 (included) ~ 10,000,000 (excluded)	Fu-Jin Chen, Bing-Hua Huang	Fu-Jin Chen, Bing-Hua Huang
NT$10,000,000 (included) ~ 15,000,000 (excluded)	Shu-Chau Wang Ho, Henry C. T. Ho	Shu-Chau Wang Ho, Henry C. T. Ho
NT$15,000,000 (included) ~ 30,000,000 (excluded)	None	None
NT$30,000,000 (included) ~ 50,000,000 (excluded)	None	None
NT$50,000,000 (included) ~ 100,000,000 (excluded)	None	None
Over NT$100,000,000	None	None
Total	7 persons	7 persons

(3) Managers with Employee Remuneration Distribution

Benchmark Date: December 31, 2018

	Title	Name	Stock Bonus	Cash Bonus	Total	Ratio of Total Amount to Net Income (%)
Managers	Chief Executive Officer	Shu-Chau Wang Ho	0	2,195,746	2,195,746	0.25%
	General Manager	Henry C. T. Ho				

	Vice General Manager of Production Development	Fu-Jin Chen				
	Vice General Manager	Kuan-Ren Gu				
	Vice General Manager	Bing-Hua Huang				
	Vice General Manager	Bo-Xun Dong				
	Vice General Manager	Qi-Xie Lin				
	Assistant General Manager	Chang-Hong Li				
	Assistant General Manager	Ru-Yin Fan				
	Assistant General Manager	Zhen-Yuan Chen				
	Assistant General Manager	Jun-Sheng Jian				
	Assistant General Manager	Zheng-Bin Chiu				
	Assistant General Manager	His-Chih Chen				
	Assistant General Manager	Yi-Zhi Hsu				

	Assistant General Manager	Ru-Yu He				
	Assistant General Manager	Zhe-Chong Lin				
	Director of Works	De-Xiu Chen				
	Director of Works Director of Works	Ming-Zong Liu				
	Director of Works	Zong-Yu Wang				

(4) Analysis of the proportion of the total remuneration of directors, supervisors, general managers and deputy general managers of the Company paid by the Company and all companies in the consolidated financial statements to net profit after tax in individual financial statements of the recent two years. Explanation of remuneration policies, standards and packages, the procedure for determining remuneration, and its linkage to operating performance and future risk exposure:

i. Analysis of the proportion of the total remuneration of directors, supervisors, general managers and deputy general managers of the Company paid by the Company and all companies in the consolidated financial statements to net profit after tax in individual financial statements of the recent two years

Title	2017	2018
Director	5.63%	9.34%
General Manager and Deputy General Manager		

ii. Explanation of remuneration policies, standards and packages, the procedure for determining remuneration, and its linkage to operating performance and future risk exposure:

A: Remuneration Policy to Directors

The remuneration of the Company directors is determined in accordance with the relevant provisions of the Company's Articles of Incorporation. The bonus shall not be more than 2% of the profit for the current year, an additional amount of remuneration may be provided each month. The salary and compensation committee shall refer to the listed companies from the same industry and related industries as well as taking into consideration of the Company's business performance, and the fairness of the regular evaluation on salary remuneration and submits them to the directors' meeting.

B. Remuneration Policy to General Managers and Deputy General Managers

The salary policy of the managers of the Company is based on the Company's overall salary in the market positioning; industry salary survey results, and based on comprehensive consideration such as the responsibilities of managers, personal performance, company operating performance, and future risks including fixed salary, supervisor bonuses, fuel reimbursement, other allowances, bonuses, year-end bonuses, and employee compensation. The setting of the individual salary remuneration of the managers shall be handled in accordance with the relevant provisions of the Company, and the salary remuneration committee shall regularly evaluate the fairness of the remuneration.

4. Corporate Governance Practices

(1) Board of Directors Operation Status

6 (A) meetings were held by the Board of Directors in the most recent year. The attendance of directors is shown below:

Title	Name	Number of Actual Attendance (B)	By Proxy	Actual Attendance Rate (%) 【B/A】	Remarks
Chairman	Mao Sheng Investment Co., Ltd Representative: Henry C. T. Ho	6	0	100.00	
Vice Chairman	Shen Yuan Investment Co., Ltd. Representative: Shu-Chau Wang Ho	6	0	100.00	
Director	Mao Sheng Investment Co., Ltd Representative: George Y. S. Ho	6	0	100.00	
Director	Shen Yuan Investment Co., Ltd. Representative: Hui-Ming Wu	6	0	100.00	
Director	Epsil Holding Incorporation Representative: Chih-Ming Huang	6	0	100.00	
Director	Taiwan Zhi Di Co., Ltd. Representative: Chao-He Lin	6	0	100.00	
Director	Liang Cheng Investment Co., Ltd. Representative: Pao-He Chen	6	0	100.00	
Director	Yen-Liang Ho	6	0	100.00	
Independent Director	Yi-Chi Liu	6	0	100.00	
Independent Director	Chung-Hsi Chang	6	0	100.00	
Independent Director	De-Ming Liu	6	0	100.00	

Other matters to be recorded:

1. **During the operations of the Board of Directors, the meeting date, period, content, qualified opinion and resolution made by any independent director shall be specified:**

(1) Matters specified in Article 14.3 of the Taiwan Securities and Exchange Act

Meeting Date and Period	Meeting Content	Qualified Opinion from any Independent Director	Resolution
2018.03.22 The 6th meeting of the 23rd board	1. Change the area and location of some spare buildings and offices of the Company's Kaohsiung Works which was leased to the Far East Iron and Steel Enterprise Corporation. 2. The amendment to the "Endorsements and guarantees Operation Procedures" of the Company. 3. The Company's six domestic unsecured convertible corporate bonds were converted into new shares. 4. Provide endorsements and guarantees for the credit limit of the subsidiary.	None	N/A
2018.05.15 The 7th meeting of the 23rd board	1. Donations to Tung Ho Steel Foundation for their activities and conference funding. 2. Provide endorsements and guarantees for the credit limit of the subsidiary.	None	N/A
2018.06.16 The 8th meeting of the 23rd board	Provide endorsements and guarantees for the credit limit of the subsidiary.	None	N/A
2018.08.13 The 9th meeting of the 23rd board	1. The Taoyuan Government's plan to purchase part of the land of the Dazhuang section of the Bade District of Taoyuan from the Company as the entrance and exit of the G03 station of the Airport Line of the Mass Rapid Transit System (Green Line). 2. Provide endorsements and guarantees for the credit limit of the subsidiary.	None	N/A
2018.11.14 The 10th meeting of the 23rd board	1. Review of the professional fees of accountants of 2018. 2. Provide endorsements and guarantees for the credit limit of the subsidiary.	None	N/A
2018.12.18 The 11th meeting of the 23rd board	Provide endorsements and guarantees for the credit limit of the subsidiary.	None	N/A

(2) Unless otherwise stated, other independent directors who expressed opposition or qualified opinions that were recorded or declared in writing as: None.

2. To avoid conflict of interest among directors, the director's name, meeting content, and reason for avoiding conflict of interest and participation in the voting process must be properly recorded:

Meeting Date and Period	Meeting Content	Reason for Avoiding Conflict of Interest	Voting Participation
2018.03.22 The 6th meeting of the 23rd board	Change the area and location of some spare buildings and offices of the Company's Kaohsiung Works which was leased to the Far East Iron and Steel Enterprise Corporation.	Chairman Henry C. T. Ho, Vice Chairman Shu-Chau Wang Ho and Director Chih-Ming Huang who are Chairman, Director and Supervisor of Far East Steel Enterprise Corporation respectively.	To avoid conflict of interest, the three directors did not participate in the discussion and voting process. The remaining directors present approved the case with no dissenting opinion.
2018.05.15 The 7th meeting of the 23rd board	Donations to Tung Ho Steel Foundation for their activities and conference funding.	Chairman Henry C. T. Ho is a spouse of the foundation chairman Yi-Wen Wan. Vice Chairman Shu-Chau Wang Ho is also a chairman of the foundation.	To avoid conflict of interest, the two directors did not participate in the discussion and voting process. The independent director Chung-Hsi Chang acted as the chairman of the meeting for the discussion and voting process. The remaining directors present approved the case with no dissenting opinion

3. Strengthening the functions of the board in the current and the most recent year (e.g. Establishing the Audit Committee, promoting information transparency, etc.) and conducting performance assessment

(1) The board of directors of the Company established the audit committee and compensation committee to assist the board of directors in performing their supervisory duties. The audit committee is composed with independent directors, and half of the members of the compensation committee are independent directors. The committee reports its activities and resolutions to the board of directors on a regular basis.

(2) The audit committee of the Company meets regularly and invites accountants to attend; independent directors and accountants communicate with each other regarding the review and audit of the financial statements of the Company and its subsidiaries. The accountants also communicate with the independent directors on an irregular basis regarding the update of relevant regulations and whether the amendments affect the accounting method.

(3) The Company website has the qualifications of the board members and the operation status of the board of directors.

(4) The Company's important regulations and regulations regarding corporate governance have been disclosed on the Company website or MOPS.

(5) In order to enhance the professionalism of the directors and implement corporate governance, besides arranging relevant further training courses according to their needs in 2018, the Company also planned to arrange two further training courses for directors, which are "Global and Cross-strait Anti-tax Avoidance Policies and Measures" and "The Latest Revision Trend and Analysis of Company Law". The details of the directors' further training has been disclose on the Company website or MOPS as required.

(6) The Company has insured the "Directors' and Officers' Liability Insurance" to diversify the risk of directors' legal liability and enhance the ability of corporate governance, which has been submitted to the 10th meeting of the 23rd Board of Directors on November 13, 2018.

(2) The State of operations of the audit committee or the state of participation in board meetings by the supervisors

The Company established the Audit Committee to replace the supervisor system on June 16, 2017. In 2018, the Audit Committee has held 6(A) meetings; the attendance of independent directors is who below:

Title	Name	Number of Actual Attendance (B)	By Proxy	Actual Attendance (%)【B/A】	Remarks
Independent director	Yi-Chi Liu	6	0	100.00	None
Independent director	Chung-Hsi Chang	6	0	100.00	None
Independent director	De-Ming Liu	6	0	100.00	None

Other matters to be recorded:

1. **While carrying out its operations, the Audit Committee must report the meeting date of the Board of Directors, period, content, and results of the Audit Committee's resolutions.**

(1) Matters specified in Article 14.5 of the Taiwan Securities and Exchange Act

Meeting Date and Period	Meeting Content	Qualified Opinion from any Independent Director	Resolution
2018.03.21 The 5th meeting of the 1st board	1. The business report and financial statements of 2017. 2. The issuance of the statement of the internal control system of 2017. 3. The amendments for The Company "Procedures for Endorsements and guarantees". 4. The Company's six domestic unsecured convertible corporate bonds were converted into new shares. 5. Provide endorsements and guarantees for the credit limit of the subsidiary.	Approved by all independent directors with no dissenting opinion	N/A
2018.05.15 The 6th meeting of the 1st board	1. The consolidated financial report for the first quarter of 2018. 2. Donations to Tung Ho Steel Foundation for their activities and conference funding. 3. Provide endorsements and guarantees for the credit limit of the subsidiary.	Approved by all independent directors with no dissenting opinion	N/A
2018.06.16 The 7th meeting of the 1st board	Provide endorsements and guarantees for the credit limit of the subsidiary.	Approved by all independent directors with no dissenting opinion	N/A
2018.08.13 The 8th meeting of the 1st board	1. The consolidated financial report for the second quarter of 2018. 2. The Taoyuan Government's plan to purchase part of the land of the Dazhuang section of the Bade District	Approved by all independent directors with no dissenting	N/A

	of Taoyuan from the Company as the entrance and exit of the G03 station of the Airport Line of the Mass Rapid Transit System (Green Line). 3. Provide endorsements and guarantees for the credit limit of the subsidiary.	opinion	
2018.11.14 The 9th meeting of the 1st board	1. The consolidated financial report for the third quarter of 2018. 2. Review of the professional fees of accountants of 2018. 3. Provide endorsements and guarantees for the credit limit of the subsidiary.	Approved by all independent directors with no dissenting opinion	N/A
2018.12.18 The 10th meeting of the 1st board	Provide endorsements and guarantees for the credit limit of the subsidiary.	Approved by all independent directors with no dissenting opinion	N/A

(2) Except for the matters stated above, there were no resolutions rejected by the Audit Committee; two thirds or more directors gave their approval.

2. To avoid conflict of interest among independent directors, the independent director's name, meeting content, and reason for avoiding conflict of interest and participation in the voting process must be properly recorded: None.

3. Communication between independent directors, internal auditors and accountants (which shall include major issues, methods and results for communicating the Company's financial and business operations):

(1) Communication policy between independent directors and accountants

The certified public accounts communicate with the independent directors on the contents of the financial statements of the Company and its subsidiaries on an irregular basis. They have excellent communication and have both agreed on relevant matters.

Summary of previous communication situations in 2018:

Date	Communication Content	Resolution
2018.01.09 Communication Meeting	The before-auditing financial report of 2017 communication meeting (Kick-off Meeting)。	No dissenting opinion
2018.03.21 Audit Committee	Discussion and communication on the audit result of 2017 financial report.	No dissenting opinion

2018.05.15 Audit Committee	Discussion and communication on the review result of the consolidated financial report of the first quarter of 2018.	No dissenting opinion
2018.08.13 Audit Committee	Discussion and communication on the review result of the consolidated financial report of the second quarter of 2018.	No dissenting opinion
2018.11.14 Audit Committee	◦ Discussion and communication on the review result of the consolidated financial report of the third quarter of 2018.	No dissenting opinion

(2) Communication policy between independent directors and internal auditors

The internal audit supervisor of the Company regularly sends relevant information of the internal audit report t the independent directors for review. The independent directors provide guidance to the internal audit unit through this communication mechanism.

Date	Communication Content	Resolution
2018.03.21 Audit Committee	1. Response report of risk project and management. 2. 2017/12-2018/2 2. Execution report of audit business for 2017/12-2018/2	No dissenting opinion
2018.05.15 Audit Committee	Execution report of audit business for March-April 2018.	No dissenting opinion
2018.06.11 Board Meeting	Execution report of audit business for May 2018.	No dissenting opinion
2018.08.13 Audit Committee	Execution report of audit business for June-July 2018.	No dissenting opinion
2018.11.14 Audit Committee	1. Execution report of audit business for August-October 2018. 2. The audit plan of 2019 was submitted.	No dissenting opinion
2018.12.18 Audit Committee	Execution report of audit business for November 2018.	No dissenting opinion

Summary of previous communication situations in 2018:

4. The key work focus of the Audit Committee for the year:

This includes reviewing the Company's financial reports, internal auditing operating, supervising the Company's numerous risks and internal control, as well as reviewing the independency and eligibility of CPA.

(3) Participation of supervisors in Board of Directors' operation: N/A ◦

(4) The state of the Company's implementation of corporate governance, any departure of such implementation from the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies, and the reason for any such departure:

Evaluation Item	Implementation Status			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons
	Yes	No	Description	
1. Does the Company establish and disclose the Corporate Governance Best-Practice Principles based on "Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies"?	✓		On the 12th meeting of the 23 board on March 26, 2019, the Company approved the code of Corporate Governance Best-Practice Principles. Prior to the implementation, the Company followed the "Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies". (1) The Company complied with the spirit of the "Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies" and formulated and disclosed the following regulations on its website: Board of Directors Rules of Procedure", "Procedures for Handling Material Inside Information", "Codes of Ethical Conduct for Directors and Managers", "Code of Integrity" and "Corporate Social Responsibility Best Practice Principles". (2) The Company has established an effective internal control system based on the overall operating activities of the Company and its subsidiaries, and regularly reviews it to ensure the design and implementation of the system continues to remain effective in response to changes in the environment both internally and externally. (3) Significant financial business practices such as acquisition and disposal of assets, capital lending, and guarantee endorsements shall be handled in accordance with	No difference.

Evaluation Item	Implementation Status			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons
	Yes	No	Description	
			relevant laws and regulations. "Acquisitions and Disposal of Assets Procedures", "Operational Procedures for Lending Capital to Others", "Operational Procedures for Endorsements and guarantees", and "Procedures for Derivatives Transactions" shall be established to protect shareholders' rights. (4) During the term of directors' office, directors shall be responsible for the liability of damages in accordance with the law in terms of the business execution and liability insurance shall be covered for the directors. After the renewal of the insurance for the directors and important employees in August 2018, the insurance amount, coverage and rates were submitted to the 20th meeting of the 10th board on November 14, 2018.	
2. Shareholding structure & shareholders' rights (1) Has the Company established internal operating procedures to deal with shareholders' suggestions, doubts, disputes and litigations, and implement based on the procedures? (2) Does the Company possess the list of its	✓		(1) The Company has appointed a spokesperson and deputy-spokesperson to announce to pubic of important information as well as handling and respond to the investor's suggestions; provide a special contact window for all types of external stakeholders, and publishes it on the Company website. The Company accepts reports, suggestions and appeals to the Company and is obligated to handle and respond. (2) The Company's share operation department is handled by a professional stock agency, and a dedicated person is responsible for the reporting of changes in the	No difference.

Evaluation Item	Implementation Status			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons
	Yes	No	Description	
major shareholders as well as the ultimate owners of those shares? (3) Has the Company established and implemented risk management and firewall mechanisms with its affiliates? (4) Has the Company established internal rules against insiders trading with undisclosed information?			shareholding of insiders and major shareholders. (3) The endorsements and guarantees and capital lending of the affiliates are strictly implemented in accordance with relevant regulations. A "Relationship Transaction Management Method" is set up to improve the financial business relationship between the Company and its affiliates in order to prevent illegal transactions or improper interests. (4) The Company's "Codes of Ethical Conduct for Directors and Mangers" has clear rules and regulations to prohibit the use of undisclosed information on the market to buy or sell securities, and regularly promotes relevant laws and regulations on internal transactions.	
3. Composition and responsibilities of the board of directors (1) Has the Board developed and implemented a diversified policy for the composition of its members?	✓		(1) The nomination and selection of the board of directors of the Company is based on the nomination system of the Company in accordance with the provisions of the Company's Articles of Incorporation. Board members should have a diverse range of expertise related to steel industry, management, accounting and financial to ensure the diversity and independence of the board of directors.	No difference.

Evaluation Item	Implementation Status			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons
	Yes	No	Description	
			The board members all have extensive experience in related industries. There is a female director amongst the members who has wide-range of experiences in management. Other directors have relevant professional backgrounds, which are leadership decision, operational judgment, business management, financial analysis, crisis management, production and sales, and unique perspectives in industry and international markets. There are three independent directors amongst the eleven directors in order to ensure the independence of the board of directors. The independent directors have their own expertise such as holding a master's degree in accounting, doctor's degree in law-economics-social science and a doctor's degree in economics, as well as professional academic background and practical experience in related fields including accountants, management and financial analysis, and implement the diverse policy of the board of directors of the Company. The board of directors of the Company has the necessary professional knowledge, skills and literacy to perform duties. In order to enhance the governance and operational effectiveness of the Company through a diversified background and practical experience. The diversity policy of the board members has been disclosed on the Company website. The diversification of the directors is as follows:	

Name of Directors	Gender	Core Projects							
		Leadership	Operational	Operational	Financial	Crisis	Production	Industry	International

<table>
<tr><th rowspan="2">Evaluation Item</th><th colspan="3">Implementation Status</th><th rowspan="2">Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons</th></tr>
<tr><th>Yes</th><th>No</th><th>Description</th></tr>
<tr><td>

(2) Has the Company voluntarily established other functional committees in addition to the Remuneration Committee and the</td><td></td><td></td><td>
<table>
<tr><th></th><th></th><th>Decision</th><th>Judgment</th><th>Management</th><th>Accounting</th><th>Management</th><th>& Sales</th><th>Expertise</th><th>Market</th></tr>
<tr><td>Henry C. T. Ho</td><td>M</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td></tr>
<tr><td>Shu-Chau Wang Ho</td><td>F</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td></td><td>V</td><td>V</td></tr>
<tr><td>George Y. S.</td><td>M</td><td>V</td><td>V</td><td></td><td></td><td></td><td></td><td></td><td>V</td></tr>
<tr><td>Hui-Ming Wu</td><td>M</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td></tr>
<tr><td>Zhi-Min Huang</td><td>M</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td></tr>
<tr><td>Bao-He Chen</td><td>M</td><td>V</td><td>V</td><td></td><td></td><td>V</td><td></td><td></td><td></td></tr>
<tr><td>Yan-Liang Ho</td><td>M</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td></td><td></td><td>V</td></tr>
<tr><td>Zhao-He Lin</td><td>M</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td></tr>
<tr><td>Yi-Ji Liao</td><td>M</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td></td><td></td><td></td></tr>
<tr><td>Zhuang-Xi Zhang</td><td>M</td><td>V</td><td>V</td><td>V</td><td></td><td>V</td><td></td><td></td><td>V</td></tr>
<tr><td>De-Min Liu</td><td>M</td><td></td><td>V</td><td>V</td><td>V</td><td></td><td></td><td></td><td></td></tr>
</table>
(2) The Remuneration Committee of the Company was established on December 21, 2011. The Audit Committee was established on the 22nd board meeting in June, 2017. Both committees have currently met the needs of the Company; therefore, there is no plan to establish other type of functional committees.</td><td></td></tr>
</table>

Evaluation Item	Implementation Status			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons
	Yes	No	Description	
Audit Committee? (3) Does the Company establish a standard to measure the performance of the Board, and implement it annual?			(3) The Company approved the decision on the performance evaluation of the board of directors, and conducts an internal board performance evaluation every year. It shall be conducted by an external professional institution or a panel of external experts and scholars to perform the evaluation depending on the requirements. The evaluation shall be disclosed on the Company website, in the annual report and on MOPS. The performance assessment of the board of directors is conducted by self-assessment. The "Questionnaire of Self-Evaluation of Performance of the Board" is conducted by all board members that should covers six aspects: Alignment of the goals and missions of the Company, awareness of the duties of a director, participation in the operation of the Company, management of internal relationship and communication, the director's professionalism and continuing education and internal control. The "Questionnaire of Self-Evaluation of Performance of the Board" is evaluated by the Board of Directors which covers five aspects: participation in the operation of the Company, improvement of the quality of the board of directors' decision making, composition and structure of the board of directors, election and continuing education of the directors and internal control. The result of the performance evaluation of the board of directors for 2018 is "Beyond Standards". The comprehensive performance of the board of directors of the Company complies with the corporate governance requirements of the competent authorities and relevant regulations. After being submitted to the Remuneration Committee for	

Evaluation Item	Implementation Status			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons
	Yes	No	Description	
(4) Does the Company regularly evaluate the independence of CPAs?			review, it was submitted to the 12th meeting of the 23rd Board of Directors on March 26, 2019 and shareholders’ general meeting in 2019. (4) The Company evaluates the independence and competence of the appointed accountants every year based on the “Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies”: i. Certified accountants report to the Audit Committee on a quarterly basis for review/checking and independence compliance. ii. The certified accountants issue an independent declaration letter. iii. With reference to the appraisal content established by the Bulletin of Norm of Professional Ethics for Certified Public Account of the Republic of China No.10 “Integrity, Impartiality, Objectivity and Independence” and evaluation content from Article 47 of the Certified Public Accountant Act, the Finance and Accounting Department initially assessed the independence and competence of the certified accountants. After the evaluation report was submitted to the Audit Committee for discussion, it was approved by the board of directors on March 22, 2018 on 6th meeting of 23rd Board of Directors.	
4. Has the TWSE/TPEx listed company set up a dedication (or concurrent) corporate	✓		The administration division is responsible for the Company’s corporate governance and its related matters, which includes handling the board of directors, functional	No difference.

Evaluation Item	Implementation Status			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons
	Yes	No	Description	
governance unit or appointed personnel responsible for corporate governance related matters (including but not limited to providing the directors and supervisors with required information to carry out their business, handling corporate registration and change of corporate registration related matters and taking the minutes of meetings)?			committee meetings, taking the minutes of meetings, assisting directors in continuous further training, providing the directors with required information to carry out their business, assisting the directors in complying with laws and regulations, change of corporate registration related matters, and other matters stipulated in the Company's Articles of Incorporation or contract. The Finance and Accounting Department are responsible for convening shareholders' meeting and taking the minutes of meetings. The appointment of Ms. Ru-Yu He as the Company's corporate governance manager was approved on the 12th meeting of 23rd Board of Directors on March 26, 2019. The annual implementation focus of corporate governance related matters and the further training of directors and corporate governance manager shall be disclosed on the Company website.	
5. Has the Company established communication channels and dedicated sections for stakeholder (including but not limited to the shareholders, employees, clients and suppliers) on its website to respond to important issues of corporate social responsibility concerns?	✓		Tung Ho Steel values the rights and opinions of stakeholders and has open and direct communication channels for them. The Company publishes corporate social responsibility report every year. Rather than providing information on Tung Ho Steel's corporate social responsibility management, it also tries to comprehend the concerned issues of the stakeholders in order to continuously review and improve the performance of corporate social responsibility. (1) The communication channels for shareholders: i. The shareholders' meeting is held in the second quarter of each year. The votes are determined by each proposal. Shareholders are able to vote electronically in order	No difference.

Evaluation Item	Implementation Status			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons
	Yes	No	Description	
			to fully participate in the voting process. ii. Annual report of the shareholders' meeting is published every year for investors' reference. iii. Investor Conferences are held from time to time. iv. The shareholder section on the Company website (http://www.tunghosteel.com/shareowner/shareholders) discloses relevant information of the shareholders' meeting, announces the revenue of the Company, significant information, as well as the contact window of the Company's spokesperson, deputy spokesperson, stock agent and stock transfer institution. Shareholders shall give their feedback by phone or email. (2) Community: Frequently take part in local activities in order to understand the concerns of the residents, the Company has designated personnel to take care of suggestions or feedback, and stay in close communication with them in order to guarantee full communication and maintain a sound relationship with neighbors. (3) Customers: A meeting with suppliers is held each month, and customer satisfaction	

Evaluation Item	Implementation Status			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons
	Yes	No	Description	
			surveys are carried out on a regular basis. The sales personnel visit customers occasionally in order to understand their concerns, as well as receive positive feedback. (4) Employees : Employees are to make complaints and reports through written, email, verbally or telephone calls to the unit supervisors or the management units in the Works. When the Company receives the complaints and reports of the specific responsible units or personnel, it shall carry out an investigation. When a major violation is discovered or it is proved that it has caused the Company a serious damage, a written report shall be made to notify the independent directors. If it is the directors or managers who make a violation after investigation, the relevant information is to be disclosed on MOPS at once. The Company makes sure the whistle-blower's identity is kept confidential to protect their safety so that the whistle-blower does not encounter any shapes of threat or revenge. The employees shall express their converns through corporate trade unions or regular labor meetings. (5) Internal and external complaint emails: i. Tung Ho email: tungho@tunghosteel.com ii. Independent directors' public opinion email: Yi-Chi Liu: 617ycliu@gmail.com	

Evaluation Item	Implementation Status			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons
	Yes	No	Description	
			Chung-Hsi Chang: drachang@livemail.tw De-Ming Liu: dmlieu@hotmail.com iii. A stakeholder enquiry and complaint channel is established at the stakeholder section (http://www.tunghosteel.com/csr/investment) of the Company website to provide a contact window for all stakeholders.	
6. Has the Company appointed a professional shareholder service agency to deal with shareholder affairs?	✓		The Company has commissioned the Stock Agent Department of Yuanta Securities Co., Ltd to handles matters related to the shareholders' meeting. Address: B1, No.210, Section 3, Chengde Road, Datong District, Taipei 10366 TEL: (02)2586-5859 Website: http://www.yuanta.com	No difference.
7. Disclosure of information (1) Does the Company have a corporate website to disclose both financial standings and the status of corporate governance? (2) Does the Company have other information disclosure channels (e.g. building an English website, appointing	✓		(1) The Company has a website for disclosure of relevant information on the important regulations, business, corporate governance and implementation of the Company. (2) The Company's methods of disclosure i. Establishment of Mandarin Chinese and English website, as well as appointing	No difference.

Evaluation Item	Implementation Status			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons
	Yes	No	Description	
designated people to handle information on collection and disclosure, creating a spokesperson system, webcasting investor conferences)?			designated people to handle information on collection and disclosure. ii. Establishment of spokesperson and deputy spokesperson. iii. Disclose the Company's financial information to public investors on the Company website and MOPS. vi. The relevant information and briefings of investor conferences are both disclosed on the Company website and MOPS.	
8. Is there any other important information to facilitate a better understanding of the Company's corporate governance practices (e.g. including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors' and supervisors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors and	✓		(1) The Company has a "Measures for the Management of Related Parties Transactions" and all related parties and companies are complied with the relevant regulations as well as avoiding conflicts of interest. (2) The Company established Corporate Governance Best Practice Principles in March 2019 and has disclosed the public information on MOPS and the Company website. (3) The directors take part in various further training courses depending on the needs. The training progress is disclosed on the Company website and MOPS. (4) The Company systematically collects, analyzes, integrates and formulates necessary	No difference.

Evaluation Item	Implementation Status			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons
	Yes	No	Description	
supervisors)?			strategies for exchange rate, market conditions and economic environment, and conducts tracking and review through meetings to effectively identify risks and take necessary countermeasures. (5) The Company purchases liability insurance for directors to reduce and spread the risk of directors causing significant damage to the Company and shareholders due to illegal activities. (6) For other relevant explanations between labor relations and supplier relations, please refer to the relevant operational overview section of the annual report.	

9. According to the latest result of the Corporate Governance Evaluation System by the Corporate Governance Center of TWSE, explain the amendments or propose the priority measurements to the unimproved items: As for the result of the 5th Corporate Governance Evaluation of the Company, the evaluation index for the Company that have not yet scored but have been improved are explained as below:

(1) Index 2.1: Does the Company disclose its corporate governance principles?

Improvement Measures: The Company has approved "Corporate Governance Best Practice Principles" on the 12th meeting of 23rd Board of Directors on March 26, 2019, of which is disclosed on the Company website and MOPS.

(2) Index 2.2: Has the Company established the policy of diversity the board of directors and disclose the implementation of the diversification policy in the annual report and on Company website?

Improvement measures: This index did not meet the scoring criteria because it did not disclose "each" (individually) directors to implement the board member diversity policy (not education table or independence table). It shall be added and explained in the second table of the Annex 2 of the

<table>
<tr><th rowspan="2">Evaluation Item</th><th colspan="3">Implementation Status</th><th rowspan="2">Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons</th></tr>
<tr><th>Yes</th><th>No</th><th>Description</th></tr>
<tr><td colspan="5">2018 annual report under "The Reasons and Differences between Corporate Governance Operation and Corporate Governance Best Practice Principles for Listed Companies and is disclosed on the Company website.

(3) Index 2.21: Has the Company set up full-time corporate governance personnel to be responsible for corporate governance related matters, and explain the operation and implementation of the unit in the annual report and Company website.
Improvement measures: The Company has set up dedicated personnel to handle matters related to corporate governance. The Assistant general manager Yu-Ru He was approved for the appointment of corporate governance manager on the 12th meeting of 23rd Board of Directors, which is the top executive for corporate governance of the Company, and the terms of reference have been disclosed on the Company website.

(4) Index 4.2: Has the Company set up a unit (part-time) to promote corporate social responsibility and corporate integrity management, and explain the operation and implementation of such setting in the annual report and on Company website, as well as reporting to the board of directors on regularly?
Improvement measures: In order to implement the corporate social responsibility work, Tung Ho Steel established an inter-departmental "Corporate Social Responsibility Promotion Team" in December 2015. The General Manager serves as the Chairman, Vice General Manager and Factory Directors serve as the Deputy Chairmen. There are five units of corporate governance, environmental sustainability, product responsibility, employee relations, and social welfare. The corresponding departments of each group regularly identify and discuss the stakeholders of their business. The management department is responsible for the secretariat business.

The Company's operations of integrity management are jointly promoted and supervised by the General Manager's Office, the Legal Affairs Office, the Audit Office and the Management Department. Through the establishment of relevant prevention programs or integrity policy promotions, the Audit Office conducts special inspection and supervision through internal control and auditing mechanisms in order to promote the integrity of business.</td></tr>
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Evaluation Item	Implementation Status			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons
	Yes	No	Description	

The implementation of corporate social responsibility and integrity management of 2018 is submitted to the 13th meeting of the 23rd Board of Directors on May 14, 2019. The following operation and implementation shall be disclosed on the Company website.

(5) Index 4.15: Whether the Company website or annual report disclose the integrity management policy and specifies the practices and measures for the prevention of dishonesty?

Improvement measures: The Company has established and implemented an integrity management code and publicly disclosed that "integrity" is the Company's business philosophy on the Company website.

In order to prevent dishonesty in business activities, the Company has established strict rules on code of conduct, ethics, reporting, rewards and penalties on the "Rules of the Board of Directors", "Code of Ethical Conduct for Directors and Managers", "Procedures for Handling Material Inside Information" and "Working Rules". There were no acts of corruption, bribery in 2018. The policy and implementation of the integrity management shall be added and explained in the third table of the Annex 2 of the 2018 annual report under "Implementing Integrity Management".

(6) Index 4.16: Has the Company established a reporting system and disclosed the details of the unethical behaviors inside and outside the Company on its website?

Improvement measures: The Company website has disclosed the complaint boxes of internal and external personnel of the Company, including the contact window of the independent directors' public opinion boxes and the enquiry and appeal channels of various stakeholders'; for procedures for unlawful (including corruption) and unethical conduct reports and appeals.

If an internal employee wishes to make a report in order to maintain their employee rights or a case of improper violation of

Evaluation Item	Implementation Status			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons
	Yes	No	Description	
			company interests by others, the employee shall complain to the unit manager or management department. Upon the appeal, the receiving unit or personnel shall promptly engage with the matter and conduct an investigation as well as proposing a solution. The identity of the whistle-blower shall be kept in confidence prior to the result. The follow-up of relevant provisions of the reporting system and appeals shall be disclosed on the Company website.	

Board Performance Appraisal Methods

Article 1 In order to implement corporate governance and enhance the functions of the board of directors of the Company, performance targets shall be set to enhance the efficiency of the board of directors' operation. These measures are established to be followed.

Article 2 The board performance appraisal methods are mainly evaluations of cycles, periods, ranges and methods as well as evaluation of the implementation unit, the procedures and other matters to be followed which shall be handled according to the provisions of the measures.

Article 3 The Company shall conduct an evaluation of internal board performance appraisal at least once a year, and may be conducted by an external professional institution or a panel of external experts and scholars to perform the evaluation depending on the requirements.

Article 4 The scope of the evaluation of the board of directors of the Company consists of the performance evaluation of the overall board of directors and individual board members.

The evaluation may include self-assessment of board members, internal self-assessment of the board of directors, appointment of an external professional institution, a panel of external experts and scholars or other appropriate manners.

Article 5 The Remuneration Committee of the Company review unit for the performance evaluation of the board of directors.

Article 6 At the end of each year, the board of directors' office collects information on the board's activities and issues the "Questionnaire of Self-Evaluation of Performance of the Board" (Annex 1). After the questionnaires are collected, they shall be evaluated according to the evaluation indications of Article 8 and the results are calculated according to the provisions of Article 9 and shall be submitted to the Remuneration Committee for review together with the "Board Performance Appraisal Self-Questionnaire" (Annex 2). The result of the evaluation shall be submitted to the most recent board meeting as a basis for review and improvement.

Article 7 If the Company commissions an external professional institution or a panel of external experts and scholars to perform the evaluation, the following guidelines shall be used:

i. The external professional institution is mainly responsible for undertaking the relevant institutions or management consulting companies that provide relevant educational training courses for the board of directors, enhance corporate governance as well as writing external evaluation analysis reports.

ii. A panel of external experts and scholars shall appoint at least three experts in the board of directors or experts or scholars of corporate governance to evaluate the performance evaluation of the Company's board of directors as well as writing external evaluation analysis reports.

The result of the external evaluation shall be submitted to the most recent remuneration committee meeting and board meeting.

Article 8 The Company's criteria for evaluating the performance of the board of directors should cover, at a minimum, the following five aspects:

i. Participation in the operation of the Company.

ii. Improvement of the quality of the board of directors' decision making.

iii. Composition and structure of the board of directors.

vi. Election and continuing education of the directors.

v. Internal control.

The criteria for evaluation the performance of the board members should cover, at a minimum, the following six aspects:

i. Alignment of the goals and missions of the Company.

ii. Awareness of the duties of a director.

iii. Participation in the operation of the Company.

vi. Management of internal relationship and communication.

v. The director's professionalism and continuing education

vi. Internal control.

The indexes of board performance evaluation shall be determined based on the operation and needs of the Company and suitable and appropriate for evaluations by the Company.

Scoring criteria may be modified and adjusted based on the Company's needs. The weighted scoring method may be adopted based on the aspects of evaluation.

Article 9 According to the "Questionnaire of Self-Evaluation of Performance of the Board" statistics collected in the evaluation procedures of Article 6, the self-evaluation result is "yes" as a percentage of all measures:

i. Those who measure an average of over 90% of the indexes are "beyond the standard".

ii. Those who measure an average of over 80% but below 90% are "standard"

iii. Those who measure an average of below 80% are "not up to standard"

Article 10 When the board of directors of the Company selects or nominates directors, the results of performance evaluation of individual directors shall be taken as a reference.

Article 11 These measures shall be disclosed on the Company website, annual report and MOPS.

The Company shall disclose the contents, evaluation methods, implementation status and evaluation results of the performance evaluation standards of the board of directors in the annual report, and submit the result of the performance evaluation to the shareholders' meeting. If the performance evaluation of the board of directors is carried out by an external institution or experts, the external evaluation institution, name of the expert and description of the professionalism of the expert shall be disclosed in the annual report, as well as an explanation of whether the external institution or expert have business with the Company and its independence

Article 12 These measures shall be implemented after being approved by the board of directors, and the same shall apply to the amendments.

Article 13 These measures were published and implemented on December 18, 2017.

Annex 1

Questionnaire of Self-Evaluation of 2018 Board Members,
Tung Ho Steel Enterprise Corp.

What is being Evaluated	Result		Remarks
	Yes	No	
A. Understanding of the Company goals and missions			
1. Do directors understand the Company's core value (integrity)?			
2. Do directors clearly understand all the strategic goals for the Company defined by the board of directors?			
3. Do directors understand the characteristics and risks of the industry in which the Company operates business?			
B. Director's understanding of their duties and responsibilities			
4. Do directors understand the legal obligations a director needs to perform?			
5. Do directors understand their duties and responsibilities and the operation and environment of the Company?			
6. Are directors keeping in confidentiality the internal information of the Company they have obtained during performance of their duties?			
7. Is it true none of the board chairperson and other board members or officers of the Company has been charged for violation of the Securities and Exchange Act, the Company Act, the Banking Act, the Financial Holding Company Act, the Business Entity Accounting Act, or for corruption, malfeasance, fraud, breach of trust, or embezzlement?			
C. Participation in the Company's operation			
8. Is it true, on average, an individual director's attendance (not including attendance by proxy) at the board meeting has a rate of 80% or above?			
9. Do the directors attend this year's general shareholders' meeting in person?			
10. Do directors understand and read meeting materials before a board meeting?			

What is being Evaluated	Result		Remarks
	Yes	No	
11. Do directors spend sufficient time on matters relating to board of directors?			
12. Do directors make validated contributions at the board meetings, e.g. provide specific suggestions on proposals?			
13. Do directors read the meeting minutes after receipt of the documents?			
14. Do directors have a clear understanding of the Company's internal environment, management team and the industry in which the Company operates?			
15. Do directors diligently assess and keep track of existing or potential risks to the Company?			
16. Do directors understand and supervise the appropriateness of the Company's business report, accounting system, financial status and financial statements?			
17. Do directors regularly asses the independence and competence of the certified accountants?			
18. Do any of the independent directors of the Company not concurrently held directors of more than three listed companies (including independent directors)?			
D. Internal relation maintenance and communications			
19. Do the directors regularly communicate with the management team about the Company operations related information?			
20. Before the decision of the board of directors, do the directors fully considers the opinions of the management team and make independent and objective judgments and decisions?			
21. When engaging in board meeting, do directors have good communication with other board members and respect different opinions?			
22. Do directors engage in communications and exchanges with CPAs?			
E. Professionalism and continuous training of directors			

What is being Evaluated	Result		Remarks
	Yes	No	
23. Do directors have the professionalism required in the board's implementation of decisions?			
24. Have directors had the required hours of advanced studies this year in accordance with the "Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and TPEx Listed Companies?			
25. Do directors attend courses on corporate governance?			
26. Do directors continue to attend courses of diversified topics to strengthen their professional knowledge and skills?			
F. Internal control			
27. When performing the powers of directors, do the directors feel alert to the avoidance of interests and take the initiative to avoid?			
28. Do directors regularly check the internal control system (including the supervision and management of subsidiaries) and issue the "Internal Control System Statement"?			
29. Do directors regularly supervise the implementation of the audit plans?			
Other additional information			

Annex 2

Questionnaire of Self-Evaluation of Performance of 2018 Board Members,
Tung Ho Steel Enterprise Corp.

What is being Evaluated	Result		Remarks
	Yes	No	
A. Participation in the Company's operation			
1. Is it true, on average, an individual director's attendance (not including attendance by proxy) at the board meeting has a rate of 80% or above?			
2. Is it true, on average, an individual director's attendance at the shareholders' meeting has a rate of 50% or above?			
3. Do directors understand and read meeting materials before a board meeting and actively engage in discussion of proposals?			
4. Does the board of directors have good relationship with the management team?			
5. Does the board of directors value the compliance of various laws and codes or practices?			
6. Does the board of directors promote the establishment of corporate governance related measure, support the Company's participation in the Company's evaluation, fully protect shareholders' rights in order to enhance corporate governance?			
7. Do directors have a clear understanding of the Company's internal environment, management team and the industry in which the Company operates?			
8. Do directors diligently assess and keep track of existing or potential risks to the Company?			
9. Do directors understand and supervise the appropriateness of the Company's business report, accounting system, financial status and financial statements?			
10. Do directors engage in communications and exchanges with CPAs?			
11. Is it true no chairman, board member or manager of the Company has been charged for violation of the Securities			

What is being Evaluated	Result		Remarks
	Yes	No	
and Exchange Act, the Company Act, the Banking Act, the Financial Holding Company Act, the Business Entity Accounting Act, or for corruption, malfeasance, fraud, breach of trust, or embezzlement?			
12. Does the board of directors regularly and thoroughly review the management performance of the management team and give timely rewards and penalties?			
13. Can the board of directors fully and timely obtain the performance report of the Company's operations and quickly grasp the unfavorable trends?			
B. Improvement of the quality of the board of directors' decision making			
14. Does the board of directors have meetings more than six times a year?			
15. Is the convening of the meeting, content of the proceedings and related operating procedures in accordance with the Articles of Incorporation and the rules of procedure of the Board of Directors?			
16. Are the meeting materials provided by the unit are up to date, sufficient and complete?			
17. Do the minutes of the board of directors record the content of the discussions properly and properly record individual or collective reservation or concerns?			
18. Is the discussion proposal submitted to the board resolution appropriate? (Proposals shall be submitted to the board meeting in accordance with the law or authority of the Company.)			
19. Do directors spend sufficient time on matters relating to board of directors as well as appropriate discussions?			
20. Does the board of directors provide good communication channel that can communicate with independent directors properly?			
21. Is there any appropriate follow-up to the board meeting resolutions?			
22. When performing the powers of directors, do the directors feel alert to the avoidance of interests and take			

What is being Evaluated	Result		Remarks
	Yes	No	
the initiative to avoid?			
23. Does the board of directors conduct performance evaluation regularly, and disclose the result of evaluation on the Company website or in annual report?			
C. Composition and structure of the board of directors			
24. Has the board of directors set up independent directors and its numbers of members meet the relevant requirements?			
25. Do any of the directors of the Company not concurrently hold the position of director for more than three listed companies (including independent directors)?			
26. Does the board establish a proper and sufficient functional board?			
27. Are existing functional committees capable of fulfilling their duties as appointed by the board of directors?			
28. Does the Company establish a policy of diversification of board members based on the Company's development needs?			
D. Election and continuing education of the directors			
29. Are the procedures for selecting new directors strict and transparent?			
30. Are all board members' elections based on the Company board member diversity policy measurement?			
31. With regard to the current needs of the Company, is the composition of the board of directors at this stage appropriate in terms of skills, knowledge and experience?			
32. Do new directors understand their duties, responsibilities, operation and environment of the Company?			
33. Have directors had the required hours of advanced studies this year in accordance with the "Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and TPEx Listed Companies?			

What is being Evaluated	Result		Remarks
	Yes	No	
34. Do directors attend courses on corporate governance?			
35. Does the corporate governance unit equate to the Company's spindle and key business development direction and individual needs of the directors, and assist in arranging suitable training courses and record their training hours?			
E. Internal control			
36. Are directors involved in discussion of implementation and follow-up status of the internal control system as well as diligently assess and keep track of existing or potential risks to the Company?			
37. Does the internal control system approved by the board of directors cover five aspects/principles and cover all operational activities and transaction cycles?			
38. Do directors regularly check the internal control system (including the supervision and management of subsidiaries) and issue the "Internal Control System Statement"?			
39. Is the Company's audit officer/chief audit officer present at the board meeting and does he or she submit an internal audit operation report, and submit the audit report, including follow-up report, to supervisors, or audit committee, and independent directors or have them notified of the report in accordance with regulations?			
40. Is the makeup of the audit committee appropriate?			
41. Does the audit committee have at least one member who has related financial experience?			
42. Are the duties and authorities of the audit committee clearly and properly defined?			
43. In case where a CPA provides non-audit services, are there appropriate arrangements in place to ensure the CPA will act objectively and indecently?			
44. Do directors of the board take actions to understand and supervise the Company's accounting system, financial position and financial reports, audit reports and their follow-up?			

What is being Evaluated	Result		Remarks
	Yes	No	
Other additional information			
Chairman’s evaluation			

(5) If the Company has a remuneration committee in place, the composition, duties and operation of the remuneration committee shall be disclosed

i. Information on members of the remuneration committee

Identity	Condition / Name	Meet one of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Independence Attribute (Note)								Concurrent remuneration committee position in other publicly listed companies	Remarks
		An instructor or higher position in a department of commerce, law, finance, accounting, or other academic department related to the business needs of the Company in a public or private junior college, college or university	A judge, public prosecutor, attorney, certified public account, or other professional or technical specialist who has passed a national examination and been awarded a certificate in a profession necessary for the business of the Company	Have work experience in the areas of commerce, law, finance, or accounting, or otherwise necessary for he business of the Company	1	2	3	4	5	6	7	8		
Independent Director	Chung-Hsi Chang	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	0	
Independent Director	Yi-Chi Liu		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1	

Other	Chen-Ming Zhu	✓			✓	✓	✓	✓	✓	✓	✓	✓	0	Resigned on May 29, 2018.
Other	Kun-Dong Yu	✓			✓	✓	✓	✓	✓	✓	✓	✓	0	Approved the appointment on 9th meeting of the 23rd Board of Directors 23 g on August 13, 2018.

Note: All members comply with the following conditions from two years before being elected and appointed, and during his term of office, please tick the appropriate corresponding boxes.

(1) Not an employee of the Company or any of its affiliates.

(2) Not a director or supervisor of affiliated companies. Not applicable in case where the person is an independent director of the parent company, or any subsidiary as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary.

(3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company, or ranking in the top 10 in holdings.

(4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three sub-paragraphs.

(5) Not a director, supervisor, or employee of a corporate shareholder who directly holds 5% or more of the total number of outstanding shares of the Company, or who holds shares ranking in the top five holdings.

(6) Not a director, supervisor, officer, or shareholder holding 5% or more of the shares of a specified company or institutional which has a financial or business relationship with the Company.

(7) Not a professional individual, who is an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof.

(8) Not a person of any conditions defined in Article 30 of the Company Act.

ii. Operation status of the Remuneration Committee

A. There are three members in the Company's Remuneration Committee.

B. Current term: From June 16, 2017 to the expiring date of 23rd board of directors' term. The Remuneration Committee held 3 meetings (A) in the recent year up to the date of printing of the annual report, the qualifications and attendance of the Remuneration Committee are shown as follows:

Title	Name	Actual Attendance (B)	By Proxy	Actual Attendance Rate (%) (B/A)	Remarks
Convener	Chung-Hsi Chang	3	0	100.00	
Member	Yi-Chi Liu	3	0	100.00	
Member	Chen-Ming Zhu	1	0	100.00	Resigned on May 29, 2018.
Member	Kun-Dong Yu	2	0	100.00	Approved the appointment on 9th meeting of 23rd Board of Directors on August 13, 2018.

Other matters that shall be recorded:

1. If the board of directors declines to adopt or modify a recommendation of the remuneration committee, it shall specify the date of the meeting, session, content of the motion, resolution by the board of directors, and the Company's response to the remuneration committee's opinion (e.g. the remuneration passed by the Board of directors exceeds the recommendation of the remuneration committee, the circumstances and cause for the difference shall be specified): None.

2. Resolutions of the remuneration committee objected to by members or expressed reservation and recorded or declared in writing, the date of the meeting, session, content of the motion, all members' opinions and the response to members' opinion shall be specified: None.

(6) Corporate Social Responsibility:

Evaluation Item	Implementation Status			Deviation from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Description	
1. Implementation of corporate governance (1) Has the Company set up a corporate social responsibility policy or system and a review of the implementation effectiveness? (2) Does the Company regularly conduct social responsibility education and training?	✓		(1) The Company formulated the "Corporate Social Responsibility Best Practice Principles" in 2015 and disclosed it on the Company website. The corresponding departments of the "Corporate Social Responsibility Promotion Team" regularly identifies and discusses the stakeholders of their respective business, and improve of the management mechanism (Plan-Do-Check-Action, P-D-C-A) by orders for the identified major corporate social responsibility topics. First the team confirms the importance of the topic, sets its management purpose for the topic then the management policy is promoted in the order of policy formulation, planning purposes, input resources, management systems and systems, specific implementation measures, and review, and the specific promotion of planning and implementation effectiveness is detailed in the annual corporate social responsibility report where is published annually. (2) The Company regularly organizes social responsibility education training each year, which involves the participation of executives in all units, factories and executive people who are involved in the report. The issues related to corporate social responsibility and implementation is	No difference.

Evaluation Item	Implementation Status			Deviation from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Description	
(3) Has the Company set up a dedicated (or concurrent) corporate social responsibility promotion unit which is authorized by the board of directors to be managed by the high-level management and reports to the board of directors?			published in internal publications and on Company website. (3) The inter-departmental "Corporate Social Responsibility Promotion Team" the Company established – The General Managers serves as the Chairman, Vice General Manager and Factory Directors serve. The Promotion Team established five units which are "Corporate Governance", "Environmental Sustainability", "Product Responsibility", "Employee Relations" and "Social Welfare". In order to ensure that the Company's publicly issued corporate social responsibility report meets the requirements of the "Taiwan Stock Exchange Corporate Rules Governing the Preparation and Filing of Corporate Social Responsibility Reports by TWSE Listed Companies" and the Global Reporting Initiative, a "CSR Verification Team" was set up for internal operation verification, and a "Corporate Social Responsibility Report Verification Record Form" was also prepared to track improvements. After the final content of the Corporate Social Responsibility Report has been verified by a third-party, the report of the board of directors shall be submitted and issued by the chairman of the board of directors. The corporate 106 social responsibility report of 2017 was reported on the 7th meeting of 23rd Board of Directors on May 15, 2018.	

Evaluation Item	Implementation Status			Deviation from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Description	
(4) Has the Company formulated a reasonable remuneration policy and combined the staff performance appraisal system with the corporate social responsibility policy and set up a clear and effective reward and punishment system?			(4) The Company has established relevant remuneration, various bonuses and performance methods. The salary of employees is determined according to the complexity and responsibilities of their work, the responsibilities and professional skills, and the performance and effective link of personal salary. The relevant regulations on employee rewards and punishments are clearly explained in the work rules.	
2. Development of sustainable environment (1) Is the Company committed to improving the efficiency in the use of resources, and the use of recycled materials with low environmental impact? (2) Has the Company established an appropriate environmental management system according to its industrial characteristics?	✓		(1) In order to promote the green production, and to strive for environmental sustainability. The recycling scrap of steel used in the Company's production accounted for 95.5%; the waste recycling (recycle for reuse) ration of 2018 was 99.8%; the process water was recycled and reused multiple times, and the water recycling rate of each work was higher than 80%. (2) All the works have received the environmental management system (ISO 14001) certification. In 2018, Taoyuan and Miaoli works completed ISO 14001 international environmental management system revision and	No difference.

Evaluation Item	Implementation Status			Deviation from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies” and Reasons
	Yes	No	Description	
(3) Is the Company aware of the impact of climate change on its operations, and has it implemented greenhouse gas checking and developed a strategy for reduction of energy consumption and carbon emission as well as greenhouse gas reduction?			verification. According to the regulations of the environmental management system (ISO 14001), and monthly regulatory inspections are conducted and compliance assessments are carried out in the first month each year in accordance with the regulatory requirements related to the Environmental Management System (ISO 14001) to ensure the applicability of relevant environmental protection policies within the works. (3) In response to the global warming and effective mitigation of the impact of climate change, the Company actively promotes energy conservation and carbon reduction, implements the “ISO 14064 Greenhouse Gas Organization Inspection System”. The greenhouse gas emission is calculated by steps such as identification of emission sources, establishment of activity intensity data, emission data, and establishment of relevant management procedures for greenhouse gas inspection. Due to the increase in production capacity of the Company, the total greenhouse gas emission in 2018 was 874,776 tons of CO2e, which is an increase of 28% over compared to 2017. (The actual emissions are subject to the external verification agency inspection results). Miaoli works passed the inspection of “2018 Greenhouse Gas	

Evaluation Item	Implementation Status			Deviation from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Description	
			Replacement Project Demonstration to Promote Free Counseling Program" which has been confirmed by the third-party verification agency BV. The first phase of the "Registration Application Procedures" is completed, and it is estimated that the annual carbon reduction amount shall be 14,460 tons of CO_2, which is 144,600 tons of ten years of carbon reduction.	
3. Social welfare (1) Has the Company formulated relevant management policies and procedures in accordance with relevant laws and regulations and international human rights conventions? (2) Has the Company set up an employee complaint mechanism and channel, and properly handles employee complaints? (3) Does the Company provide a safe and	✓		(1) The Company adheres to internationally recognized conventions for human rights and relevant labor laws and protects the legal rights and interest of its employees. (2) In addition to utilizing unions to express their opinions, employees may also provide feedback by using the Company's mailbox or suggestion box for employees. Through these channels, the Company collects employees' feedback and suggestions and responds to them accordingly. (3) The Company offers health check for employees each year which are better than the regulations, including general health check and special	No difference.

Evaluation Item	Implementation Status			Deviation from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Description	
healthy working environment for employees and regularly carry out safety and health education for employees?			health check, and conducts work environment monitoring to provide a healthy working environment for all the staff, as well as appointing professional doctors to analyze based on the health reports. The health check is a reminder for staff to pay attention to track abnormal diagnosis and receive treatment, and as a plan for the health promotion next year, to help employees implement self-health care management and provide comprehensive health care for staff. The Company holds health talks, oral cancer screening, CPR education training courses and workplace violence education training courses.	
(4) Has the Company established a mechanism for regular employee communication and keep them informed in a reasonable manner of the changes in the operation which may have a signification impact on the employees?			(4) The Company holds a labor-management meeting quarterly to conduct labor-management communication.	
(5) Has the Company developed an effective training program for employees?			(5) Provide educational training, establish a good environment in response to operational needs and career planning, as well as arranging career development training programs based on individual career suitability and	

Evaluation Item	Implementation Status			Deviation from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Description	
			career planning.	
(6) Has the Company formulated relevant policies and complaint procedures for the protection of consumers' rights in respect of R&D, procurement, production, operation and service processes?			(6) The Company ensures the quality of products and services according to relevant regulations, and has an impeccable after-sale service pipeline.	
(7) Does the Company comply with relevant laws and regulations and international standards for the marketing and labeling of products and services			(7) The relevant standards the Company has passed and been certified: i. CNS trademark certification from the Bureau of Standards, Ministry of Economic Affairs ii. Product registration and certification records from the Bureau of Standards, Ministry of Economic Affairs iii ISO 9001 q Quality Management System Certification iv. ISO 14001 Quality Management System Certification v. ISO 50001 Quality Management System Certification vi. Japanese Industrial Standards (JIS) MARK factory certification by Japanese Ministry of International Trade and Industry.	

Evaluation Item	Implementation Status			Deviation from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Description	
(8) Does the Company check whether a supplier has any record of environmental and social impact before doing any business with the supplier?			vii. British Lloyd's Register of Ships, EU CE Mark for construction steel viii. Australian Certification Authority for Reinforcing Steel for hot-rolled steel products, ACRS ix. American Bureau of Shipping, ABS, Marie Steel Manufacturing Certification x. Det Norske Veritas,, DNV, Marie Steel Manufacturing Certification xi. Germanischer Lloyd, GL, Marie Steel Manufacturing Certification xii. Bureau Veritas, BV, Marie Steel Manufacturing Certification xiii. Lloyd's Register, LR, Marie Steel Manufacturing Certification xiv. Nippon Kaiji Kyokai, NK Marie Steel Manufacturing Certification xv. Korean Register of Shipping, KS, Marie Steel Manufacturing Certification (8) Regularly evaluate supplier records as a basis for exchanges.	

Evaluation Item	Implementation Status			Deviation from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Description	
(9) Does the contract between the Company and its principal supplier contain the condition that the contract may e terminated at any time if the supplier is involved in a policy that violate its corporate social responsibility and has a significant impact on the environment and society?			(9) The Company has established the "Selection and Evaluation Requirements for Suppliers of Main Raw Materials, By-materials and Materials" to establish basic supplier information and to effectively manage the selection and evaluation of suppliers. At the same time to integrate suppliers of by materials includes provisions to guide suppliers to take into account product quality, energy conservation and environmental protection. Whether or not the selected supplier passed ISO 900 quality management system certification, ISO 14001 environmental management system inspection, or if the product has an environmental label, use environmentally recyclable packing methods and materials. And in line with the Company's environmental policy and related industries to reduce waste, save energy, pollution prevention, environmental protection laws. The suppliers shall be urged to pay attention to the labor human right, as well as the safety and health of the working environment, and improve unfavorable working conditions. Existing suppliers shall immediately be required to improve or terminate the contract if they have actual or anticipated major environmental, labor conditions, human rights, social and other negative impacts.	
4. Strengthening information disclosure	✓			No difference.

<table>
<tr><th rowspan="2">Evaluation Item</th><th colspan="3">Implementation Status</th><th rowspan="2">Deviation from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies” and Reasons</th></tr>
<tr><th>Yes</th><th>No</th><th>Description</th></tr>
<tr><td>(1) Does the Company disclose relevant and reliable information on corporate social responsibility on its website and MOPs.</td><td></td><td></td><td>The website has been established and related information is disclosed in accordance with corporate social responsibility and regulations.</td><td></td></tr>
<tr><td colspan="5">5. If the Company has its own corporate social responsibility in accordance with the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies, please describe the difference between its operational and prescribed code: No difference.</td></tr>
<tr><td colspan="5">6. Other important information to help understand the operation of corporate social responsibility:
(1) The Company takes great interest in social issues and actively participates in public welfare. The main donations in 2018 is as follows:
i. National Chiao Tung University participated in the 2018 Middle East Solar Decathlon Green Building Competition (including installing engineering, manpower) of an estimated total value of NT$822,000.
ii. Sponsored and participated in the environmental protection “Love Earth Caoluo Beach Clean and Energy Conservation Activities” held by the Environmental Education Cultural and Creative Association. The total amount of sponsorship, NT$36,000.
iii. An amount of NT$ one million was donated to Taiwan Christian Presbyterian Church – Taiwan Heart Reconstructions Plan.
iv. An amount of NT$ one million was donated to the 5th “Visual Art Project” of the National Culture and Art Foundation.
v. An amount of NT$443,000 was sponsored to the “Pingdong Resident Orchestra Training Program”.
vi. An amount of NT$ 5 million was donated to assit Hulien’s 0206 earthquake.
vii. An amount of NT$500,000 was sponsored to the Miaoli County Government to host the 2018 National Games.
viii. An amount of NT$ one million was sponsored to mid-Taiwan Agriculture Expo
ix. An amount of NT$ 3 million was sponsored to Tung Ho Steel Foundation.</td></tr>
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<table>
<tr><th rowspan="2">Evaluation Item</th><th colspan="3">Implementation Status</th><th rowspan="2">Deviation from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies” and Reasons</th></tr>
<tr><th>Yes</th><th>No</th><th>Description</th></tr>
<tr><td colspan="5">x. An amount of NT$ 1.95 million was sponsored to Community Development and Good Neighbors.
xi. An estimated total value of NT$343 of artworks was sponsored to Department of Cultural Affairs, Taoyuan in “2018 Taoyuan Land Art Festival”.
xii. An estimated total value of NT$300,000 of steel materials was donated to 2018 Kaohsiung International Steel & Iron Sculpture Festival.
xiii. An estimated total value of NT$60,000 worth of computers were donated to Digital Opportunity Center in rural areas and social welfare organizations in response to the CPA firm’s “Happy Train, Let Love Spread” program.

(2) The “TCSA Taiwan Corporate Sustainability Academy Award, TCSA” held by Taiwan Academy of Corporate Sustainability is known as the “Oscar of the Taiwan Academy of Corporate Sustainability”, of which the Company has won a number of awards ever since participating. The Company once again won the “Traditional Manufacturing – Gold Award” in 2018, confirming the Company is promoting corporate sustainability issues and governance information disclosure, as well as concrete display of efforts in economic, environmental, social and organizational governance. The Company shows its commitment of the sustainability report with actions, in order to demonstrate that the corporate is fully dedicated in social responsibilities and the implementation of sustainable issues, as a result to promote the Company to sustainable development.</td></tr>
<tr><td colspan="5">7. Please state if the Company’s corporate social responsibility report passes the relevant verification agencies’ verification criteria:
The Company’s “2018 Corporate Social Responsibility Report” has been verified by the British Standards Institution, BSI, which is a third-party body, and has met the Category 1 Moderate Assurance Level of GRI Standards Core and AA1000AS. The report has been publicly disclosed in the CSR section on the Company website.</td></tr>
</table>

(7) Implementation of Integrity Management

Evaluation Item	Implementation Status (Note)			Deviation from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Description	
1. Setting business integrity policies and programs (1) Does the Company express its commitment to the policies and practices of integrity management in its regulations and in the external documents, and do the board of directors and the management actively implement of the business policies? (2) Has the Company set up a program for the prevention of dishonesty as well as the procedures conduct guidelines and a system in various programs and implemented them? (3) Has the Company adopted precautionary measures in respect of business activities with a high risk of dishonesty in Article 7 (2) of the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies?	✓		(1) The Company has established and implemented an integrity management code and publicly disclosed that "integrity" is the Company's business philosophy on the Company website. (2) In order to prevent dishonest in business activities, the Company has established strict rules on code of conduct, ethics, reporting, rewards and penalties on the "Rules of the Board of Directors", "Code of Ethical Conduct for Directors and Managers", "Procedures for Handling Material Inside Information" and "Working Rules". There were no acts of corruption, bribery in 2018. (3) The Company has established the "Method for Job Rotation for Employees", and relevant duties have been adjusted and rotated for the prevention of dishonesty. The Company encourages employees to collect evidence in the event of violation of laws, regulations or ethical conduct, and to report to the director, manager, internal audit supervisor or management department.	No difference.
2. Implementation of integrity management (1) Does the Company assess the integrity record of its business partner, and stipulate the terms of conduct	✓		(1) The Company appoints the general manager's office to provide customer credit investigations during the Company's external	No difference.

Evaluation Item	Implementation Status (Note)			Deviation from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Description	
on integrity in the contract with the business partner?			business activities and legal affairs office to review and execute contract terms. When the Company signs a contract with a business party, the Company must fully understand the party's integrity management status, and incorporate the integrity management into the contract terms, and specify the following items in the contract: i. Any party who knows that a person who has violated the contractual provisions of the prohibition of commission, rebate or other benefits shall immediately inform the other party of their identity, offer, promise, ways and amount or other interest, as well as providing relevant evidence and cooperate with other parties to investigate. If a party suffers damage as a result, they may request compensation from the other party. ii. If a party is involved in an act of dishonest in a business activity, the other party may terminate the contract at any time and without any conditions or dismiss the contract.	
(2) Has the Company set up a dedicated (concurrent) corporate integrity promotion unit under the board of directors which regularly reports to the board on its work?			(2) The general manager's office, legal affairs office, audit office and management unit of the Company shall jointly promote the integrity operation and supervision of the enterprise.	
(3) Has the Company formulated policies to prevent conflicts of interest, provided appropriate channels for statements and implemented them?			(3) In order to prevent conflicts of interest, the Company has incorporated and implemented relevant provisions of conflicts of interest avoidance policies, reporting system in "Rules of the	

Evaluation Item	Implementation Status (Note)			Deviation from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Description	
(4) Has the Company established an effective accounting system and internal control system for the implementation of integrity management, which is check by the internal auditing unit on a regular basis or audited by external auditors? (5) Does the Company hold regular internal and external training on business integrity?			Board of Directors", "Code of Integrity Management" and "Code of Ethical Conduct for Directors and Managers". (4) The accounting system of the Company is established and revised in accordance with international financial reporting standards and relevant international accounting standards. The implementation of the internal control system is subject to the self-assessment of the "Self-assessment Operating Procedures of the Internal Control System" each year. The relevant assessment and revision shall be carried out by the audit office, and a statement of the internal control system shall be submitted to the board of directors each year. The statement of the revised financial report issued by the accountant for 2018: there was no doubt on the management's conduct and no management was involved in fraud". (5) The Company promotes integrity management principles on its quarterly or during important meetings and asks employees to comply with such principles.	
3. Operation of the Company reporting system (1) Has the Company set up specific reporting and reward systems and a convenient reporting channel, and does the Company assign appropriate personnel to investigate the person being reported?	✓		(1) The Company has established complaint boxes at each of its plant. Employees can submit complaints or make reports through the complaint boxes or via email, verbally or phone calls to unit supervisors or management unit of each plant. The	No difference.

Evaluation Item	Implementation Status (Note)			Deviation from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Description	
(2) Has the Company set up standard investigation procedures and a related confidentiality mechanism for the matter being reported? (3) Does the Company take measures to protect the whistle-blower from improper treatment?			Company has the "Code of Ethical Conduct for Directors and Managers" which encourages employees to collect enough evidence then report it board of directors, members or managers of audit commit, internal audit manager or management department manager when there is a suspicion of violation of a director or manager. After the report is proven to be true, the Company shall reward the whistle-blower according to relevant regulations. The Company accepts complaints and reports on the special responsible units or personnel. Upon investigation, if a major violation is discovered or the Company is seriously damaged, a report shall be made to notify the independent directors in writing. (2) The Company shall make a written record after accepting the report, and the relevant unit shall investigate, handle and submit them. (3) Depending on the nature of the reported case and the situation of the whistle-blower, the Company adopts necessary protective measures for keeping the whistle-blower's identity confidential in order to protect them from retaliation.	
4. Strengthening of information disclosure Does the Company disclose the contents of its Code of Practice for Business Integrity and the effectiveness on its website and MOPS?	✓		The Company's "Code of Integrity Management" is disclosed on the Company site and MOPS.	No difference.

<table>
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<tr><th>Yes</th><th>No</th><th>Description</th></tr>
<tr><td colspan="5">5. If the Company has its own Corporate Governance Best Practice Principles in accordance with the “Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies”, please describe the difference between them:
The Company has its own Corporate Governance Best Practice Principles in accordance with the “Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies” and there is no difference.</td></tr>
<tr><td colspan="5">6. Other important information that will help to understand the operation of the Company’s integrity: (if the Company reviews and amends its established code of conduct, etc.)
(1) The “Rules of the Board of Directors” states that the director shall avoid conflict of interest when his/her own interests are involved, they. If the director’s is like to damage the interest of the Company, the concerned person may not participate in the discussion or voting process, they shall not exercise voting rights as a proxy for another director. The directors of the Company are highly self-disciplined. If the proposal involves a director’s own interest, he/she shall evade the principle of avoidance of interests.

(2) The Company has the Procedures for Handling Material Inside Information”, which clearly states that the directors, managers and employees of the Company shall be subject to the attention and loyalty of the good manager. The Company’s principles of integrity are used to conduct business and must not disclose important inside information to others.</td></tr>
</table>

(8) If the Company has adopted corporate governance best-practice principles or related bylaws, disclose how there are to be searched?

The Company established the Corporate Governance Best Practice Principles on the 12th meeting of 23rd Board of Directors on March 26, 2019, the Corporate Governance Best Practice Principles are disclosed on the Company website (web address: http://www.tunghosteel.com, at Investors/Corporate Governance Important/Regulations).Prior to the implementation of the Corporate Governance Best Practice Principles, the Company followed Corporate Governance Best Practice Principles for Listed Companies.

(9) Other significant information that will provide a better understanding of the state of the Company's implementation of corporate governance may also be disclosed:

The Company's corporate governance related operations and important information such as: important company regulations, board member nomination and election methods, director training and major board resolutions are disclose on the Company website. (web address http://www.tunghosteel.com, at Investors/Corporate Governance/Important Regulations**).**

(10) The implementation of internal control system shall disclose the following:

i. Statement of Internal Control System

TUNG HO STEEL ENTERPRISE CORP.

Statement of Internal Control System

Date: March 26, 2019

The internal control system from January 1 to December 31, 2018, according to the result of self-assessment is thus stated as follows:

1. The Company acknowledges that the implementation and maintenance of internal control system is the responsibility of Board of Directors and management, and the Company has established such system. The internal capital system is aimed to reasonably assure that the goals such as the effectiveness and the efficiency of operations (including profitability, performance and protection of assets), the reliability of financial reporting and the compliance of applicable law and regulations are achieved.

2. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system can provide only reason assurance of accomplishing its three stated objectives above. Moreover, the effectiveness of an internal control system may be subject to changes due to extenuating circumstances beyond our control. Nevertheless, our internal control system contains self-monitoring mechanisms, and the Company takes immediate remedial actions in response to any identified deficiencies.

3. The Company evaluates the design and operating effectiveness of its internal control system based on the criteria provided in the Regulations Governing the Establishment of Internal Control Systems by Public Companies (herein below, the Regulations). The criteria adopted by the Regulations identify five key components of managerial internal control: i. control environment, ii. risk assessment, iii. control activities, iv. information and communication, and v. monitoring activities.

4. The Company has evaluated the design and operating effectiveness of its internal control system according to the aforesaid Regulations.

5. Based on the finding of such evaluation, the Company believes that, on December 31, 2018 it has maintained, in all material respects, an effective internal control system (that includes the supervision and management of our subsidiaries), to provide reasonable assurance over our operational effectiveness and efficiency, reliability, timeliness transparency of reporting, and compliance with applicable rulings, laws and regulations.

6. This Statement is an integral part of the Company’s annual report for the year 2017 and prospectus, and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171 and 174 of the Securities and Exchange Law.

7. This statement was approved by the board of directors in the meetings held on March 26, 2019, with none of the ten attending directors expressing dissenting opinions, and the remainder all affirming the content of this Statement.

TUNG HO STEEL ENTERPRISE CORP.

Chairman: Henry C. T. Ho

General Manager: Henry C. T. Ho

ii. If the CPA was engaged to conduct a Special Audit of Internal Control System, provide its audit report: None.

(11) For the most recent year or during the current year up to the date of publication of the annual report, disclose any sanctions imposed in accordance with the law upon its internal personnel for violation of internal control system provisions, principal deficiencies, and the state of any efforts to make improvements: None.

(12) Important resolutions of the shareholders' meeting and the board meeting during the most recent year or during the current year up to the date of publication of the annual report:

Date	Period	Important Content	Resolution
2018.03.22	6th of 23rd board	1. Reporting of the Company introducing International Financial Reporting Standard No. 16 "Leases". 2. Board performance evaluation report of 2017. 3. Reporting of risk items and management responses. 4. Approved the Company's distribution of employee and director remuneration of 2017. The amount of remuneration for employees totaled NT$51,969,181, and the amount of directors' remuneration totaled NT$41,575,345. 5. Approved the Company's business report and financial statements of 2017 6. Approved the Company's distribution of earnings of 2017, with a cash dividend of NT$1.4 per share. 7. Approved the Company's shareholders' meeting of 2018 and accepted the proposal of shareholders holding more than 1% of shares. 8. Approved the independence and competence of the Company's CPAs. 9. Approved short-term credit limit of NT$20 million of endorsements and guarantees for the	Approved by all attending directors with no dissenting opinions.

		Company's subsidiary Tung Ho Steel Vietnam Corp., Ltd. from Mizuho Bank, Ltd. Ho Chi Minh City Branch.	
2018.05.15	7th of 23rd board	1. The Company's consolidated financial report for the first quarter of 2018. 2. The issuance of the 2017 CSR report. 3. Through the donation to "Tung Ho Steel Foundation" to hold activities related to steel sculpture artworks and conference expenses which were NT$5,060,000 and 160 tons of scrap steel 4. Approved the subsidiary Fujian Tung Kang Steel Co., Ltd. to apply for Endorsements and guarantees for US$10 million credit limit at Taipei Fubon Bank.	Approved by all attending directors with no dissenting opinions.
2018.06.11	Shareholders' meeting	1. Status of 2018 Major shareholders' meeting proposals and implementation: 2. Proposals: i. Approved the 2017 business report and financial statements. Implementation: Approved. ii. Approved the distribution of earnings of 2017. Implementation: The board convened the board of directors' meeting on the same afternoon of shareholders' meeting after the proposal of the distribution of earnings was approved, to discuss matters related to based date for the issuance of cash dividends. The board of directors resolved to issue a total of NT$1,405,684,851 in cash dividends at NT$1.40 per share. The ex-dividend benchmark date is set at 2018.07.07; the dividend issuance date is 2018.08.03. 3. Discussion: Approval of amendments on "Endorsements and guarantees Operating Procedures". Implementation: Approved the amendments on some of the provisions, and is published on the Company website. (Web address: http://www.tunghosteel.com, at Investors/Corporate Governance/Important Regulations). The important resolutions of the above shareholders' meeting are on the Company website. Web address: http://www.tunghosteel.com, at Investor/Shareholder Services/Shareholders'	The chairman consulted all attending shareholders. All shareholders approved with no dissenting opinions.

		meeting/2018 Shareholders' Meeting Information/Minutes for 2018 Annual Meeting of Shareholders had detailed information.	
2018.06.11	8th of 23rd board	1. Approved the issuance of cash dividend ex-dividend base date for 2018 2. Approved the Company's subsidiary Tung Ho Steel Vietnam Corp., Ltd. to apply for short-term credit limit of USD20 million of endorsements and guarantees at Cathay United Bank. 3. Approved the subsidiary Tung Ho Steel Vietnam Corp., Ltd. to apply for short-term, mid-term and long term credit limit of USD49.5 million of Endorsements and guarantees at Taipei Fubon Bank.	Approved by all attending directors with no dissenting opinions.
2018.08.13	9th of 23rd board	1. The Company's consolidated financial report for the second quarter of 2018. 2. Approved the Taoyuan Government's plan to purchase parts of the five land areas of Dazhuang section such as No.2523 of the Bade District of Taoyuan at the agreed price of the Company as the entrance and exit of the G03 station of the Airport Line for the Mass Rapid Transit System (Green Line). 3. Approved the Company's appointment of the members of the remuneration committee. 4. Approved the Company's subsidiary Tung Ho Steel Vietnam Corp., Ltd. to apply for short-term credit limit of USD18 million of endorsements and guarantees at Vietin Bank Ba Ria - Vung Tau Branch. 5. Approved the Company's subsidiary Tung Ho Steel Vietnam Corp., Ltd. to apply for short-term credit limit of USD7 million of endorsements and guarantees at Sinopac Bank – Ho Chi Minh City Branch. 6. Approved the Company's subsidiary Fujian Tung Kang Steel Co., Ltd. to apply for short-term credit limit of USD6 million of endorsements and guarantees at Shanghai Commercial and Saving Bank. 7. Approved the Company's subsidiary Fujian Tung Kang Steel Co., Ltd. to apply for short-term, mid-term and long term credit limit of	Approved by all attending directors with no dissenting opinions.

		USD6 million of Endorsements and guarantees at Sinopac.	
2018.11.14	10th of 23rd board	1. The Company's consolidated financial statements of the 3rd quarter of 2018 . 2. Report of the directors and important employees' liability insurance. 3. Proved the review of the professional fee of CPAs of 2018 4. Proved the proposal of the "Audit Plan of 2019". 5. Approved the renewal of the Company's subsidiary Tung Ho Steel Vietnam Corp., Ltd. to apply for short-term credit limit of USD13 million of endorsements and guarantees at First Bank. 6. Approved the Company's subsidiary Tung Ho Steel Vietnam Corp., Ltd. to apply for short-term credit limit of USD15 million of endorsements and guarantees at CTBC Bank. 7. Approved the Company's subsidiary Tung Ho Steel Vietnam Corp., Ltd. to apply for short-term credit limit of USD15 million of endorsements and guarantees at Mega Bank.	Approved by all attending directors with no dissenting opinions.
2018.12.18	11th of 23rd board	1. Approved the Company's subsidiary Tung Ho Steel Vietnam Corp., Ltd. to apply for short-term credit limit of USD47 million of endorsements and guarantees at Mizuho Bank, Ltd.—Ho Chi Minh City Branch. 2. Approved the Company's subsidiary Tung Ho Steel Vietnam Corp., Ltd. to apply for short-term credit limit of USD8 million of endorsements and guarantees at BNP Paribas—Ho Chi Minh City Branch and Hanoi Branch. 3. Approved the Company's subsidiary Tung Ho Steel Vietnam Corp., Ltd. to apply for short-term credit limit of USD15 million of endorsements and guarantees at Taishin International Bank. 4. Approved the Company's subsidiary Tung Ho Steel Vietnam Corp., Ltd. to apply for short-term credit limit of USD25 million of endorsements and guarantees at Hua Nan Bank. 5. Approved the Company's subsidiary Fujian	Approved by all attending directors with no dissenting opinions.

		Tung Kang Steel., Ltd. to apply for short-term credit limit of RMB50 million of endorsements and guarantees at Mizuho Bank (China) Ltd.—Shenzhen Branch	
2018.03.26	12th of 23rd board	1. Approved the Company's CPA replacements due to the internal job rotation mechanism of the KPMG law firm. 2. The report of the performance evaluation of the board of directors of 2018. 3. Approved the distribution of remuneration of the Company's employees and directors for 2018. The total of the employee remuneration amounted to NT$32,115,319 and the total of the director remuneration amounted to NT$25,692,256. 4. The review of the independence and competence of the CPAs. 5. Approved the Company's 2018 business report and financial statements. 6. Approved the Company's distribution of earnings for 2018, at NT$1.2 per cash dividend. 7. Approved the Company's shareholders' meeting of 2019 and the proposal of shareholders holding more than 1% of shares. 8. Approved the appointment of the Company's corporate governance manager. 9. Approved the Company's subsidiary Tung Kang Steel Co., Ltd. to apply for short-term, mid-term and long-term credit limit of RMB30 million of endorsements and guarantees at Xiamen. 10. Approved the extension of the Company's subsidiary Tung Ho Steel Vietnam Corp., Ltd. for short-term credit limit of endorsements and guarantees at Fubon Bank.	Approved by all attending directors with no dissenting opinions.

(13) Where, during the most recent year or during the current year up to the date of publication of the annual report, a director or supervisor has expressed a dissenting opinion with respect to a resolution approved by the board of directors, and said

dissenting opinion has been recorded or prepared as a written declaration, disclose the principal content thereof: None.

(14) A summary of resignations and dismissals, during the most recent year or during the current year up to the date of publication of the annual report, of the Company's chairman, president, principal accounting officer, principal financial officer, chief internal auditor, and principal research and development office: None.

5. Information on CPA Professional Fees

(1) Information on the range of CPA professional fee

Accounting Firm	Name of Accountant		Audit Period	Remarks
KPMG Taiwan	Hui-Zhi Kou	Xin-Yu Kuo	2018.01~2018.12	None

Unit: NT$1000

Tier	Fee	Audit	Non-audit Fee	Total
1	Below NT$2,000		✓	✓
2	NT$2,000 (included) ~ NT$4,000			
3	NT$4,000 (included) ~ NT$6,000			
4	NT$6,000 (included) ~ NT$8,000	✓		✓
5	NT$8,000 (included) ~ NT$10,000			
6	Over NT$10,000 (included)			

i. The non-audit fee paid to certified CPA, CPA's accounting firm and affiliates accounts for over 1/4 to audit fee, the contents of service for audit and non-audit fee shall be disclosed:

Unit: NT$1000

CPA Firm	Name of Accountant	Audit Fee	Non-audit Fee					Audit Period	Remarks
			System of Design	Company Registration	Human Resources	Others	Subtotal		
KPMG Taiwan	Hui-Zhi Kao, Xin-Yu Kuo	6,240	0	0	0	1,889	1,889	2018.01~ 2018.12 (1)	(1) Consulting fee for R&D of 2018: NT$240 thousand. (2) The main report and transfer price report of 2018: NT$1,459 thousand. (3) Other non-audit (subsidiary investment fees, etc.): NT$190 thousand.

ii. If the audit fee is reduced compared with the previous year after the change of the accounting firm and the change of audit fee, the amount of audit fees and reason(s) before and after the change shall therefore be disclosed: N/A.

iii. If the audit fee is reduced by over 15% compared with the previous year, the reduction in the amount of audit fees, reduction percentage, and reason(s) shall therefore be disclosed: N/A.

6. Information on Replacement of Certified Public Accountants：N/A.

7. Information on Service of the Company's Chairman, General Managers, and Financial or Accounting Managers at the Accounting Firm, or its Affiliates: None.

8. Any Transfer of Equity Interests and/or Pledge of or Change in Equity Interests by A Director, Supervisor, Managerial Officer, or Shareholder with a Stake of More than 10 Percent during the Most Recent Year or During the Current Year up to the Date of Publication of the Annual Report:

(1) Changes of directors, supervisor, managers or shareholders holding greater than a 10 percent stake in the Company:

Unit: Shares

Title	Name	2018		2019 to March 31st	
		Shareholding Increase/Decrease	Pledged Shares Increase/Decrease	Shareholding Increase/Decrease	Pledged Shares Increase/Decrease
Director	Mao Sheng Investment Co., Ltd	1,042,000	0	50,000	0
Director	Mao Sheng Investment Co., Ltd Representative: Henry C. T. Ho	0	0	0	0
Director	Mao Sheng Investment Co., Ltd Representative: George Y. S. Ho	0	0	0	(18,000)
Director	Shen Yuan Investment Co., Ltd.	0	0	0	0
Director	Shen Yuan Investment Co., Ltd. Representative: Shu-Chau Wang Ho (Note 1)	0	0	0	0
Director	Shen Yuan Investment Co., Ltd. Representative: Hui-Ming Wu	0	0	0	0
Director	Liang Cheng Investment Co., Ltd.	0	0	0	0
Director	Liang Cheng Investment Co., Ltd. Representative: Pao-He Chen	0	0	0	0
Director	Epsil Holding Incorporation	0	0	0	0
Director	Epsil Holding Incorporation Representative: Chih-Ming Huang	0	0	0	0

Title	Name	2018		2019 to March 31st	
		Shareholding Increase/Decrease	Pledged Shares Increase/Decrease	Shareholding Increase/Decrease	Pledged Shares Increase/Decrease
Director	Yen-Liang Ho	0	0	0	0
Director	Taiwan Zhi Di Co., Ltd.	0	0	0	0
Director	Taiwan Zhi Di Co., Ltd. Representative: Chao-He Lin	0	0	0	0
Independent Director	Yi-Chi Liu	0	0	0	0
Independent Director	Chung-Hsi Chang	0	0	0	0
Independent Director	De-Ming Liu	0	0	0	0
Chairman/ General Manager	Henry C. T. Ho	0	0	0	0
Vice President	Shu-Chau Wang Ho (Note 1)	0	0	0	0
Vice General Manager of Production Department	Fu-Jin Chen	112,000	0	0	0
Vice General Manager of Operations Department	Kuan-Ren Gu	21,000	0	2,000	0
Vice General Manager of Operations Department	Bing-Hua Huang	684,000	0	0	0
Vice General Manager of Assets and Trade Department	Qi-Xie Lin	0	0	0	0
Vice General Manager of Financial Department	Bo-Xun Dong	0	0	0	0
Assistant Manager of	Chang-Hong Li	0	0	0	0

Title	Name	2018		2019 to March 31st	
		Shareholding Increase/Decrease	Pledged Shares Increase/Decrease	Shareholding Increase/Decrease	Pledged Shares Increase/Decrease
General Manager Office					
Assistant Manager of Production Department	Ru-Yin Fan	7,000	0	0	0
Assistant Manager of Investment Department	Zheng-Bin Chiu	0	0	0	0
Assistant Manager of Investment Department	Hsiu-Chih Chen	0	0	0	0
Assistant Manager of Investment Department	Zhen-Yuan Chen	0	0	0	0
Assistant Manager of Investment Department	Yi-Zhi Hsu (Note 2)	0	0	0	0
Assistant Manager of Assets and Trade Department	Jun-Shen Jian	0	0	0	0
Assistant Manager of Information Department	Zhe-Chong Lin	0	0	0	0
The Company's Corporate Governance Manager as well as Assistant Manager of Management	Ru-Yu He	0	0	0	0

Title	Name	2018		2019 to March 31st	
		Shareholding Increase/Decrease	Pledged Shares Increase/Decrease	Shareholding Increase/Decrease	Pledged Shares Increase/Decrease
Department (Note 3)					
Director of Taoyuan Works	De-Xiu Chen (Note 2)	0	0	0	0
Director of Miaoli Works	Ming-Zong Liu	220,000	0	0	0
Director of Kaohsiung Works	Zong-Yu Wang	207,000	0	8,000	0
Major Shareholders Holding more than 10% of the Shares	Shen Yuan Investment Co., Ltd.	0	0	0	0

Note 1: The representative of Shen Yuan Investment Co., Ltd. Shu-Chau Wang Ho died on 2019.01.08.
Note 2: 2019.02.11 adjusted duties.
Note 3: 2019.03.26 was appointed as the manager of corporate governance.

(2) Information on equity transfer for directors, supervisors, managers, and shareholders with shareholding ratio of 10% or greater: None.

(3) Information on equity pledge for directors, supervisors, managers, and shareholders with shareholding ratio of 10% or greater:

Name	Reason for Pledge Changes	Date of Change	Transaction Counterparty	Relationship between the Transaction Counterparty, Company, Director, and Supervisors as well as Shareholders with more than 10% Stake	Shares	Shareholding %	Pledge %	Pledge Loan (Redemption) Amount
Liang Cheng Investment Co., Ltd. representative: Pao-He Chen	Pledge	103.10	Tachin Stock	N/A	4,000,000 shares	0.45%	0.40%	None
Liang Cheng Investment Co., Ltd.	Pledge	106.11	China Bills	N/A	10,000,000 shares	1.11%	1.00%	None

9. Information on the Relationship between any of the top Ten Shareholders (Related Party, Spouse, or Kinship within the Second Degree)

Date: 2019.04.19 (unit: shares; %)

Name	Shareholding		Spouse & Minor Current Shareholding		Current Shareholding in the Name of others		Relationships among the Top Ten Shareholders, anyone who is a Related Party, Spouse, or Second-degree Kinship of another: Name and Relation		Remarks
	Shares	%	Shares	%	Shares	%	Title (or Name)	Relation	None
Shen Yuan Investment Co., Ltd.	120,199,779	11.97%	0	0	0	0	None	None	None
Shen Yuan Investment Co., Ltd. Representative: Shu-Chau Wang Ho (Note)	10,695,847	1.07%	20,429,294	2.03%	0	0	Earle J. S. Ho	Husband/Wife	None
Shen Yuan Investment Co., Ltd. Representative: Hui-Ming Wu	128,432	0.01%	0	0	0	0	None	None	None
Mao Sheng Investment Co., Ltd	53,765,877	5.35%	0	0	0	0	None	None	None
Mao Sheng Investment Co., Ltd. Representative: Henry C. T. Ho	142,426	0.01%	113,000	0.01%	0	0	Earle J. S. Ho	Father/Son	None
Mao Sheng Investment Co., Ltd Representative: George Y. S. Ho	82,000	0.01%	0	0	0	0	Earle J. S. Ho	Father/Son	None
He Zhao Investment Co., Ltd.	50,938,150	5.07%	0	0	0	0	None	None	None
Nan Shan Life Insurance Company Ltd.	44,142,500	4.40%	0	0	0	0	None	None	None

Fubon Life Insurance Co., Ltd.	38,029,000	3.79%	0	0	0	0	None	None	None
China Life Insurance Co., Ltd.	34,727,597	3.46%	0	0	0	0	None	None	None
Public Service Pension Fund Management Committee	27,797,385	2.77%	0	0	0	0	None	None	None
Earle J. S. Ho	20,429,294	2.03%	10,695,847	1.07%	0	0	None	None	None
Yu Tai Investment Co., Ltd.	18,855,193	1.88%	0	0	0	0	None	None	None
Citibank (Taiwan) Commercial Bank is Commissioned to Safeguard Norges Bank Investment Accounts	18,448,972	1.84%	0	0	0	0	None	None	None

Note: The representative of Shen Yuan Investment Co., Ltd. Shu-Chau Wang Ho died on 2019.01.08, and as of the suspension date of shareholders, the institutional directors have yet appointed a representative.

10. The Total Number of Shares and Total Equity Stake Held in any Single Enterprise by the Company, its Directors and Supervisors, Managers and any Companies Controlled either Directly or Indirectly by the Company:

Date: 2018.12.31 (Unit: thousand; %)

Reinvestment Business	Investment by the Company		Investments by Directors, Supervisors, Managers and any Companies Controlled either Directly or Indirectly by the Company		Comprehensive Investment	
	Shares	Shareholding %	Shares	Shareholding %	Shares	Shareholding %
Xiaogang Warehouse	2,384	19.87	0	0	2,384	19.87
Hexawave Inc.	11,688	16.35	2,396	3.35	14,084	19.70
Taiwan Aerospace	1,621	1.19	0	0	1,621	1.19
Overseas Investment	1,000	1.11	0	0	1,000	1.11
Li-Shi Venture Capital Inc.	677	5.68	0	0	677	5.68
Li-Yu Venture Capital Inc.	558	4.76	0	0	558	4.76
Taiwan High Speed Rail	6,214	0.11	0	0	6,214	0.11
Dongjing Investment	0	9.13	0	0	0	9.13

Industrial Bank of Taiwan Second Venture Capital	1,313	4.17	0	0	1,313	4.17
Global Venture	2,800	2.33	0	0	2,800	2.33
Chien Shing Harbour Service	8,204	10.11	0	0	8,204	10.11
Katec Creative Resources Corp. – Special Stock	577	65.18	0	0	577	65.18
Tung Kang Wind Power	15,500	100.00	0	0	15,500	100.00
Fata Xingye	9,000	100.00	0	0	9,000	100.00
Tung Yuan Internationa Corporation	0.08	100.00	0	0	0.08	100.00
Tung Kang Steel Structure	197,565	97.48	4,538	2.23	202,103	99.71
Taiwan Steel United Inc.	24,829	22.31	0	0	24,829	22.31
Katec Technology	4,705	46.19	0	0	4,705	46.19
Katec Creative Resources Corp.	95,724	99.01	0	0	95,724	99.01
BySources Investment	500	49.00	0	0	500	49.00
Goldham Development Ltd.	15,000	100.00	0	0	15,000	100.00
Tung Ho Steel Vietnam Corp.Ltd.	0	100.00	0	0	0	100.00
Best-Steel Trade Corp.	0	0	0	60.00	0	60.00
Fujian Tung Kang Steel	0	0	0	100.00	0	100.00
Tung Kang Engineering & Construction	0	0	25,000	100.00	25,000	100.00
Fujian Sino-Japan Metal	0	0	0	35.00	0	35.00
3 Oceans International Inc.	0	0	1,840	66.67	1,840	66.67
DUCHOA International	0	0	0	49.25	0	49.25
China Products	0	0	3	0.66	3	0.66
Tech Alliance Venture Capital	0	0	1,792	5.69	1,792	5.69
Ding-Xing Development	0	0	150	15.00	150	15.00
Fujian Dongsheng Metal	0	0	0	51.00	0	51.00

IV. Capital Raising Activities

1. Capital and Shares

(1) Source of capital stock

i. Types of shares

Benchmark date: April 19. 2019

Types of Shares	Authorized Capital Stock			Remarks
	Outstanding Shares	Unissued Shares	Total	
Listed Common Stock	1,004,060,608	495,939,392	1,500,000,000	None

ii. The formation of capital

Year/month	Par Value (NT$)	Authorized Capital Stock		Paid-in Capital		Remarks		
		Shares	Source of Capital	Shares	Amount (NT$)	Source of Capital	Capital Increased by Assets other than Cash	Others
2007.01	10	1,000,000,000	10,000,000,000	824,347,119	8,243,471,190	Corporate Bond Conversion NT$243,601,360	None	2007.01.18 MOEA Certification NO. 09601012140
2007.05	10	1,000,000,000	10,000,000,000	884,130,387	8,841,303,870	Corporate Bond Conversion NT$597,832,680	None	2007.05.09 MOEA Certification NO.09601100430
2007.07	10	1,200,000,000	12,000,000,000	911,739,989	9,117,399,890	Corporate Bond Conversion NT$276,096,020	None	2007.07.30 MOEA Certification NO.09601181070
2007.10	10	1,200,000,000	12,000,000,000	937,447,345	9,374,473,450	Corporate Bond Conversion NT$257,073,560	None	2007.10.17MOEA Certification NO.09601254410
2007.12	10	1,200,000,000	12,000,000,000	943,812,404	9,438,124,040	Corporate Bond Conversion NT$63,650,590	None	2007.12.19MOEA Certification NO. 09601310120
2009.01	10	1,200,000,000	12,000,000,000	873,812,404	8,738,124,040	Cancellation of Treasury Shares NT$700,000,000	None	2009.01.16MOEA Certification NO.09801010110
2009.09	10	1,200,000,000	12,000,000,000	900,017,836	9,000,178,360	Earnings to Capital Increase NT$262,054,320	None	2009.09.07MOEA Certification NO.09801200710
2009.10	10	1,200,000,000	12,000,000,000	944,517,836	9,445,178,360	Cash Increase Investment NT$445,000,000	None	2009.10.12MOEA Certification NO.09801234430
2009.11	10	1,200,000,000	12,000,000,000	947,072,482	9,470,724,820	Corporate Bond Conversion NT$28,526,460 Cancellation of Treasury Shares NT$2,980,000	None	2009.11.13MOEA Certification NO.09801265140
2010.04	10	1,200,000,000	12,000,000,000	950,189,593	9,501,895,930	Corporate Bond Conversion NT$31,171,110	None	2010.04.20MOEA Certification NO.09901076350
2010.05	10	1,200,000,000	12,000,000,000	970,079,690	9,700,796,900	Corporate Bond Conversion NT$198,900,970	None	2010.05.18MOEA Certification NO.09901100840
2010.07	10	1,200,000,000	12,000,000,000	976,178,411	9,761,784,110	Corporate Bond Conversion NT$60,987,210	None	2010.07.12MOEA Certification NO.09901150550

Year/month	Par Value (NT$)	Authorized Capital Stock		Paid-in Capital		Remarks		
		Shares	Source of Capital	Shares	Amount (NT$)	Source of Capital	Capital Increased by Assets other than Cash	Others
2011.05	10	1,200,000,000	12,000,000,000	976,295,900	9,762,959,000	Corporate Bond Conversion NT$1,174,890	None	2011.05.18MOEA Certification NO.10001098990
2011.11	10	1,200,000,000	12,000,000,000	980,929,084	9,809,290,840	Corporate Bond Conversion NT$46,331,840	None	2011.11.30MOEA Certification NO.10001272260
2012.09	10	1,200,000,000	12,000,000,000	980,949,968	9,809,499,680	Corporate Bond Conversion NT$208,840	None	2012.09.14MOEA Certification NO.10101193050
2012.11	10	1,200,000,000	12,000,000,000	987,498,693	9,874,986,930	Corporate Bond Conversion NT$65,487,250	None	2012.11.14MOEA Certification NO.10101236480
2013.03	10	1,200,000,000	12,000,000,000	991,771,203	9,917,712,030	Corporate Bond Conversion NT$42,725,100	None	2013.03.18MOEA Certification NO.10201046600
2013.06	10	1,200,000,000	12,000,000,000	998,146,821	9,981,468,210	Corporate Bond Conversion NT$63,756,180	None	2013.06.03MOEA Certification NO.10201103060
2013.09	10	1,200,000,000	12,000,000,000	998,202,069	9,982,020,690	Corporate Bond Conversion NT$552,480	None	2013.09.03MOEA Certification NO.10201181010
2014.12	10	1,200,000,000	12,000,000,000	998,221,448	9,982,214,480	Corporate Bond Conversion NT$193,790	None	2014.12.05MOEA Certification NO.10301251470
2017.12	10	1,200,000,000	12,000,000,000	1,000,224,069	10,002,240,690	Corporate Bond Conversion NT$20,026,210	None	2017.12.05MOEA Certification NO.10601165320
2017.12	10	1,500,000,000	15,000,000,000	1,004,060,608	10,040,606,080	Corporate Bond Conversion NT$38,365,390	None	2018.03.28MOEA Certification NO.10701033630

(2) Shareholder structure

Benchmark date: April 19, 2019

Shareholder Structure / Quantity	Government Organization	Financial Institutions	Other Institutions	Individual Investors	Foreign Organizations and Foreign Individuals	Total
Number of People	4	21	166	69,298	217	69,706
Shareholding	28,447,424	147,922,303	314,991,431	396,647,179	116,052,271	1,004,060,608
Shareholding %	2.83	14.73	31.37	39.53	11.54	100.00

(3) Diffusion of ownership

NT$10 per share Benchmark date: April 19, 2019

Class of Shareholding	Number of Shareholders	Shareholding	Ratio %
1 ~ 999	27,692	5,092,680	0.51

1,000 ~ 5,000	29,408	65,110,873	6.48
5,001 ~ 10,000	6,454	49,546,895	4.93
10,001 ~ 15,000	2,168	26,942,229	2.68
15,001 ~ 20,000	1246	22,949,070	2.29
20,001 ~ 30,000	1068	26,779,536	2.67
30,001 ~ 50,000	765	30,599,679	3.05
50,001 ~ 100,000	467	33,325,832	3.32
100,001 ~ 200,000	226	31,584,057	3.15
200,001 ~ 400,000	91	25,647,326	2.55
400,001 ~ 600,000	31	14,832,623	1.48
600,001 ~ 800,000	12	8,576,036	0.85
800,001 ~ 1,000,000	8	7,353,796	0.73
Over 1,000,001	70	655,719,976	65.31
Total	69,706	1,004,060,608	100

(4) Major shareholders: List all shareholders with a stake of five percent or greater, or the names of the top ten shareholders, specifying the number of shares and stake held by each shareholder on the list

Benchmark date: April 19, 2019

Shares / Name of Major Shareholders	Shareholding	Ratio %
Shen Yuan Investment Co., Ltd.	120,199,779	11.97%
Mao Sheng Investment Co., Ltd	53,765,877	5.35%
He Zhao Investment Co., Ltd.	50,938,150	5.07%
Nan Shan Life Insurance Company Ltd.	44,142,500	4.40%
Fubon Life Insurance Co., Ltd.	38,029,000	3.79%
China Life Insurance Co., Ltd.	34,727,597	3.46%
Public Service Pension Fund Management Committee	27,797,385	2.77%
Earle J. S. Ho	20,429,294	2.03%
Yu-Tai Investment Co., Ltd.	18,855,193	1.88%
Citibank (Taiwan) Commercial Bank is Commissioned to Safeguard Norges Bank Investment Accounts	18,448,972	1.84%

(5) Provide share prices for the past 2 years, together with the Company's net worth per share, earnings per share, dividends per share, and related information

Unit: NT$

Item			2017	2018	2019 to March 31st
Market Price Per Share	Highest		26.30	27.90	21.45
	Lowest		20.70	18.75	18.55
	Average		23.80	23.25	20.00
Net Worth Per Share	Before Distribution		24.02	23.81	N/A
	After Distribution (Note 1)		22.62	Not yet distributed	N/A
Earnings Per Share	Weighted Average Shares (1,000 Shares)		1,000,224	1,004,061	N/A
	Earnings Per Share	Before Adjustment (Note 2)	1.72	0.88	N/A
		After Adjustment (Note 3)	1.72	0.88	N/A
Dividend Per Share	Cash Dividend (NT$)		1.40	1.20 (Note 6)	N/A
	Stock Dividends	Stock Dividends Appropriated from Retained Earnings	0	0	N/A
		Stock Dividends Appropriated from Capital Surplus	0	0	N/A
	Accumulated Undistributed Dividends		0	0	N/A
Return on Investment	P/E Ratio (Note 3)		13.83	26.42	N/A
	Price-dividend Ratio (Note 4)		17.00	19.37	N/A
	Cash Dividend Yield (Note 5)		5.88%	5.16%	N/A

Note 1: It is based on the distribution of the resolution of the shareholders' meeting of next year.
Note 2: Based on the basic earnings per shares.
Note 3: P/E Ratio = current year average closing price per share / earnings per share.
Note 4: Price-dividend Ratio = current year average closing price per share / cash dividend per share.
Note 5: Cash Dividend Yield = cash dividend per share / current year average closing price per share.
Note 6: The distribution of earnings for 2018 has been approved by board of directors on March 26, 2019. It is proposed to issue cash dividends at NT$1.20 per share. It is yet to be approved by the shareholders.

(6) Dividend policy and implementation status

i. Dividend policy:

The Company's dividend policy is formulated by the board of directors according to the operational status of the Company, changes in overall business environment, and in consideration of shareholders' interests. Provided no exceptional conditions or circumstances exist, the proposed amount of distributed profits for the year shall in principle be no less than 50% of profits after tax for the year.

In compliance with the Company's Articles of Corporation, annual profits of the Company after year-end accounting, if any, shall be allocated for paying business taxes and then be allocated according to the following orders:

A. To compensate the accumulated deficit.

B. To allocate then percent of the remaining profit as legal reserve.

C. To allocate special reserve or reversed to meet the operational or regulatory requirements.

D. After the distribution of stock dividends, the Board of Directors shall draft the proposal for shareholder dividend allocation based on the remainder plus the accumulated undistributed earnings of the previous years, and submit the draft to the shareholders' meeting for approval. The Company's operational life span has reached a positive, stable, and mature stage. With regard to the allocation of dividends to shareholders, cash dividends shall not be less than 80% and stock dividends shall not be higher than 20%.

ii. Dividend allocation proposed by the shareholders' meeting: After 12th meeting of the 23rd Board of Director, it has been approved to allocated cash dividends of NT$1,204,872,73 with a total of 1,004,060,608 shares, if the corporate bond can be transferred into common stock subsequently or the number of shares outstanding is affected for some other reasons and caused the interest rate for the allocated shares to change as a result, the chairman shall be authorized to provide adjustments accordingly.

(7) Effect upon business performance and earnings per share of any stock dividend distribution proposed or adopted at the most recent shareholders' meeting: N/A。

(8) Remuneration of employees, directors, and supervisors

i. The percentage or range of employees' as well as the directors and supervisors' remunerations provided by the Articles of Incorporation:

In accordance with the Articles of Incorporation that have been approved by the board of directors but not yet submitted to the shareholders' meeting for approval, if the Company sustains profit for the current year, 2.5% or more of the income shall be set aside as remuneration to employees, and 2% or less of the income shall be distributed as directors and supervisors' remuneration. The distribution shall be resolved by the board of directors and reported in the shareholders' meeting. If employee remuneration is distributed in the form of new stock, employee stock shall be calculated based on the closing pricing of the day before the Board of Directors' meeting.

ii. Basis for estimating the amount of remuneration of employees, directors and supervisors, basis for calculating the number of shares to be distributed as employee remuneration, and the accounting treatment of the discrepancy, if any, between the actual distributed amount and the estimated amount, for the current period:

The Company's remuneration to employees and directors/supervisors in 2018 amounted to NT$32,115,319 and NT$25,692,256, as regulated by the Company's Articles of Incorporation that have been approved by the board of directors. If the estimated amount differs from the actual distributed amount, then the difference will be treated as changes in accounting estimates and recognized in profit and loss in the distribution year.

iii. Remuneration proposals approved by the board of directors:

A. Employees, directors and supervisors' remuneration shall be distributed in cash or stocks:

Unit: NT$

Item	2018
Directors and Supervisors' Remuneration	25,692,256
Employee Remuneration (Cash Issued)	32,115,319

There is no difference with the annual estimated amount of recognition fee.

B. Ratio of the amount of remuneration paid by the shares to the total amount of the net profit after tax and the total amount of employees' remuneration in the current individual or individual financial report: N/A.

iv. Any discrepancy between actual distribution of remuneration of employees, directors and supervisors (including the number of shares, the amount and stock price) and the recognized remuneration of employees, directors and supervisors and disclosure of the difference, reasons and responses:

The 2017 employee remuneration distributed in 2018 amounted to NT$51,969,181, while the directors/supervisors' remunerations for the same period amounted to NT$41,575,345. The actual amount allocated showed no discrepancies compared to that of the recognized employee bonuses and directors/supervisors/ remuneration amounts.

Unit: NT$

Item	Actual Allocation	The Status of the Proposed Allocation Approved by the Board	Difference
Employee Remuneration	51,969,181	51,969,181	None
Director/Supervisor Remuneration	41,575,345	41,575,345	None

(9) Stock buyback: N/A.

2. Corporate Bonds

(1) Corporate bond issuance status

Benchmark date: March 31, 2019

Corporate Bond	The 6th Domestic Unsecured Convertible Bonds (Note)	The 7th Domestic Unsecured Convertible Bonds
Date of Issue	2012.11.05	2018.05.14
Share Par Value	NT$100,000	NT$100,000
Location of Issuance	Taipei Exchange	Taipei Exchange
Issuing Price	Issued based on share par value	Issued based on share par value
Total	NT$2,500,000,000	NT$2,000,000,000
Interest Rate	0%	0%
Period	Five years	Five years
Guarantee Institution	None	None
Commissioned Party	Trust Department of Fubon Commercial Bank Co., Ltd	Trust Department of Fubon Commercial Bank Co., Ltd
Underwriting Institution	Cathay Securities Corporation	Taishin Comprehensive Securities Co., Ltd.
Certified Attorney	Kun-Cheng Wan	Yi-Cheng Pong
CPA	Ci-Hui Li, Qiu-Hua Wu	Hui-Zhi Kao, Xin-Yi Kuo
Repayment Method	Unless conversion method is used or unless redeemed, the full amount shall be repaid with cash upon maturity.	Unless conversion method is used or unless redeemed, the full amount shall be repaid with cash upon maturity.
Outstanding Principal	NT$0	NT$0
The Terms of Redemption or Prepayment	1.Bond redemption yield of 0.5% in annual interest from one month after the issuance date to three full years after the issuance date.	The issuance of three years is 100.75% of the bond redemption, The issuance of four years, 101.00% of the bond redemption shall be redeemed for the converted corporate bond held.
Restriction Cause	2.Bond redemption yield of 0.75% in annual interest from three years after the issuance date to four full years after the issuance date.	None.
The Credit Rating Institution's Name, Date of Rating, and Corporate Bond Rating Results	N/A。	N/A。

Other Rights Attached	Converted to ordinary (exchange or subscription shares, global depository receipts, or other marketable securities up to the date of publication of the annual report.	1. A total of 1,315 applications for the conversion of 5,839,160 ordinary shares. 2. Between 2015 and 2017, a total of 23,685 restitution rights were executed.	None.
	Issuance and Conversion (Exchange or Subscription) Method	Omit.	Omit.
Issuance and Conversion, Exchange or Subscription Methods, and the Condition of Issuance that may Dilute Share Equity ad Affect Equity Rights for the Existing Shareholders		None.	None
Name of the Commissioned Custodian Institution for the Exchange Bid		None.	None.

Note: The 6th domestic unsecured convertible bond expired on 2017.1.05, and trading on the counter was terminated on 2017.11.06.

(2) Convertible corporate bond information

Unit: NT$

Types of Corporate Bonds		**The 6th Domestic Unsecured Convertible Bonds**		
Item / Year		2017	2018	Current Year up to March 31, 2019
Convert to Corporate Bond Market Price	Maximum	109.20	(Note 3)	(Note 3)
	Minimum	101	(Note 3)	(Note 3)
	Average	104.86	(Note 3)	(Note 3)
Conversion Price		23.75 or 22.52 (Note 1) (Note 2)	(Note 3)	(Note 3)
Issuance Date and Conversion Price at Issuance		Issuance date: 2012.11.05, conversion price at issuance NT$30	(Note 3)	(Note 3)
Method of Conversion		Issuance of new shares	(Note 3)	(Note 3)

Note 1: Cash dividend for the 6th domestic unsecured bond conversion was adjusted to 23.75 on 2016.07.25
Note 2: Cash dividend for the 6th domestic unsecured bond conversion was adjusted to 22.52 on 2017.08.12
Note 3: Cash dividend for the 6th domestic unsecured bond conversion expired on 2017.11.05, and trading on the counter was terminated on 2017.11.06.

Types of Corporate Bonds		The 7th Domestic Unsecured Convertible Bonds		
Item / Year		2017	2018	Current Year up to March 31, 2019
Convert to Corporate Bond Market Price	Maximum	(Note 1)	104.00	102.50
	Minimum	(Note 1)	100.20	100.00
	Average	(Note 1)	102.42	101.10
Conversion Price		(Note 1)	27.80 or 26.20 (Note 2)	26.20
Issuance Date and Conversion Price at Issuance		(Note 1)	Issuance date: 2018.05.04, Conversion price at Issuance NT$27.80	Issuance date: 2018.05.04, Conversion price at Issuance NT$27.80
Method of Conversion		(Note 1)	Issuance of new shares	Issuance of new shares

Note 1: The 6th domestic unsecured bond conversion was issued on 2018.05.04
Note 2: Note 1: Cash dividend for the 7th domestic unsecured bond conversion was adjusted to 26.20 on 2016.07.07.

3. Preferred Shares: None.

4. Issuance of Global Depository Receipts (GDR):

Benchmark Date: March 31, 2019

Item / Issuance (Processing) Date	September 22, 1994
Issuance (Processing) Date	1994.09.22
Location of Issuance	Bourse de Luxembourg
Total Amount Issued	USD103,200,000
Unit Issuance Price	USD17.20
Total Issuance Units	6,000,000 units
Source of Securities with Recognized Value	Common stock of Tung Ho Steel Enterprise Corporation
Number of Value Recognized Securities	68,610,809 shares
Rights and Obligations of the Depository Recipients	Have the same rights and obligations as Tung Ho Steel Enterprise Corporation Shareholders
Commissioned Party	The Bank of New York Mellon Corporation
Depository Institution	The Bank of New York Mellon Corporation
Custodian Institution	Far Eastern International Bank
Unredeemed Balance	734,513 units

Item \ Issuance (Processing) Date			September 22, 1994
Allocation Method for Related Expenses During the Issuance			The issuance expenses shall serve as capital reserve reduction, and the subsisting period expenses shall serve as current expenses
Critical Agreement Matters for Depository and Custodial Contracts			The depository institution shall exercise the voting rights of the original securities attached to the depository receipts in accordance with the instructions provided by the deposit receipt holders as well as the depository contract and the laws and regulations of Taiwan.
Market Price per Unit	2017	Maximum	8.73
		Minimum	6.50
		Average	7.81
	2018	Maximum	9.35
		Minimum	6.12
		Average	7.74
	Current Year up to March 31, 2019	Maximum	6.96
		Minimum	6.04
		Average	6.49

5. Employ Stock Warrants, New Restricted Employee Shares: None.

6. Issuance of new shares for Acquisition or Exchange of other Companies' Shares: None.

7. The Status of Implementation of Capital Allocation Plans:

The issuance of the 7th unsecured convertible bonds

(1) The total amount of funds required for this plan: NT$2.5 billion.

(2) Source of funds: A total of 20,000 domestic unsecured convertible bonds were issued during the 7th issuance with the face value of NT100,000. The total issued amount, based on 100.5% of the face value, is NT20.1 billion, with a period of 5 years and bond interest of 0%.

(3) Plans, expected progress and expected possible benefits

Unit: NT$ thousands

Plan	Expected Completion Date	Total Amount of Capital Required	Expected Capital Spending
			2018 Q2
Repayment of Bank Loans	2018 Q2	2,512,500	2,512,500
Total		2,512,500	2,512,500
Expected Benefits	Repayment of bank loans was expected to save interest expenses of NT$22,070 thousand in 2018, and interest expenses of NT37,835 thousand per year shall be saved from 2019 and thereafter.		

(4) Actual achievements of repayment plan. s: The fundraising plan is expected to repay NT$2,010,000. The actual amount of outstandingbank loan in the second quarter of 2018 is NT$2,010,000 thousand. It was expected that in 2018 an interest expense of NT$20,583 thousand may be saved, and an interest expense of NT35,286 thousand per year shall be saved thereafter. As of the second quarter of 2018, the progress of capital utilization has been achieved in accordance with the plan. There are no significant differences between thActual achievements and repayment plan.

(5) Implementation: The expected expenditure for the second quarter of 2018 was NT2,010,000 and the actual amount of expenditure was NT$2,010,000, which suggests that100% of the bank loan has been repaid and complied with the original repayment plan of bank loans, and there was no significant differences. In July 2018, the Company informed the Stock Change that the original repayment plan had completed.

V. Business Overview of the Company and Its Subsidiaries

1. Business content

(1) Scope of business

i. Main content:

<table>
<tr><th colspan="2">Main business / Parent Company/Subsidiary</th><th>Main Content and the Company’s Current Products (Services)</th></tr>
<tr><td>Parent Company</td><td>TUNG HO STEEL ENTERPRISE CORP.</td><td>(1) Manufacturing processing and sales of rebar, flat iron, angle iron, channel iron, wire rod, and other steel products
(2) Manufacturing processing and sales of steel and alloy steel, tool steel, high carbon steel, and other special steel.
(3) Processing and trading of iron and steel industrial raw materials, hardware, machinery, iron electrical materials, and light metal manufacturing
(4) Iron and steel smelting, rolling, heat treatment, painting, plating, and processing operations
(5) Manufacturing, processing, and trading of steel plates, bars, and rails.
(6) Design, manufacture, processing, and trading of various structural steel, steel materials, and mechanical bodies.</td></tr>
<tr><td rowspan="8">Subsidiary</td><td>Tung Kang Steel Structure Co., Ltd.</td><td>(1) Steel re-proceeding industry and steel structure engineering professional construction industry.
(2) Proceeding and sale of rebar.</td></tr>
<tr><td>Katec Creative Resources Corp</td><td>(1) Waste disposal industry
(2) Waste resource recycling industry
(3) Iron and steel smelting industry.
(4) Other non-ferrous metal basic industries.</td></tr>
<tr><td>Tung Kang Wind Power Corp.</td><td>Development, production, transmission and sales of wind power</td></tr>
<tr><td>Fata Xingye Co. Ltd.</td><td>Resource recycling, leasing, recycled materials wholesales and international trade.</td></tr>
<tr><td>3 Oceans International Inc.</td><td>Investment in various domestic and overseas businesses.</td></tr>
<tr><td>Tung Kang Engineering & Construction Co., Ltd.</td><td>(1) Comprehensive management of construction and repair projects.
(2) Integrated construction industry.
(3) Resource recovery industry.
(4) Building materials wholesale industry.
(5) Hardware wholesale.
(6) Factory office new business.
(7) New construction engineering transaction.
(8) Public Works.
(9) Steel re proceeding industry.
(10) Recycling materials wholesale business.</td></tr>
<tr><td>Fujian Tung Kang Steel Co., Ltd.</td><td>(1) Production of steel structure and its complements with the service of installation support
(2) Stones, construction and decoration materials, welding materials, plastic products, aluminum products, metallurgical materials, metal products.</td></tr>
<tr><td>Tung Ho Steel Vietnam Corp. Ltd.</td><td>Production and sales of billet, rebar, small steel and wire rod.</td></tr>
</table>

	Best-Steel Trade Corp.	Business trading.
	Fujian Tung Sheng Metal Processing Co., Ltd. (Note)	Manufacture and sales of metal structure.

Note: Fujian Dongsheng Metal was established in September 2018, with Fujian Tung Kang Steel Co., Ltd. investing 51%, and was included in the consolidated financial statements at the time.

ii. Business Breakdown

Item / Products	As a percentage of cumulative operating revenue for 2017	As a percentage of cumulative operating revenue for 2018
Rebar	36%	44%
Section steel (Note 1)	33%	33%
Billets	19%	10%
Others (Note 2)	12%	13%
Total	100%	100%

(Note 1): Type steel includes H beam, steel plate, channel steel, I beam and steel sheet pile.

(Note 2): Others refer to the subsidiaries listed in the consolidated financial statements (including Tung Yuan International Corp.,Tung Kang Steel Structure Co., Ltd.,Goldham Development Ltd.,Katec Creative Resources Corp., Tung Kang Wind Power Corp.,Fata Xingye Co. Ltd.,Tung Ho Steel Vietnam Corp. Ltd. 3Oceans International Inc.,Tung Kang Engineering & Construction Co., Ltd., Fujian Tung Kang Steel Co., Ltd and Fujian Tung Sheng Metal Processing Co., Ltd.).

iii. New products planned for development

Electric furnace off-gas detection, dynamic control of burners and carbon injection in the furnace, project research, HD clarity and high toughness steel, low energy consumption direct rolling process New technology development strength increased by more than 1.6 times Ultra high strength earthquake resistant steel rebar R&D, steel welding technology and continuous rolling technology using continuous rolling technology, serial reciprocating universal rolling mill round section rolling technology research and development, low alloy super high strength steel plate development and the plan to develop the country’s first hot rolled one piece U shaped corner steel sheet pile, etc.

(2) Status of the industry

i. Current status and development of the industry

In 2018, the consolidated revenue of Dong Ho Steel was NT$39.770 billion, a substantial increase of 25.26% from the NT$31.749 billion in 2017; the combined sales volume increased from 1.9236 million tons in 2017 to 2.0258 million tons in 2018, an increase of 5.31% over the same period of last year, with the consolidated revenue and consolidated sales continuing to grow. However, the growth in consolidated sales was obviously less than that of consolidated revenue. This was mainly due to the substantial increase of price and quantity of domestic rebar in 2018. Among them, the sales price performance was particularly eye-catching. The huge growth in revenue by 53.08% was almost as much as two times the sales volume, 29.35%. However, the Tung Ho Steel Vietnam Corp. Ltd. factory was forced to shut down for 4 months due to the burning of electric furnace transformer and the subsequent urgent purchase and replacement of low-power Chinese-made transformers; in addition, the Vietnamese government has intensified the investigation of impurities and smuggling of imported scrap steel, resulting in huge expenses for the remnant of scrap imports. The annual revenue and sales volume both fell sharply, dragging the performance of the parent company for the whole year. With the price of global coking coal remaining high in 2018, and China strongly implementing the removal of backward steel production capacity and environmental protection policies, all provided support for growth in global steel prices. However, the consolidated EPS of Dong Ho Steel fell drastically from 1.72 in 2017 to 0.88 in 2018. This was mainly due to the deficit of the subsidiary Tung Ho Steel Vietnam Corp. Ltd.

Looking back to the operational performance of Tung Ho Steel in 2018, despite the limitation of the slowing development of overall domestic economy and the prevalence of international trade protectionism, Tung Ho Steel still maintains continuous profitability and steady growth through the years thanks to the deepening customization of services and enhancing of integration of production and sales policies on the upstream and downstream value chains of products. However, factors such as the burning incident of the electric furnace transformer, the steel-rolling production line still in test run and the ongoing effort to communicate with Vietnamese customers and gain brand recognition not yet contributing, since the company’s products has just entered the market, have affected the overall operating performance of the subsidiary Tung Ho Steel Vietnam Corp. Ltd., in 2018, further dragging down the parent company’s operating profit and even EPS of last year.

Global crude steel production in 2018 was 1.809 billion metric tons, which was 4.63% higher than 2017; China's crude steel output still shows an improvement of 6.59% over the world under the Chinese government's strong capacity reduction policy, but this time the Chinese government's implementation of removing backward production capacity and environmental protection policies has also made the world see China’s determination; In 2018, China’s steel exports decreased by 6.10 million metric tons. This made the global steel industry significantly reduce the threat of low price dumping of Chinese steel products. This was also the key factor of allowing the 2018 international steel price to consolidate upwards. However, due to China's thorough enforcement of the environmental protection policy, the factories that produce the necessary auxiliary materials for the steel industry in China have been forced to stop work and improve, which has also led to a significant increase in the prices of other steel production materials such as electrode bars, iron alloys, and refractories. Although in the short term, the chaotic supply and demand order in the market and the production costs in the steel industry have soared. However, in the long term, due to the investment in the environmental protection costs of China's related steel upstream, downstream, and peripheral industries, the development environment of the global steel industry will become more reasonable and healthy in the future. With the launch of the second blast furnace of Formosa Ha Tinh Steel and the introduction of the 3.50 megaton production capacity of Malaysia’s Alliance Steel in the second half of 2018, the global steel price will fail to reflect costs and most likely drop. This will certainly affect the global trend of the steel market, leaving little room for optimism.

Since the arrival of the new Taiwan government in 2016, cross strait relations and international diplomacy have faced the double dilemma of China’s powerful suppression. The cross strait negotiations on trade, trade and goods and trade under the ECFA framework has been unable to restart, with the international free trade agreement under strong pressure from China, no substantial progress can be made. Domestic and foreign enterprises are not waiting to see Taiwan’s investment plans, and overall Taiwan’s steel demand is under tremendous downward pressure. In March last year, President Trump of the United States announced the import tariff of 25% for all steel and aluminum products for countries around the world on the grounds of national security issues; Following this, the European Union announced tariff on defense measures for 26 global steel products, and Canada, Mexico, Turkey and other states also announced the launch of their respective investigation on trade protection measures. Facing the rise of international steel trade protectionism in the international market, Taiwan’s steel industry is bound to face more severe competition and challenges, and companies must strengthen their own global competition. However, the government must also propose relevant measures for global trade protection policies. For example, the universally adopted national standard verification registration system; or the defense measures that must be immediately launched, etc. The Taiwan steel industry has been vociferously chanting for many years, but it still has not seen any concrete measures taken by the Taiwan government. The world's major steel trade markets have successively erected tariff barriers that restrict free trade. Not only have international markets for steel products been subject to shrinkage, but the Taiwan market has also had to face the harsh threat of international low priced steel product dumping.

Dong Ho Steel formally acquired Vietnam’s Fu Guo Steel in January 2016 and later changed its name to Tung Ho Steel Vietnam Corp. Ltd. This is Dong Ho Steel's first overseas investment in electric furnace refining and steel rolling mills. Dong Ho Steel is deploying the emerging steel market in Southeast Asia, focusing on the steel demand brought about by the rapid economic growth in the future of Vietnam and the Association of Southeast Asian Nations. Although its business was limited to steel embryos and export, the company managed to maintain a small profit. However, the operating loss of Tung Ho Steel Vietnam Corp. Ltd has affected the probability of the Company as a whole. Having said that, with the economic growth of Vietnam and Southeast Asia National Association, it will inject positive and positive contributions to the parent company's operating performance year by year.

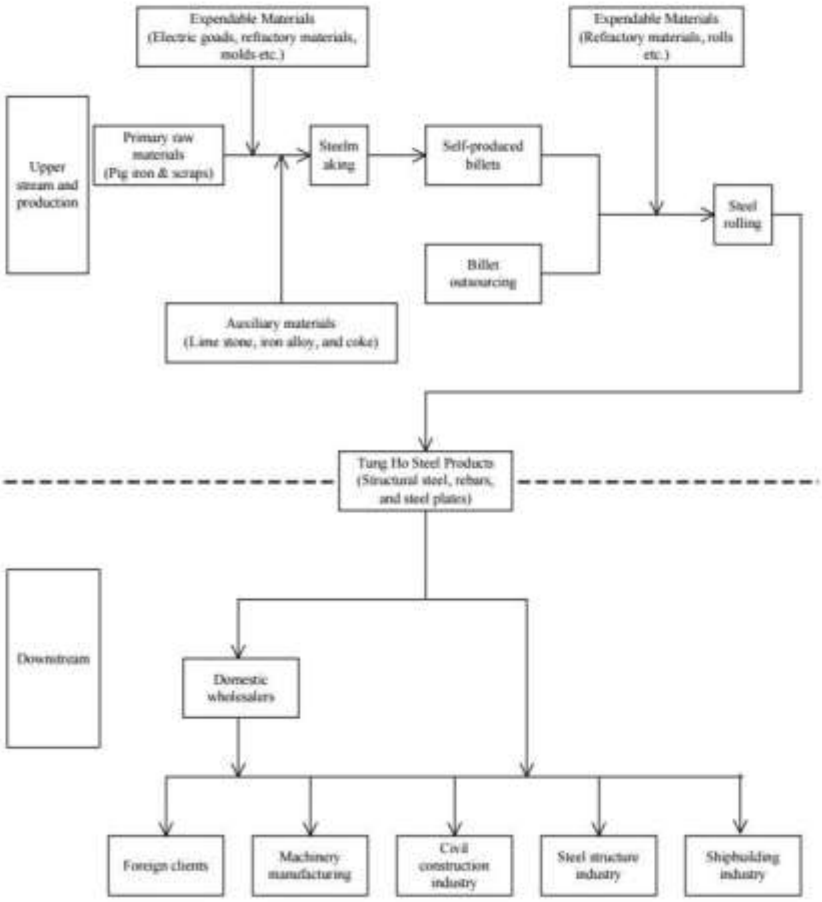
Tung Kang Steel Structure and Fujian Tung Kang Steel, both investments of Dong Ho Steel, announced new personnel deployment for 2017 with the focus on resource integration.

Integrate the sales resources of Dong Gang Steel Bar and Steel Structure internally, and assist Dong Gang steel structure in the domestic market for further growth and breakthrough through long term goodwill and customer resources in the construction industry. Externally integrating the resources of Dong Gang Steel Structure and Fujian Dong Gang's manpower, technology and markets on both sides of the Strait can actively enter the international steel structure market under the Chinese government's "Belt and Road" national policy.

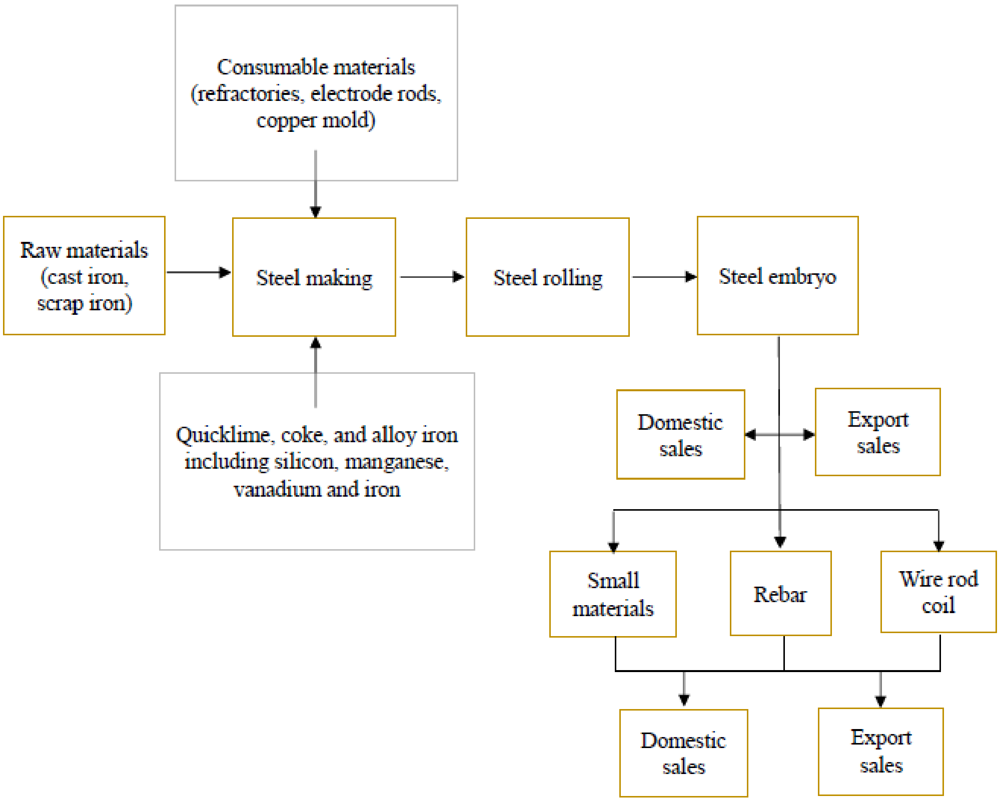
Dong Ho Steel has invested in green energy and environmental protection. It is still in the sowing stage. Both of these industries are closely related to the main operations of Dong Ho Steel, and they can all influence the future competitiveness of the steel industry. In the future, green energy conservation, waste reduction, and emission reduction will become the core competitiveness of the steel industry. This is Dong Ho Steel's long term investment plan that focuses on the future. But what worries us is that Taiwan's energy policy has become a political issue, and electricity price policy has become a tool to please voters, the current political chaos does not allow any space for expert discussion. If Taiwan's future economic development cannot be established on the basis of a long term and stable energy policy, it will become a major uncertainty in Taiwan's economic development in the future.

ii. The status of the upper, middle, and downstream relationships for the industry:

(1) Tung Ho Steel



(2)Tung Ho Steel Vietnam Corp. Ltd.



iii. Various product development trends

The steel industry is an important industry of a country and also an important factor that affects the country's economic development. Looking at the iron and steel industry's future development trend, Taiwan's steel industry should not consider operational strategies only by quantity, but should focus on important strategic alliances and quality issues between downstream and upstream of the steel industry. In fact, each steel mill needs its own middle stream and downstream system; only when industry and products in middle stream and downstream are linked will the industry have high competitiveness, and can use downstream products for export sales to enhance the added value. This is a requirement for the future industry. Therefore, the iron and steel industry must look at operational issues from the overall ecological environment, including whether the overall and industrial eco environment can develop toward high value added supply chains, and the impact on the economy can only be sustained in the fierce competitive environment.

(3)Technology and R&D Overview

i. The most recent biennial research and development plan

R&D project	2018 R&D plan	2019 R&D plan
(1) Steel making	a. Research project on off gas detection of electric furnaces and dynamic control of burners and	a. Research project on off gas detection of electric furnaces and dynamic control of burners and

	carbon injection in furnaces. b.High clarity and high toughness steel embryo development. c.Low alloy ultra-high tensile steel plates development. d.High tensile steel bars development. e.High grade marine steel grades development. f. Ultra-high tensile steel materials development. g.Refractory reuse technology development. h.New steel grades development. i. Testing of various consumables and refractories.	carbon injection in furnaces. b. High clarity and high toughness steel embryo development. c. Research on orc power generation technology for waste heat recovery of electric furnace d. Low alloy ultra-high tensile steel plates development. e. High tensile steel bars development. f. High grade marine steel grades development. g. Ultra-high tensile steel materials development. h. Refractory reuse technology development. i. New steel grades development. j. Testing of various consumables and refractories.
(2) Steel rolling	a.Develop ultra-high tensile earthquake resistant steel rebar program with more than 1.6 times of strength, using the industry-leading low energy consuming direct rolling process technology. b.Developed steel embryo welding technology, and used direct rolling technology for continuous rolling rebar program. c.First to develop a special rolling new technology R&D project for multi size H beam steel with a B value equal to 300mm developed with the same embryo roller. d.The country's first research and development of hot rolled one piece U shaped corner steel sheet pile. e.Development of new rolling technology for H beam UE	a.Develop ultra-high tensile earthquake resistant steel rebar program with more than 1.6 times of strength, using the industry-leading low energy consuming direct rolling process technology. b.Developed steel embryo welding technology, and used direct rolling technology for continuous rolling rebar program. c.First to develop a special rolling new technology R&D project for multi size H beam steel with a B value equal to 300mm developed with the same embryo roller. d.The country's first research and development of hot rolled one piece U shaped corner steel sheet pile. e.Development of new rolling technology for H beam UE

	(Universal Edger). f. Development of a common roller for angle steel and flat steel H/V (horizontal/vertical rolls). g. Tandem reciprocating universal rolling machine round section rolling technology R&D project. h. Ultra-high tensile steel development. i. Development of new dimensions for grooved steels in the ASTM specification. j. Development of new dimensions of I Beam in the ASTM specification.	(Universal Edger). f. Development of a common roller for angle steel and flat steel H/V (horizontal/vertical rolls). g. Tandem reciprocating universal rolling machine round section rolling technology R&D project. h. Ultra-high tensile steel development. i. Development of new dimensions for grooved steels in the ASTM specification. j. Development of new dimensions of I Beam in the ASTM specification.
(3) Others	a. “Construction of Tung Ho Miaoli Plant Integrated Air Pollution Control Strategy Plan” research case.	a. “Construction of Tung Ho Miaoli Plant Integrated Air Pollution Control Strategy Plan” research case.

ii. Expenditure on research and development expenses invested in the most recent year and up to the publication date of the annual report

Unit: NT$ thousands

Year / Item	2017	2018	2019 up to March 31
Taoyuan Plant R&D Total Fees	8,750,037	5,425,261	1,015,842
Miaoli Plant R&D Total Fees	19,515,723	21,349,870	5,298,263
Kaohsiung Plant R&D Total Fees	8,524,074	13,454,737	5,314,697
Total research costs	36,789,834	40,229,868	11,628,802
Total research costs as a percentage of net sales	0.12%	0.10%	0.10%

(4) Long term and short term business development plan

i. Short term development plan-Marketing business strategy:

a. With the section 232 tariffs on aluminum and steel product, the EU import tariffs on defense measures for global steel products and Canada, Mexico, Turkey and other states also announcing the launch of their respective investigation on trade protection measures, causing global protectionism on steel trade to intensify, the Company plans to break through the international steel trade plight and carefully tend to the global steel trade surplus product low dumping impact

b. To continuously pay close attention of the trends affected by the launch of the second blast furnace of Formosa Ha Tinh Steel and the introduction of the 3.50 megaton production capacity of Malaysia's Alliance Steel in the second half of 2018.

c. Despite the truce in the China-U.S. trade war, the competition between China and the United States will continue to impact the growth of the global economy, finance and trade.

d. The continuing conversation of green energy and the ceased operation of the fourth nuclear power plant are bound to cause pressure on domestic electricity prices to rise, and it is an important issue that must be carefully studied in the medium and long term.

e. To strengthen the monitoring of international raw materials and steel product price fluctuations, and to diversify sources of raw materials procurement.

f. To stay updated with the changes in market supply and demand and co-opetition relationship caused by additional capacity in China and the world.

g. To urge the government to pass the verification system of steel products CNS national standards as soon as possible.

h. To further implement the production and sales plan for order production, and deepen the planned production of cost control.

i. To strengthen and integrate domestic and overseas sales channels.

ii. Long term development plan-Marketing business strategy:

a. Develop new value added products market.

b. In response to changes in market supply and demand and co-opetition relations, the positioning of Tung Ho Steel Market and the reintegration of product orientation.

c. Carefully study the countermeasures and possibilities for removing barriers to trade in developing countries and strengthen the assessment of the feasibility of implementing overseas investment.

d. To enter the Vietnam and Southeast Asian Association market, strengthen understanding of local legal affairs and taxation, and actively study the local market and make related investments.

2. Market, Production/Sale Overview

i. Market Analysis

(1)Sales area of major commodities

Unit: NT$ thousands; %

Area \ Year		2018		2017	
		Amount of Money	%	Amount of Money	%
Export Sales	Asia	5,403,138	13.59	6,912,232	21.77
	America	1,667,568	4.19	334,621	1.05

Area \ Year		2018		2017	
		Amount of Money	%	Amount of Money	%
	Other	1,811,889	4.56	1,863,236	5.87
Subtotal		8,882,595	22.34	9,110,089	28.69
Domestic Sales		30,887,026	77.66	22,639,182	71.31
Total		39,769,621	100.00	31,749,271	100.00

(2) The company's main products in the domestic market share

Unit: metric tons

Items \ Year		2018	2017
H beam steel	Total sales in Taiwan	714,159	710,922
	The Company	418,347	403,192
	Market Share	58.58%	56.71%
Rebar	Total sales in Taiwan	5,650,267	5,213,592
	The Company	971,935	754,384
	Total sales in Taiwan	17.20%	14.47%

Source: Taiwan Steel & Iron Industries Association

(3) Future market supply and demand conditions and growth

Looking forward to 2019, the United States 232 investigation provoked import tariffs on global steel and aluminum due to national security problems; it provoked a wave of global steel trade protectionism and has even stirred up the sensitive nerves of "deChinalization". Steel production industry will face more stringent international trade dilemmas, and the issue of "deChinalization" will continue to prosper. In 21st century, the rise of China has enabled China to rapidly become a global factory. China's competitive advantage that result from the sacrifice of the rights of laborers and exploit of environment will face more rigorous inspections from the world and the challenge of China's self-awakening, which will bring more variables and challenges for global steel industry and international trade in 2019. With the launch of the second blast furnace of Formosa Ha Tinh Steel and the introduction of the 3.50 megaton production capacity of Malaysia's Alliance Steel in the second half of 2018, the global steel price will fail to reflect costs and most likely drop. This will certainly affect the global trend of the steel market, elevating severity of the competition of international steel trade. Despite the truce in the China-U.S. trade war temporarily lifting the uncertainty and concern of global economic development, the competition between the two economic giants will continue to affect the growth of the global economy, finance and trade.

2019 is the year of presidential election in Taiwan. The administration will successively implement policies to support economic development, and the real estate market will gradually warm up. The China-U.S. trade war will drive a homecoming trend among Taiwanese businesses. Therefore, the domestic demand in the steel market is expected to remain stable; however, the export market will face more intense competition.

(4) Competitive niche

(i) Long standing industry experience

Since the establishment of the company in 1962, the company has been engaged in steel rolling and steelmaking and has entered this industry for more than fifty years. The main operating team has served the company for more than ten years, and was highly professional in the steel industry, capable of leading the company to face changes in the industry and to establish effective competitive strategies.

(ii) Excellent product quality

Due to the fierce competition in the steel industry, the company has consistently adhered to the goal of improving product quality to maintain competition. The company's Miaoli Plant, Taoyuan Plant, and Kaohsiung Plant have all passed ISO international quality certification and have been working with downstream customers for many years, due to the stable quality of all types of steel products of the company.

(iii) Excellent R&D standards

In the past years, the company’s R&D has been fruitful. Major R&D achievements in steelmaking include steel material development for high tensile rebar, development of ultra-high tensile steel products, technology development for re heating smelting furnaces, and technology for recycling smelters. Major R&D achievements in rolling steel include: high tensile screw rebar development, coupler development for high tensile screw rebar, development of U shaped steel plate pile development, development of steel wire induction heating manufacturing process, development of ultra-thickness H shaped steel, and developing steels with various specifications and shapes to diversify products to enhance technical capabilities and increase the company’s revenue and profit.

Ongoing R&D plans include: off gas detection of electric furnaces, burners in the furnace, and carbon injection dynamic control project research, high clarity and high toughness steel embryo development, low energy consumption direct rolling process super high strength development of seismic resistant steel rebar, uninterrupted rebar rolling technology for steel embedded welding, and round tandem reciprocating universal rolling machine rolling technology research and development, development of low alloy ultra-high tensile steel plate, and reduction of re melt furnace re use process development.

(5) Advantages and Disadvantages of Developing Vision

(i) The favorable factors

a. Since Tung Ho Iron and Steel Taoyuan Plant was officially put into production on October 31, 2010, its energy saving and carbon reducing environmental protection design was the main production process. Compared with traditional steel rebar plants, the unit's energy consumption cost for rebar production can be reduced by approximately 30% to 40%. The second production line was officially put into operation in the fourth quarter of 2017, which helped Tung Ho Steel to further implement the environmental protection process of energy saving and carbon reduction. This also contributed to the operating performance of Tung Ho Steel in 2018 and will strengthen the competitiveness of the Company in the domestic rebar market for the year to come.

b. Taipei Metro branch line, Suhua Reform Project, Taichung MRT, and underground Kaohsiung Railway were successively carried out.

c. The government has launched a forward looking plan to expand domestic demand. The demand for domestic steel in 2019 will be realized.

d. The steel rails and guide rails of the Neihu MRT line developed by Tung Ho Iron and Steel Co., Ltd. are the only iron and steel manufacturers in Asia with medium traffic volume steel track performance, and they are active in expanding overseas sales in the United States, China, and Southeast Asia.

e. Global warming and the issue of greenhouse gas emission reduction have attracted much attention. “Carbon tariffs”, “carbon and energy taxes,” and “carbon trading” will be common issues that global industries must face. The Tung Ho Iron and Steel Electric Furnace process has a competitive advantage in the higher furnace process, and it also leads the industry in investment in energy saving and carbon reduction equipment.

f. Advancing into the Vietnam and Southeast Asian National Association markets and actively planning.

(ii) Unfavorable factors and countermeasures

a. Severe oversupply of international steel production capacity, especially in neighboring China, South Korea and Japan.

Countermeasures:

Facing the challenges brought about by the dramatic changes in the international steel market, the steel industry must strengthen the exchange and cooperation with the international steel industry through technological research and interactive investment to enhance competitiveness. The company has mastered the opportunities for the growth of demand for steel products in Southeast Asia's emerging markets, and through the cooperation with steel industry partners in Southeast Asia, the steel products meet the local content requirement and apply the zero tariff on the steel products trade in response to competitors such as China, Korea and Japan. The advantages of tariff preferences. The company reinvested in the Vietnam plant to diversify operational risks and continued to improve the production facilities of the Vietnam plant. It is expected that the sales volume of steel embryos will continue to grow; in addition, the production line of the steel plant of the Vietnam plant has entered volume production, so it will invest in the Vietnam plant. The benefits should be affordable.

b. The ceased operation of the fourth nuclear power plant and the advent of high cost alternative energy era will increase the pressure of operating cost control.

Countermeasures:

Due to fierce competition in the steel industry, falling prices will squeeze profits, so continued cost reduction is a key factor in the success of the steel industry. As for the raw materials portion, the Company reduced the cost by negotiating ways to purchase lower priced raw materials, adjusting alloy addition modes, and negotiating purchase prices of raw materials; in terms of process improvement, in addition to continuously improving equipment to increase production line efficiency, Continuously optimize the steelmaking process, adjust the product mix, and refine the steelmaking process to reduce costs. In the management section, reduce costs through production and marketing coordination, lean production, and accelerated stock removal.

c. The cross strait negotiations on trade and trade negotiations under the ECFA structure cannot be restarted. With the strong pressure from China on international free trade agreements, no substantial progress can be made, making private investment in fixed capital unresolved.

d. U.S. 232 investigation has imposed global import tariffs on steel and aluminum as a result of national security issues. This has provoked a wave of global steel trade protectionism. It has even stirred up the sensitivity of “deChinalization” and the global steel industry will face more severe the dilemma of international trade, and the issue of “deChinalization” will continue to prolong.

Countermeasures:

In the past, some steel businesses in Taiwan have relied too much on China's low-cost dumping of steel upstream semi-finished products and finished products. With the United States section 232 tariffs raising awareness of this unfair trade scenario, the Taiwan steel industry will likely face more stringent obstacles to international trade, if it keeps building its core competiveness on an unfair trading basis; The United States is the first but certainly not the last country to provoke the issue of " deChinalization”. When negotiating with the U.S. on the investigation for section 232 tariffs and the EU on defense measures, the government should focus on the medium and long-term steel industry development policy, establish complete supporting mechanisms and measures, and assist the steel industry to upgrade and transform. The unfair trade based on the processing and re-export of steel products dumped by China will eventually lead to the loss of the entire global steel market.

e. In the face of the continuous increase in steel production capacity and the prevalence of trade protectionism in developing countries around the world, global export faces more severe challenges.

f. There is a serious excess of steel production capacity in the developed countries around the world, and steel production capacity in emerging countries continues to increase.

g. The negative impact of the U.S.-China trade war on global economic, financial and trade growth.

ii. Important uses and production process of main products

(1) Product uses

(i) Steel rebar: steel materials for civil engineering and construction.

(ii) Steel embryo: semi-finished products of steel rebar, bar steel, wire rods, H-beams, channel steels, and steel plates.

(iii) H-beam steel: structural steel materials such as steel structures and civil engineering.

(iv) Universal steel plate: Steel materials for structural steels such as welded H-beam steel, box-type column, and rectangular column.

(v) Large-scale channel steel: structural steel materials such as steel structure building and mechanical and electrical equipment, etc.

(vi) U-shaped steel sheet piles: widely used in retaining walls, wharfs, cofferdams, etc. and can be recycled for reuse. Characterized by high strength, light weight, good water barrier, strong durability, and simple construction.

(vii) Steel structure: factory buildings, high-rise buildings, large-span buildings, civil and construction steel materials, and integrated construction industries.

(viii) Environmental protection business -reduced iron: sold to steel plants as a raw material for steelmaking.

(ix) Environmental protection business -crude zinc oxide: sold to a Zn metal refinery as a raw material.

(x) Environmental protection business -slag product: used as a road material and aggregate.

(xi) Wind power generation: Electricity is sold to Taipower for users.

(2) Production process

(i) Refine steel embryo

Electric power transmission ↓ Vice materials ↓

Scrap iron weighting → Loading materials → Melting period → Refining period → Analysis testing → Steel tapping → Continuous casting → Steel embryo

(ii) Roll rebar

Steel embryo weighing → High frequency induction heating furnace → Rough rolling → Intermediate rolling → Finishing rolling → Mechanical testing → Bundling → Steel rebar

(iii) Roll H-beam steel

Steel embryo weighing → Heating furnace → Universal slabbing mill → Universal rough rolling machine → Wide flange H beam mill → Universal finishing rolling machine → Roller straightening machine → H-beam steel

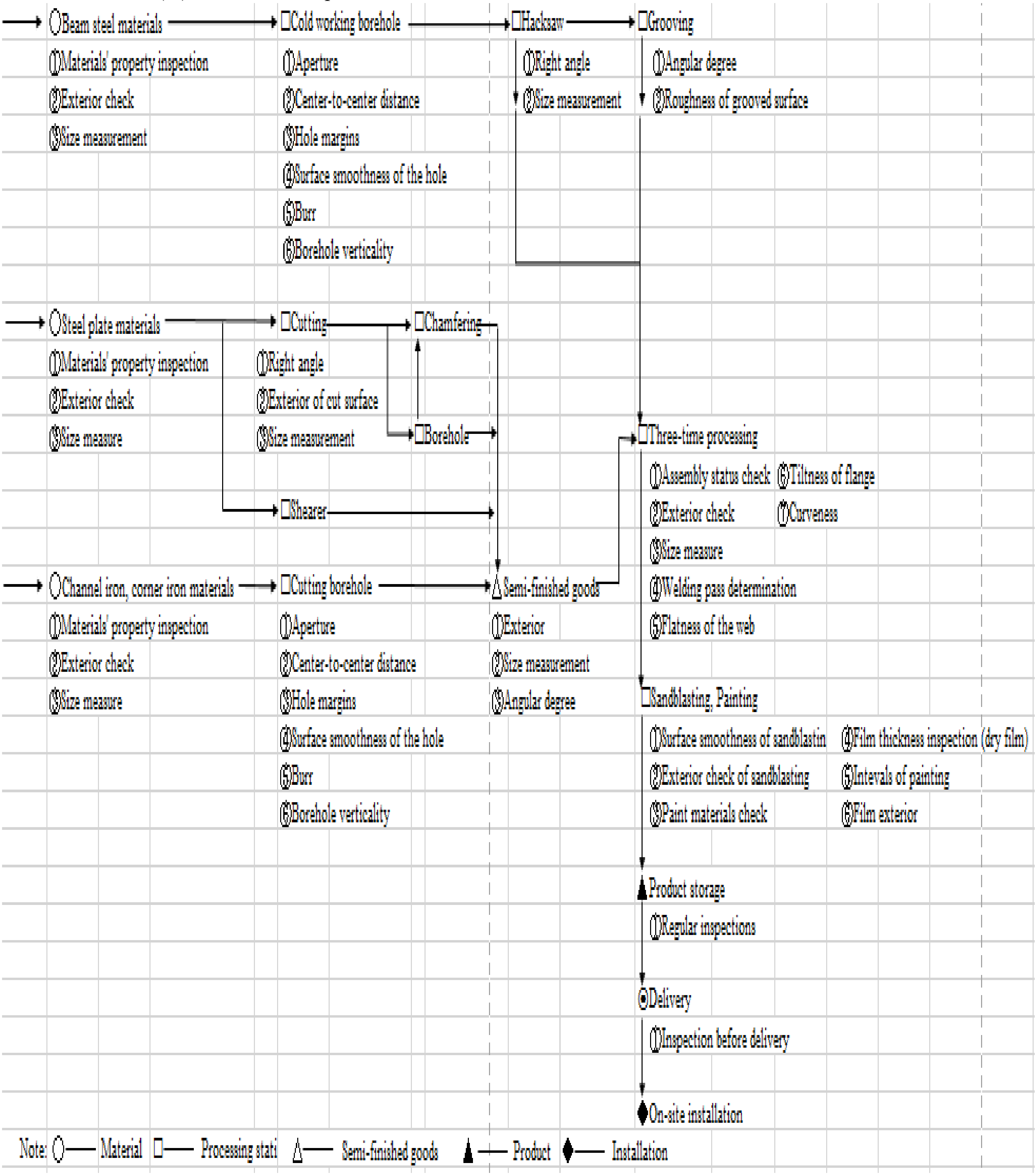
(iv) Roll universal steel plate

Steel embryo weighing → Heating furnace → Universal slabbing mill → Vertical roll edger → Universal rough rolling machine → Universal finishing rolling machine → Steel sheet leveler → Steel plate

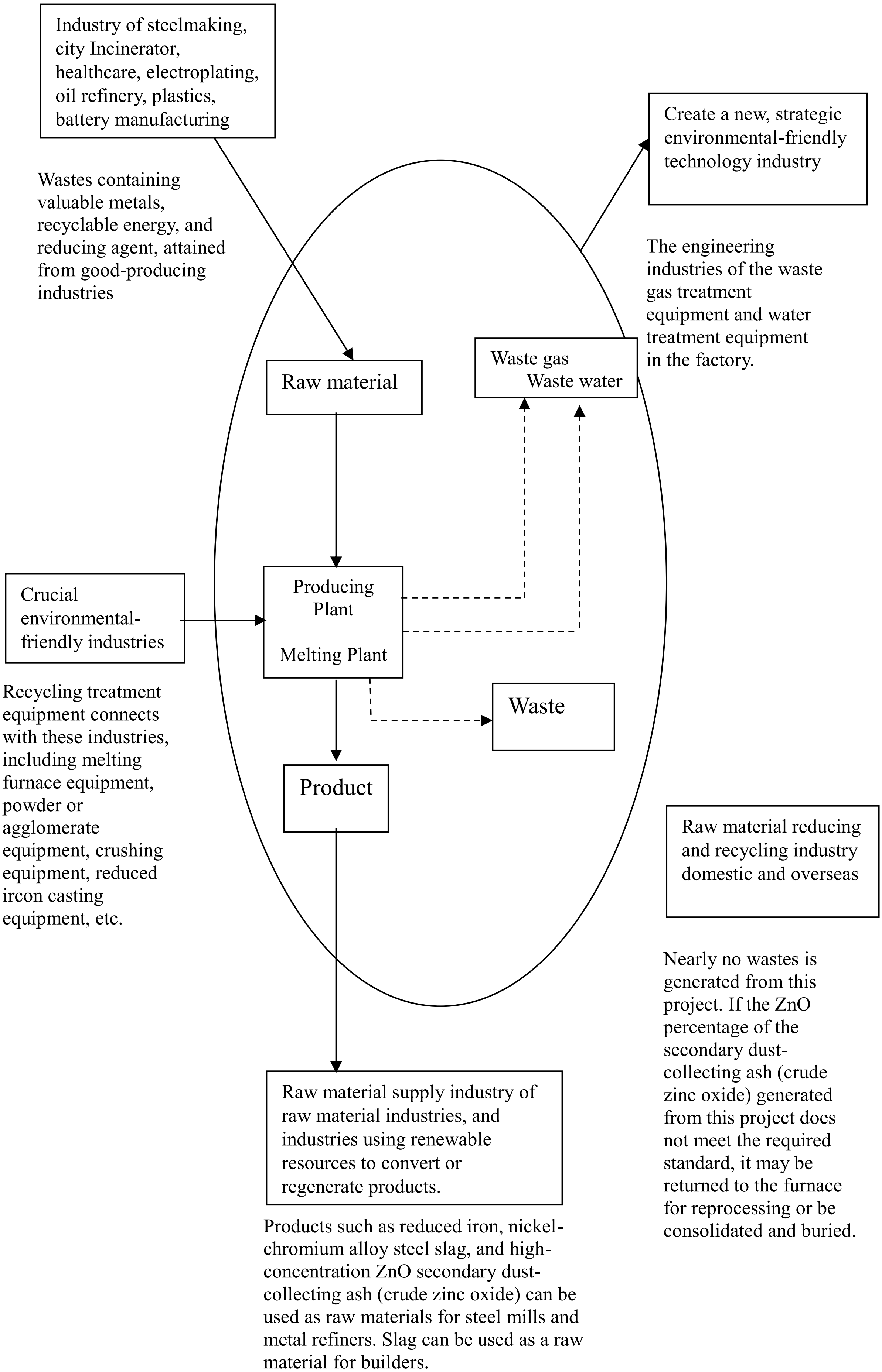
(v) Roll large channel steel

Steel embryo weighing → Heating furnace → Slabbing mill → Universal rough rolling machine → Horizontal roll edger → Universal finishing rolling machine → Roller straightening machine → Large channel steel

(vi) Steel structure process



(vii) Environmental friendly processing



(viii) Wind power generating

Supplier and maintainer of the device of power transmission line (German firm Enercon Corporations) → Wind power generating → Power transmission line → Taipower → Customers

(3) Main raw materials supply from parent company and subsidiaries

(i) Purchase of main raw materials for 2017

Unit: metric tons

Corp.	Item	Quarter / Quantity	**First quarter**	**Second quarter**	**Third quarter**	**Fourth quarter**	**Total**
Tung Ho Steel Enterprise Co., Ltd.	**Scrap steel**	Domestic	259,695	227,745	247,588	266,738	1,001,766
		Overseas	181,746	277,537	315,173	287,092	1,061,548
Tung Ho Steel Vietnam Corp. Ltd.	**Scrap steel**	Domestic	11,286	17,971	47,583	8,200	85,040
		Overseas	103,826	19,466	96,330	88,490	308,112
Tung Ho Steel Enterprise Co., Ltd.	**Pig iron**	Domestic	0	0	0	0	0
		Overseas	50,101	0	0	48,154	98,255
Tung Ho Steel Vietnam Corp. Ltd.	**Pig iron**	Domestic	3,573	6,330	1,528	16,103	27,534
		Overseas	6,340	0	0	0	6,340
Tung Ho Steel Vietnam Corp. Ltd.	**Silicon iron**	Domestic	0	0	0	0	0
		Overseas	1,000	600	1,300	1,250	4,150
Tung Ho Steel Vietnam Corp. Ltd.	**Ferromanganese iron**	Domestic	0	0	0	0	0
		Overseas	0	800	400	800	2,000
Tung Ho Steel Vietnam Corp. Ltd.	**Ferromanganese-silicon iron**	Domestic	0	0	0	0	0
		Overseas	5,300	6,300	6,600	7,700	25,900

Tung Kang Steel Structure Co., Ltd.	**Steel plate**	Domestic	6,689	9,336	9,111	21,152	46,288
		Overseas	4,044	5,932	6,090	6,014	22,080
Fujian Tung Kang Steel Co., Ltd.	**Steel plate**	Domestic	797	945	554	2,101	4,397
		Overseas	0	0	0	0	0
Fujian Tung Kang Steel Co., Ltd.	**Section bar**	Domestic	971	733	688	1,122	3,514
		Overseas	0	0	0	0	0
Katec Creative Resources Corp.	**Dust collection**	Domestic	2,846	2,405	2,522	2,048	9,821
		Overseas	0	0	0	0	0
Katec Creative Resources Corp.	**Medical waste**	Domestic	125	132	137	146	540
		Overseas	0	0	0	0	0

(ii)Major raw material import areas and supply conditions

Corporation	Items	Major raw material import areas	Supply conditions
Tung Ho Steel Enterprise Co., Ltd.	Scrap steel, pig iron	America, South America, Japan, etc.	Good
	Silicon iron, ferromanganese iron, ferromanganese-silicon iron	China, India, Malaysia, etc.	Good
Tung Ho Steel Vietnam Corp. Ltd.	Scrap steel	America, Japan, Hong Kong, South America, Australia	Good
	Pig iron	Vietnam	Good
Tung Kang Steel Structure Co., Ltd.	Steel plate	Japan	Good

(4) Customers' name and the amount and proportion of purchases (sales) of goods that accounted for more than 10% of the total (imported) goods in any year in the most recent fiscal year

i. Customer names that accounted for more than 10% of total sales in any year in the most recent two years:

Unit: NT$ thousands；%

2018				2017			
Name	Amount	Share of net sales (%)	Relation with the issuer	Name	Amount	Share of net sales (%)	Relation with the issuer

Other	39,769,621	100.00	None	Other	31,749,271	100.00	None
Net sales	39,769,621	100.00	-	Net sales	31,749,271	100.00	-

The sales target of the company is extremely diverse, in 2017 and 2018, there was no case where the amount of sales of a single object was greater than 10%.

ii. Customer names for the top ten sales within recent two years:

Unit: NT$ thousands；%

2018			2017		
Customer name	Amount	Proportion	Customer name	Amount	Proportion
Rieter Steel Co., Ltd.	2,361,564	5.94	MITSUI VIETNAM CO.,	3,164,317	9.97
CÔNG TY TNHH MITSUI VIỆT NAM	1,633,574	4.11	Rieter Steel Co., Ltd.	1,938,797	6.11
SANWA	1,613,402	4.06	SANWA	1,545,448	4.87
Chenggang Industry	1,393,614	3.50	Feng Huei Steel Co., Ltd	1,218,677	3.84
Gir Gai Trading Co., Ltd.	1,169,371	2.94	Gir Gai Trading Co., Ltd.	1,028,226	3.24
CATHAY PACIFIC STEEL CORPORATION	755,958	1.90	Chenggang Industry	1,014,725	3.20
Haotai Steel Corporation	672,035	1.69	Superiority Steel Co., Ltd.	636,069	2.00
Feng Huei Steel Co., Ltd	664,538	1.67	Haotai Steel Corporation	597,203	1.88
Fu Tsu Construction	636,226	1.60	Kai Hong Steel Co., Ltd.	563,213	1.77
Superiority Steel Co., Ltd.	588,676	1.48	POSCO DAEWOO CORPORATION	532,791	1.68
Subtotal	11,488,958	28.89	Subtotal	12,239,466	38.56
Other	28,280,663	71.11	Others	19,509,805	61.45
Total	39,769,621	100.00	Total	31,749,271	100.00

Note: MITSUI VIETNAM CO., POSCO DAEWOO CORPORATION, CÔNG TY TNHH MITSUI VIỆT NAM and CATHAY PACIFIC STEEL CORPORATION are all customers of Tung Ho Steel Vietnam Corp. Ltd.

iii. Major supplier information within recent two years

Period	2017				2018				2019 as of the previous quarter			
Item	Name	Amount (NT$ thousands)	Annual net purchase ratio (%)	Relationship with the issuer	Name	Amount (NT$ thousands)	Annual net purchase ratio (%)	Relationship with the issuer	Name	Amount (NT$ thousands)	Annual net purchase ratio (%)	Relationship with the issuer
1	Huating International Co., Ltd.	2,387,152	10.57	None	Huating International Co., Ltd.	2,387,152	10.57	None	Huating International Co., Ltd.	2,387,152	10.57	None
2	Other	20,193,086	89.43	None	Other	20,193,086	89.43	None	Other	20,193,086	89.43	None
Total	Net purchase	22,580,238	100	Not applicable	Net purchase	22,580,238	100	Not applicable	Net purchase	22,580,238	100	Not applicable

iv. The top ten customer names in total purchases within recent two years

Unit: NT$ thousands; %

2018			2017		
Customer	Amount	Proportion	Customer	Amount	Proportion
Huating International Co., Ltd.	5,401,113	13.47%	Huating International Co., Ltd.	2,387,152	10.57%
Pacific Jinmao	2,845,761	7.10%	SIMS GROUP AUSTRALIA	1,520,093	6.73%
Hongmao International Co., Ltd.	1,019,466	2.54%	Pacific Jinmao	1,358,199	6.01%
AdvancedTEK International Co., Ltd.	986,547	2.46%	AML	528,457	2.34%
Hongkuan Metal Co., Ltd	983,866	2.45%	Hongkuan Metal Co., Ltd	381,618	1.69%

Jun Ing	611,394	1.52%	AdvancedTEK International Co., Ltd.	359,138	1.59%
Hong Ruen Co., Ltd.	542,365	1.35%	Hong Ruen Co., Ltd.	338,332	1.50%
Nippon Steel	446,120	1.11%	Li Fu Co., Ltd.	337,037	1.49%
Sho Wei Enterprise	433,823	1.08%	Hongmao International Co., Ltd.	321,127	1.42%
AML	431,026	1.08%	Gi He Chen Environmental Technology Co., Ltd.	320,137	1.42%
Total	13,701,482	34.17%	Total	7,851,290	34.77%
Other	26,391,842	65.83%	Other	14,728,948	65.23%
Net purchase	40,093,324	100.00%	Net purchase	22,580,238	100.00%

v. Production value of last two years

Unit: metric tons, NT$ thousands

Year	2018			2017		
Item \ Production value	Capacity	Productivity	Production value	Capacity	Productivity	Production value
Steel embryo	3,300,000	2,136,814	32,612,323	3,300,000	1,947,262	23,902,710
Steel rebar	1,500,000	926,679	14,908,853	1,250,000	708,541	9,327,224
H beam steel	1,000,000	548,442	9,860,169	1,000,000	477,733	7,111,435
Steel plate		82,358	1,552,989		59,951	904,220
Channel steel		62,842	1,202,075		69,321	1,112,139
I type steel		2,617	51,135		2,214	36,837
Steel sheet pile		2,652	50,488		565	9,585
Steel structure	123,600	102,508	4,406,257	123,600	81,546	2,909,164
Environmental treatment	46,368	18,464	314,280	46,368	16,788	242,790
Wind power	28,000	25,616	42,120	28,000	25,758	51,517
Construction income	0	0	271,775	0	0	416,834
Others (note)	0	0	167,540	0	0	108,702
Total	5,997,968	3,908,992	65,440,004	5,747,968	3,389,679	46,133,157

(Note): Others include the lengthening of the subsidiaries and the forming of rebar, the sale of rebar and the sale of splicer materials.

vi. Sales value of last two years

Unit: metric tons, NT$ thousands

Year	2018				2017			
Items \ Sales value	Domestic		Overseas		Domestic		Overseas	
	Amount	Value	Amount	Value	Amount	Value	Amount	Value
Steel embryo	2,172	43,841	283,430	4,169,253	13,625	186,092	469,644	5,910,153
Steel rebar	969,063	17,344,202	1,504	33,536	749,188	11,329,936	4,924	84,999
H beam steel	388,035	8,100,750	125,151	2,839,567	389,155	7,302,451	73,708	1,344,757
Steel plate (self-made)	32,487	731,591	0	0	30,796	631,426	0	0
Steel plate (buy and sell)	39	740	0	0	207	4,344	0	0
Channel steel	15,184	304,511	47,861	970,033	11,713	204,397	54,491	998,930
I type steel	2,242	52,417	6	139	2,026	45,866	188	4,275
Steel sheet pile	83,928	3,771,928	28,117	870,068	46,501	2,223,512	32,224	766,976
Steel materials buy and sell	160	7,098	0	0	1,165	20,409	0	0

Year	2018				2017			
Sales value / Items	Domestic		Overseas		Domestic		Overseas	
	Amount	Value	Amount	Value	Amount	Value	Amount	Value
Environmental treatment	17,237	291,342	0	0	17,675	257,648	0	0
Steel sheet pile	2,658	57,552	0	0	574	10,000	0	0
Wind power	25,616	51,232	0	0	25,758	51,517	0	0
Construction income	0	113,558			0	356,348		
Others (note)	868	16,263	0	0	0	15,238	0	0
Total	1,539,689	30,887,025	486,069	8,882,596	1,288,383	22,639,182	635,180	9,110,089

(Note): Others include the lengthening of the subsidiaries and the forming of rebar, the sale of rebar and the sale of splicer materials.

3. Data of employees

i. Number of employees, average service years, average age and academic distribution ratio of the last two years up to the publication date of the annual report

Year		2017	2018	2019 as of March 31
Number of employees	Head office	174	184	188
	Kaohsiung Plant	251	256	256
	Taoyuan Plant	466	468	471
	Miaoli Plant	523	533	533
	Regular contract employees	9	8	8
	Foreign employees	173	211	212
	Parent company total	1,596	1,660	1,668
	Subsidiary (includes foreign employees)	770	982	959
	Total	2,366	2,642	2,627
Average age (note)		41.02	40.04	40.82
Average service years (note)		11.87	11.22	11.35
Academic distribution ratio (note)	Ph. D.	0.00	0.07	0.06
	Master’s degree	4.30	3.98	3.97
	College	42.35	62.57	64.13
	High school	37.68	21.66	20.88
	Below high school	15.67	11.72	10.97

(Note): The average age, average service years and academic distribution ratio are calculated as regular employees, excluding regular contract staff and foreign employees.

4. Disbursements for environmental protection

i. Total loss (including compensation) and penalty due to the polluting of environment and countermeasures of last year and up to the publication date of the annual report

Parent Company/ Subsidiary \ Disbursements		Violation of environmental protection	Penalty	Countermeasures (Improvement, Precaution)
Parent Company	Taoyuan Plant	1.2018.01.31 Delinquency charges + interest on the air pollution fee for the installation of the retaining wall at the east side of the oxidizing slag factory	NT$2,607	1.The defect was corrected immediately, and the penalty was listed under the factory area. 2.Countermeasure: a dedicated personnel was appointed for the matter and was responsible from the application for the building permit, acquirement of occupation permit, application for all relevant permits to the completion of construction.
		2.2018.06.21 Violation of Article 23, item 1 of the “Air Pollution Control Act” due to smoke and dust on the roof of the steel embryo storage area. Deadline given for improvement.	NT$100,000	1.The defect was corrected immediately and later passed the review conducted by DEP officials during a visit to the factory. 2.Countermeasure: regular cleaning of dust in the dusting pipe to avoid blockage and affect the collecting effect of dust.
		3.2018.10.18 Delinquency charges plus interest on the air pollution fee for the first phase building.	NT$27,425	1.The defect was corrected immediately, and the penalty was listed under the factory area. 2.Countermeasure: a dedicated personnel was appointed for the matter and was responsible from the application for the building permit, acquirement of occupation permit, application for all relevant permits to the completion of construction.
		4.107.11.29 Violation of the “Air Pollution Control Act” due to failure to report to the DEP and re-submit the confirmation	NT$100,000	1.The defect was corrected immediately 2.Countermeasure: the equipment manufacturer was informed that in event

Disbursements / Parent Company/ Subsidiary		Violation of environmental protection	Penalty	Countermeasures (Improvement, Precaution)
		report in accordance with relevant regulations on the software update of the DAHs system of the data-collecting computer in the monitoring facility.		of any changes in hardware or software, it shall notify the factory to carry out report, re-submit related confirmation report and other actions and pend for approval.
		5.2018.12.14 Violation of Article 31, items 1 and 2 of the "Air Pollution Control Act" due to failure to submit waste disposal plan in accordance with relevant regulations.	NT$60,000 (NT$30,000 each)	1. The defect was corrected immediately, and the penalty was listed under the factory area. 2. Countermeasure: a dedicated personnel was appointed for the matter and was responsible from the application for the building permit, acquirement of occupation permit, application for all relevant permits to the completion of construction.
	Miaoli Plant	1. 2018.04.14 Violation of Article 31 of the "Waste Disposal Act" by a subcontracting vendor due to illegal disposal of sand soil.	NT$60,000	1.The sand soil was fully returned to the factory area for furnace treatment. 2.Irregular checks on subcontracting vendors.
	Miaoli Plant	2. 2018.08.13 Violation of Article 32, item 1 of the "Air Pollution Control Act" due to generation of particulate matter pollutions during crushing of scrap metal.	NT$100,000	1.Sprinklers were installed at the entrance and exit of the main crusher to reduce the generation of particulate matter pollutions, and soundproof walls and dust-proof strips were refurbished to prevent the particulates from overflowing. 2.The DEP had sent officials to the factory on April 10, 2019 to examine the improvement.
	Kaohsiung Plant	None	None	None
Subsidiary		None	None	None

ii. Environmental Protection Expenditure of Last Year Up to the Publication Date

of the Annual Report

We not only strive for excelsior of the quality of products and services for customers, but also spare no efforts for pollution prevention, industrial waste reduction and other environmental protection work, in order to complete our Corporate Social Responsibility. The environmental protection expenditure of last year up to the publication date of this annual report was as follows,

<table>
<tr><th colspan="2" rowspan="2">Environmental Protection Expenditure
Parent Company/Subsidiary</th><th colspan="3">Environmental Protection Expenditure (Unit: NT$ thousands)</th></tr>
<tr><th>Items</th><th>2018</th><th>Up to 2019.03.31</th></tr>
<tr><td rowspan="9">Parent Company</td><td rowspan="2">Taoyuan Plant</td><td>Environmental protection capital expenditure depreciation</td><td>48,008</td><td>11,798</td></tr>
<tr><td>Environmental Protection regular expenditure</td><td>273,086</td><td>72,460</td></tr>
<tr><td colspan="2">Subtotal of Taoyuan Plant</td><td>321,094</td><td>84,258</td></tr>
<tr><td rowspan="2">Miaoli Plant</td><td>Environmental protection capital expenditure depreciation</td><td>34,546</td><td>8,655</td></tr>
<tr><td>Environmental Protection regular expenditure</td><td>334,808</td><td>55,442</td></tr>
<tr><td colspan="2">Subtotal of Miaoli Plant</td><td>369,354</td><td>64,097</td></tr>
<tr><td rowspan="2">Subtotal of Miaoli Plant</td><td>Environmental protection capital expenditure depreciation</td><td>608</td><td>65</td></tr>
<tr><td>Environmental Protection regular expenditure</td><td>9,160</td><td>2,141</td></tr>
<tr><td colspan="2">Subtotal of Kaohsiung Plant</td><td>9,768</td><td>2,206</td></tr>
<tr><td colspan="3">Total of Parent Company</td><td>700,216</td><td>150,561</td></tr>
<tr><td rowspan="4">Subsidiary</td><td rowspan="2">Tung Kang Steel Structure Co., Ltd.</td><td>Environmental protection capital expenditure depreciation</td><td>362</td><td>98</td></tr>
<tr><td>Environmental Protection regular expenditure</td><td>64,938</td><td>0</td></tr>
<tr><td rowspan="2">Katec Creative Resources Corp.</td><td>Environmental protection capital expenditure depreciation</td><td>3,029</td><td>757</td></tr>
<tr><td>Environmental Protection regular expenditure</td><td>1,184</td><td>306</td></tr>
<tr><td colspan="3">Total of Subsidiaries</td><td>69,513</td><td>1,161</td></tr>
<tr><td colspan="3">Total</td><td>769,729</td><td>151,722</td></tr>
</table>

iii. Major Environmental Protection Capital Expenditure in the Next Two Years

(1) We hope to maintain high level standards for an environmental friendly operational factory in order to meet relevant environmental regulations and reduce the occurrence of unusual events. None of major pollution events took place in recent years, so the improvement of environmental protection didn't affect the Company's surplus, competitive position or capital expenditure.

(2) We invest in industrial pollution reduction equipment and training program for operators on a regular basis, and have acquired ISO-14001 Environmental Certification. We will continually assess our investment according to the improvement of pollution events.

5. Labor management relations

i. Various welfare, education, training, and retirement measures for employee, the implementation of the aforesaid measures, and agreement between labor and capital

(1) Implementation of welfare measures

We and our subsidiaries believe that employees not only are the largest assets of the company, but they also drive the company to operate relentlessly; this belief drives us to provide employees with various care measures. In addition to Labor Insurance and National Health Insurance, we also secure the employees (including foreign employees as well) Group Insurance, which includes Life Insurance, Accidental Injury Insurance, Public Liability Insurance, and Business Travel Insurance, in hope of providing employees workplace safety. Other welfare measures:

(i) Establish a Joint Employees' Welfare Committee

The joint committee organizes various employees' welfare campaigns via Employees' Welfare Committee in all regions. For instance, company staff travel, club, group insurance, Child Scholarship Plan for Faculty and Staff, holiday bonus for the three important Chinese holidays, birthday bonus, wedding/funeral subsidy, retirement subsidy, to name but a few. Also, the committee encourages all kinds of clubs, such as climbing club, softball club, golf club, badminton club, hiking club, etc. and healthy activities such as working out or aerobic exercise.

(ii) Establish staff kitchen to provide healthy food to employees

(iii) Provide staff dormitory for employees living in remote counties

(iv) Provide health examination on a regular basis

The health examination provided annually by the Company includes both general health check and special health check.

(v) Overall occupational medical healthcare service for employees

The team of factory based doctor's occupational health management physician, professional safety and health personnel, and occupational health nurses provides preventive medical treatment for faculty in factory and in distance workplace. The employees can consult the factory based doctors of various items including personal health condition assessment (including working ability and competence), general medical treatment and referral, health education, occupational injury and disease, diagnosis and prevention of diseases, health promoting activity planning. Other services entails safety education and training, health detection and management, quality survey of health inspection agency, and epidemic investigation and management.

(vi) Irregularly provide medical information and health education

Provide information of disease prevention and healthy diet. Remind employees to notice body weight, blood pressure, etc., and to constantly measure and record their blood pressure.

(vii) Reward: Business surplus will be allocated to employees if the company make profit in the business year.

(viii) Employee stock ownership: When the company's capital increased by cash, some of the new shares will be retained and will be taken over by employees.

(2) Implementation of educational training

The goal of educational training is for employees to develop occupational competence. The company establishes educational training plan on a yearly basis according to operational requirement and occupational planning. Various internal or external training courses are held in order to promote occupational knowledge and skills and help employees to develop good working attitudes. We hope that the educational training will retain manager and professionals at all level and encourage colleagues to enhance self-value and ultimately develop competitive human resources.

(3) Implementation of retirement system

We have set the Business Employee Retiring Measures in accordance with the Labor Standards Law and the Labor Pensions Act and established the Supervisory Committee of Workers' Pension Preparation Fund (the Committee), which is approved by competent authority. In addition to calculating the pension for labor in old system on a yearly basis, the Committee will hold regular meeting for the purpose of safeguarding employees' right. Up to the end of 2017 the Workers' Pension Preparation Fund is sufficient for next year retirees. Employees who meet the requirement of new system of Workers' Pension Preparation Fund shall pay six percent (6%) of wages in accordance with the Monthly Contribution Wages Classification of Labor Pension into their personal pension fund account on a monthly basis. Employees may choose to pay the fund voluntarily.

(4) Agreement between labors and capital

Enterprise unions were established in all regions to coordinate the labor capital relations and promote labor capital cooperation. The enterprise unions hold labor meeting regularly to activate communication between labor and capital; this job is carried out by the union's election committee on behalf of the labor. On the other hand, representatives of enterprise union also work for the Worker Welfare Committee and the Supervisory Committee of Workers' Pension Preparation Fund to safeguard employees' rights.

ii. Losses due to labor disputes last year up to the publication date of this report and the estimated amount and countermeasures of losses that may occur at present and in the future

None of losses have occurred of last year up to the publication date of this report. Under appropriate business management, constant improvement of employees' welfare and the seeking for labor capital oneness, in the future we expect none of labor disputes and losses in the company.

6. Important agreements of the parent company and subsidiaries

Important agreements / Parent company and subsidiary		Property of the contract	Party	Start date and due date of the contract	Content	Restrictions
Parent company	Taoyuan Plant	Project contracting	Shang Yu Industrial Co., Ltd.	2018.01.25~ 2018.05.30	Installation of the steel embryo wielding machine for the first rolling mill	1. Deposit payment: 40% 2. Delivery payment: 50% 3. Acceptance payment: 10%
		Material purchasing	CPC Corporation, Taiwan	2018.03.31~ 2023.03.30	Sales and purchase contract for industrial use natural gas	Performance bond. Renewal each year.
		Project contracting	Jingcheng Construction Engineering Co., Ltd.	2018.01.24~ 2018.05.31	Roof renovation project for steel mill	1. Progress: 90% 2. Acceptance payment: 10%
		Material purchasing	Jingcheng Construction Engineering Co., Ltd.	2018.03.05	Purchase of stainless steel coil for Roof renovation project for steel mill	1. Progress: 90% 2. Acceptance payment: 10%
		Project contracting	Air Water Plant & Engineering Inc.	2018.07.09~ 2018.07.14	Replacement of absorbent for oxygen compressors No. 2 and 3 of the Oxygen plant	100% payment according to installing progress
		Device purchasing	Shang Yu Industrial Co., Ltd.	2018.04.16~ 2018.12.12	Purchase of thick and medium steel-rolling machine	1. Deposit30% 2. Delivery payment: 60% 3. Acceptance payment: 10%
		Project contracting	Tai-En Enterprises	2018.5~2018.6	Equipment piping construction of the steel embryo wielding machine for the first rolling mill	1. Progress: 90% 2. Acceptance payment: 10%
		Project contracting	Chi Shang Enterprise	2018.07.10~ 2018.12.30	Electrical system construction for the wielding machine of the first rolling mill	1. Progress: 90% 2. Acceptance payment: 10%
		Device purchasing	The Giant Taiwan	2018.08~ 2018.9.30	Purchase contract for hydraulic excavator and wheel loader	100% payment upon acceptance
		Material purchasing	DANIELI	2018.10~2019	Mechanical/electrical/consumptive spare parts for the steel embryo wielding machine	100% L/C
		Project contracting	Hung Yuan Engineering	2018.3.6~ 2018.5.6	Air conditioning system construction for the second rolling mill	1. Material delivery: 15% 2. Completion payment: 75% 3. Acceptance payment: 10%
		Project contracting	Tung Kang Steel Structure Co., Ltd.	2017.8.31~ 2018.4.30	Plant steel structure engineering for second stage construction project-Taoyuan Factory expansion	100% payment upon completion and acceptance
		Material purchasing	Tung Kang Steel Structure Co., Ltd.	2017.8.31~ 2018.4.30	Purchase of steel structure material for second stage construction project-Taoyuan Factory expansion	100% payment upon completion and acceptance

Important agreements / Parent company and subsidiary		Property of the contract	Party	Start date and due date of the contract	Content	Restrictions
		Engineering design	Qian Baiqing Architects	2017.11.1~ 2019.6.30	Appointment contract for application for construction permit (including inquests), supervision, consulting services and additional construction and dismantling for buildings in the Taoyuan factory	100% payment according to progress
		Project contracting	Tung Ho Engineering	2017.9.25~ 2018.5.30	Taipei Port scrap steel factory civil work projects (including steel structure and color steel)	100% payment according to construction progress
		Engineering design	Luo Qincheng Architects	2016.3.1~ 2018.4.30	Construction of Taipei port area factory (planning and design)	1. Application: 20% 2. Building permit: 60% 3. Occupation permit: 20%
		Project contracting	Tung Kang Steel Structure Co., Ltd.	2017.8.31~ 2018.4.30	Plant steel structure engineering for second stage construction project- Taoyuan Factory expansion (fixed length)	100% payment upon completion and acceptance
		Material purchasing	Tung Kang Steel Structure Co., Ltd.	2017.8.31~ 2018.4.30	Purchase of steel structure material for second stage construction project- Taoyuan Factory expansion (fixed length)	100% payment upon completion and acceptance
Parent company	Miaoli Plant	Device purchasing	Taiwan Chugai Ro Co., Ltd.	2016.02.04~ 2018.06.30 The equipment has been installed in the factory. Testing is expected to be carried out in April 2019, and the equipment will subsequently be reported as asset.	Device purchasing for hot rolled strip mill heating furnace double fuels improvement project	1. S/V device Deposit payment: 10% Design payment: 10% Device payment: 70% Acceptance payment: 10% 2. DCS device Prepayments: 10% Device payment: 80% Acceptance payment: 10%
Subsidiary	Tung Ho Wind Power Co., Ltd.	Purchase and sale of electricity contract	Taiwan Power Company	2016.09~2036.08	Taipower bought all of electricity generated by Tung Ho Wind Power Co. Ltd.	The power supply (power generation) per unit time (1 hour) shall not exceed the full load capacity of 5 fans
		Wind turbine maintenance contract	Enercon Taiwan Ltd.	2016.08~2026.07	Suction fan maintenance	None
Subsidiary	Tung Ho Engineeri	Rebar processing	Tung Ho Steel Enterprise Corp.	2018.03.01~ 2022.02.28	Project contract for the clipping, forming and processing of rebar	Processing payment: 100%

Important agreements / Parent company and subsidiary		Property of the contract	Party	Start date and due date of the contract	Content	Restrictions
	ng Co., Ltd.	Construction engineering project	Taigang Resources Co., Ltd.	2018.03.08~ Completion of project	Construction of corrugated sheet for the reducing slag factory of Taigang Resources	1. Payment for contract: 20% 2. Progress payment: 70% 3. Acceptance payment: 10%
		Construction engineering project	Taigang Resources Co., Ltd.	2018.05.09~ Completion of project	Construction of corrugated sheet for the reducing slag factory of Taigang Resources-Addition of warehouse	1. Payment for contract: 20% 2. Progress payment: 70% 3. Acceptance payment: 10%
		Construction engineering project	Hao Machinery Engineering Co., Ltd.	2018.04.02~ Completion of project	Construction of corrugated sheet for the reducing slag factory of Taigang Resources: steel structure construction (materials)	1. Project payment: 90% 2. Retention money: 10%
		Construction engineering project	Hao Machinery Engineering Co., Ltd.	2018.04~ Completion of project	Construction of corrugated sheet for the reducing slag factory of Taigang Resources: steel structure construction (wages)	1. Project payment: 90% 2. Retention money: 10%
		Construction engineering project	Hao Machinery Engineering Co., Ltd.	2018.05.10~ Completion of project	Construction of corrugated sheet for the reducing slag factory of Taigang Resources: warehouse steel structure construction (materials)	1. Project payment: 90% 2. Retention money: 10%
		Construction engineering project	Gongli Enterprise Co., Ltd.	2018.04.10~ Completion of project	Construction of corrugated sheet for the reducing slag factory of Taigang Resources: color steel construction (materials)	1. Prepayment: 30% 2. Prepayment upon delivery of material: 40% 3. Installation progress payment: 25% 4. Retention money: 5%
		Construction engineering project	Hao Machinery Engineering Co., Ltd.	2018.05.10~ Completion of project	Construction of corrugated sheet for the reducing slag factory of Taigang Resources: warehouse steel structure construction (wages)	1. Project payment: 90% 2. Retention money: 10%
		Construction engineering project	Gongli Enterprise Co., Ltd.	2018.04.10~ Completion of project	Construction of corrugated sheet for the reducing slag factory of Taigang Resources: color steel construction (wages)	1. Prepayment: 30% 2. Prepayment upon delivery of material: 40% 3. Installation progress payment: 25% 4. Retention money: 5%
		Rebar processing	Big win business line	2018.10.01~ 2019.09.30	Contracting fixed-length clipping of rebar	Processing payment: 100%
Subsidiary	Tung Ho Steel Vietnam	Device purchasing	SMS group	2017.06~ 2018.01	EAF regulator equipment purchasing	1.Deposit20% 2.Design payment: 20% 3.Device payment: 50% 4.Acceptance payment: 10%

Important agreements / Parent company and subsidiary		Property of the contract	Party	Start date and due date of the contract	Content	Restrictions
	Corp. Ltd.	Device purchasing	SMS group	2017.06~ 2018.04	DCS HQT equipment purchasing	1.Deposit20% 2.Design payment: 20% 3.Device payment: 50% 4.Acceptance payment: 10%
		Device purchasing	C.EG. Srl	2018.05~ 2019.04	Purchase of scrap steel pressing and clipping machine	1.Deposit20% 2.Acceptance payment: 80%
		Device purchasing	Tamini	2018.04~ 2019.11	Purchase of main transformer for electric furnace and refine furnace	1.Deposit20% 2.Device payment: 80%
		Device purchasing	Inteco	2018.10~ 2019.08	Purchase of electric furnace renovation device	1.Deposit30% 2.Device payment: 60% 3.Acceptance payment: 10%
		Device purchasing	PICCAARDI	2018.11~ 2019.08	Purchase of electric coupler	1.Deposit20% 2.Device payment: 70% 3.Acceptance payment: 10%
		Device purchasing	Dahung Machinery	2018.03~ 2018.08	Purchase of rebar fixed-length cut-off machine	1.Device payment: 90% 2.Acceptance payment: 10%
		Device purchasing	Yung Zip Chemical Co., Ltd.	2018.05~ 2019.03	Excavator procurement contract	1.Deposit20% 2.Device payment: 70% 3.Acceptance payment: 10%
		Device purchasing	Ma Gang Mechanical and Electrical Co., Ltd.	2018.05~ 2018.10	Purchase of manipulator for casting machine	1.Device payment: 90% 2.Acceptance payment: 10%
		Device purchasing	Ma Gang) Mechanical and Electrical Co., Ltd.	2018.12~ 2019.06	LGP to natural gas device purchasing contract	1.Device payment: 90% 2.Acceptance payment: 10%
		Project contracting	GLC Engineers & Constructors	2018.04~ 2019.02	Replacement of sections 1, 2and 3 of the collect pipe	1.Deposit20% 2.Progress payment: 70% 3.Acceptance payment: 10%
		Project contracting	Ring	2018.09~ 2018.11	Piling construction for entrance 1	1.Deposit20% 2.Progress payment: 70% 3.Acceptance payment: 10%
		Project contracting	Jin Taifu	2018.09~ 2018.12	Construction of sprinkling system of the scrap steel factory	1.Progress payment: 90% 2.Acceptance payment: 10%
		Project contracting	Jin Taifu	2018.02- 2018.08	Greening construction for the factory area	1.Progress payment: 90% 2.Acceptance payment: 10%
		Project contracting	Jin Taifu	2018.09- 2019.03	Civil engineering for entrance 1	1.Progress payment: 90% 2.Acceptance payment: 10%
		Project contracting	PROCHAIN	2018.06~ 2019.02	Renovation of the roof and light shade of the steel mill	1.Deposit20% 2.Progress payment: 70% 3.Acceptance payment: 10%

Important agreements / Parent company and subsidiary		Property of the contract	Party	Start date and due date of the contract	Content	Restrictions
		Marketing expense	VIETSO	2018.06~ 2019.07	Television commercial contract	1.Deposit10% 2.Progress payment: 80% 3.Acceptance payment: 10%
Subsidiary	Fa Da Co., Ltd.	Plant leasing contract	Tung Ho Engineering Co., Ltd.	2017.08.01~ 111.07.31	Plant	None
Subsidiary	Kateg Creative Resources Co., Ltd.	Device renovation	Yikai Machinery Co., Ltd.	40 days from 2018.08.31	Installation of additional ball press equipment	1. Deposit payment: 30% 2. Delivery payment: 40% 3. Acceptance payment: 30%

VI. Financial Summary of the Company and Subsidiaries

1. Concise balance sheet and comprehensive income statement for the last five years

i. Concise balance sheet consolidated

Unit: NT$ thousands

Item \ Year		Financial data of the last five years					Financial data of this year and up to 2019.03.31 (note 2)
		2014 (re edited)	2015	2016	2017	2018	
Current Assets		16,166,959	14,890,132	12,504,478	14,835,353	22,968,952	22,010,148
Property, Plant, and Equipment (note 1)		15,916,706	15,447,983	17,888,505	20,582,554	20,694,943	20,475,157
Intangible Assets		0	0	213,235	190,187	186,738	187,022
Other Assets (note 1)		6,265,406	5,742,353	5,995,096	5,689,298	4,707,860	4,905,991
General Assets		38,349,071	36,080,468	36,601,314	41,297,392	48,558,493	47,578,318
Current Liabilities	Before Distribution	10,956,845	9,570,672	8,611,617	13,268,068	17,489,725	15,990,136
	Distributed	12,254,533	10,668,716	9,909,304	14,673,753	(note 3)	(note 3)
Non-Current Liabilities		4,224,607	3,433,779	4,436,843	3,996,293	7,058,004	7,125,481
Total Liabilities	Before Distribution	15,181,452	13,004,451	13,048,460	17,264,361	24,547,729	23,115,617
	Distributed	16,479,140	14,102,495	14,346,147	18,670,046	(note 3)	(note 3)
Equity Attributed to Stockholders of the Company		23,058,648	22,991,941	23,462,063	23,952,441	23,903,085	24,335,043
Share Capital		9,982,215	9,982,215	9,982,215	10,040,606	10,040,606	10,040,606
Additional Paid-In Capital		6,225,993	6,225,993	6,247,267	6,320,178	6,592,236	6,592,236
Retained Earnings	Before Distribution	6,687,711	6,620,474	7,034,617	7,399,469	7,917,267	8,303,263
	Distributed	5,390,023	7,718,518	5,736,930	5,993,785	(note 3)	(note 3)
Other Interest		162,729	163,259	197,964	192,188	(647,024)	(601,062)
Treasury Stock		0	0	0	0	0	0
Non-Controlling Interests		108,971	84,076	90,791	80,590	107,679	127,658
Total Interest	Before Distribution	23,167,619	23,076,017	23,552,854	24,033,031	24,010,764	24,462,701
	Distributed	21,869,931	21,977,973	22,255,167	22,627,346	(note 3)	(note 3)

(Note 1): The determination of the book value of property, plant, and equipment and investment property is based on the IFRS1 stipulated cost exemption on the conversion date of January 1, 2012, and is calculated according to the "Revalue Method for Profitable Assets" before December 31, 2011 as the revaluation of assets as the cost of recognition of these assets.

(Note 2): The consolidated financial data for the first quarter of 2019 was not verified by accountant.

(Note 3): The 2019 shareholders' regular meeting has not yet been convened and the surplus distribution case has not been determined.

ii. Concise balance sheet individual

Unit: NT$ thousands

Item \ Year		Financial data of the last five years					Financial data of this year and up to 2019.03.31 (note 2)
		2014 (re edited)	2015	2016	2017	2018	
Current Assets		13,742,697	10,906,713	9,322,204	10,326,718	17,428,675	16,249,986
Property, Plant, and Equipment (note 1)		13,433,265	12,811,483	12,390,131	13,572,371	13,352,838	13,155,746
Intangible Assets		0	0	0	0	0	0
Other Assets (note 1)		8,002,077	7,505,176	12,127,572	12,366,127	12,032,116	11,985,816
General Assets		35,178,039	31,223,372	33,839,907	36,265,216	42,813,629	41,391,548
Current Liabilities	Before Distribution	8,230,300	5,064,475	5,943,370	8,322,513	12,732,372	10,805,778
	Distributed	9,527,988	6,162,519	7,241,057	9,728,198	(note 3)	(note 3)
Non-Current Liabilities		3,889,091	3,166,956	4,434,474	3,990,262	6,178,172	6,250,727
Total Liabilities	Before Distribution	12,119,391	8,231,431	10,377,844	12,312,775	18,910,544	17,056,505
	Distributed	13,417,079	9,329,475	11,675,531	13,718,460	(note 3)	(note 3)
Equity Attributed to Stockholders of the Company		23,058,648	22,991,941	23,462,063	23,952,441	23,903,085	24,335,043
Share Capital		9,982,215	9,982,215	9,982,215	10,040,606	10,040,606	10,040,606
Additional Paid-In Capital		6,225,993	6,225,993	6,247,267	6,320,178	6,592,236	6,592,236
Retained Earnings	Before Distribution	6,687,711	6,620,474	7,034,617	7,399,469	7,917,267	8,303,263
	Distributed	5,390,023	7,718,518	5,736,930	5,993,785	(note 3)	(note 3)
Other Interest		162,729	163,259	197,964	192,188	(647,024)	(601,062)
Treasury Stock		0	0	0	0	0	0
Non-Controlling Interests		0	0	0	0	0	0
Total Interest	Before Distribution	23,058,648	22,991,941	23,462,063	23,952,441	23,903,085	24,335,043
	Distributed	21,760,960	21,893,897	22,164,376	22,546,756	(note 3)	(note 3)

(Note 1): The determination of the book value of property, plant, and equipment and investment property is based on the IFRS1 stipulated cost exemption on the conversion date of January 1, 2012, and is calculated according to the "Revalue Method for Profitable Assets" before December 31, 2011 as the revaluation of assets as the cost of recognition of these assets.

(Note 2): The consolidated financial data for the first quarter of 2019 was not verified by accountant.

(Note 3): The 2019 shareholders' regular meeting has not yet been convened and the surplus distribution case has not been determined.

2. i. Concise statement of comprehensive income consolidated

Unit: NT$ thousands

Item \ Year	Financial data of the last five years					Financial data of this year and up to 2019.03.31 (note 2)
	2014 (re-edited)	2015	2016	2017	2018	
Operating Revenue	35,892,185	31,053,412	25,209,558	31,749,271	39,769,621	11,477,049
Operating Profit	2,887,797	3,033,804	2,970,262	3,801,861	3,324,682	917,389
Operating Income/Loss	1,355,232	1,511,137	1,491,657	1,841,990	1,275,353	424,813
Non-Operating Income/ Expenses	(71,259)	3,519	190,573	157,093	(20,250)	42,719
Pre Tax Income	1,283,973	1,514,656	1,682,230	1,999,083	1,255,103	467,532
Income from Continuing Operation	1,050,153	1,245,679	1,479,564	1,700,734	888,939	355,775
Loss from Discontinued Department	0	0	0	0	0	0
Net Income (loss)	1,050,153	1,245,679	1,479,564	1,700,734	888,939	355,775
Other Comprehensive (net) Income	409,696	(39,593)	61,706	(54,171)	(115,685)	82,970
Total Comprehensive Income	1,459,849	1,206,086	1,541,270	1,646,563	773,254	438,745
Net Profit Attributed to Stockholders of the Company	1,057,263	1,269,089	1,484,673	1,714,931	887,932	344,555
Net Profit Attributed to Non-Controlling Equity	(7,110)	(23,410)	(5,109)	(14,197)	1,007	11,220
Total Comprehensive Income Attributed to Stockholders of the Company	1,465,044	1,230,981	1,546,892	1,656,764	762,869	428,109
Total Comprehensive Income Attributed to Non-Controlling Equity	(5,195)	(24,895)	(5,622)	(10,201)	10,385	10,636
Earnings Per Share	1.06	1.27	1.49	1.72	0.88	0.34

(Note 1): The consolidated financial data for the first quarter of 2018 was not verified by accountant.

2. ii. Concise statement of comprehensive income individual

Unit: NT$ thousands

Item \ Year	Financial data of the last five years					Financial data of this year and up to 2019.03.31 (note 2)
	2014 (re-edited)	2015	2016	2017	2018	
Operating Revenue	33,009,294	26,299,671	21,079,344	24,704,836	34,692,282	8,791,902
Operating Profit	2,773,866	2,882,307	2,690,024	3,377,611	3,177,085	931,738
Operating Income/Loss	1,466,159	1,682,453	1,529,153	2,086,827	1,593,327	535,305
Non-Operating Income/ Expenses	(150,895)	(246,963)	158,267	(101,605)	(366,522)	(92,432)
Income from Continuing Operation	1,315,264	1,435,490	1,687,420	1,985,222	1,226,805	442,873
Loss from Discontinued Department	0	0	0	0	0	0
Net Income (loss)	1,057,263	1,269,089	1,484,673	1,714,931	887,932	344,555
Other Comprehensive (net) Income	407,781	(38,108)	62,219	(58,167)	(125,063)	83,554
Total Comprehensive Income	1,465,044	1,230,981	1,546,892	1,656,764	762,869	428,109
Earnings Per Share	1.06	1.27	1.49	1.72	0.88	0.34

(Note 1): The consolidated financial data for the first quarter of 2018 was not verified by accountant.

3. CPA's names and auditing opinions of the last five years

Year	Certified accountants' names	Auditing opinions	Explanation
2018	Kou Hui Zhi, Guo Xin Yi	Unqualified opinion	None
2017	Kou Hui Zhi , Guo Xin Yi	Unqualified opinion	None
2016	Kou Hui Zhi, Guo Xin Yi	Unqualified opinion	None
2015	Li Ci Hui, Kou Hui Zhi	Unqualified modified opinion	None
2014	Li Ci Hui, Kou Hui Zhi	Unqualified modified opinion	None

2. Financial analysis of the last five years

1. i. Financial analysis consolidated

Item analyzed (note 3) \ Year (note 1)		Financial data of the last five years					Financial data of this year and up to 2019.03.31 (note 2)
		2014 (re-edited)	2015	2016	2017	2018	
Financial Structure (%)	Debt Ratio	39.59	36.04	35.65	41.80	50.55	48.58
	Ratio of Long-term Capital to Property, Plant and Equipment	172.10	171.61	156.47	136.18	150.13	154.28
Solvency (%)	Current Ratio	147.55	155.58	145.20	111.81	131.33	137.65
	Quick Ratio	67.22	99.42	57.60	39.32	31.34	37.83
	Interest coverage ratio	9.59	13.08	16.76	19.12	6.36	6.39
Operating Ability (%)	Receivables Turnover Ratio (times)	8.90	7.86	7.77	10.37	11.37	11.95
	Average Collection Days	41.01	46.43	46.97	35.19	32.10	30.54
	Inventory Turnover (times)	3.56	4.09	3.88	3.85	3.06	2.89
	Accounts Payable Turnover Ratio (times)	17.38	17.52	14.79	15.41	17.59	20.03
	Average Days in Sales	102.52	89.24	94.08	94.80	119.13	126.30
	Property, Plant, & Equipment (PPE) Turnover (times)	2.23	1.98	1.51	1.65	1.93	2.23
	Total Assets Turnover (times)	0.94	0.86	0.69	0.77	0.82	0.96
Profitability	Return on asset (%)	2.97	3.58	4.28	4.58	2.38	3.52
	Return on Equity (%)	4.52	5.39	6.35	7.15	3.70	5.87
	Ratio of income before tax to paid-in capital (%)	12.86	15.17	16.85	19.91	12.50	18.63
	Profit margin before tax (%)	2.93	4.01	5.87	5.36	2.24	3.10
	Earnings Per Share (NT$)	1.06	1.27	1.49	1.72	0.88	0.34
Cash Flow	Cash flow Ratio (%)	38.29	59.35	36.92	(0.97)	(31.10)	40.13
	Cash flow Adequacy Ratio (%)	85.36	143.62	171.27	107.57	30.78	42.08
	Cash flow Reinvestment	5.88	9.86	4.44	(2.98)	(13.14)	12.11

	Ratio (%)						
Leveraging	Operating Leverage	3.44	3.20	3.30	2.93	3.98	3.54
	Financial Leverage	1.11	1.07	1.06	1.06	1.21	1.25

Each items of financial ratio have changed by twenty percent (20 %) of the last two (2) years, reasons listed as follows:

1. Debt ratio increased to 50.55% mainly due to increase in total liabilities by approximately NT$7,283,368 thousand over the previous year, an increase of 42.19%.
2. Quick ratio decreased to 31.34% mainly due to increase in current liabilities by approximately NT$4,221,657 thousand over the previous year, an increase of 31.82%.
3. Interest coverage ratio decreased to 6.36 and ratio of income before tax to paid-in capital decreased to 12.5% mainly due to decrease in income before tax by NT$743,980 thousand over the previous year, a decrease of 37.22%.
4. Average days in sales increased to 119.13 mainly due to increase in inventories by NT$7,461,107 thousand over the previous year, an increase of 91.26%.
5. Return on asset decreased to 2.38%, return on equity decreased to 3.70%, profit margin before tax decreased to 2.24% and EPS decreased to 0.88 mainly due to a decrease in net income by NT$811,795 over the previous year, a decrease of 47.73%.
6. Cash flow ratio decreased to -31.10% mainly due to increase in cash flow from operating activities by NT$5,310,467 thousand over the previous year, an increase of 4,131.50%, and increase in current liabilities by NT$4,221,657 over the previous year, an increase of 31.82%.
7. Cash flow adequacy Ratio decrease to 30.78% mainly due to decrease in cash flow from operating activities in the last five years by NT$9,787,211 thousand, a decrease of 56.66%, and increase of inventory surplus in the last five years by NT$6,801,912 thousand, an increase of 252.20%.
8. Cash flow reinvestment ratio decreased to -13.14% mainly due to increase in cash flow from operating activities by NT$5,310,467 thousand over the previous year, an increase of 4,131.50%, and increase in current assets by NT$8,133,599 thousand, an increase of 54.83%.
9. Operating leverage increased to 3.98 mainly due to decrease in operating profit by NT$566,637 thousand over the previous year, a decrease of 30.76%.

Unaudited financial statement in the most recent period (2019.03.31) and each items of financial ratio have changed by twenty percent (20%) in the most recent year (2018.12.31), reasons listed as follows:

1. Quick ratio increased to 37.83% mainly due to increase in quick assets by NT$569,047 thousand over 2018, an increase of 10.38%, and decrease in current liabilities by approximately NT$1,499,589 thousand over 2018, a decrease of 8.57%.
2. Return on asset increased to 3.52%, return on equity increased to 5.87% and profit margin before tax increased to 3.10% mainly due to higher profit in the first quarter of 2019, amounting to a higher year-round net income than 2018.
3. Ratio of income before tax to paid-in capital increased to 18.63% mainly due to higher profit in the first quarter of 2019, amounting to a higher year-round income before tax than 2018.
4. Cash flow ratio increased to 40.13%, cash adequacy ratio increased to 42.08% and cash flow reinvestment ratio increased to 12.11% mainly due to increase in sales in the first quarter of 2019, amounting to a higher year-round cash flow from operating activities than 2018.

(Note 1): All of the financial statements listed above was verified by accountant.
(Note 2): The financial data for the first quarter of 2019 was not verified by accountant.
(Note 3): The formula of financial ratio is below:

1. Financial structure
   (1) Debt to assets ratio = total liabilities / total assets.
   (2) Ratio of long term funds to property, plant, and equipment (total equity + non-current liabilities) / net worth of property, plant and equipment.

2. Debt paying ability
   (1) Current ratio = current assets / current liabilities.
   (2) Quick ratio = (current assets inventory prepaid expenses) / current liabilities.
   (3) Times interest earned ratio=net income before tax and interest expense/interest expense.
3. Operating capacity
   (1) Account receivable turnover (including accounts receivable and notes receivable resulted from business operation) = net sales / average balance of account receivable (including accounts receivable and notes receivable resulted from business operation).
   (2) Days sales in account receivable = 365 / account receivable turnover.
   (3) Inventory turnover = cost of goods sold / average inventory.
   (4) Account payable turnover (including accounts payable and notes payable resulted from business operation) = operating costs / average balance of account payable (including accounts payable and notes payable resulted from business operation).
   (5) Average days in sales = 365 / inventory turnover
   (6) Property, plant and equipment turnover = net sales / average net worth of property, plant and equipment.
   (7) Total assets turnover = net sales / average total assets.
4. Profitability
   (1) Ratio or return on total assets = [net income + interest expense × (1 tax rate)] / average total assets.
   (2) Return on equity = net income / average net equity.
   (3) Profit ratio = net income / net sales.
   (4) Earnings per share = (net income preferred stock dividend) / weighted average stock shares issued
5. Cash flow
   (1) Cash flow ratio = net cash flow from operating activity / current liabilities
   (2) Cash flow adequacy ratio = (net cash flow from operating activities within five year / (capital expenditure + inventory increase + cash dividend) within five year
   (3) Cash reinvestment ratio = (net cash flow from operating activity cash dividend) / (total fixed assets + long term investment + other non-current assets + working capital).
6. Leverage
   (1) Operation balance = (net operating income operating variable cost and expense) / operating income.
   (2) Financial balance = operating income / (operating income interest expense).

1. ii. Financial analysis individual

Item analyzed (note 3) \ Year (note 1)		Financial data of the last five years					Financial data of this year and up to 2019.03.31 (note 2)
		2014 (re-edited)	2015	2016	2017	2018	
Financial Structure (%)	Debt Ratio	34.45	26.36	30.67	33.95	44.17	41.21
	Ratio of Long-term Capital to Property, Plant and Equipment	200.60	204.18	225.15	205.88	225.28	232.49
Solvency (%)	Current Ratio	166.98	215.36	156.85	124.08	136.88	150.38
	Quick Ratio	63.93	115.87	60.04	47.29	44.63	52.94
	Interest coverage ratio	13.28	19.77	27.84	27.77	9.56	11.94
Operating Ability (%)	Receivables Turnover Ratio (times)	10.51	9.59	9.70	9.30	8.35	6.84
	Average Collection Days	34.72	38.06	37.62	39.24	43.71	53.36
	Inventory Turnover (times)	3.38	3.57	3.52	3.60	3.56	2.88

	Accounts Payable Turnover Ratio (times)	23.20	23.00	21.18	18.99	22.43	21.33
	Average Days in Sales	107.98	102.24	103.69	101.38	102.52	126.74
	Property, Plant, & Equipment (PPE) Turnover (times)	2.41	2.00	1.67	1.90	2.58	2.65
	Total Assets Turnover (times)	0.94	0.84	0.62	0.68	0.81	0.85
Profitability	Return on asset (%)	3.18	4.00	4.70	5.05	2.53	3.58
	Return on Equity (%)	4.58	5.51	6.39	7.23	3.71	5.71
	Ratio of income before tax to paid-in capital (%)	14.69	16.85	15.32	20.78	15.87	21.33
	Profit margin before tax (%)	13.18	14.38	16.90	19.77	12.22	17.64
	Earnings Per Share (NT$)	3.20	4.83	7.04	6.94	2.56	3.92
	Cash flow Ratio (%)	1.06	1.27	1.49	1.72	0.88	0.34
Cash Flow	Cash flow Adequacy Ratio (%)	46.28	128.44	41.26	13.55	(36.06)	59.80
	Cash flow Reinvestment Ratio (%)	92.25	172.40	193.83	161.71	54.51	78.83
	Operating Leverage	5.16	12.09	2.98	(0.37)	(12.15)	10.49
Leveraging	Financial Leverage	2.95	2.67	2.77	2.32	2.84	2.51
	Debt Ratio	1.08	1.04	1.04	1.03	1.10	1.08

Each items of financial ratio have changed by twenty percent (20 %) of last two years, reasons listed as follows:

1. Debt ratio increased to 44.17% mainly due to increase in total liabilities by NT$6,597,769 thousand over the previous year, an increase in 53.58%.
2. Interest coverage ratio decreased to 9.56 mainly due to decrease in pre-tax profit by approximately NT$758,417 thousand over the previous year, a decrease of 38.20%.
3. Property, plant, & equipment (PPE) turnover increased to 2.58 mainly due to increase in net sales by NT$9,987,446 thousand over the previous year, an increase of 40.43%.
4. Return on assets decreased to 2.53%, return on equity decreased to 3.71%, profit margin before tax decreased to 2.56% and EPS decreased to NT$0.88 mainly due to decrease in net income by approximately NT$826,999 thousand over the previous year, a decrease of 48.22%.
5. Ratio of income before tax to paid-in capital decreased to 15.87% and ratio of pre-tax profit to paid-in capital decreased to 12.22% mainly due to decrease in operating profit and pre-tax profit by NT$493,500 thousand and NT$758,417 thousand respectively over the previous year, a decrease of 23.65% and 38.20%.
6. Cash flow ratio decreased to -36.06% mainly due to increase in cash flow from operating activities by NT$5,718,488 thousand over the previous year, an increase of 507.13%, and increase of current liabilities by NT$4,409,859 thousand, an increase of 52.99%.
7. Cash flow adequacy ratio decreased to 54.51% mainly due to decrease in cash flow from operating activities in the last five years by NT$9,051,177 thousand, a decrease of 49.31%, and increase in inventory surplus in the last five years by NT$5,225,284 thousand, an increase of 377.17%.
8. Cash flow reinvestment ratio decreased to -12.15% mainly due to increase in cash outflow from operating activities by NT$5,718,488 thousand over the previous year, an increase of 507.13%, and increase in current assets by NT$7,101,957 thousand over the previous year, an increase of 68.77%.
9. Operating leverage increased to 2.84 mainly due to increase in net revenue by approximately NT$9,987,446 thousand over the previous year, an increase of 40.43%.

(Note 1): All of the financial statements listed above was verified by accountant.

(Note 2): The financial data for the first quarter of 2019 was not verified by accountant.

(Note 3): The formula of financial ratio is below:

1. Financial structure
   (1) Debt to assets ratio = total liabilities / total assets.
   (2) Ratio of long term funds to property, plant, and equipment (total equity + non-current liabilities) / net worth of property, plant and equipment.
2. Debt paying ability
   (1) Current ratio = current assets / current liabilities.
   (2) Quick ratio = (current assets inventory prepaid expenses) / current liabilities.
   (3) Times interest earned ratio=net income before tax and interest expense/interest expense.
3. Operating capacity
   (1) Account receivable turnover (including accounts receivable and notes receivable resulted from business operation) = net sales / average balance of account receivable (including accounts receivable and notes receivable resulted from business operation).
   (2) Days sales in account receivable = 365 / account receivable turnover.
   (3) Inventory turnover = cost of goods sold / average inventory.
   (4) Account payable turnover (including accounts payable and notes payable resulted from business operation) = operating costs / average balance of account payable (including accounts payable and notes payable resulted from business operation).
   (5) Average days in sales = 365 / inventory turnover
   (6) Property, plant and equipment turnover = net sales / average net worth of property, plant and equipment.
   (7) Total assets turnover = net sales / average total assets.
4. Profitability
   (1) Ratio or return on total assets = [net income + interest expense × (1 tax rate)] / average total assets.
   (2) Return on equity = net income / average net equity.
   (3) Profit ratio = net income / net sales.
   (4) Earnings per share = (net income preferred stock dividend) / weighted average stock shares issued
5. Cash flow
   (1) Cash flow ratio = net cash flow from operating activity / current liabilities
   (2) Cash flow adequacy ratio = (net cash flow from operating activities within five year / (capital expenditure + inventory increase + cash dividend) within five year
   (3) Cash reinvestment ratio = (net cash flow from operating activity cash dividend) / (total fixed assets + long term investment + other non-current assets + working capital).
6. Leverage
   (1) Operation balance = (net operating income operating variable cost and expense) / operating income.
   (2) Financial balance = operating income / (operating income interest expense).

3. Audit committee review report of the latest annual individual and consolidated financial report

Audit Committee Review Report

The Board of Directors prepares the 2018 Annual Business Report, Financial Statements (including individual and consolidated financial statements) and Earning Distribution Plan. The Financial Statements (including individual and consolidated financial statements) were audited by CPA Kou Huizhi and Guo Xinyi from KPMG Taiwan and issued an unqualified opinion for the audit report. The above mentioned Business Report, Financial Statements and Earning Distribution Plan were reviewed by the Audit Committee and considered that there was no discrepancy. The above mentioned reports are presented as required by Securities and Exchange Act 14-4 and Article 219 of the Company Act, for further inspection.

Best regards,
2019 General Meeting of Tung Ho Steel Enterprise Corp.

Tung Ho Steel Enterprise Corp.
Audit Committee
I-Chi Liu
De-Ming Liu
Chuang-Hsi Chang

March 26, 2019

4. Financial Statement of the last year: Please refer to P. 197 of the annual report.

5. Individual Financial Statement audited by the CPA in the last year: . Please refer to P. 331 of the annual report.

6. The impact of trouble in financial turnover occurring in the Company and its subsidiaries in the most recent year and the current year until the publication of the annual report on the financial status of the Company: None.

VII. Review analysis and risk evaluation on the financial status and financial performance of the Company and its subsidiaries

1. Financial status

(1) i. Financial status comparison and analysis table Consolidated

Unit: NT$ thousands

Item \ Year	2018	2017	Difference Amount	Difference %
Current assets	22,968,952	14,835,353	8,133,599	54.83
Long-term investment	2,032,027	2,964,616	(932,589)	(31.46)
Real properties, plants and devices	20,694,943	20,582,554	112,389	0.55
Intangible assets	186,738	190,187	(3,449)	(1.81)
Real properties for investment purpose	1,870,098	1,884,349	(14,251)	(0.76)
Other assets	805,735	840,333	(34,598)	(4.12)
Total assets	48,558,493	41,297,392	7,261,101	17.58
Current liabilities	17,489,725	13,268,068	4,221,657	31.82
Long-term liabilities	7,058,004	3,996,293	3,061,711	76.61
Other liabilities	0	0	0	0
Total liabilities	24,547,729	17,264,361	7,283,368	42.19
Capital stock	10,040,606	10,040,606	0	0.00
Capital reserve	6,592,236	6,320,178	272,058	4.30
Retained earnings	7,917,267	7,399,469	517,798	7.00
Other equity	(647,024)	192,188	(839,212)	(436.66)
Total equity attributable to the owner of parent company	23,903,085	23,952,441	(49,356)	(0.21)
Non-controlling equity	107,679	80,590	27,089	33.61
Total equity	24,010,764	24,033,031	(22,267)	(0.09)

Items with major change (change percent reaching 20% and the change amount reaching NT$10,000 thousand) are explained as below:

1.Current assets: It is increased by NT$8,133,599 thousand if compared with that in the previous year. The main reason is due to the inventories is increased by NT$7,277,347 thousand.

2.Long-term investment: It is reduced by NT$932,589 thousand if compared with that in the previous year. The main reason is due to the disposal of Taiwan High Speed Rail shares.

3.Current liabilities: It is increased by 4,221,657 thousand if compared with that in the previous year. The main reason is due to the short-term loan and short-term notes and bills payable is increased by 3,458,712 thousand and 895,274 thousand respectively.

4.Long-term liabilities: It is increased by NT$3,061,711 thousand if compared with that in the previous year. The main reason is due to the issuance of corporate bonds, resulting in the bonds payable increasing by NT$1,915,729 thousand and long-term loans increasing by NT$1,076,466 thousand.

5.Other equity: It is reduced by NT$839,212 thousand if compared with that in the previous year. The main reason is due to the disposal of Taiwan High Speed Rail shares, resulting in an adjustment of unrealized gain or loss on financial assets.

ii. Financial status comparison and analysis table Individual

Unit: NT$ thousands

Item \ Year	2018	2017	Difference	
			Amount	Amount
Current assets	17,428,675	10,326,718	7,101,957	68.77
Long-term investment	9,639,651	9,951,925	(312,274)	(3.14)
Real properties, plants and devices	13,352,838	13,572,371	(219,533)	(1.62)
Intangible assets	0	0	0	0
Real properties for investment purpose	1,870,098	1,884,349	(14,251)	(0.76)
Other assets	522,367	529,853	(7,486)	(1.41)
Total assets	42,813,629	36,265,216	6,548,413	18.06
Current liabilities	12,732,372	8,322,513	4,409,859	52.99
Long-term liabilities	6,178,172	3,990,262	2,187,910	54.83
Other liabilities	0	0	0	0
Total liabilities	18,910,544	12,312,775	6,597,769	53.58
Capital stock	10,040,606	10,040,606	0	0.00
Capital reserve	6,592,236	6,320,178	272,058	4.30
Retained earnings	7,917,267	7,399,469	517,798	7.00
Other equity	(647,024)	192,188	(839,212)	(436.66)
Total equity attributable to the owner of parent company	23,903,085	23,952,441	(49,356)	(0.21)

Items with major change (change percent reaching 20% and the change amount reaching NT$10,000 thousand) are explained as below:

1. Current assets: It is increased by NT$7,101,957 thousand if compared with that in the previous year. The main reason is due to the inventories is increased by NT$5,225,284 thousand.
2. Current liabilities: It is increased by 4,409,859 thousand if compared with that in the previous year. The main reason is due to the short-term loan and short-term notes and bills payable is increased by 3,356,518 thousand and 640,333 thousand respectively.
3. Long-term liabilities: It is increased by NT$2,187,910 thousand if compared with that in the previous year. The main reason is due to the issuance of corporate bonds, resulting in the bonds payable increasing by NT$1,915,729 thousand.
4. Other equity: It is reduced by NT$839,212 thousand if compared with that in the previous year. The main reason is due to the disposal of Taiwan High Speed Rail shares, resulting in an adjustment of unrealized gain or loss on financial assets.

2. Financial performance

(1) i. Operation results comparison and analysis table Consolidated

Unit: NT$ thousands

Item / Year	2018	2017	Increase/Decrease amount	Change percent (%)
Total operating income	40,022,923	32,010,925	8,011,998	25.03
Less: Sales return	1,962	13,310	(11,348)	(85.26)
Sales allowance	251,340	248,344	2,996	1.21
Net operating income	39,769,621	31,749,271	8,020,350	25.26
Operating cost	36,444,939	27,947,410	8,497,529	30.41
Gross operating profit	3,324,682	3,801,861	(477,179)	(12.55)
Operating expense	2,049,329	1,959,871	89,458	4.56
Net operating profit	1,275,353	1,841,990	(566,637)	(30.76)
Non-operating income and expenditure	(20,250)	157,093	(177,343)	(112.89)
Income from continuing operation before income tax	1,255,103	1,999,083	(743,980)	(37.22)
Less: Expense of income tax	366,164	298,349	67,815	22.73
Net profit of the current period	888,939	1,700,734	(811,795)	(47.73)
Other comprehensive profit/loss (After-tax net amount)	(115,685)	(54,171)	(61,514)	113.56
Total comprehensive profit/loss of the current period	773,254	1,646,563	(873,309)	(53.04)

Items with major change (change percent reaching 20% and the change amount reaching NT$10,000 thousand) are explained as below:

1. Net operating income: It is increased by NT$8,020,350 thousand if compared with that in the previous year. The main reason is due to the increase in unit price of products and products sold if compared with that in the previous year.
2. Operating cost: It is increased by NT$8,497,529 thousand if compared with that in the previous year. The main reason is due to the increase in operating income.
3. Non-operating income and expenditure: It is reduced by NT$177,343 thousand if compared with that in the previous year. The main reason is due to the increase in financial cost by NT$125,914 thousand and the decrease in share of profit of associates accounted for using equity method by NT$117,229 thousand.
4. Expense of income tax: It is increased by NT$67,815 thousand if compared with that in the previous year. The main reasons are due to the increase of income tax rate from 17% to 20% and the previous year being the last year in which the five-year tax-exemption applied.
5. Other comprehensive profit/loss (After-tax net amount): It is reduced by NT$61,514 thousand if compared with that in the previous year. The main reason is due to the decrease in exchange differences on translation of foreign financial statements by NT$304,961 thousand and the decrease of unrealized gain or loss on financial assets by NT$343,961 thousand.

ii. Operation results comparison and analysis table Individual

Unit: NT$ thousands

Item \ Year	2018	2017	Increase/Decrease amount	Change percent (%)
Total operating income	34,943,060	24,950,515	9,992,545	40.05
Less: Sales return	1,962	9,632	(7,670)	(79.63)
Sales allowance	248,816	236,047	12,769	5.41
Net operating income	34,692,282	24,704,836	9,987,446	40.43
Operating cost	31,507,397	21,305,170	10,202,227	47.89
Gross operating profit	3,184,885	3,399,666	(214,781)	(6.32)
Operating expense	43,741	35,941	7,800	21.70
Net operating profit	35,941	13,886	22,055	158.83
Non-operating income and expenditure	3,177,085	3,377,611	(200,526)	(5.94)
Income from continuing operation before income tax	1,583,758	1,290,784	292,974	22.70
Less: Expense of income tax	1,593,327	2,086,827	(493,500)	(23.65)
Net profit of the current period	(366,522)	(101,605)	(264,917)	260.73
Other comprehensive profit/loss (After-tax net amount)	1,226,805	1,985,222	(758,417)	(38.20)
Total comprehensive profit/loss of the current period	338,873	270,291	68,582	25.37
Total operating income	887,932	1,714,931	(826,999)	(48.22)
Less: Sales return	(125,063)	(58,167)	(66,896)	115.01
Sales allowance	762,869	1,656,764	(893,895)	(53.95)

Items with major change (change percent reaching 20% and the change amount reaching NT$10,000 thousand) are explained as below:

1. Net operating income: It is increased by NT$9,987,446 thousand if compared with that in the previous year. The main reason is due to the increase in unit price of products and products sold if compared with that in the previous year.
2. Operating cost: It is increased by NT$10,202,227 thousand if compared with that in the previous year. The main reason is due to the increase in operating income.
3. Operating expense: It is increased by NT$ 292,974 thousand if compared with that in the previous year. The main reason is due to the increase in marketing expense by NT$347,107 thousand.
4. Non-operating income and expenditure: It is reduced by NT$264,917 thousand if compared with that in the previous year. The main reason is due to the decrease in investment income or loss from investment accounted for using equity method by NT$353,916 thousand.
5. Expense of income tax: It is increased by NT$68,582 thousand if compared with that in the previous year. The main reasons are due to the increase of income tax rate from 17% to 20% and the previous year being the last year in which the five-year tax-exemption applied.
6. Other comprehensive profit/loss (After-tax net amount): It is reduced by NT$66,896 thousand if compared with that in the previous year. The main reason is due to the decrease in exchange differences on translation of foreign financial statements by NT$299,579 thousand and the decrease of unrealized gain or loss on financial assets by NT$343,961 thousand.

3. Cash flow

(1) i. Liquidity analysis of the last two years Consolidated

Item \ Year	2018	2017	Increase (Decrease) percent %
Cash flow ratio	(31.10)	(0.97)	3,106.18
Cash flow adequacy ratio	30.78	107.57	(71.38)
Cash re investment ratio	(13.14)	(2.98)	340.93

The items with the increase/decrease percent are explained as below:

1. Cash flow ratio is reduced to -31.10%. The main reasons are the increase in cash outflows from operating activities by approximately NT$5,310,467 thousand, a decrease of 4,131.50% if compared with that in the previous year, and the increase of current liabilities by NT$4,221,657, an increase of 31.82%.
2. Cash flow adequacy ratio is reduced to 30.78%. The main reasons are the decrease in cash flows from operating activities in the last five years by approximately NT$9,787,211, a decrease of approximately 56.66%, and the inventories in the last five years is increased by approximately NT$6,801,912 thousand, an increase of 252.20%.
3. Cash re-investment ratio is reduced to -13.14%. The main reasons are the increase in cash outflows from operating activities by approximately NT$5,310,467 thousand, an increase of 4,131.50% if compared with that in the previous year, and the increase of current assets by NT$8,133,599, an increase of 54.83%.

ii. Liquidity analysis of the next year Consolidated

Unit: NT$ thousands

Cash balance at the beginning of the period	Estimated cash flow from the business activities of the whole year	Estimated cash outflow of the whole year	Estimated cash surplus (deficit)	Remedial measures for estimated cash deficit	
				Investment plan	Financing plan
1,097,976	12,035,083	14,175,892	(1,042,833)	N/A	N/A

(1) Analysis on cash flow situation

a. Business activities: It is estimated that the 2019 operating income and earnings will be increased, so it is estimated that the net cash flow from the business activities would be NT$12,035,083 thousand.

b. Investment plan: It is mainly the estimated cash flow for purchasing real properties, plants and devices and increasing the investment based on equity method.

c. Financing plan: It is mainly the estimated cash flow for paying stock dividend and repaying short/long term loans and debts of the Company.

(2) Remedial measures for estimated cash deficit and liquidity analysis:

The Company is expected to increase bank borrowings to meet the demand for funds.

(2) i. Liquidity analysis of the last two years -Individual

Year / Item	2018	2017	Increase (Decrease) percent %
Cash flow ratio	(36.06)	13.55	(366.12)
Cash flow adequacy ratio	54.51	161.71	(66.29)
Cash re investment ratio	(12.15)	(0.37)	3,183.78

The items with the increase/decrease percent are explained as below:

1. Cash flow ratio is reduced to -36.06%. The main reasons are the increase in cash outflows from operating activities by approximately NT$5,718,488 thousand, a decrease of 507.13% if compared with that in the previous year, and the increase of current liabilities by NT$4,409,859, an increase of 52.99%.
2. Cash flow adequacy ratio is reduced to 54.51%. The main reasons are the decrease in cash flows from operating activities in the last five years by approximately NT$9,051,177, a decrease of approximately 49.31%, and the inventories in the last five years is increased by approximately NT$5,225,284 thousand, an increase of 377.17%.
3. Cash re-investment ratio is reduced to -12.15%. The main reasons are the increase in cash outflows from operating activities by approximately NT$5,718,488 thousand, an increase of 507.13% if compared with that in the previous year, and the increase of current assets by NT$7,101,957, an increase of 68.77%.

ii. Liquidity analysis of the next year –Individual

Unit: NT$ thousands

Cash balance at the beginning of the period	Estimated cash flow from the business activities of the whole year	Estimated cash outflow of the whole year	Estimated cash surplus (deficit)	Remedial measures for estimated cash deficit	
				Investment plan	Investment plan
329,264	5,352,044	5,250,527	430,781	N/A	N/A

(1) Analysis on cash flow situation

a.Business activities: It is estimated that the 2019 operating income and earnings will be increased, so it is estimated that the net cash flow from the business activities would be NT$5,352,044 thousand.

b.Investment plan: It is mainly the estimated cash flow for purchasing real properties, plants and devices and increasing the investment based on equity method.

c.Financing plan: It is mainly the estimated cash flow for paying stock dividend and repaying short/long term loans and debts of the Company.

(2) Remedial measures for estimated cash deficit and liquidity analysis: Not applicable

The Company is expected to increase bank borrowings to meet the demand for funds.

4. The impact of major capital expenditure in the last year on the financial business: None.

5. Re-investment policy, major reason for profit/loss of the last year, improvement plan and the investment plan of the next year:

(i) Re-investment policy of last year

The Company's re-investment policy is in line with the business needs and it manages the investment business at home and abroad as well as the layout of the upstream and downstream industries. The management of re-investment policy is based on the "Acquisition and Disposition of Asset Handling Procedures" and "Re-investment Management Rules" of the Company in order to understand the financial and business situations of the re-investment business and supervise its execution or handling that comply to the law in order to maximize its operating performance.

(ii) Main reasons for profit/loss, improvement plan and investment plan of the next year: None.

6. Risk items, and the related analysis and evaluation

(1) Impact of changes in interest rate, exchange rate and inflation rate on the company's consolidated profit or loss and future countermeasures

Unit: NT$ thousands; %

Item	2018	2017
Net operating income	39,769,621	31,749,271
Net interest income (expense)	(218,472)	(90,118)
Net exchange (loss) gain	(15,661)	(9,851)
Net interest income (expense) / Net operating income ratio	(0.55)	(0.28)
Net exchange (loss) gain / Net operating income ratio	(0.04)	(0.03)

(i) Changes in interest rates

The Company's interest rate risk arises from the liabilities of operating activities and financial investments. The Company's interest income and expenses are mainly affected by fluctuations of interest rates in Taiwan and the United States. The Company mainly uses operating cash income and occasionally issues long-term liabilities with fixed interest rates to meet its funding needs in order to reduce the interest rate risk. In terms of financial investment, the Company mainly invests in short-term fixed-income bonds with high liquidity and high ratings to protect the principal and maintain liquidity. However, this safe-haven operation can only reduce part of the risk and cannot eliminate all the financial impact caused by interest rate fluctuations.

(ii) Changes in exchange rate

Rebar and shape steel types products are the Company's main products. Most of the rebar sales customers are located in Taiwan and are denominated in New Taiwan Dollar; while the currency of the major export and import prices are paid in US Dollar. Therefore, any significant international exchange rate changes may adversely affect the financial position of the Company. The US Dollar exchange rate against the New Taiwan Dollar fluctuated more significantly in 2018 than in 2017. Therefore, the net exchange (loss) gain of the Company for the year 2018 was NT$(15,661) thousand which proportioned to the annual operating income and operating profit ratios of (0.04) % and (1.23) %, respectively. The impact of the exchange (loss) gain on the operations and profitability in 2018 should be limited. In addition, the Company has prepared specific measures for exchange rate changes that should effectively reduce the impact of exchange rate fluctuations on the Company

A. Gather information related to exchange rate changes on a daily basis to fully grasp the trend of exchange rates, determine timely conversion of the currency or retain foreign currency loans and consult with the foreign exchange department of the bank on the hedging strategy, the rate of foreign currency is depends on the actual capital needs and the level of exchange rate.

B. For the foreign exchange fund scheduling, the foreign currency claims and debts can generate a natural hedge effects through the regular goods export and import transactions.

C. Uses of hedging tools in a timely manner, such as trading foreign exchange options and forward foreign exchange, etc. to avoid the risk of exchange rate changes.

(iii) Inflation, deflation and overall market volatility

When the market suddenly changes its expectations of inflation and deflation, it often affects the global economy. It will reduce the market efficiency, interfere the investment decisions and adversely affect the general economy and the individual economy regardless it is high inflation or deflation. Recent political uncertainty or the implementation of negative interest rate policies in some of the world's main economies have exacerbated the market fluctuations that caused by the anticipated inflation or deflation. The market fluctuations caused by these economic changes may not have much impact on the Company, but it will indirectly affect the willingness of countries in the world to invest in national capital expenditures.

The inflation rate of Taiwan in 2018 (referred to the CGA's consumer price index) was about 1.35%. The Company does not believe that the inflation or deflation of the Republic of China has a significant impact or influence on the company's operating results for the year 2018. However, the Company cannot guarantee that future inflation or deflation will not change significantly in terms of its nature, degree or scope and may have a significant adverse effect on the operating results of the Company.

(2) Engaging high-risk and high-leverage investment, lending funds to others, policy of endorsement guarantee and derivative product transactions, main reason for profit/loss and future actions

i. The Company did not engage in high risk and high leverage financial operations in 2018 and 2019 until to the publication date of the annual report. The purchase of US dollar forward foreign exchange and options and engage in interest rate exchange operations is mainly to avoid the risks of exchange rate and interest rate fluctuations, stabilize the cost of goods sold and capital costs. There was no significant loss in derivative commodity engagement in the most recent year. In addition, the Company's policy for the trading of the derivative commodity engagement is based on the substantial safe haven demand and the relevant operations are conducted in accordance with the "Procedures for Processing Transactions of Derivative Commodities" of the Company.

ii. The involvement in capital lending and others of the Company are governed by the provisions of the "Financing and Others' Operations Procedures" of the Company and its subsidiaries. The Company did not have the funds to finance the loan or other activities in 2018 and 2019 until to the publication date of the annual report.

iii. In 2018 and 2019 until to the publication date of the annual report, the Company made endorsement for subsidiaries Tung Ho Steel Fujian Corp. Ltd. and Tung Ho Steel Vietnam Corp. Ltd.; the subsidiary Tung Yuan International Corp made endorsement for its subsidiaries Fujian Sino-Japan Metal and Best-steel Trade Corp. The above endorsements were subject to the related operations in accordance with the "Endorsement Assurance Operating Procedures" of the Company and its subsidiaries.

(3) Future R&D plans and estimated R&D expense to be invested

i. In terms of steelmaking: dynamic furnace control project for off gas detection, burner and carbon injection in the furnace, development of high definition cleanliness and high toughness steel blast, development project for low alloy ultra-high strength steel plate, development of high strength steel bars, development of high grade marine steel grades and development of ultra-high strength steel products.

ii. In terms of steel rolling: Industrial leading development of new techniques of low power direct rolling process that can improve the strength by more than 1.6 times to produce high strength shock resistant rebar, development of billet steel welding techniques and application of continuous rebar rolling of direct rolling technique, new technique development of multi dimension H beam with B value equal 300mm using the same ingot rolling, domestic leading development of angle column for hot rolled integrated U beam sheet pile, development of H beam UE (Universal Edger) using new rolling technology, development of angle steel and flat steel H/V (horizontal/vertical roll) co roller, research and development project for tandem reciprocating universal rolling mill round section rolling technology, new dimension development of ASTM standards I beam, development of steel material of various shapes. All of these developments lead to the product diversification in order to improve the technique competency and increase the revenue and profits of the Company.

iii. It has actively developing high strength and high value added rebar, steel plate and shape steel (BH, BOX, CROSS...).

iv. It plans to invest another NT$ 100 million as R&D expense.

(4) The impact of changes of key policies and laws home and abroad on the financial business and the corresponding actions:

The Company's operating team has been paying close attention to any policies and ordinances that may affect the Company's business and operations and has established the relevant risk management procedures. The changes in the major laws and regulations that related to the operation of the Company in 2017, 2018 and 2019 until to the publication date of the annual report were as follows,

1. In response to Article 70 of the Statute for Industrial Innovation stating the "where tax benefits granted to a company or enterprise in accordance with this Statute have been terminated or recovered in accordance with Paragraph 2, Article 48 of the Tax Collection Act, the Ministry of Finance shall publish the name of the company or enterprise in the year after the ruling on termination and recovery becomes final", the amendment to the Tax Collection Act was announced on November 20, 2018. The company has notified all relevant units to pay close attention to the negative effect this may have on the Company's reputation.
2. The amendment to the Income Tax Act announced on January 18, 2018, states that, in order to cope with the income tax reform, abandoning the integrated income tax system and imputation system and adopting the alternative system for dividend income taxation, effective January 1, 2018, profit-making businesses are no longer required to set up a shareholders' imputation credit account, hence the deletion of the clause regulating the setup of the imputation credit account. At the same time, starting for the effective date, any dividend or surplus an individual received from a profit-making business from its earning in 1998 and beyond, the taxation of the said dividend or surplus shall be subject to the new system. Therefore, the Company has complied with this amendment for dividend or surplus subject to the new system to adopt the prescribed format of the dividend certificate.
3. The amendment to the Securities and Exchange Act announced on April 17, 2019, states that, for the semi-annual financial reports duly audited and attested by a certified public accountant, the external audit mechanism shall be implemented and any issues shall be timely responded, saving the need to investigate the difficulties of relevant business verification in the future
4. The amendments to the Air Pollution Control Act announced on August 1, 2018 and the Water Pollution Control Act announced on June 13, 2018, state that, in order to prevent businesses from failing to perform pollution improvement or control by the deadline, and losing the purpose of giving such deadlines, the competent authority may specify the penalty for waste (sewage) water or air pollution discharged exceeding the emission concentration of the original or the deteriorating of such violation during the improvement period to urge the violators to complete the improvement as soon as possible. The relevant environmental safety units of the Company should proceed to formulate corresponding measures to ensure compliance with the law and to fulfill the corporate social responsibility.
5. The Employment Service Act, amended on June 19, 2018, prohibits employers from hiding low salary and other working terms that are unfavorable for recruitment when hiring for positions that have lower salary than NT$40,000, or only bringing it up during interviews to force new recruits to settle with the unfavorable terms in urgent need to find a job, damaging the rights of the job-seeker.

The Company has complied with this requirement and disclosed relevant information.

6. In the Criminal Law amended on May 29, 107, the updated perpetrators have begun to abandon, release, discharge or release the acts of poisons or other harmful substances in the air, soil, rivers or other water bodies, as objectively It is not enough to determine that the act has caused the object to be polluted, and it is still impossible to bring the perpetrator to justice. It is inevitable that the perpetrator will be guilty. The company should treat it with caution in the future and pay attention to both the offender and the attempted offender. Both have a clear written criminal responsibility.
7. The amendment to the Company Act announced on July 6, 2018, states that, in order to implement corporate social responsibility, assist in the establishment of the anti-money laundering system, and increase transparency among legal persons (companies), relevant information shall be registered regularly every year and the scope of authorization to the Board to determine distribution of earnings shall be adjusted. The Company has amended the Articles of Incorporation accordingly

Other than the above mentioned laws and regulations, changes in other related policies and statutes will not have a major impact on the Company's finances and operations.

(5) The impact of technological and industrial changes on the financial business and the corresponding actions:

In 2018 and 2019 until to the publication date of the annual report, the Company's operational development strategy has not only been continuously and actively committed to the improvement of technical capabilities and management efficiency, but also to the reduction of production costs, close cooperation with production and sales and integrated operations in order to increase the competitive advantage in the domestic market and actively develop the foreign new markets and new customers. In addition, the constant engagement in the research and development of new steel products and new applications that expand and stabilize the operating base.

The steel products market has always been deeply affected by the cyclical changes in the economy, and this market characteristic also has an impact on the steel products manufacturing service industry. Most of the Company's customers are affiliated with the public engineering industry, automotive industry, machinery manufacturing industry and electronic components and accessories industry. As a result, the Company's revenue and profitability are also affected by the fluctuations of the customer orders.

The steel products industry faces a major and continuing downturn and the overcapacity of China from time to time. The current and future business needs of the Company are derived from these industrial customers. The above-mentioned industrial downturn and overcapacity in the supply chain will lead to a decline in the overall steel manufacturing service industry and the Company’s business needs. If the Company cannot effectively offset the impact of the drop in demand through cost reduction or other measures, the revenue, profit and interest rate will be affected.

In response to the continuous changes in the steel products industry and its technology, the Company's competitive edge is to improve the precision machining processes continuously to create more advanced steel products. If the Company is unable to gain insight into the needs of technological upgrading and develop innovative business models quickly, or if the competitors encounter unpredictable and advanced technology, the Company may not be able to win orders on competitive terms. Although the company is committed to maintain its research and development advantages, however, if it cannot continue to lead in technology or business models, the Company's competitiveness will be weakened.

(6) The impact of changes of corporate image on the crisis management and the corresponding actions:

The Company insists on the operation principles of profession, quality and integrity and values corporate image and risk management. Currently, there is no predicted crisis.

(7) Expected benefits and possible risks of merger, and the corresponding actions:

In 2018 and 2019 until to the publication date of the annual report, the Company did not engage in any merger of other businesses. However, as the international steel market supply and demand and price changes will affect the Company's operations and profits, the Company will also pay close attention to the changes of the market supply and demand, adjust sales strategy and continue to increase the added value of products to reduce the risk that may arise.

(8) Expected benefits and possible risks of plant expansion and the corresponding actions:

In 2018 and 2019 until to the publication date of the annual report, the company did not engage in any expansion of plants. However, as the international steel market supply and demand and price changes will affect the Company's operations and profits, the Company will also pay close attention to the changes of the market supply and demand, adjust sales strategy and continue to increase the added value of products to reduce the risk that may arise.

(9) Risk assumed by concentrated purchases/sales and the corresponding actions:

1. The Company has thousands of customers in various parts of the country. The total net sales revenue of the top 10 customers of 2018 accounted for approximately 34.76 of the Company's net sales, of which the largest customers accounted for approximately 6.81, therefore, there is no concentrated sales.

2. In addition, the total net purchases of the top 10 purchasers of 2018 accounted for 44.90% of the Company's net purchases. Due to the procurement of the raw materials of the Company is based on the industrial characteristics, some of them are supplied by a single manufacturer, therefore, there is a risk that the supply will not be able to meet the demand without finding an alternative supply source in a timely manner. If the Company unable to obtain the required raw materials in a timely manner or the raw material price increase significantly and the increased costs cannot be passed on to the customers, the Company's revenue and profit will be declined. Therefore, the Company purchases raw materials from different suppliers or different regional suppliers as much as possible to ensure that the raw material supply is flawless and reduces the risk of centralized procurement.

(10) Impact and risk of major stock option transfer or change among the directors, supervisors or the shareholders with more than 10% shareholding and the corresponding actions:

The existing shareholders of the Company did not substantially sell the ordinary shares of the Company. In 2018 and 2019 until to the publication date of the annual report, there was no risk of any major stock option transfer or change that could affect normal operations among the Company's directors, supervisors or shareholders with more than 10% shareholding.

(11) Impact and risk of changes of management right on the Company and the corresponding actions:

In 2018 and 2019 until to the publication date of the annual report, there was no risk for the changes of management right.

(12) For the contentious or non contentious events, it shall list the directors, supervisors, general manager, substantial person in charge, and shareholders with more than 10% shareholding, as well as the major contentious and non contentious events or administrative litigation event related to the affiliates currently or in the past according to the judgment. For those that the result might show substantial influence on the shareholder's equity or price of securities, it shall disclose its fact, target amount, start date of litigation, major involved parties and handling situation until the date of using the annual report:

i. In 2018 and 2019 until to the publication date of the annual report, there were no major contentious events and there are no pending major contentious events.

ii. In 2018 and 2019 until to the publication date of the annual report, there were no major contentious events and there are no pending major contentious events among the directors, supervisors, general manager, substantial person in charge, shareholders with more than 10% shareholding and affiliates.

(13) Other risks and the corresponding actions: Assessment on information security

The assessment report on the Company’s information risk was as follows,

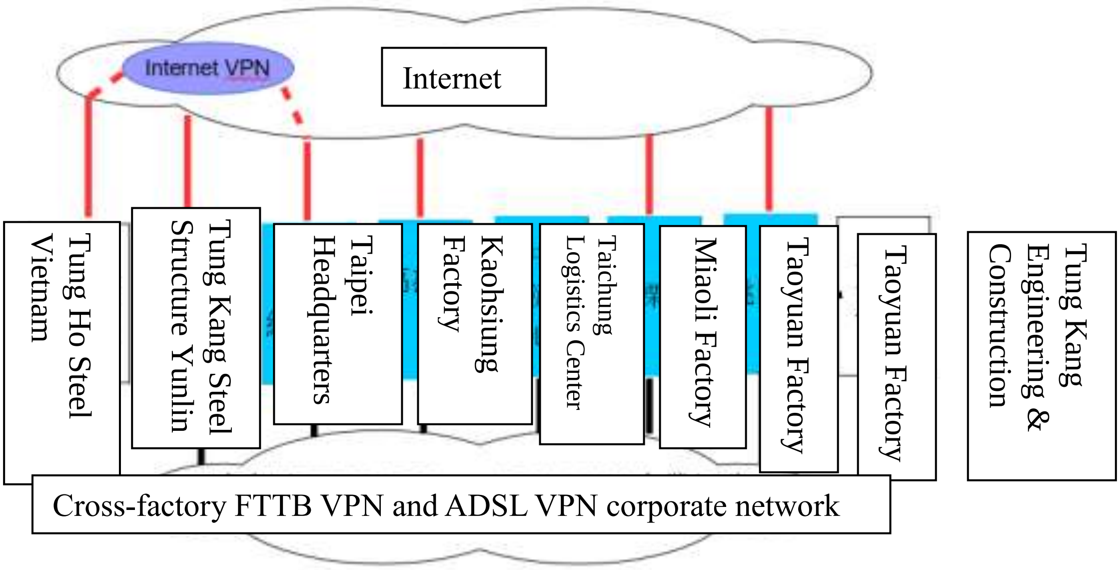
1. Purpose

The Company shall consider its objectives, conduct information security risk assessments, determine the security requirements of various information operations, and adopt appropriate and sufficient information security measures to ensure continuous operation and minimize operational losses.

2. Information environment

(1) Network structure

The Company leases Chunghwa Telecom's FTTB VPN line for all sites and Chunghwa Telecom's ADSL VPN line as backup. All company sites have direct access to the Internet.



(2) Information system

The Company’s information system is mainly consisted of two categories. The first category is a general-purpose system that supports the Company's information environment operations, such as e-mail system, anti-virus system, spam system, and file server. The second category is enterprise-specific application systems, such as general ledger system, HR system, business system, production management system, manufacturing system, etc. The support system operation server has a Windows server and an IBM AS400.

3. Information safety policies

The Company has established “Regulations for Information Safety Management” to regulate implementation of information safety. The information safety policies include,

(1) Ensure information security management meets legal and contractual requirements

(2) Maintain integrity and availability of data.

(3) Restrict access to confidential information

(4) Ensure that licensed users have access to files and resources.

(5) Prevent unauthorized use.

(6) Prevent accidents from damaging hardware, software, and other resources.

(7) Prevent intentional destruction hardware, software, and other resources.

(8) Prevent improper use of internet resources.

4. Information safety and risk analysis

Risk analyzation of information asset:

Asset	Risk incident		Existing control measures
	Weakness	Threat	
Server	System vulnerability	System being hacked	Regular fixing of system vulnerabilities
	Lack of system backup	Difficulty to restore system	System virtualization, and the establishment of the same data in different hosts
	Lack of system backup	Information damage	Double backup in hard disk and magnetic tape
	Failure to strictly manage accounts	Unauthorized use and loss of data	Adopt complicated password and change regularly
	Natural disaster	System damage	Set up backup system at a foreign location
Personal computer	System vulnerability	System being hacked	Install Windows update system (WSUS), support system safety updates.
	Computer virus	Computer being infected	Establish a centralized antivirus system to monitor virus events and exclusion.
Operating system	Unable to perform regular check on authorization	Unauthorized access to data	Regularly review user authorization every year
	Unable to perform strict test on program	Data error	Strict operating procedure for program modification

Employee	Lack of information safety knowledge	Computer being infected Account, data being stolen	Irregular promotion of information safety awareness

5. Impact of information system damage on the Company's business and countermeasures

The Company will gradually establish a high-availability remote backup and data backup mechanism for the information system according to its risk level to ensure uninterrupted service, and send backup media to a remote location for storage and storage, and strengthen the system backup response drill to ensure the normal operation of the information system. Operational and data preservation will reduce the risk of system disruption caused by unwarranted natural disasters and human error, ensuring that the expected system recovery target time is met.

After analyzing recent incidents of information security threats, we can learn that most of threats come from the external hacker attacks, followed by the internal staff's negligence and lack of security awareness. The incidents are caused by system vulnerabilities and users running unknown malwares. Therefore, the Company will pay more attention to the implementation of these tasks. Although information security has the last resort of defense backup response mechanism after the event, if it can be prevented beforehand, this will greatly reduce the loss of business caused by the security incident.

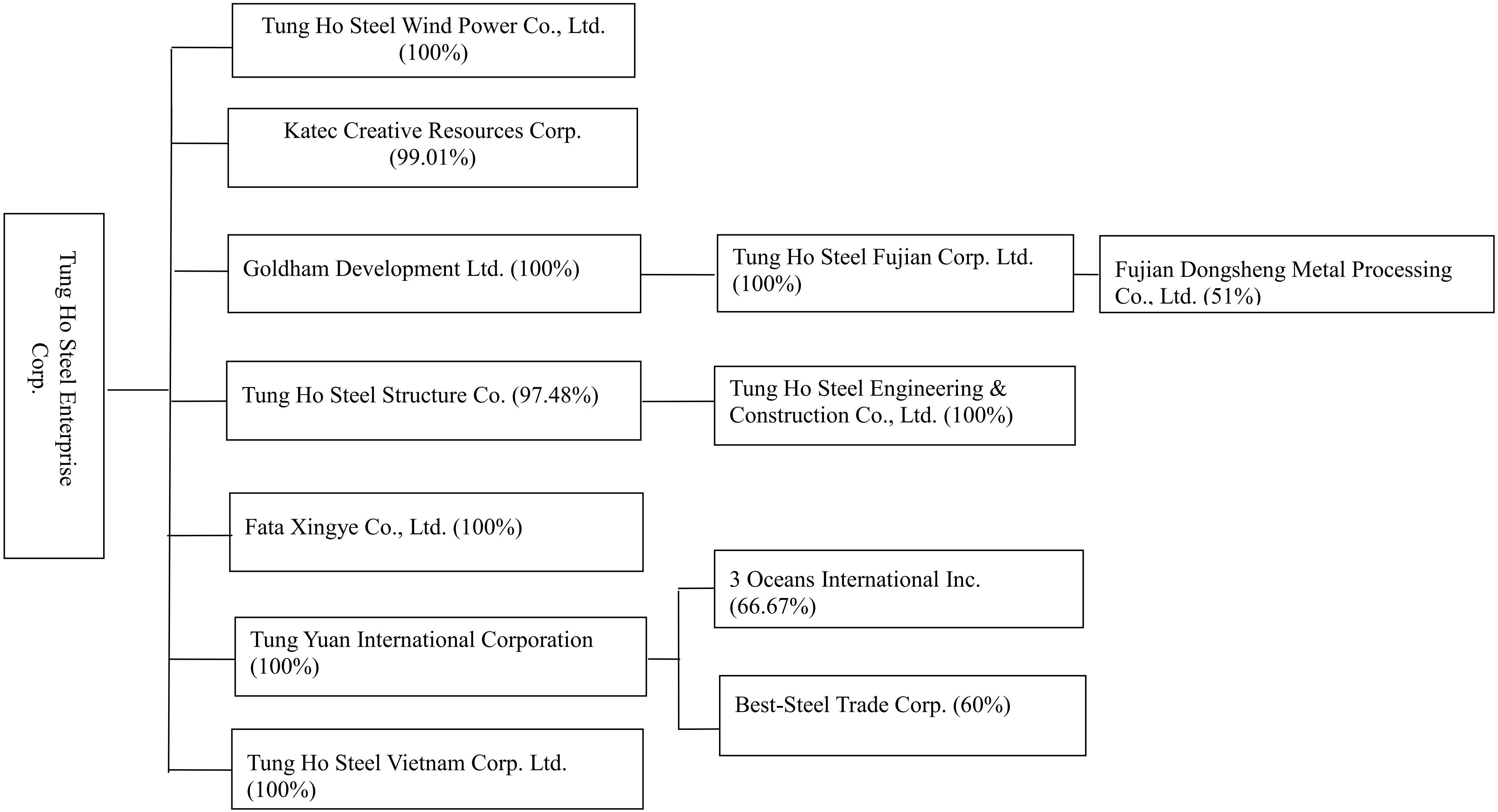
7. Other important matters: None.

VIII. Special Records

1. Data of affiliates

(1) Consolidated Business Report of affiliates

i. Organizational structure of affiliates


Tung Ho Steel Enterprise Corp.
Tung Ho Steel Wind Power Co., Ltd. (100%)
Katec Creative Resources Corp. (99.01%)
Goldham Development Ltd. (100%)
Tung Ho Steel Fujian Corp. Ltd. (100%)
Fujian Dongsheng Metal Processing Co., Ltd. (51%)
Tung Ho Steel Structure Co. (97.48%)
Tung Ho Steel Engineering & Construction Co., Ltd. (100%)
Fata Xingye Co., Ltd. (100%)
3 Oceans International Inc. (66.67%)
Tung Yuan International Corporation (100%)
Best-Steel Trade Corp. (60%)
Tung Ho Steel Vietnam Corp. Ltd. (100%)

ii. Basic information of affiliates

Unit: NT$ thousands

Name of enterprise	Date of establishment	Address	Address Paid-in capital	Main business items or production items
Tung Yuan International Corporation	1992.11	Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands.	2,519	Investment of various businesses home and abroad
3 Oceans International Inc.	2004.3	Pillar 9 House, Suite 5, Saleufi Street, Apia, Samoa.	84,787	Investment of various businesses home and abroad
Tung Kang Steel Structure Co., Ltd.	1993.07	6F, No. 9, Sec. 1, Chang'an E. Rd., Taipei City	2,026,626	Professional constructions
Tung Ho Steel Engineering & Construction Co., Ltd.	1991.09	9F, No. 9, Sec. 1, Chang'an E. Rd., Taipei City	250,000	General constructions
Fata Xingye Co., Ltd.	2015.03	No. 116, Caota, Neighborhood 8, Baojhang Village, Guanyin District, Taoyuan City	90,000	Waste resources recycle
Katec Creative Resources Corp.	1995.08	No. 231, Huanke Rd., Datan Village, Guanyin District, Taoyuan City	975,704	General waste disposal and treatment
Tung Ho Wind Power Co., Ltd.	2009.10	9F, No. 9, Sec. 1, Chang'an E. Rd., Taipei City	155,000	Power generation
Goldham Development Ltd	1997.11	1st Floor, Lake Building, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands.	460,800	Investment of various businesses home and abroad
Tung Ho Steel Fujian Corp. Ltd.	1998.01	No. 5, Yanxi Rd., Hong Kuan Industrial Village, Yangxia Township, Fuqing City, Fujian Province	460,800	Production of steel structure products and supplementary products, provision of the corresponding installation and supporting services
Tung Ho Steel Vietnam Corp. Ltd.	2007.04 (Note)	Phu My II Industrial Zone, Phu My Town, Tan Thanh District, Ba Ria Vungtau Province, Vietnam	5,016,935	Manufacture of steel

Best-Steel Trade Corp.	2017.07	3395 S. Jones Blvd.247, Las Vegas NV 89146, USA.	15,360	Trading
Fujian Tung Sheng Metal Processing Co., Ltd.	2018.08	Fujian Runtong Hardware Co., Ltd., Hongkuan 2nd Road, Fuqing City, Fujian Province	22,360	Manufacture and sales of metal structure

(Note): It is the original date of establishing Fuco Steel.

iii. The data of same shareholders of those with presumed controlling and affiliation relationship: None.

iv. Date of directors, supervisors and general manager of the affiliates

Name of enterprise	Job title	Name or representative	Shareholding	
			Shares	%
Tung Yuan International Corporation.	Director Director Director	Shuzhao Hou Wang Jieteng Hou Boxun Dong	82	100.00%
3 Oceans International Inc.	Director Director	Jieteng Hou Qixie Lin	1,840,000	66.67%
Tung Kang Steel Structure Co., Ltd.	Chairman Deputy Chairman Director Director Director General Manager	Shuzhao Hou Wang Tung Ho Steel Enterprise Corp., Representative: Kunren Gu Tung Ho Steel Enterprise Corp., Representative: Boxun Dong Tung Ho Steel Enterprise Corp., Representative: Jieteng Hou Tung Ho Steel Enterprise Corp., Representative: Binghua Huang Zhengbin Qiu	197,565,134	97.48%
Tung Ho Steel Engineering & Construction Co., Ltd.	Chairman Director Director Supervisor	Tung Kang Steel Structure Co., Ltd., Representative: Yongzhi Chen Tung Kang Steel Structure Co., Ltd., Representative: Jieteng Hou Tung Kang Steel Structure Co., Ltd., Representative: Kunren Gu Tung Kang Steel Structure Co., Ltd., Representative: Zhao Liu	25,000,000	100.00%
Fata Xingye Co., Ltd.	Chairman Director	Tung Ho Steel Enterprise Corp., Representative: Kunren Gu Tung Ho Steel Enterprise Corp., Representative: Jieteng Hou	9,000,000	100.00%

	Director	Tung Ho Steel Enterprise Corp., Representative: Yongzhi Chen		
	Supervisor	Tung Ho Steel Enterprise Corp., Representative: Xiuqi Chen		
Goldham Development Ltd.	Director	Shuzhao Hou Wang	15,000,000	100.00%
	Director	Jieteng Hou		
	Director	Boxun Dong		
Tung Ho Steel Fujian Corp. Ltd.	Chairman	Zhengbin Qiu	0	100.00%
	Supervisor	Kunren Gu		
	General Manager	Zhenhan Guo		
Katec Creative Resources Corp.	Chairman	Tung Ho Steel Enterprise Corp., Representative: Fujin Chen	95,724,402	99.01%
	Director	Tung Ho Steel Enterprise Corp., Representative: Jieteng Hou		
	Director	Tung Ho Steel Enterprise Corp., Representative: Qinglian Huang		
	Director	Tung Ho Steel Enterprise Corp., Representative: Changqing He		
	Director	Tung Ho Steel Enterprise Corp., Representative: Xiuqi Chen		
	Supervisor	Tung Ho Steel Enterprise Corp., Representative: Ruyu He		
Tung Ho Wind Power Co., Ltd.	Chairman	Tung Ho Steel Enterprise Corp., Representative: Jieteng Hou	15,500,000	100.00%
	Director	Tung Ho Steel Enterprise Corp., Representative: Shuzhao Hou Wang		
	Director	Tung Ho Steel Enterprise Corp., Representative: Xiuqi Chen		
	Supervisor	Tung Ho Steel Enterprise Corp., Representative: Ruyu He		

Tung Ho Steel Vietnam Corp. Ltd.	Chairman Director Director General Manager	Binghua Huang Jieteng Hou Qixie Lin Dexiu Chen	0	100.00%
Best-Steel Trade Corp.	Director Director	Tung Ho Steel Enterprise Corp., Representative: Jieteng Hou Tung Ho Steel Enterprise Corp., Representative: Binghua Huang	0	60.00%
Fujian Tung Sheng Metal Processing Co., Ltd.	Supervisor	Zhengbin Qiu	0	51.00%

v. Business overview of affiliates

Unit: NT$ thousands

Name of enterprise	Amount of capital	Total assets (Note 1)	Total liabilities (Note 1)	Net value (Note 1)	Operating income (Note 2)	Net operating profit(loss) (Note 2)	Net profit/loss of the current period (Note 2)	EPS
Tung Yuan International Corporation (note 3)	2,519	805,793	584	805,308	0	(120,080)	(120,080)	(1,464,386)
3 Oceans International Inc. (note 4)	84,787	40,006	154	39,852	0	(24,728)	(24,728)	(8.96)
Tung Kang Steel Structure Co., Ltd.	2,026,626	3,721,459	1,576,965	2,144,494	3,837,500	55,610	93,585	0.46
Tung Ho Steel Engineering & Construction Co., Ltd.	250,000	371,866	106,866	265,000	474,786	15,878	11,637	0.47

Fata Xingye Co., Ltd.	90,000	90,284	595	89,689	9,018	(128)	(69)	(0.01)
Goldham Development Ltd. (note 4)	460,800	462,798	0	462,798	0	(444)	(14,271)	(0.95)
Tung Ho Steel Fujian Corp. Ltd.	460,800	914,039	451,241	462,798	898,765	(444)	(14,271)	N/A
Katec Creative Resources Corp	975,704	779,098	32,851	746,247	291,343	(41,580)	(38,739)	(0.4)
Tung Ho Wind Power Co., Ltd	155,000	613,141	521,791	91,350	51,232	1,052	(16,879)	(1.09)
Tung Ho Steel Vietnam Corp. Ltd.	5,016,935	9,016,416	4,918,124	4,098,292	3,595,599	(351,967)	(461,484)	N/A
Best Steel Trade Corporation	15,360	983,158	946,140	37,018	1,633,340	25,076	25,076	N/A
Fujian Dongsheng Metal Processing Co., Ltd.	22,360	30,793	3,157	27,636	0	(3,748)	(3,740)	N/A

Note 1: NT$ to US$ exchange rate on December 31, 2018 was USD1:NTD30.72; NT$ to RMB exchange rate on the same day was CNY1:NTD4.472.
Note 2: NT$ to US$ average exchange rate in 2018 was USD1:NTD30.15; NT$ to US$ average exchange rate in the same year was CNY1:NTD4.56.
Note 3: Book value per share is US$ 1,000.
Note 4: Book value per share is US$1.

2. **Handling of private securities in the most recent year and the current year until the publication date of the annual report:** None.
3. **The Company's shares held or sold by the subsidiary in the most recent year and the current year until the publication date of the annual report:** None.
4. **Other supplementary notes:** None.

IX. Event occurring in the last year and until the date of issuing the annual report that shows material influence on the shareholder equity or price of securities according to subparagraph 3 2, Article 36 of Securities and Exchange Act: None.

TUNG HO STEEL ENTERPRISE CORPORATION
Individual Financial Statements
For the Years Ended December 31, 2018 and 1017
(With Independent Auditor's Audit Report)

For translation, please refer to P.1~P.76 of the English version of the Tung Ho Steel Enterprise Corporation individual financial statements and independent auditor's audit report

Independent Auditors' Report

To the Board of Directors of Tung Ho Steel Enterprise Corporation:

Opinion

We have audited the financial statements of Tung Ho Steel Enterprise Corporation ("the Company"), which comprise the balance sheets as of December 31, 2018 and 2017, and the statements of comprehensive income, the statements of changes in equity, and the statements of cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended, in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

We conducted our audit in accordance with the "Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants" and the 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 Financial Statements section of our report. We are independent of the Company in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained, is sufficient and appropriate to provide a basis of 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 parent company only financial statements as of and for the year ended December 31, 2018. These matters were addressed in the context of our audit of the parent company only financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. Revenue recognition

   Please refer to Note 4(o) "Revenue recognition" and Note 6(v) "Revenue from contracts with customers" in the parent company only financial statements.

   <u>Explanation of the key audit matter:</u>

   The Consolidated Company mainly manufactures and sells rebar and formed steel. Revenue recognition is one of the key areas for our audit, and is where on which the report users and receivers pay great concern on. As a result, the test on revenue recognition is one of the key judgmental areas in our audit.

Our principal audit procedures included:

- assessing whether appropriate revenue recognition policies were applied and whether sufficient information was disclosed;

- testing the manual or systems-based controls on its sales and collection cycle, perform reconciliations between the information from sales systems and the general ledger;

- reading the sales contracts with significant clients and testing the consistency of their accounting policy;

- performing year-to-year analysis on the revenue by product and the revenue from the ten customers with the largest sales volume to determine if there were any abnormalities;

- vouching internal and external information of sales in the selected period before and after the reporting date (the length of the period was determined based on the sales terms) to determine whether sales revenue were recorded in the appropriate period.

2. Valuation of inventories

Please refer to Note 4(g) "Inventories", and Note 6(h) "Inventories" in the parent company only financial statements.

Explanation of the key audit matter:

Due to the changes in the international trade environment and the impact of price fluctuations on the raw materials and finished products of the steel industry, the risk that the book value of the inventory to be higher than the net realizable value may arise. Therefore, the inventory is one of the key judgmental areas in our audit.

Our principal audit procedures included:

- assessing the rationality of accounting policies for inventory evaluation;

- assessing whether the evaluation of inventory has been in accordance with the established accounting policies;

- understanding the sales price used by management and the changes in market price of futures inventory to assess the rationality of the net realizable value of inventories;

- assessing whether the management’s disclosure of the inventory allowance is acceptable.

3. Investments accounted for using the equity method (construction contracts in subsidiaries)

Please refer to Note 4(i) "Investment in subsidiaries" and Note 6(i)" Investment accounted for using the equity method" of the parent company only financial statements.

Explanation of the key audit matter:

Contract accounting is considered to be an audit risk to the Company’s subsidiary as it requires a high degree of estimation and judgment of matters such as the costs of the work required to complete the contract, the stage of completion of the contract, as well as the recognition of onerous contract. Different judgments could lead to different outcomes, which may have an impact on the Company’s shares of gain or loss on investments accounted for using the equity method on its financial statements.

Our principal audit procedures included:

- reviewing significant contracts and discussing them with the management to obtain a full understanding of the specific terms and risks, to assess whether revenue was appropriately recognized;

- selecting a sample from the ongoing constructions to verify the costs between the estimation and the contracts, discussing with the management about the estimates for total contract costs and forecasted costs, including taking into account the historical accuracy of such estimates;

- selecting a sample from the completed constructions to assess the settlement of revenue by examination of external evidence;

- for warranty under the construction contracts provided to the clients by the subsidiaries, obtaining the estimated warranty costs, vouching internal and external data to assess the rationality of the estimates and whether there are any abnormalities in the provisions estimated by the management;

- assessing whether the loss recognized for onerous contracts appropriately reflect the expected contractual position.

Responsibilities of Management and Those Charged with Governance for the Parent Company Only Financial Statements

Management is responsible for the preparation and fair presentation of the parent company only 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 a parent company only financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the parent company only financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance (including the audit committee) are responsible for the oversight the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Parent Company Only Financial Statements

Our objectives are to obtain reasonable assurance about whether the parent company only 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 parent company only financial statements.

As part of an audit in accordance with 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 parent company only 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 Company'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 Company'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 parent company only 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 Company to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the parent company only 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 the investment accounted for using the equity method to express an opinion on the parent company only financial statements. We are responsible for the direction, supervision and performance of the 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 parent company only financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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 Ko, Hui Chih and Kuo, Hsin Yi.

KPMG

Taipei, Taiwan (Republic of China)
March 26, 2019

Notes to Readers

The accompanying parent company only financial statements are intended only to present the Company's financial position, financial performance and cash flows in accordance with the 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 parent company only financial statements are those generally accepted and applied in the Republic of China.

The independent auditors' report and the accompanying parent company only financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese auditors' reports and parent company only financial statements, the Chinese version shall prevail.

(English Translation of Parent Company Only Financial Statements Originally Issued in Chinese)

TUNG HO STEEL ENTERPRISE CORPORATION

Balance Sheets

December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

		December 31, 2018		December 31, 2017	
	Assets	**Amount**	**%**	**Amount**	**%**
	Current assets:				
1100	Cash and cash equivalents (Note 6(a))	$ 329,264	1	508,003	1
1110	Current financial assets at fair value through profit or loss (Note 6(b))	134,560	-	186,360	1
1150	Notes receivable, net (Notes 6(f) and 7)	139,048	-	69,613	-
1170	Accounts receivable, net (including related parties) (Notes 6(f) and 7)	4,909,108	12	3,124,941	9
1200	Other receivables, net (including related parties) (Notes 6(g) and 7)	72,190	-	46,458	-
1310	Inventories, net (Note 6(h))	11,463,995	27	6,238,711	17
1410	Prepayments	282,616	1	152,468	-
1470	Other current assets	97,894	-	164	-
	Total current assets	17,428,675	41	10,326,718	28
	Non-current assets:				
1517	Non-current financial assets at fair value through other comprehensive income(note 6(c))	557,915	1	-	-
1523	Non-current available-for-sale financial assets, net (Note 6(d))	-	-	1,364,071	4
1543	Non-current financial assets at cost, net(Note 6(e))	-	-	211,224	1
1550	Investments accounted for using the equity method, net (Notes 6(i) and 7)	9,081,736	21	8,376,630	23
1600	Property, plant and equipment (Notes 6(j) and 7)	13,352,838	31	13,572,371	38
1760	Investment property, net (Notes 6(j) and (k))	1,870,098	5	1,884,349	5
1840	Deferred tax assets (Note 6(s))	138,771	-	112,431	-
1990	Other non-current assets	135,860	-	89,960	-
1915	Prepayments for equipment	62,508	-	142,791	-
1920	Refundable deposits (Note 8)	185,228	1	184,671	1
	Total non-current assets	25,384,954	59	25,938,498	72
	Total assets	$ 42,813,629	100	36,265,216	100

		December 31, 2018		December 31, 2017	
	Liabilities and Equity	**Amount**	**%**	**Amount**	**%**
	Current liabilities:				
2100	Short-term borrowings (Note 6(l))	$ 8,288,087	19	4,931,569	14
2111	Short-term notes and bills payable (Note 6(m))	1,109,567	3	469,234	1
2120	Current financial liabilities at fair value through profit or loss (Note 6(b))	1,745	-	5,238	-
2150	Notes payable (including related parties) (Note 7)	160,777	-	102,314	-
2170	Accounts payable (including related parties) (Note 7)	1,412,820	3	1,133,308	3
2200	Other payables (including related parties) (Notes 6(q) and 7)	1,245,168	3	1,196,341	3
2230	Current tax liabilities	185,198	1	183,248	1
2310	Advance receipts	-	-	301,261	1
2130	Current contract liabilities (Note 6(v))	329,010	1	-	-
	Total current liabilities	12,732,372	30	8,322,513	23
	Non-Current liabilities:				
2500	Non-current financial liabilities at fair value through profit or loss (Notes 6(b) and (m))	31,200	-	-	-
2530	Bonds payable(Note 6(o))	1,915,729	4	-	-
2540	Long-term borrowings (Note 6(n))	3,200,000	8	3,000,000	8
2570	Deferred tax liabilities (Note 6(s))	174,355	-	170,124	1
2640	Defined benefit liability, non-current (Note 6(r))	846,223	2	797,919	2
2645	Guarantee deposits received (Note 7)	10,665	-	22,219	-
	Total non-current liabilities	6,178,172	14	3,990,262	11
	Total liabilities	18,910,544	44	12,312,775	34
	Equity (Notes 6(t))				
3100	Capital stock	10,040,606	24	10,040,606	28
3200	Capital surplus	6,592,236	15	6,320,178	17
	Retained earnings:				
3310	Legal reserve	3,530,282	8	3,358,789	9
3320	Special reserve	149,309	-	149,309	-
3350	Unappropriated retained earnings	4,237,676	10	3,891,371	11
	Total retained earnings	7,917,267	18	7,399,469	20
3400	Other equity interest	(647,024)	(1)	192,188	1
	Total equity	23,903,085	56	23,952,441	66
	Total liabilities and equity	$ 42,813,629	100	36,265,216	100

See accompanying notes to the parent company only financial statements.

(English Translation of Parent Company Only Financial Statements Originally Issued in Chinese)

TUNG HO STEEL ENTERPRISE CORPORATION

Statements of Comprehensive Income

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars , Except for Earnings Per Share)

		For the years ended December 31,			
		2018		2017	
		Amount	%	Amount	%
4000	**Operating revenue (Notes 6(v) and 7)**	$ 34,692,282	100	24,704,836	100
5000	**Operating costs (Notes 6(h)(r) and 7))**	31,507,397	91	21,305,170	86
5900	**Gross profit from operations**	3,184,885	9	3,399,666	14
5910	Less: Unrealized profit (loss) from sales (Note 7)	43,741	-	35,941	-
5920	Add: Realized profit (loss) from sales (Note 7)	35,941	-	13,886	-
5950	**Gross profit, net**	3,177,085	9	3,377,611	14
6000	**Operating expenses:**				
6100	Selling expenses (Notes 6(r)(x) and 7)	896,276	3	549,169	2
6200	Administrative expenses (Notes 6(r)(x) and 7)	687,482	2	741,615	4
6500	**Total operating expenses**	1,583,758	5	1,290,784	6
6900	**Operating income**	1,593,327	4	2,086,827	8
7000	**Non-operating income and expenses:**				
7010	Other income (Notes 6(p)(y) and 7)	113,549	-	102,623	-
7020	Other gains and losses, net (Notes 6(d)(e)(y) and 7)	96,704	-	(56,536)	-
7050	Finance costs, net (Notes 6(o) and (y))	(140,441)	-	(65,274)	-
7060	Share of (loss) profit of subsidiaries and associates accounted for using the equity method, net (Notes 6(g))	(436,334)	(1)	(82,418)	-
	Total non-operating income and expenses	(366,522)	(1)	(101,605)	-
7900	**Income before income tax**	1,226,805	3	1,985,222	8
7950	Less: Income tax expense (Notes 6(s))	338,873	1	270,291	1
	Net income	887,932	2	1,714,931	7
8300	**Other comprehensive income:**				
8310	**Items that will not be reclassified subsequently to profit or loss**				
8311	Remeasurements of defined benefit plans	(72,344)	-	(63,435)	-
8316	Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income	14,626	-	-	-
8330	Share of other comprehensive income (loss) of subsidiaries and associates accounted for using the equity method, items that will not be reclassified to profit or loss	(3,328)	-	260	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	22,002	-	10,784	-
	Components of other comprehensive income that will not be reclassified to profit or loss	(39,044)	-	(52,391)	-
8360	**Items that may be reclassified subsequently to profit or loss**				
8361	Exchange differences on translation of foreign operations	(83,894)	-	(383,473)	(1)
8362	Unrealized gains (losses) on valuation of available-for-sale financial assets	-	-	358,587	1
8363	Gains (losses) on effective portion of cash flow hedges	-	-	17,385	-
8380	Share of other comprehensive income (loss) of subsidiaries and associates accounted for using the equity method, items that may be reclassified to profit or loss	(2,125)	-	1,725	-
8399	Income tax related to components of other comprehensive income that may be reclassified to profit or loss	-	-	-	-
	Components of other comprehensive income that may be reclassified to profit or loss	(86,019)	-	(5,776)	-
8300	**Other comprehensive income for the period**	(125,063)	-	(58,167)	-
8500	**Total comprehensive income for the period**	$ 762,869	2	1,656,764	7
9750	**Basic earnings per share (in dollars) (Note 6(u))**	$	0.88		1.72
9850	**Diluted earnings per share(in dollars) (Note 6(u))**	$	0.87		1.71

See accompanying notes to the parent company only financial statements.

(English Translation of Parent Company Only Financial Statements Originally Issued in Chinese)

TUNG HO STEEL ENTERPRISE CORPORATION

Statements of Changes in Equity

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	Capital stock				Retained earnings				Total other equity interest					
	Ordinary shares	Certificate of entitlement to new shares from convertible bond	Total capital stock	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Total retained earnings	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Unrealized gains (losses) on available-for-sale financial assets	Gains (losses) on effective portion of cash flow hedges	Total other equity interest	Total equity
Balance as of January 1, 2017	$ 9,982,215	-	9,982,215	6,247,267	3,210,321	149,309	3,674,987	7,034,617	(197,581)	-	412,930	(17,385)	197,964	23,462,063
Net income for the period	-	-	-	-	-	-	1,714,931	1,714,931	-	-	-	-	-	1,714,931
Other comprehensive income for the period	-	-	-	-	-	-	(52,391)	(52,391)	(383,473)	-	360,312	17,385	(5,776)	(58,167)
Total comprehensive income for the period	-	-	-	-	-	-	1,662,540	1,662,540	(383,473)	-	360,312	17,385	(5,776)	1,656,764
Appropriation and distribution of retained earnings:														
Legal reserve appropriated	-	-	-	-	148,468	-	(148,468)	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	-	-	(1,297,688)	(1,297,688)	-	-	-	-	-	(1,297,688)
Conversion of convertible bonds	20,026	38,365	58,391	72,911	-	-	-	-	-	-	-	-	-	131,302
Balance at December 31, 2017	10,002,241	38,365	10,040,606	6,320,178	3,358,789	149,309	3,891,371	7,399,469	(581,054)	-	773,242	-	192,188	23,952,441
Effects of retrospective application	-	-	-	-	-	-	655,429	655,429	-	101,745	(773,242)	-	(671,497)	(16,068)
Equity as of January 1, 2018 after adjustments	10,002,241	38,365	10,040,606	6,320,178	3,358,789	149,309	4,546,800	8,054,898	(581,054)	101,745	-	-	(479,309)	23,936,373
Net income for the period	-	-	-	-	-	-	887,932	887,932	-	-	-	-	-	887,932
Other comprehensive income for the period	-	-	-	-	-	-	(50,942)	(50,942)	(83,894)	9,773	-	-	(74,121)	(125,063)
Total comprehensive income for the period	-	-	-	-	-	-	836,990	836,990	(83,894)	9,773	-	-	(74,121)	762,869
Appropriation and distribution of retained earnings:														
Legal reserve appropriated	-	-	-	-	171,493	-	(171,493)	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	-	-	(1,405,685)	(1,405,685)	-	-	-	-	-	(1,405,685)
Other changes in capital surplus:														
Due to recognition of equity component of convertible bonds issued	-	-	-	81,973	-	-	-	-	-	-	-	-	-	81,973
Changes in equity of associates accounted for using the equity method	-	-	-	190,085	-	-	-	-	-	-	-	-	-	190,085
Conversion of convertible bonds	38,365	(38,365)	-	-	-	-	-	-	-	-	-	-	-	-
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	-	-	431,064	431,064	-	(93,594)	-	-	(93,594)	337,470
Balance as of December 31, 2018	**$ 10,040,606**	**-**	**10,040,606**	**6,592,236**	**3,530,282**	**149,309**	**4,237,676**	**7,917,267**	**(664,948)**	**17,924**	**-**	**-**	**(647,024)**	**23,903,085**

See accompanying notes to the parent company only financial statements.

(English Translation of Parent Company Only Financial Statements Originally Issued in Chinese)

TUNG HO STEEL ENTERPRISE CORPORATION

Statements of Cash Flows

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	2018	2017
Cash flows from (used in) operating activities:		
Income before income tax	$ 1,226,805	1,985,222
Adjustments:		
Adjustments to reconcile profit or loss:		
Depreciation expense	949,527	846,175
Amortization expense	25,474	7,084
Expected credit loss (gain)	-	846
Net gain on financial assets / liabilities at fair value through profit or loss	65,022	-
Interest expense	140,441	65,274
Interest income	(860)	(2,511)
Dividend income	(59,935)	(51,425)
Share of loss of associates accounted for using the equity method	436,334	82,418
(Gain) loss on disposal of property, plant and equipment	(1,409)	33,195
Gain on disposal of investment properties	(3,133)	-
Gain on disposal of investments	-	(2,491)
Unrealized profit from sales	43,741	35,941
Realized profit from sales	(35,941)	(13,886)
Unrealized foreign currency exchange (gain) loss	(19,809)	8,450
Total adjustments to reconcile profit or loss	1,539,452	1,009,070
Changes in operating assets and liabilities:		
Decrease in financial assets held for trading	-	233
(Increase) Decrease in notes receivable	(69,435)	74,243
Increase in accounts receivable	(292,230)	(852,137)
Increase in accounts receivable from related parties	(1,491,937)	(361,873)
Increase in other receivable	(26,931)	(17,637)
Decrease in other receivable from related parties	-	1,129
Increase in inventories	(5,225,284)	(629,649)
Increase in prepayments	(130,148)	(4,530)
(Increase) decrease in other current assets	(97,730)	29,768
Increase in other operating assets	(71,173)	-
Total changes in operating assets	(7,404,868)	(1,760,453)
Increase in financial liabilities designated as at fair value through profit or loss	-	5,238
Increase in contract liabilities	27,749	-
Increase in notes payable	58,528	21,065
Decrease in notes payable to related parties	(65)	(206)
Increase in accounts payable	290,582	192,331
(Decrease) increase in accounts payable to related parties	(11,070)	13,638
Decrease in other payables	(36,806)	(234,690)
Increase in receipts in advance	-	34,792
Decrease in net defined benefit liability	(24,040)	(8,139)
Total changes in operating liabilities	304,878	24,029
Net changes in operating assets and liabilities	(7,099,990)	(1,736,424)
Total adjustments	(5,560,538)	(727,354)
Cash (outflow) inflow generated from operations	(4,333,733)	1,257,868
Interest received	860	3,243
Dividends received	197,060	136,957
Interest paid	(119,227)	(63,933)
Income taxes paid	(335,833)	(206,520)
Net cash flows from (used in) operating activities	(4,590,873)	1,127,615
Cash flows from (used in) investing activities:		
Acquisition of financial assets at fair value through other comprehensive income	(3,628)	-
Proceeds from disposal of financial assets at fair value through other comprehensive income	1,358,531	-
Proceeds from capital reduction of financial assets at fair value through other comprehensive income	1,408	-
Proceeds from liquidation of financial assets at fair value through other comprehensive income	667	-
Acquisition of financial assets at cost	-	(3,996)
Proceeds from disposal of financial assets at cost	-	4,743
Proceeds from capital reduction of financial assets at cost	-	2,917
Acquisition of investments accounted for using equity method	(1,199,197)	(1,069,263)
Proceeds from capital reduction of investments accounted for using equity method	10,000	-
Acquisition of property, plant and equipment	(543,190)	(1,082,827)
Proceeds from disposal of property, plant and equipment	5,326	1,200
Decrease (Increase) in refundable deposits	(557)	(102,471)
Acquisition of investment properties	(26,948)	(136,065)
Proceeds from disposal of investment properties	40,788	-
(Increase) decrease in other non-current assets	-	(6,127)
Increase in prepayments for equipment and land	(30,154)	(112,994)
Net cash flows used in investing activities	(386,954)	(2,504,883)
Cash flows from (used in) financing activities:		
Increase in short-term borrowings	3,356,518	2,211,887
Increase in short-term notes and bills payable	640,000	220,000
Proceeds from issuing bonds	2,000,000	-
Repayments of bonds	-	(1,100)
Proceeds from long-term borrowings	200,000	(500,000)
(Decrease) Increase in guarantee deposits received	(11,554)	410
Cash dividends paid	(1,405,685)	(1,297,688)
Net cash flows from financing activities	4,779,279	633,509
Effect of exchange rate changes on cash and cash equivalents	19,809	(13,326)
Net decrease in cash and cash equivalents	(178,739)	(757,085)
Cash and cash equivalents at beginning of period	508,003	1,265,088
Cash and cash equivalents at end of period	$ 329,264	508,003

See accompanying notes to the parent company only financial statements.

(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

(1) Company history

Tung Ho Steel Enterprise Corporation (the "Company") was incorporated in May, 1962, as a company limited by shares and registered under the Ministry of Economic Affairs, R.O.C The address of the Company's registered office is 6F., No. 9, Sec. 1, Chang An E. Rd., Taipei City, Taiwan (R.O.C.). The Company is primarily involved in manufacturing and selling steel bars, steel sections, and steel plates.

(2) Approval date and procedures of the financial statements

The parent company only financial statements as of and for the years ended December 31, 2018 and 2017 were approved and authorized for issuance by the Board of Directors on March 26, 2019.

(3) New standards, amendments and interpretations adopted

(a) The impact of the International Financial Reporting Standards ("IFRSs") endorsed by the Financial Supervisory Commission, R.O.C. ("FSC") which have already been adopted

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2018.

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendment to IFRS 2 "Clarifications of Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendment to IAS 7 "Statement of Cash Flows–Disclosure Initiative"	January 1, 2017
Amendment to IAS 12 "Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of Investment Property"	January 1, 2018
Annual Improvements to IFRS Standards 2014-2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

(Continued)

Except for the following items, the Company believes that the adoption of the above IFRSs would not have any material impact on its financial statements. The extent and impact of signification changes are as follows:

(i) IFRS 15 "Revenue from Contracts with Customers"

The standard replaces IAS 18 "Revenue", IAS 11 "Construction Contracts", and related interpretations, using a single analysis model to determine how, when, and how much an entity recognizes its revenue in five steps. The Consolidated Company adopts the cumulative effect method, and therefore is not required to restate its financial statements for comparative reporting periods. IAS 18, IAS 11, and related interpretations are still applied in prior periods. The impact of the cumulative effects are adjusted to the unappropriated retained earnings as of January 1, 2018.

The Consolidated Company uses the practical expedients for completed contracts, which means it need not restate those contracts that have been completed on January 1, 2018.

The following are the nature and impacts on changing of accounting policies:

1) Sales of goods

Under IAS 18, the revenue for the sale of goods was recognized at the shipping point for exports, with the risks and rewards of ownership transferred upon loading the goods onto the carrier at the port. The revenue for domestic sales was recognized when the goods were delivered to the customers' premises, which was taken to be the point at which the customer accepts the goods and the related risks and rewards of ownership transfer. Revenue was recognized at this point provided that the revenue and costs could be measured reliably, the recovery of the consideration was probable, and there was no continuing management involvement with the goods. Under IFRS 15, revenue is recognized when a customer obtains control of the goods.

2) Impacts on financial statements

The following tables summarize the impacts of the adoption of IFRS 15 on the Company's financial statements:

	December 31, 2018			January 1, 2018		
Impacted line items on the balance sheet	**Balances prior to the adoption of IFRS 15**	**Impact of changes in accounting policies**	**Balance upon adoption of IFRS 15**	**Balances prior to the adoption of IFRS 15**	**Impact of changes in accounting policies**	**Balance upon adoption of IFRS 15**
Impact on assets		$ -			-	
Advance receipts	$ 329,010	(329,010)	-	301,261	(301,261)	-
Current contract liabilities	-	329,010	329,010	-	301,261	301,261
Impact on liabilities		$ -			-	

	For the year ended December 31, 2018		
Impacted line items on the statement of cash flows	**Amounts prior to the adoption of IFRS 15**	**Impact of changes in accounting polices**	**Amounts with the adoption of IFRS 15**

(Continued)

Cash flows from (used in) operating activities:			
Adjustments:			
Increase in contract liabilities	$ -	27,749	27,749
Increase (Decrease) in advance receipts	27,749	(27,749)	-
Impact on cash flows from operations		-	
Impact on net cash flows from operating activities		$ -	

(ii) IFRS 9 "Financial Instruments"

IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement" which contains classification and measurement of financial instruments, impairment and hedge accounting.

As a result of the adoption of IFRS 9, the Company adopted the consequential amendments to IAS 1 "Presentation of Financial Statements" which requires impairment of financial assets to be presented in a separate line item in the statement of comprehensive income. Previously, the Company's approach was to include the impairment of receivables in administrative expenses. Additionally, the Company adopted the amended IFRS 7 "Financial Instruments: Disclosures" to disclose about the financial information of FY2018 but generally not to comparative information.

The details of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below:

1) Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI), and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables, and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. For an explanation of how the Company classifies and measures financial assets and accounts for related gains and losses under IFRS 9, please see note 4(f).

The adoption of IFRS 9 did not result in any significant impact on its accounting policies on financial liabilities.

2) Impairment of financial assets

IFRS 9 replaces the incurred loss model in IAS 39 with the expected credit loss (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to equity instruments. Under IFRS 9, credit losses are recognized earlier than they are under IAS 39; please see note 4(f).

3) Transition

(Continued)

The adoption of IFRS 9 have been applied retrospectively, except as described below,

- Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and other equity as of January 1, 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

- The following assessments have been made on the basis of the facts and circumstances that existed as of the date of initial application.

  －The determination of the business model under which a financial asset is held.

  －The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

  －The designation of certain investments in equity instruments not held for trading as at FVOCI.

- If an investment in a debt security had low credit risk at the date of initial application of IFRS 9, then the Company assumed that the credit risk on its asset will not increase significantly since its initial recognition.

4) Classification of financial assets as of the date of initial application of IFRS 9

The following table shows the original measurement categories and carrying amounts under IAS 39 and the new measurement categories and carrying amounts under IFRS 9 for each class of the Company's financial assets as of January 1, 2018.

	IAS 39		IFRS 9	
	Measurement categories	**Carrying Amount**	**Measurement categories**	**Carrying Amount**
Financial assets				
Cash and equivalents	Loans and receivables	508,003	Amortized cost	508,003
Equity instruments	Held-for-trading	186,360	Mandatorily at FVTPL	186,360
Equity instruments	Available-for-sale (note 1)	1,575,295	FVOCI	1,562,796
Trade and other receivables	Loans and receivables (note 2)	3,194,554	Amortized cost	3,194,554
Other financial assets (including guarantee deposits)	Loans and receivables	184,671	Amortized cost	184,671

Note 1: These equity securities (including financial assets measured at cost) represent investments that the Company intends to hold for the long term for strategic purposes. As permitted by IFRS 9, the Company has designated these investments at the date of initial application as measured at FVOCI. Accordingly, a decrease of $12,499 thousand in those assets was recognized, and an increase of $655,429 thousand in the retained earnings, as well as a decrease of $671,497 thousand in other equity were recognized on January 1, 2018.

Note 2: Notes receivable, accounts receivable, and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortized cost. No impact was imposed on the opening retained earnings upon transition to IFRS 9 on January 1, 2018.

(Continued)

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 on January 1, 2018.

	2017.12.31 IAS 39 Carrying Amount	Reclassifications	Remeasurements	2018.1.1 IFRS 9 Carrying Amount	2018.1.1 Retained earnings	2018.1.1 Other equity
Beginning balance of available-for-sale (including measured at cost) under IAS 39	$ 1,575,295	(1,575,295)	-		-	-
Reclassification from available-for-sale to FVOCI	-	1,575,295	(12,499)		655,429	(671,497)
Total	$ 1,575,295	-	(12,499)	1,562,796	655,429	(671,497)

(iii) Amendments to IAS 7 "Disclosure Initiative"

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes arising from both cash flow and non-cash changes.

To satisfy the new disclosure requirements, the Company has presented a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities in Note 6(ad).

(b) The impact of IFRS endorsed by FSC but not yet effective

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2019 for publicly listed companies, in accordance with Ruling No. 1070324857 issued by the FSC on July 17, 2018:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
IFRS 16 "Leases"	January 1, 2019
IFRIC 23 "Uncertainty over Income Tax Treatments"	January 1, 2019
Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	January 1, 2019
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019
Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"	January 1, 2019
Annual Improvements to IFRS Standards 2015-2017 Cycle	January 1, 2019

Except for the following items, the Company believes that the adoption of the above IFRSs would not have any material impact on its financial statements. Thae extent and impact of signification changes are as follows:

(i) IFRS 16 "Leases"

IFRS 16 replaces the existing leases guidance, including IAS 17 "Leases", IFRIC 4 "Determining Whether an Arrangement Contains a Lease", SIC-15 "Operating Leases – Incentives" and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease".

IFRS 16 introduces a single and an on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. In addition, the nature of expenses related to those leases will now be changed since IFRS 16 replaces the straight-line

(Continued)

operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. There are recognition exemptions for short-term leases and leases of low-value items. The lessor accounting remains similar to the current standard – i.e. the lessors will continue to classify leases as finance or operating leases.

So far, the most significant impact identified is that the Company will have to recognize the new assets and liabilities for its operating leases of offices, dormitories, and warehouses. However, the amount of the impact is yet to be determined. Additionally, The Company does not expect the adoption of IFRS 16 to have any impact on its ability to comply with the revised maximum leverage threshold loan covenant.

1) Determining whether an arrangement contains a lease

The Consolidated Company has an arrangement that is not in the legal form of a lease, for which it concludes that the arrangement contains a lease of equipment under IFRIC 4. On transition to IFRS 16, the Consolidated Company can choose whether to:

● apply the IFRS 16 definition of a lease to all its contracts; or

● apply a practical expedient and not reassess whether a contract is, or contains, a lease.

The Consolidated Company plans to apply the practical expedient to grandfather the definition of a lease upon transition. This means that it will apply IFRS 16 to all contracts entered into before January 1, 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

2) Transition

As a lessee, the Company can either apply the standard using the following:

● retrospective approach; or

● modified retrospective approach with optional practical expedients.

On January 1, 2019, the Company plans to initially apply IFRS 16 using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings as of January 1, 2019, with no restatement of comparative information.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Company is assessing using practical as follows:

● apply a single discount rate to a portfolio of leases with similar characteristics.

● apply the exemption not to recognize the right-of-use assets and liabilities to leases with lease term that ends within 12 months of the date of initial application.

● exclude the initial direct costs from measuring the right-of-use assets at the date of initial application.

- use hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

3) So far, the most significant impact identified is that the Company will have to recognize the new assets and liabilities for the operating leases of its offices, warehouses, and factory facilities. The Company estimated that the right-of-use assets and the lease liabilities to both increase by $89,917 thousand, on January 1, 2019. No significant impact is expected for the Company's finance leases. Besides, The Company does not expect the adoption of IFRS 16 to have any impact on its ability to comply with the revised maximum leverage threshold loan covenant. Also, the Company is not required to make any adjustments for leases where the Company is the intermediate lessor in a sub-lease.

(ii) IFRIC 23 Uncertainty over Income Tax Treatments

In assessing whether and how an uncertain tax treatment affects the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, as well as tax rates, an entity shall assume that a taxation authority will examine the amounts it has the right to examine and have a full knowledge on all related information when making those examinations.

If an entity concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, as well as tax rates consistently with the tax treatment used or planned to be used in its income tax filings. Otherwise, an entity shall reflect the effect of uncertainty for each uncertain tax treatment by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty.

So far, the most significant impact identified is that the Company will have to recognize the new income tax liabilities and income tax expense for its uncertainty over income tax treatments.

(c) The impact of IFRS issued by IASB but not yet endorsed by the FSC

As of the date, the following IFRSs that have been issued by the International Accounting Standards Board (IASB), but have yet to be endorsed by the FSC:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Effective date to be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020

The Company assessed that the above IFRSs may not be relevant to the Company.

(4) Summary of significant accounting policies

TUNG HO STEEL ENTERPRISE CORPORATION

Notes to the parent company only Financial Statements

A summary of the significant accounting policies adopted in the accompanying financial statements is as follows. Except for those described in Note 3, the accounting policies have been applied consistently to all the reporting periods presented in the parent company only financial statements.

(a) Statement of compliance

These parent company only financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as the Regulations).

(b) Basis of preparation

(i) Basis of measurement

The parent company only financial statements have been prepared on historical cost basis, except for the following material items in the balance sheet:

1) Financial instruments measured at fair value through profit or loss;

2) Financial assets measured at fair value through other comprehensive income (available-for-sale);

3) Net defined benefit liabilities measured at the fair value of plan assets, less the present value of defined benefit obligation and the upper limit of the effects described in Note 4(p).

(ii) Functional and presentation currency

The functional currency of the Company is determined based on the primary economic environment in which the entity operates. The financial statements are presented in New Taiwan Dollar, which is the Company’s functional currency. All financial information presented in New Taiwan Dollar has been rounded to the nearest thousand.

(c) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to respective functional currencies at exchange rates on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to functional currency at the exchange rate on that date. Foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interests and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

Foreign currency denominated non-monetary assets and liabilities measured at fair value are translated to the functional currency at the exchange rate on the date when fair value was determined. Foreign currency denominated non-monetary items measured at historical cost is translated using the exchange rate at the date of the transaction.

Exchange difference on translation of foreign operations is recognized in profit or loss, except for that arising from fair value through other comprehensive income (available for sale) non-monetary securities, which is recognized through other comprehensive income.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising from acquisition, are translated to the Company’s presentation currency at exchange rates on the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to the Company’s presentation currency at average rate. Foreign currency translation differences are recognized in other comprehensive income.

When a foreign operation is disposed of such that control, significant influence, or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss. When the Company disposes of any part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interest. When the Company disposes of only part of an investment in an associate of joint venture that includes a foreign operation while retaining significant or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or a monetary item payable to a foreign operation is neither planned nor likely to happen in the foreseeable future, foreign currency gains and losses arising from such items are considered to form part of a net investment in the foreign operation and are recognized in other comprehensive income.

(d) Classification of current and non-current assets and liabilities

An asset is classified as current under any one of the following conditions. All other assets are classified as non-current.

(i) The asset is expected to be realized, or sold or consumed, during the Company’s normal operating cycle;

(ii) The asset is held primarily for the purpose of trading;

(iii) The asset is expected to be realized within twelve months after the reporting date; or

(iv) The asset is cash and cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the balance sheet date.

A liability is classified as current under any one of the following conditions. All other liabilities are classified as non-current.

(i) The liability is expected to be settled during the Company’s normal operating cycle;

(ii) The liability is held primarily for the purpose of trading;

(iii) The liability is due to be settled within twelve months after the reporting date; or

(iv) The Company does not have any unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by issuing equity instruments do not affect its classification.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in bank, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Term deposits that meet the above requirements and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes are classified under cash equivalents.

(f) Financial instruments

(i) Financial assets (applicable from January 1, 2018)

Financial assets are classified into the following categories: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

The Company shall reclassify all affected financial assets only when it changes its business model for managing its financial assets.

1) Financial assets measured at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset measured at amortized cost is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses, and impairment loss, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade date accounting.

2) Fair value through other comprehensive income (FVOCI)

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an instrument-by-instrument basis.

A financial asset measured at FVOCI is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses, and impairment losses, deriving from debt investments are recognized in profit or loss; whereas dividends deriving from equity investments are recognized as income in profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses of financial assets measured at FVOCI are recognized in OCI. On derecognition, gains and losses accumulated in OCI of equity investments are reclassified to profit or loss. However, gains and losses accumulated in OCI of debt investments are reclassified to retain earnings instead of profit or loss.

Dividend income derived from equity investments is recognized on the date that the Company's right to receive payment is established, which in the case of quoted securities is normally the exdividend date.

3) Fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVOCI described as above are measured at FVTPL, including derivative financial assets and accounts receivable (except for those presented as accounts receivable but measured at FVTPL). On initial recognition, the Company may irrevocably designate a financial asset, which meets the requirements to be measured at amortized cost or at FVOCI, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent changes that are measured at fair value, which take into account any dividend and interest income, are recognized in profit or loss.

4) Impairment of financial assets

The Company recognizes loss allowances for expected credit losses on financial assets measured at amortized cost (including cash and cash equivalents, amortized costs, notes and accounts receivable, leases receivable, and guarantee deposit paid A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade date accounting), debt investments measured at FVOCI, accounts receivable and contract assets.

The Company measures loss allowances at an amount equal to lifetime expected credit loss (ECL), except for the following which are measured as 12-month ECL:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowance for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 month after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Company's historical experience and informed credit assessment as well as forward-looking information.

The Company considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade which is considered to be BBB- or higher per Standard & Poor's, Baa3 or higher per Moody's or twA or higher per Taiwan Ratings'.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The Company considers a financial asset to be in default when the financial asset is more than 360 days past due or the borrower is unlikely to pay its credit obligations to the Company in full.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Company assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial assets is credit-impaired includes the following observable information:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;

- it is probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is recognized in other comprehensive income instead of reducing the carrying amount of the asset. The Company recognizes the amount of expected credit losses (or reversal) in profit or loss, as an impairment gain or loss.

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

5) Derecognition of financial assets

Financial assets are derecognized when the contractual rights to the cash flows from the assets expire, or when the Company transfers substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a debt instrument in its entirety, the Company recognizes the difference between its carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in "other equity – unrealized gains or losses on fair value through other comprehensive income", in profit or loss, and presented it in the line item of non-operating income and expenses in the statement of comprehensive income.

On derecognition of a part of debt instrument in which the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the financial asset shall be allocated between the part that continues to be recognized and the part that is derecognized, on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received for the part derecognized, and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income, shall be recognized in profit or loss, and presented it in the line item of non-operating income and expenses in the statement of comprehensive income.

(ii) Financial assets (applicable before January 1, 2018)

Financial assets are categorized into financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets.

1) Financial assets at fair value through profit or loss

Financial assets classified under this category are mainly financial assets held for trading, or designated as at fair value through profit or loss upon initial recognition.

Financial assets are classified as held for trading if they are acquired principally for the purpose of selling in the short term. Financial assets, other than those classified as held for trading, are designated as at fair value through profit or loss upon initial recognition under one of the following situations:

a) Designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on a different basis;

b) Performance of the financial asset is evaluated on a fair value basis;

c) A hybrid instrument contains one or more embedded derivatives.

Upon initial recognition, financial assets in this category are measured at fair value. Attributable transaction costs are recognized through profit or loss as incurred. Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value and changes therein, which take into account any dividend and interest income, are recognized in profit or loss under non-operating income and expenses. Trade-date accounting is applied for purchases and sales of financial assets in the ordinary course of business.

If such financial instrument is an equity instrument which lacks active market and whose fair value cannot be reliably estimated, it is measured at cost less impairment and recognized as financial assets measured at cost.

2) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other categories of financial assets. Available-for-sale financial assets are recognized initially at fair value, plus any directly attributable transaction cost. Subsequent to initial recognition, and except for impairment losses, effective interest income, dividend income, and foreign currency gain or loss on monetary assets, which are recognized through profit or loss, available-for-sale financial assets are measured at fair value in other comprehensive income and presented under fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss, and is recognized as gain or loss on disposal of investments under non-operating income and expenses. For regular practices of purchases and sales of financial assets in the ordinary course of business, trade-date accounting should be applied.

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, are measured at cost less impairment loss, and are included in financial assets measured at cost.

Dividend income is recognized on the date that the Company’ s right to receive payment is established, which is normally the ex-dividend date. Such dividend income is recognized as other income under non-operating income and expenses.

Interest income from investment in debt securities is recognized as other income under non-operating income and expenses.

3) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that lack quoted market price which comprise accounts receivable and other receivables. Such assets are recognized initially at fair value, plus any directly attributable transaction costs. Subsequent to initial recognition, receivables are measured at amortized cost using the effective interest method, less any impairment losses, except for short term receivables in which the effect of discounting is immaterial. For purchases and sales of financial assets in the ordinary course of business, trade-date accounting should be applied.

Interest income from receivables is recognized as other income under non-operating income and expenses.

4) Impairment of financial assets

Except for financial assets at fair value through profit or loss, a financial asset is assessed for impairment at reporting date. A financial asset is impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a "loss event") that occurred subsequent to the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial assets which can be estimated reliably.

Objective evidence that financial assets are impaired includes delinquency or default (such as unpaid or delayed payment of interest or principal) by a debtor, indications that a debtor will enter bankruptcy, and financial adversity that results in the disappearance of an active market for a security. In addition, for an available for sale investment in an equity security, a significant or prolonged decline in its fair value below its cost is accounted for as objective evidence of impairment.

After individual accounts receivable are assessed as not impaired, accounts receivable are collectively assessed for impairment. Objective evidence that receivables are impaired includes historical experiences of collection, increasing level of overdue receivables which are collected beyond the credit term, and regional or global changes in the economics related to the delay in payments of receivables.

An impairment loss in respect of a financial asset measured at amortized cost is determined based on the excess of its carrying amount over the present value of the estimated future cash flows discounted at the asset’ s original effective interest rate.

An impairment loss of a financial asset measured at cost is determined based on the excess of its carrying amount over the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversible in subsequent periods.

An impairment loss in respect of a financial asset is written off directly against its carrying amount, except for accounts receivable, in which an impairment loss is credited to an allowance account against the receivables. When a receivable is determined to be uncollectible, it is written off from the allowance account. Any subsequent recovery of receivable written off is charged to the allowance account. Changes in the amount of the allowance accounts are recognized in profit or loss.

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the other equity interest in equity to profit or loss.

If, in subsequent periods, the amount of the impairment loss of a financial assets measured at amortized cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost before impairment was recognized at the reversal date.

Impairment losses originally recognized through profit or loss on available-for-sale equity security cannot be reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income, and accumulated in other equity interest. If the amount of recovery in impairment can be objectively associated to events that occur after the impairment loss is recognized through profit or loss, such recovery can be recognized through profit or loss.

Impairment losses on receivables are recognized as selling expenses. Recoveries of impairment loss are recognized as other gains and losses under non-operating income and expenses. Impairment losses and recoveries of financial assets other than receivables are recognized in other gains and losses under non-operating income and expenses.

5) Derecognition of financial assets

Financial assets are derecognized when the contractual rights to the cash inflow from the asset are terminated, or when the Company transfers substantially all the risks and rewards of ownership of the financial assets.

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

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognized and the part that is derecognized, based on the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received for the part derecognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income are recognized in profit or loss as other gains and losses under non-operating income and expenses. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is derecognized, based on the relative fair values of those parts.

(iii) Financial liabilities and equity instruments

1) Classification of debt or equity

Debt or equity instruments issued by the Company are classified as financial liabilities or equity in accordance with the substance of the contractual agreement.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized based on the proceeds received, net of direct issue costs.

Compound financial instruments issued by the Company comprise convertible bonds that can be converted to shares of capital at the option of the holder. The number of shares to be issued does not vary with its fair value.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Interests, gains and losses related to financial liabilities are recognized in profit or loss as finance costs under non-operating income and expenses.

Financial liabilities are reclassified to equity on conversion, on which no gains or losses are recognized.

2) Financial liabilities at fair value through profit or loss

Financial liabilities classified under this category are mainly financial liabilities held for trading, or designated as at fair value through profit or loss on initial recognition.

Financial liabilities are classified as held for trading if they are acquired principally for the purpose of selling in the short term. Financial liabilities, other than those held for trading, are designated as at fair value through profit or loss at initial recognition under one of the following situations:

a) Designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on a different basis;

b) Performance of the financial liabilities is evaluated on a fair value basis;

c) A hybrid instrument contains one or more embedded derivatives.

At initial recognition, financial liabilities in this category are measured at fair value. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value and changes therein, which take into account any interest expense, are recognized as other gains and losses under non-operating income and expenses.

Financial liabilities at fair value through profit or loss are measured at cost, when the obligations are to deliver equity investments that do not have a quoted price borrowed by a short seller and are recognized as financial liabilities measured a cost.

3) Other financial liabilities

Except for those held for trading or designated as at fair value through profit or loss, financial liabilities, including short-term and long-term loans, accounts payable and other payables, are at fair value, plus, any directly attributable transaction cost at the time of initial recognition. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method. Interest expense not capitalized is recognized as finance cost under non-operating income and expenses.

4) Derecognition of financial liabilities

A financial liability is derecognized when the contractual obligation thereon has been discharged or cancelled or has expired.

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 as other gains and losses under non-operating income and expenses.

5) Offsetting of financial assets and liabilities

Financial assets and liabilities are presented on a net basis only when the Company has the legal enforceable rights to offset, and the intention to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

(iv) Derivative financial instruments

The Company holds derivative financial instruments to hedge its foreign currency and interest rate exposures. Derivatives are initially measured at fair value. Any attributable transaction costs thereof are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss and are included in the line item of non-operating income and expenses in the statement of comprehensive income. When a derivative is designated as, and effective for, a hedging instrument, its timing of recognition in profit or loss is determined based on the nature of the hedging relationship. When the fair value of a derivative instrument is positive, it is classified as a financial asset, whereas when the fair value is negative, it is classified as a financial liability.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the non-financial asset’ s host contract are not closely related to the embedded derivatives and the host contract is not measured at FVTPL.

(g) Inventories

The cost of inventories shall comprise all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to the location and condition ready for sale or production. The allocation of fixed production overheads to the finished goods and work in process is based on the normal capacity of the production facilities. However, in the case where the practical capacity is larger than the normal capacity, the allocation is based on the practical capacity. Variable production overheads are allocated to each unit of production on the basis of the actual use of the production facilities. Inventories are subsequently measured at the lower of cost or net realizable value. The cost of inventories is based on the monthly weighted-average cost. Net realizable value is the estimated as the selling price in the ordinary course of business at the reporting date, less the estimated costs until completion and selling expenses. If the inventory is reserved for a contract, its net realizable value shall be based on the price of the contract.

(h) Investment in associates

Associates are those entities on which the Company has significant influence, but not control, over the financial and operating policies.

The Company’s investments in associates are accounted for using the equity method and are recognized initially at cost, which includes transaction costs. The carrying amount of the investment in associates includes goodwill resulted from the acquisition less any accumulated impairment losses.

The financial statements include the Company’s share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Company, from the date that significant influence commences until the date that significant influence ceases. When changes in items other than profit or loss and other comprehensive income that do not affect the company’s shareholding percentage occur, the company recognizes its share of changes in equity of the associate under capital surplus.

Unrealized profits resulting from the transactions between the Company and an associate are eliminated to the extent of the Company’s share of interest in the associate. Unrealized losses on transactions with associates are eliminated in the same way, under the condition that no evidence of impairment is present.

When the Company’s share of losses exceeds or equals its share of interest in an associate, the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the associate.

When an associate issues new shares and the Company does not purchase such new shares proportionately, resulting in fluctuation in its shareholding percentage and changes in the net value of its invested equity, the change should be recognized in capital surplus and investments accounted for using the equity method. If such adjustment is debited to capital surplus when there is insufficient balance of capital surplus resulted from investments accounted for using the equity method, the difference should be debited to retained earnings instead. However, if the Company’s shareholding percentage decreased due to not purchasing proportionated share of new stocks, other comprehensive income related to the associate previously recognized should be reclassified in proportion with the decreased shareholding percentage. The basis of such accounting treatment should be consistent with that if the associate directly disposes of related assets or liabilities.

(i) Investments in subsidiaries

When preparing the parent company only financial statements, the Company accounts for the investee companies on which it possesses control using the equity method. Net income, other comprehensive income, and shareholder’ s equity in the parent company only financial reports of the Company should be the same with the net income, other comprehensive income, and shareholder’ s equity attributable to the parent in the consolidated financial reports should be the same.

The Company accounts the changes in equity, under the condition that control is still present, as equity transactions between the proprietors.

(j) Investment property

Investment property is the property held either to earn rental income, or for capital appreciation, or for both, but not for sale in the ordinary course of business, for use in the production or supply of goods or services, or for administrative purposes. Investment property is measured at cost upon initial recognition and subsequently at cost less accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of raw materials and direct labor, capitalized borrowing costs, and any other costs directly attributable to bringing the investment property to a working condition for its intended use.

When the use of an investment property changes such that it is reclassified as property, plant, and equipment, its carrying amount at the date of reclassification becomes its cost for subsequent accounting.

(k) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment loss. Cost includes expenditures that is directly attributed to the acquisition of the asset, any cost directly attributable to transporting the asset to the location and condition necessary for it to be utilized by the manner intended by management, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, and any borrowing cost eligible for capitalization. Cost of the property, plant, and equipment also include the portion transferred from equity of effective cash flow hedges. Purchased software that is integral to the functionality of the related equipment is capitalized as part of the equipment cost.

When a piece of property, plant and equipment consist of different components, each component that is significant to the total cost with different applicable depreciation method, and useful lives should be regarded as a separate item (significant component).

Gain or loss arising from the disposal of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and is shall be recognized as other gains and losses, under non-operating income and expenses.

(ii) Subsequent cost

Subsequent expenditure is capitalized only when it is highly probable that the future economic benefits associated with the expenditure and will flow to the Company and can be assessed reliably. The carrying amount of those parts that are replaced is derecognized. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

Depreciation of property, plant and equipment is measured over their estimated useful lives using the straight-line method. Each significant part of a property, plant and equipment is evaluated individually and depreciated separately should it possess a different useful life. The depreciation charged for each period is recognized in profit or loss.

Land has an unlimited useful life and therefore is not depreciated.

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

1) Buildings: 3 to 60 years

2) Machinery and equipment: 2.75 to 25 years

3) Miscellaneous equipment: 3 to 30 years

Depreciation methods, useful lives, and residual values are reviewed at each reporting date. If expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

(l) Leases

(i) Lessor

Lease income from an operating lease is recognized in profit or loss using a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income. Incentives granted to the lessee to enter into the operating lease are spread over the lease term on a straight-line basis so that the lease income received is reduced accordingly.

Contingent rents are recognized as income for the period when the lease adjustments are confirmed.

(ii) Lessee

Leases which the Company assumes substantially all of the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the lease asset is measured at an amount equal to the lower of its fair value or the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to the asset.

Other leases are operating leases and are not recognized on the Company’s balance sheets.

Payments made under operating lease (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense and spread over the term of the lease.

Minimum lease payments made under finance leases are apportioned between financial cost and reduction of the outstanding liability. The finance cost is allocated to each period during the lease term using a fixed periodic rate of interest on the remaining balance of the liability.

Contingent rent is recognized as expense in the periods in which it is incurred.

(m) Impairment of non-financial assets

The Company assesses whether impairment has occurred on its non-financial assets other than inventories, deferred tax assets, and assets arising from employee benefit at every reporting date, and estimates the recoverable amounts of assets with indication of impairment. If it is not able to estimate the recoverable amounts of the individual assets, the Company estimates the recoverable amount of the cash generating unit (CGU) to which the asset belongs.

The recoverable amount of an individual assets or a CGU is the higher of its fair value less costs of disposal and its value in use. If the recoverable amount of an asset or a CGU is less than its carrying amount, the carrying amount of the asset or CGU should be reduced to its recoverable amount, and that reduction will be accounted for as an impairment loss, which should be recognized immediately in profit or loss.

The Company re-assesses whether indications of impairment exist at every reporting date and whether previously recognized impairment no longer exists or decreases. If there are any changes in the determination of recoverable amounts, the Company reverses the impairment loss to increase the carrying value of the individual asset or the CGU. However, the carrying value should not exceed the amount of the asset less depreciation and amortization had it not been impaired.

(n) Treasury stock

Repurchased shares are recognized as treasury stocks, a contra-equity account, based on its repurchase price (including all directly attributable costs). Gain on disposal of treasury stocks should be recognized under capital surplus–treasury stocks transactions. If the proceed from the disposal is less than the carrying amount, the difference should be offset against existing capital surplus arising from similar types of treasury stocks transactions. If capital surplus is insufficient for the offset, the deficiency is charged to retained earnings. The carrying value of treasury stocks is calculated using the weighted-average method for different types of repurchased shares.

If treasury stocks are cancelled, capital surplus–share premiums and ordinary stocks are debited proportionately. If the carrying value is higher than the sum of par value and share premium, the difference is debited to capital surplus arising from similar types of treasury stocks transactions, with any insufficient amount debited to retained earnings. If the carrying value is lower than the sum of par value and share premium, the difference is credited to capital surplus.

(o) Revenue from contracts with customers

(i) Revenue from contracts with customers (applicable from January 1, 2018)

Revenue is measured based on the consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer. The Company recognizes revenue when it satisfies a performance obligation by transferring control of a good or a service to a

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Notes to the parent company only Financial Statements

customer. The accounting policies for the Company's main types of revenue are explained below.

1) Sale of goods

The Company recognizes revenue when control of the products has transferred, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied.

(ii) Revenue recognition (applicable before January 1, 2018)

1) Goods sold

Revenue from the sale of goods in the ordinary course of business activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume discounts. Revenue is recognized when persuasive evidence exists, usually in the form of a signed sales agreement, that significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue when the sales are recognized.

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreements. For international shipments, transfers usually occur upon loading the goods onto the relevant carrier at the port. For domestic sales, transfers occur upon delivery to the customer warehouses.

2) Rental income

Rental income from investment property is recognized on a straight-line basis over the lease term. Incentives granted for entering into the operating lease are spread over the lease term on a straight-line basis, with lease income received reduced accordingly. Revenue generated from leasing properties is recognized as other income under non-operating income and expenses.

(p) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss for the period in which services are rendered by employees.

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of a defined benefit pension plan is calculated separately for each plan by estimating the discounted present value of future benefit that employees have earned in return for their service in the current and prior periods. The fair value of any plan assets is deducted from aforementioned net obligation. The discount rate is the yield on the reporting date of government bonds that have maturity dates approximating the terms of the Company's obligations and are denominated in the same currency in which the benefits are expected to be paid.

An actuarial calculation of pension costs and related liabilities are performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, an asset is recognized but the recognized asset is limited to the total of the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Company. An economic benefit is available to the Company if it is realizable during the life of the plan, or on settlement of the plan liabilities.

If the benefits of a plan are improved, the pension cost incurred from the portion of the increased benefit relating to past service by employees should be recognized immediately in profit or loss.

Remeasurement of the net defined benefit liability, comprising (a) actuarial gains and losses, (b) the return on plan assets, excluding the amounts included in the net interest of the net defined benefit liability; and (c) any change of upper limit of assets, excluding the amounts included in the net interest of the net defined benefit liability, is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected in retained earnings.

Gains or losses on the curtailment or settlement of a defined benefit plan are also recognized as pension expenses when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets, change in the present value of defined benefit obligation and any related actuarial gains or losses and past service cost that was not previously recognized.

(iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(q) Income taxes

Tax expense comprises current tax expense and deferred tax expense. Current and deferred taxes are included in profit or loss for the period, except for tax resulted from a business combination or a transaction or event which is recognized directly in equity or other comprehensive income.

Current tax comprises the amount expected to be paid to (recovered from) the tax authorities, using the tax rates that have been enacted or substantively enacted by the reporting date, and any adjustments for tax payables of prior periods.

Deferred tax is recognized at the amount of temporary differences between the carrying amounts and the corresponding tax bases of the assets and liabilities at the reporting date. The temporary differences under the following circumstances are not recognized as deferred tax assets or liabilities:

(i) the initial recognition of an asset or liability in a transaction which is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit (loss); or

(ii) the investments in subsidiaries, branches and associates, and interests in joint ventures, and it is probable that the temporary difference will not reverse in the foreseeable future; or

(iii) the initial recognition of goodwill.

Deferred tax is measured, at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, and tax laws that have been enacted or substantively enacted by the reporting date.

The Company offset deferred tax assets and deferred tax liabilities only if:

(i) the Company has the legal right to settle tax assets and liabilities on a net basis; and

(ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same tax authority on either:

1) the same taxable entity; or

2) different taxable entities which intent either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously; in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

A deferred tax asset is recognized for the carry-forward of unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profit will be available against such amounts. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and limited to the extent that it is probable that the benefit of part or all of that deferred tax asset will be utilized.

(r) Earnings per share

The basic earnings per share is calculated based on the profit attributable to the ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding. The diluted earnings per share is calculated based on the profit attributable to ordinary shareholders of the Company, divided by the weighted average number of ordinary shares outstanding after adjustments for the effects of all potentially dilutive ordinary shares, including convertible bonds and employee stock options.

(s) Operating segments

The Company has disclosed related information of its operating segments in the consolidated financial statements of the Company and its subsidiaries as of December 31, 2018, thus no additional information will be disclosed herein.

(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty

The preparation of the financial statements in conformity with the Regulations requires management to make judgments, estimates, and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

The management continues to monitor the accounting estimates and assumptions. Any impact from the changes in accounting estimates are recorded in the period in which the changes occur and in future periods.

Information about judgments made in the application of accounting policies that have the risks of significant effects in the next reporting period is as follows:

(a) Measurement of defined benefit obligations

Defined benefit costs and net defined benefit liabilities under defined benefit pension plans are calculated using the Projected Unit Credit Method. Actuarial assumptions comprise the discount rate, rate of employee turnover, future salary increase rate, etc. 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. Refer to Note 6(r) for further description of the actuarial assumptions and sensitivity analysis.

The Company’s accounting policies include measuring financial and non-financial assets and liabilities at fair value through profit or loss. The Company’s financial instrument valuation group conducts independent verification on fair value by using data sources that are independent, reliable, and representative of exercise prices. This financial instrument valuation group also periodically adjusts valuation models, conducts back-testing, renews input data for valuation models, and makes all other necessary fair value adjustments to assure the rationality of fair value. The Company strives to use market observable inputs when measuring assets and liabilities. Different levels of the fair value hierarchy to be used in determining the fair value of financial instruments are as follows:

Level 1: quoted prices (unadjusted) in active markets for identifiable assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the assets or liabilities that are not based on observable market data.

For any transfers between the fair value hierarchies, the impact of the transfer is recognized on the reporting date.

Please refer to the notes listed as below for related information on assumptions used in measuring fair value:

Note 6(k), investment property

Note 6(aa), financial instruments

(6) Explanation of significant accounts

(a) Cash and cash equivalents

		December 31, 2018	December 31, 2017
Cash on hand	$	1,126	1,075
Checking and demand deposits		313,141	486,933
Cash equivalents		14,997	19,995
Cash and cash equivalents on the statement of cash flows	$	329,264	508,003

(i) Please refer to Note 6(aa) for interest rate risk and sensitivity analysis of the financial assets and liabilities of the Company.

(ii) As of December 31, 2018 and 2017, certain term deposits were pledged as collateral of performance guarantee and such term deposits were reclassified to refundable deposits. Please refer to Note 8 for details.

(b) Financial assets and liabilities at fair value through profit or loss

		December 31, 2018	December 31, 2017
Mandatorily measured at fair value through profit or loss:			
Non-derivative financial assets			
Stocks listed on domestic markets	$	134,560	-
Financial assets held-for-trading:			
Derivative instruments not used for hedging			
Foreign exchange forward contracts		-	-
Non-derivative financial assets			
Stocks listed on domestic markets		-	186,360
Total	$	134,560	186,360

		December 31, 2018	December 31, 2017
Financial liabilities designated as at fair value through profit or loss:			
Derivative instruments not used for hedgimg			
Foreign exchange forward contracts	$	1,745	5,238
Redemption options on convertible bonds		31,200	-
Total	$	32,945	5,238

The Company uses derivative financial instruments to hedge the certain foreign exchange risk the Company is exposed to, arising from its operating, financing and investing activities. The following derivative instruments, without the application of hedge accounting, were classified as mandatorily measured at fair value through profit or loss on December 31, 2018 and held-for-trading financial instruments on December 31, 2017:

Foreign exchange forward contracts:

	December 31, 2018		
	Nominal amount (in thousands)	Currency	Maturity dates
Foreign exchange forward	USD 19,258	Sell USD/buy TWD	2019.01.07~2019.02.27

	December 31, 2017		
	Nominal amount (in thousands)	Currency	Maturity dates
Foreign exchange forward	USD 25,905	Sell USD/buy TWD	2018.01.22~2018.05.10

None of the financial assets were pledged as collateral as of December 31, 2018 and 2017.

(c) Financial assets at fair value through other comprehensive income

	December 31, 2018
Equity investments at fair value through other comprehensive income:	
Publicly listed domestic stocks	377,716
Unlisted domestic stocks	180,199
Total	$ 557,915

(i) The Company designated the investments shown above as equity securities as at fair value through other comprehensive income because these equity securities represent those investments that the Company intends to hold for long-term for strategic purposes. These investments were classified as available-for-sale financial assets on December 31, 2017.

(ii) The Company disposed a part of its shares in Taiwan High Speed Rail Corporation in 2018, where it realized a gain of $429,706 thousand, which was recognized under other comprehensive income, and later on, reclassified to retained earnings.

(iii) The Company disposed a part of its shares in Chien Shing Harbour Service Co., Ltd in 2018, where it realized a gain of $1,358 thousand, which was recognized under other comprehensive income, and later on, reclassified to retained earnings.

(iv) For credit risk and market risk; please refer to note 6(aa).

(v) None of the financial assets were pledged as collateral as of December 31, 2018.

(d) Available-for-sale financial assets

(i) The details were as follows:

		December 31, 2017
Available-for-sale financial assets:		
Publicly listed stocks and stocks listed on emerging markets	$	1,364,071

(ii) Please refer to Note 6(aa) for the credit, currency, and interest rate risk on financial instruments of the Company.

(iii) None of the available-for-sale financial assets were pledged as collateral as of December 31, 2017.

(e) Financial assets carried at cost

		December 31, 2017
Unlisted domestic ordinary stocks	$	205,454
Unlisted domestic preferred stocks		5,770
Total	$	211,224

(i) The aforementioned stock investments held by the Company were measured at cost less impairment as of December 31, 2017. These investments were classified as financial assets at fair value through other comprehensive income on December 31, 2018.

(ii) For the year ended December 31, 2017, the investee companies returned $2,917 thousand for liquidation and reduction of capital.

(iii) An investee company the Company held for the year ended December 31, 2017, was listed on the emerging market in March, 2017, and was thus reclassified to available-for-sale financial assets at $94,586 thousand. The remaining carrying value which amounted to $2,274 thousand was disposed of with proceeds amounting to $4,743 thousand and gain on disposal of investment of $2,469 recognized as other gains or losses.

(iv) For credit risk and market risk, please refer to Note 6(aa).

(v) None of the financial assets measured at cost were pledged as collateral as of December 31, 2017.

(f) Notes and accounts receivable, overdue receivables, and other receivables

		December 31, 2018	December 31, 2017
Notes receivable from operating activities	$	139,471	70,036
Accounts receivable		2,404,835	2,112,605
Accounts receivable from related parties		2,525,807	1,033,870
Overdue receivables		10,020	10,020
Less: loss allowance		(31,977)	(31,977)
	$	5,048,156	3,194,554

The Company applies the simplified approach to provide for its expected credit losses, i.e. the use of lifetime expected loss provision for all receivables as of December 31, 2018. To measure the expected credit losses, notes and accounts receivable have been grouped based on shared credit risk characteristics and the days past due, as well as incorporated forward looking information.

The analysis of expected credit loss of the notes and accounts receivable of the Company, was as follows:

	Gross carrying amount	Weighted-average rate of expected credit loss	Loss allowance for expected credit losses
With low risk	$ 1,479,820	-	-
With moderate risk	3,590,293	0.6%	21,957
With financial difficulties	10,020	100%	10,020
	$ 5,080,133		31,977

As of December 31, 2017, the Company applied the incurred loss model to consider the loss allowance provision of notes and accounts receivable.

The aging analysis of notes and accounts receivable, which were past due but not impaired, was as follows:

	December 31, 2018	December 31, 2017
1 to 60 days past due	$ 4,785	-
61 to 90 days past due	-	-
91 to 120 days past due	-	-
	$ 4,785	-

The changes in the allowance for notes and accounts receivable were as follows:

	For the year ended December 31, 2018	For the year ended December 31, 2017	
		Individually assessed impairment	Collectively assessed impairment
Balance as of January 1, 2018 and 2017 per IAS 39	$ 31,977	9,174	21,957
Adjustment on initial application of IFRS 9	-		
Balance on January 1, 2018 per IFRS 9	31,977		
Impairment losses recognized	-	846	-
Balance as of December 31, 2018 and 2017	$ 31,977	10,020	21,957

(g) Other receivables

		December 31, 2018	December 31, 2017
Other receivables	$	70,261	46,110
Other receivables from related parties		1,929	348
Less: allowance for impairment		-	-
	$	72,190	46,458

For the years ended December 31, 2018 and 2017, no other receivables were impaired resulted from overdue. For credit risk, please refer to note 6(aa).

(h) Inventories

		December 31, 2018	December 31, 2017
Finished goods (including consigned goods)	$	2,143,319	1,379,521
Work in process (including goods in transit and consigned goods)		1,995,931	1,234,570
Raw materials (including goods in transit)		5,758,210	2,623,906
Material supplies (including goods in transit and consigned goods)		1,566,535	1,000,714
Inventories, net	$	11,463,995	6,238,711

For the years ended December 31, 2018 and 2017, cost of sales and services provided recognized was as follows:

		For the years ended December 31, 2018	2017
Cost of goods sold	$	31,490,051	21,283,954
Cost of services		8,564	-
Unallocated fixed overheads — capacity variance		59,242	93,636
Revenue from sale of materials and scrap		(50,460)	(72,420)
Total	$	31,507,397	21,305,170

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses. Any changes of competitors' reactions and market condition would impact the estimation which is based on the current market condition and past experience. The management of the Company makes such evaluation on every reporting date.

None of the inventory was pledged as collateral as of December 31, 2018 and 2017.

(i) Investments accounted for using the equity method

(i) The components of the investments accounted for using the equity method were as follows:

	December 31, 2018	December 31, 2017
Subsidiaries		

Tung Yuan International Corp.	$	790,234	945,468

	December 31, 2018	December 31, 2017
Tung Kang Steel Structure Corp.	2,011,688	1,945,938
Goldham Development Ltd.	404,855	451,716
Katec Creative Resources Corp.	730,094	768,450
Tung Kang Wind Power Corp.	91,350	78,229
Fa Da Enterprise Corp.	89,689	99,758
Tung Ho Steel Vietnam Corp., Ltd.	4,098,293	3,447,851
Subtotal	8,216,203	7,737,410
Associates		
Katec Research & Development Corp.	52,588	53,729
Taiwan Steel Union Co., Ltd.	801,561	570,009
Right Investment Corp.	11,384	15,482
Subtotal	865,533	639,220
Total	$ 9,081,736	8,376,630

(ii) Subsidiaries

Please refer to the consolidated financial statements for the year ended December 31, 2018.

(iii) The financial information for investments accounted for using the equity method that are individually insignificant was as follows:

	December 31, 2018	December 31, 2017
The aggregate carrying amount of associates that were individually insignificant	$ 865,533	639,220

	For the years ended December 31,	
	2018	2017
Attributable to the Company:		
Net income from continuing operations	$ 178,047	197,254
Other comprehensive income	(3,803)	1,725
Total comprehensive income	$ 174,244	198,979

(iv) Cash dividends paid by the Company’ s associates were recognized as deductions of investment accounted for using the equity method. The details were as follows:

	For the years ended December 31,	
	2018	2017
Katec Research & Development Corp.	$ 2,241	854
Taiwan Steel Union Co., Ltd.	132,835	84,418
Right Investment Corp.	2,049	260
Total	$ 137,125	85,532

	December 31, 2018	December 31, 2017

(v) Collateral

None of the investments accounted for using the equity method were pledged for collateral as of December 31, 2018 and 2017.

(j) Property, plant and equipment

The cost and depreciation of the property, plant and equipment of the Company for the years ended December 31, 2018 and 2017 were as follows:

	Land	Buildings	Machinery equipment	Miscellaneous equipment	Other assets	Construction in progress	Total
Cost or deemed cost:							
Balance as of January 1, 2018	$ 2,360,721	6,075,156	22,696,692	239,653	500,650	112,945	31,985,817
Additions	-	146,978	282,796	31,006	33,338	126,012	620,130
Reclassification in (out) (Note 1)	-	9,573	146,590	17,511	-	(91,208)	82,466
Disposals	-	(1,358)	(34,288)	(15,965)	(928)	-	(52,539)
Balance as of December 31, 2018	$ 2,360,721	6,230,349	23,091,790	272,205	533,060	147,749	32,635,874
Balance as of January 1, 2017	$ 2,350,322	5,868,141	20,885,789	240,253	353,909	300,854	29,999,268
Additions	10,399	126,663	688,925	11,224	146,741	110,490	1,094,442
Reclassification in (Note 1)	-	81,454	1,177,956	-	-	(298,399)	961,011
Disposals	-	(1,102)	(55,978)	(11,824)	-	-	(68,904)
Balance as of December 31, 2017	$ 2,360,721	6,075,156	22,696,692	239,653	500,650	112,945	31,985,817
Depreciation :							
Balance as of January 1, 2018	$ -	2,992,883	15,282,514	138,049	-	-	18,413,446
Depreciation for the period	-	130,451	790,089	21,144	-	-	941,684
Reclassification out (Note 1)	-	(23,472)	-	-	-	-	(23,472)
Disposals	-	(1,239)	(32,140)	(15,243)	-	-	(48,622)
Balance as of December 31, 2018	$ -	3,098,623	16,040,463	143,950	-	-	19,283,036
Balance as of January 1, 2017	$ -	2,865,694	14,609,923	133,520	-	-	17,609,137
Depreciation for the period	-	127,597	695,298	15,913	-	-	838,808
Disposals	-	(408)	(22,707)	(11,384)	-	-	(34,499)
Balance as of December 31, 2017	$ -	2,992,883	15,282,514	138,049	-	-	18,413,446
Carrying value							
Balance as of December 31, 2018	$ 2,360,721	3,131,726	7,051,327	128,255	533,060	147,749	13,352,838
Balance as of December 31, 2017	$ 2,360,721	3,082,273	7,414,178	101,604	500,650	112,945	13,572,371

Note 1: Reclassification to prepayments and consigned goods and reclassification from prepayments for equipment.

(i) Because some of the Company's property, plant and equipment and investment property is agricultural land, transfer registration could not be undertaken using the Company's own title; therefore, the Company was registered as a trust registrant temporarily and signed the real estate trust registration contract, which stipulates the rights and obligations of both parties to preserve the ownership of the land. The Company is applying successively for registration of change in the category of land from relevant authorities. The details of the abovementioned land was as follows:

Accounts	December 31, 2018	December 31, 2017
Property, plant and equipment	$ 533,060	500,650

Investment property		483,769	517,327
	$	1,016,829	1,017,977

(ii) Collateral

None of the property, plant and equipment was pledged for collateral as of December 31, 2018 and 2017.

(iii) The assessment of the useful life and the residual value

Property, plant and equipment is depreciated using the straight-line method. The Company periodically evaluates the useful life and the residual value of property, plant, and equipment; if there is any significant change in relevant estimates, adjustments will be made in the period the change occurs and in the future periods.

(k) Investment property

		Land and improvements	Buildings	Total
Cost or deemed cost:				
Balance as of January 1, 2018	$	1,808,269	224,718	2,032,987
Additions		13,249	13,699	26,948
Disposals		(37,655)	-	(37,655)
Reclassification in		-	27,771	27,771
Balance as of December 31, 2018	$	1,783,863	266,188	2,050,051
Balance as of January 1, 2017	$	1,597,889	225,265	1,823,154
Additions		136,065	-	136,065
Disposals		-	(547)	(547)
Reclassification in		74,315	-	74,315
Balance as of December 31, 2017	$	1,808,269	224,718	2,032,987
Depreciation:				
Balance as of January 1, 2018	$	-	148,638	148,638
Reclassification in		-	23,472	23,472
Depreciation for the period		-	7,843	7,843
Balance as of December 31, 2018	$	-	179,953	179,953
Balance as of January 1, 2017	$	-	141,818	141,818
Depreciation for the period		-	7,367	7,367
Disposals		-	(547)	(547)
Balance as of December 31, 2017	$	-	148,638	148,638
Carrying amounts:				
Balance as of December 31, 2018	$	1,783,863	86,235	1,870,098
Balance as of December 31, 2017	$	1,808,269	76,080	1,884,349

	Land and improvements	Buildings	Total
Fair value:			
Balance as of December 31, 2018			$ 6,502,176
Balance as of December 31, 2017			$ 6,473,770

(i) Investment property includes the investment in Kuo Kong Section, Houlong town, Miaoli County, and several construction sites and factories leased to others; leased objects mentioned above are the factory in Chienchen District of Kaohsiung, the factory in Bade City of Taoyuan, the building in Taichung, and the office in Taipei.

(ii) The investment in Kuo Kong Section, Houlong Town, Miaoli County is in a general industrial zone. The Company has planned a wind power generation project and has now established wind generator sets to improve the efficiency of the use of the land. The Company has successively invested costs into the land in an effort to make the industrial zone available for use. As of December 31, 2018 and 2017, the carrying value for the above investment amounted to $977,524 thousand and $967,728 thousand, respectively.

(iii) The fair value of investment property is in reference to the appraisal report, done by independent professionals (with certificated qualification and recent experience in appraisals of items that are within the same area or of similar items). The valuation technique used is classified as the second and the third hierarchy of input value.

(iv) Please refer to Note 6(j) for relevant information on investment property acquired under the ownership of others.

(v) None of the investment property was for pledged for collateral as of December 31, 2018 and 2017.

(l) Short-term borrowings

Details of the Company’ s short-term borrowings were as follows:

	December 31, 2018	December 31, 2017
Unsecured credit loans	$ 6,450,000	4,400,000
Letters of credit	1,838,087	531,569
Total	$ 8,288,087	4,931,569
Unused credit lines	$ 10,374,768	9,529,594
Range of interest rates	0.42%~3.91%	0.42%~2.96%

(m) Short-term notes and bills payable

Details of the Company’ s short-term notes and bills payable were as follows:

	December 31, 2018		
	Bank of acceptance	Interest rate	Amount

Commercial paper payable	IBFC, Mega Bills, CBF, Ta Ching Bills	0.938%~1.058%	$	1,110,000
Less: discount on short-term bills payable				(433)
Total			$	1,109,567

	December 31, 2017			
	Bank of acceptance	Interest rate	Amount	
Commercial paper payable	IBFC	0.838%~0.858%	$	470,000
Less: discount on short-term bills payable				(766)
Total			$	469,234

Please refer to Note 6(l) for unused credit lines.

(n) Long-term borrowings

Details of the Company' s long-term borrowings were as follows:

	December 31, 2018				
	Currency	Interest rate	Maturity	Amount	
Unsecured bank loans	TWD	0.84%~1.1%	2020.04.27~2020.09.15	$	3,200,000
Less: current portion					-
Total				$	3,200,000
Unused credit lines				$	1,100,000

	December 31, 2017				
	Currency	Interest rate	Maturity	Amount	
Unsecured bank loans	TWD	0.81%~0.94%	2019.04.27~2020.03.10	$	3,000,000
Less: current portion					-
Total				$	3,000,000
Unused credit lines				$	1,450,000

(o) Bonds payable

(i) Major conditions of the issuance of unsecured bonds payable were as follows:

Item	The seventh unsecured domestic convertible bond	The sixth unsecured domestic convertible bond
1. Principal amount	$2,000,000 thousand	$2,500,000 thousand
2. Par value	$100 thousand	$100 thousand
3. Original issuance date	2018.05.14~2023.05.14	2012.11.05~2017.11.05
4. Maturity	5 years	5 years
5. Coupon rate	0%	0%

6. Redemption method	(1) Three months after the issuance date and 40 days prior to maturity, the bonds may be redeemed if the closing price of the ordinary shares, for a period of 30 consecutive trading days, is at least 30% of the conversion price then in effect. 30 trading days prior to maturity, the Company may redeem all bonds for cash. (2) If at least 90% in principal amount of the bonds has already been redeemed, repurchased and cancelled, or converted.	(1) 30 days after the issuance date and 40 days prior to maturity, the bonds may be redeemed if the closing price of the ordinary shares, for a period of 30 consecutive trading days, is at least 30% of the conversion price then in effect. 30 trading days prior to maturity, the Company may redeem all bonds for cash. (2) If at least 90% in principal amount of the bonds has already been redeemed, repurchased and cancelled, or converted.
7. Redemption option of bondholders	The bondholders could request the Company to redeem the bond at face value plus the interest premium of 0.75% and 1% three and four years after the issue date, respectively (actual yield: 0.25% and 0.25%, respectively).	The bondholders could request the Company to redeem the bond at face value plus the interest premium of 1.51% and 3.04% three and four years after the issue date, respectively (actual yield: 0.5% and 0.75%, respectively).
8. Conversion price and adjustment	The conversion price of NT27.8. dollars at the original issuance date was reduced to NT26.2 dollars as of July 7, 2018, because the ratio of the cash dividends to the current price per share exceeded 1.5% in 2017.	The conversion price was NT30 dollars at the original issuance date. Since the Company paid cash dividend on August 12, 2017, to ordinary shareholders that amounted to more than 1.5% of the market price per share then, the convertible price was reduced to NT 22.52 dollars according the conversion method.

(ii) Bonds payable as of December 31, 2018 and 2017, were as follows:

	December 31, 2018	December 31, 2017
Originally issued amount of unsecured domestic convertible bonds	$ 2,000,000	2,500,000
Accumulated redeemed and executed convertible bonds	-	(2,500,000)
Adjustment on the equity and liability component from repurchases and conversions	16,715	(124,864)
Capital surplus–stock options	(81,973)	-
Call option, put options, and conversion rights	(31,200)	-
Accumulated interest expenses	12,187	124,864
Total	**$ 1,915,729**	**-**

	For the years ended December 31, 2018	2017
Interest expense	**$ 12,187**	**1,168**

(iii) As of December 31, 2018 and 2017, accumulated repurchase and conversion of the seventh and sixth unsecured domestic convertible bonds were as follows:

Accumulated purchased and redeemed redemption rights	Face value of the seventh domestic unsecured convertible bonds	Face value of the sixth domestic unsecured convertible bonds
December 31, 2018	$ -	-

December 31, 2017	$ -	2,368,500
Accumulated conversion		
December 31, 2018	$ -	-
December 31, 2017	$ -	131,500

(iv) As of December 31, 2017, all of the transactions related to the sixth domestic unsecured convertible bonds had been completed.

(p) Operating lease

The Company leased its investment property under operating leases; please refer to Note 6(k) for related information. The future minimum lease payments receivable under non-cancellable leases were as follows:

	December 31, 2018	December 31, 2017
Less than one year	$ 25,516	24,410
Between one and five years	26,310	34,574
	$ 51,826	58,984

The operating lease revenues for the years ended December 31, 2018 and 2017, were $44,618 thousand and $43,892 thousand, respectively.

(q) Other payables

	December 31, 2018	December 31, 2017
Accrued payroll, year-end bonuses, provisionally estimated bonuses, remuneration of directors and supervisors, and employee benefits	$ 216,363	273,329
Freight payable	196,645	146,766
Utilities payable	204,933	191,638
Sales bonuses payable	182,369	179,984
Waste disposal payable (including to related parties)	48,422	97,146
Cash dividends payable (including from prior years)	38,525	36,124
Taxes payable	112,898	-
Other operating and manufacturing overhead payables	245,013	271,354
	$ 1,245,168	1,196,341

The above payables are planned to be paid within one year. Please refer to Note 6(aa) for the interest rate risk and sensitivity analysis of the aforementioned financial assets and liabilities.

(r) Employee benefits

(i) Defined benefit plan

Reconciliation between the present value of the Company's defined benefit obligation and the fair value of the plan assets were as follows:

	December 31, 2018	December 31, 2017
Present value of the defined benefit obligation	$ 1,595,547	1,528,074
Fair value of the plan assets	(749,324)	(730,155)
Net defined benefit liabilities	$ 846,223	797,919

1) Composition of plan assets

The Labor Pension Fund Supervisory Committee manages the Company's pension fund which is being funded according to the Labor Standards Act. Under the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, this fund is required to distribute income of not less than the interest income derived from two-year time deposit with the local banks.

As of December 31, 2018 and 2017, the balance of the Company's pension fund at Bank of Taiwan amounted to $749,324 thousand and $730,155 thousand, respectively. Please refer to the related information published on the website of the Labor Pension Supervisory Committee concerning the utilization of the labor pension fund, related yield rate and its asset allocation.

2) Changes in the present value of the defined benefit obligation

Changes in the present value of the Company's defined benefit obligation were as follows:

	For the years ended December 31, 2018	2017
Balance as of January 1	$ 1,528,074	1,443,804
Service cost and interest expense for the period	38,600	43,242
Remeasurements of the net defined benefit liability (asset)		
－Experience adjustments	93,942	24,022
－Actuarial (gains) losses arising from changes in population statistics assumptions	263	37,536
Benefits paid	(65,332)	(20,530)
Balance as of December 31	$ 1,595,547	1,528,074

3) Changes in the fair value of the plan assets

Changes in the Company's fair value of the plan assets were as follows:

	For the years ended December 31, 2018	2017
Balance as of January 1	$ 730,155	701,181
Interest income	7,295	8,776
Remeasurements of the net defined benefit liability(assets):		

Return on plan assets (excluding interests for the period)		21,861	(1,877)
Contributions from employer		55,345	42,605
Benefits paid		(65,332)	(20,530)
Balance as of December 31	$	**749,324**	**730,155**

4) Pension costs recognized in profit or loss

The Company's pension costs recognized in profit or loss were as follows:

	For the years ended December 31,		
	2018		**2017**
Service cost for the period	$	23,528	25,431
Net interest expense of net defined benefit liabilities		7,777	9,036
	$	**31,305**	**34,467**

	For the years ended December 31,		
	2018		**2017**
Operating costs	$	25,057	27,806
Selling expenses		1,032	1,142
Administrative expenses		5,216	5,519
	$	**31,305**	**34,467**

5) Changes in the remeasurement of the net defined benefit liabilities recognized in other comprehensive income

The Company's cumulated remeasurement of the net defined benefit liabilities recognized in other comprehensive income was as follows:

	For the years ended December 31,		
	2018		**2017**
Balance as of January 1	$	251,085	187,650
Recognized in the current period		72,344	63,435
Balance as of December 31	$	**323,429**	**251,085**

6) Actuarial assumptions

The principal assumptions of the Company's actuarial valuation were as follows:

	For the years ended December 31,	
	2018	**2017**
Discount rates	1.00%	1.00%
Rates of increase in future salary	1.50%	1.50%

The Company expects to make a contribution of NT$42,359 thousand to its defined benefit plans in the following year after the reporting date.

The weighted average duration of the defined benefit obligation is 9 years.

7) Sensitivity analysis

If the actuarial assumptions had changed, the impact on the present value of the defined benefit obligation shall be as follows:

		Effects on the Company's defined benefit obligations	
		Increase by 0.25%	**Decrease by 0.25%**
December 31, 2018			
Discount rate	$	(37,029)	38,326
Rate of increase in future salary		38,039	(36,939)
December 31, 2017			
Discount rate		(37,419)	38,785
Rate of increase in future salary		38,494	(37,329)

The above sensitivity analysis was based on the changes of a single assumption while holding other assumptions constant. In practicality, it is reasonably possible that the changes in different assumptions are linked to one another. The sensitivity analysis adopts the same method for determining the defined benefit assets at the reporting date.

There was no change of method and assumptions used in the sensitivity analysis for 2018 and 2017.

(ii) Defined contribution plan

The Company allocates 6% of each employee's monthly wages to the Labor Pension Personal Accounts at the Bureau of the Labor Insurance in accordance with the provisions of the Labor Pension Act. Under this defined contribution plan, the Company does not bear any additional legal or constructive obligations other than the allocation of a fixed amount to the Bureau of the Labor Insurance.

The Company's pension costs under the defined contribution plan were $36,073 thousand and $33,674 thousand for 2018 and 2017, respectively. The payment was made to the Bureau of the Labor Insurance and the Social Security Fund.

(s) Income tax

The amendment on Income Tax Law has been issued by the presidential Palace on February 7, 2018 which rises the profit-seeking enterprise income tax rate from 17% to 20% in 2018.

(i) The details of income tax expense for the years ended December 31, 2018 and 2017 were as follows:

		For the years ended December 31,	
		2018	**2017**
Income tax expense for the period			
Current tax expense incurred during the period	$	328,464	279,050
Adjustments for prior years		10,516	(15,406)
		338,980	263,644

Deferred tax benefit		
The origination and reversal of temporary differences	11,680	6,647
Adjustment in tax rate	(11,787)	-
	(107)	6,647
Income tax expense for continuing operations	$ 338,873	270,291

The income tax benefit (expense) related to components of other comprehensive income for the years ended December 31, 2018 and 2017 were as follows:

	For the years ended December 31,	
	2018	**2017**
Adjustment in tax rate	$ 7,533	-
Remeasurement of the defined benefit plans	14,469	10,784
	$ 22,002	10,784

The reconciliation of income tax expense and income before income tax for the years ended December 31, 2018 and 2017 were as follows:

	For the years ended December 31,	
	2018	**2017**
Income before income tax	$ 1,226,805	1,985,222
Income tax using the Company's domestic tax rate	$ 245,361	337,488
Adjustment in tax rate	(11,787)	-
Permanent difference	87,473	2,363
Tax-exempt income	-	(56,541)
Current investment tax credits used	(6,035)	(5,600)
Effect of defined benefit plan	4,808	1,384
Difference between administrative remedy and assessment by the tax authority	2,165	6,723
Over-estimation from prior periods	8,352	(22,129)
10% surtax on unappropriated earnings	8,536	6,603
Total	$ 338,873	270,291

(ii) Deferred tax assets and liabilities

1) Unrecognized deferred tax liabilities

There was no unrecognized deferred tax liability as of December 31, 2018 and 2017.

2) Unrecognized deferred tax assets

The items of unrecognized deferred tax assets were as follows:

	December 31, 2018	**December 31, 2017**
Tax effect of deductible temporary differences	$ 24,707	24,707

3) Recognized deferred tax assets and liabilities

Changes in the deferred tax assets and liabilities for the years ended December 31, 2017 and 2018 were as follows:

	Reserve for land appreciation tax	Others	Total
Deferred tax liabilities:			
Balance as of January 1, 2018	$ 167,174	2,950	170,124
Recognized in profit or loss	-	4,231	4,231
Balance as of December 31, 2018	$ 167,174	7,181	174,355
Balance as of January 1, 2017	$ 167,174	2,868	170,042
Recognized in profit or loss	-	82	82
Balance as of December 31, 2017	$ 167,174	2,950	170,124

	Defined benefit plans	Unrealized loss on financial assets and liabilities	Reversal of difference on difference between financial and tax reports arising from deferred gain on foreign exchange forward contracts	Others	Total
Deferred tax assets:					
Balance as of January 1, 2018	$ 83,792	890	19,190	8,559	112,431
Recognized in profit or loss	2,447	(541)	1,482	950	4,338
Recognized in other comprehensive income	22,002	-	-	-	22,002
Balance as of December 31, 2018	$ 108,241	349	20,672	9,509	138,771
Balance as of January 1, 2017	$ 74,392		20,809	13,011	108,212
Recognized in profit or loss	(1,384)	890	(1,619)	(4,452)	(6,565)
Recognized in other comprehensive income	10,784	-	-	-	10,784
Balance as of December 31, 2017	$ 83,792	890	19,190	8,559	112,431

(iii) The Company's income tax returns have been examined by the ROC tax authorities through 2016.

(iv) The Company is entitled to "the Incentive for a Five Year Exemption from Corporate Income Tax on Investments Made by Enterprises in the Manufacturing Industry and the Technical Service Industry between July 1, 2008, and December 31, 2009." Upon the approval by the Industrial Development Bureau, Ministry of Economic Affairs, the Company has chosen the start date of the tax exemption. Details regarding the Five-year Exemption are as follows:

Types of tax exemption	Approval No.	Project	Tax-exemption period
Construction and expansion	No. 09801075640 No. 09901135580	Basic metal manufacturing	2013.01.01~2017.12.31

(t) Capital and other equity interest

(i) Capital stock

As of December 31, 2018 and 2017, the Company's government-registered total authorized capital amounted to $12,000,000 thousand, with par value per share of $10 (dollars), and total issued ordinary shares amounted to 1,004,061 thousand and 1,000,224 thousand shares, respectively. All issued shares were paid up upon issuance.

The convertible bondholders exercised certain conversion rights in the year ended December 31, 2017; therefore, the Company issued 5,839 thousand shares at par value which totaled $58,391 thousand. Among the newly issued shares, the legal registration procedures of 2,003 thousand had been completed as of December 31, 2017.

The reconciliation for numbers of outstanding shares was as follows:

(in thousands of shares)		2018	2017
Balance as of January 1	$	1,000,224	998,221
Conversion of convertible bonds		3,837	2,003
Balance as of December 31	$	1,004,061	1,000,224

On September 22, 1994, the Company issued 6,000 thousand Global Depositary Receipts (GDRs), in the Multilateral Trading Facility (MTF) market of the Luxembourg Stock Exchange (LSE). The details were as follows:

(in shares)	December 31, 2018	December 31, 2017
Total issued shares	68,610,809	68,610,809
Outstanding shares	7,345,128	8,000,728

(ii) Capital surplus

The balances of capital surplus were as follows

		December 31, 2018	December 31, 2017
Additional paid-in capital	$	2,289,734	2,289,734
Conversion of bonds		3,840,072	3,840,072
Treasury stock transactions		59,036	59,036
Difference between the acquiring value and the carrying value of subsidiaries		21,274	21,274
Changes in equity of associates accounted for using the equity method		190,445	360
Stock options		81,973	-
Others		109,702	109,702
	$	6,592,236	6,320,178

According to the Company Act amended in January, 2012, capital surplus cannot be distributed as cash or stock dividends in proportion to the shareholding ratio before covering the accumulated deficit, if any. The aforementioned capital surplus includes the additional paid-in capital from issuance of ordinary stock in excess of the par value and donation from others. The

Company’ s paid-in capital in excess of par value reclassified to ordinary stock each year shall not exceed 10% of total issued and outstanding ordinary stock according to Regulations Governing the Offering and Issuance of Securities by Securities Issuers.

(iii) Retained earnings

Based on the Company's articles of incorporation, the Company's annual earnings should first be used to provide for income tax and to cover accumulated deficits, before being set aside 10% as a legal reserve, or if necessary, a special reserve. The remainder, along with accumulated earnings, is to be distributed as dividends and earnings distribution under the stockholder's resolution.

The Company is at a stable and mature stage, so the dividend plan is that the percentages of cash dividends and stock dividends shall not be less than 80% and more than 20%, respectively, of the total distribution.

1) Legal reserve

According to the amended Company Act effective in January, 2012, the Company's annual net profit, after providing for income tax, is appropriated for legal reserve at the rate of 10% thereof until the accumulated balance of legal reserve equals the total issued capital. If the Company incurs no accumulated deficit, legal reserve in excess of 25% of paid-in capital can be distributed as new shares or cash under the shareholders' resolution.

2) Special reserve

By choosing to apply exemptions granted under IFRSs 1 First-time Adoption of IFRSs during the Company's first-time adoption of the IFRSs as approved by the FSC, unrealized revaluation gains recognized under shareholders' equity and cumulative translation adjustments (gains) shall be reclassified as investment property at the adoption date. According to regulations, retained earnings would be increased by $333,057 thousand, by recognizing the fair value on the adoption date as deemed cost. The increase in retained earnings occurring before the adoption date due to the first-time adoption of the IFRSs amounted to $149,309 thousand. In accordance with Ruling No. 1010012865 issued by the FSC on April 6, 2012, an increase in retained earnings due to the first time adoption of the IFRSs shall be reclassified as a special earnings reserve during earnings distribution, and when the relevant asset were used, disposed of, reclassified, this special earnings reserve shall be reversed as distributable earnings proportionately. The carrying amount of special earnings reserve amounted to $149,309 thousand on December 31, 2018.

In accordance with the guidelines of the above Ruling, a portion of current-period earnings and unappropriated prior-period earnings shall be reclassified as a special earnings reserve during earnings distribution. The amount to be reclassified should be equal to the difference between the total net current period reduction of special earnings reserve resulting from the first time adoption of IFRSs and the carrying amount of other shareholders' equity as stated above. Similarly, a portion of unappropriated prior period earnings shall be reclassified as a special earnings reserve (which does not qualify for earnings distribution) to account for cumulative changes to other shareholders' equity pertaining to prior periods due to the first-time adoption of IFRSs. Amounts of subsequent reversals pertaining to the net reduction of other shareholders' equity shall qualify for additional distributions.

3) Earnings distribution

The appropriations of earnings of the years ended December 31, 2017 and 2016, were resolved by the shareholders' meeting on June 11, 2018 and June 16, 2017, respectively. The amounts of the appropriated dividends per share were as follows:

	For the years ended December 31	
	2017	2016
Dividends per ordinary share (in dollars)		
Cash dividend	$ 1.40	1.30

The abovementioned distribution approved by the shareholders' meeting is consistent with that approved by the Board of Directors. Related information can be found through the Market Observation Post System website.

4) Other equity accounts (net of tax)

	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on available-for-sale financial assets	Cash flow hedge	Unrealized gains (losses) from financial assets measured at fair value through OCI	Total
Balance as of January 1, 2018	$ (581,054)	773,242	-	-	192,188
Effects of retrospective application	-	(773,242)	-	101,745	(671,497)
Balance as of January 1, 2018 after adjustments	(581,054)	-	-	101,745	(479,309)
Exchange differences on translation of foreign operations :					
The Company	(66,910)	-	-	-	(66,910)
Subsidiaries	(16,984)	-	-	-	(16,984)
Disposal of equity instruments at fair value through other comprehensive income	-	-	-	(93,594)	(93,594)
Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income					
The Company	-	-	-	14,626	14,626
Associates and subsidiaries	-	-	-	(4,853)	(4,853)
Balance as of December 31, 2018	$ (664,948)	-	-	17,924	(647,024)
Balance as of January 1, 2017	$ (197,581)	412,930	(17,385)	-	197,964
Exchange differences on translation of foreign operations (net of taxes):					
The Company	(304,586)	-	-	-	(304,586)
Subsidiaries	(78,887)	-	-	-	(78,887)
Effective portion of cash flow hedge (net of taxes):					
The Company	-	-	17,385	-	17,385
Unrealized gains (losses) on available-for-sale					

financial assets:

The Company		-	358,587	-	-	358,587
Associates		-	1,725	-	-	1,725
Balance as of December 31, 2017	$	(581,054)	773,242	-	-	192,188

(u) Earnings per share

(i) Basic earnings per share

The basic earnings per share for the years ended December 31, 2018 and 2017 were calculated on the basis of profit attributable to ordinary shareholders, which were $887,932 thousand and $1,714,931 thousand, respectively, and the weighted-average number of outstanding ordinary shares, which were 1,004,061 thousand and 999,513 thousand, respectively. The calculations were as follows:

1) Profit attributable to ordinary shareholders of the Company (basic)

	For the years ended December 31,	
	2018	**2017**
Profit attributable to the Company	$ 887,932	1,714,931
Profit attributable to the ordinary shareholders	$ 887,932	1,714,931

2) Weighted-average number of outstanding ordinary shares (basic) (in thousands of shares)

	For the years ended December 31,	
	2018	**2017**
Number of outstanding shares	1,004,061	999,513

(ii) Diluted earnings per share

The diluted earnings per share for the years ended December 31, 2018 and 2017, were calculated on the basis of profit attributable to ordinary shareholders, which were $913,011 thousand and $1,716,995 thousand, respectively, and the weighted-average number of outstanding ordinary shares after adjustments for the effect of any potentially dilutive ordinary shares, which were 1,054,202 thousand and 1,006,188 thousand, respectively. The calculations were as follows:

1) Profit attributable to ordinary shareholders of the Company (diluted):

	For the years ended December 31,	
	2018	**2017**
Profit attributable to the ordinary shareholders of the Company (basic)	$ 887,932	1,714,931
Interest expense after tax and valuation of convertible bonds	25,079	2,064
Profit attributable to the ordinary shareholders of the Company (dilutive)	$ 913,011	1,716,995

2) Weighted-average number of ordinary shares (diluted) (in thousands of shares)

For the years ended December 31,

	2018	2017
Weighted-average number of outstanding ordinary shares (basic)	1,004,061	999,513
Effects of convertible bonds	47,942	4,234
Effects of employee stock bonus	2,199	2,441
Weighted-average number of outstanding ordinary shares (dilutive)	**1,054,202**	**1,006,188**

(v) Revenue from contracts with customers

(iii) Disaggregation of revenue

	For the years ended December 31, 2018		
	Sale of goods	**Rendering of services**	**Total**
Primary geographical markets:			
Taiwan	$ 28,019,969	5,906	28,025,875
The United States	1,671,404	-	1,671,404
Asia	3,183,113	-	3,183,113
Others	1,811,890	-	1,811,890
	$ 34,686,376	**5,906**	**34,692,282**
Main product/service line:			
Deformed bars	$ 17,421,914	-	17,421,914
Sections	14,392,301	-	14,392,301
Billets	626,124	-	626,124
Rendering of services	-	5,906	5,906
Others	2,246,037	-	2,246,037
	$ 34,686,376	**5,906**	**34,692,282**

For details on revenue for the year ended December 31, 2017, please refer to note 6(w).

(iv) Contract balances

	December 31, 2018	**January 1, 2018**
Notes receivable	$ 139,471	70,036
Accounts receivable	4,950,642	3,146,475
Overdue receivables	10,020	10,020
Less: allowance for impairment	(31,977)	(31,977)
Total	**$ 5,068,156**	**3,194,554**

	December 31, 2018	**January 1, 2018**
Contract liabilities－advance receipts	**$ 329,010**	**301,261**

For details on accounts receivable and allowance for impairment, please refer to note 6(f).

(w) Revenue

The details of the components of revenue for the years ended December 31, 2017, were as follows:

		For the year ended December 31, 2017
Sale of goods	$	24,704,836

For the amount of revenue for the years ended December 31, 2018, please refer to note 6(v).

(x) Employee compensation and remuneration of directors

In accordance with the articles of incorporation, the Company should contribute no less than 2.5% of the profit as employee compensation and less than 2% as remuneration of directors and supervisors when there is profit for the year. However, if the Company has accumulated deficits, the profit should be reserved to offset the deficit.

For the years ended December 31, 2018 and 2017, the Company's estimated employee compensation amounted to $32,115 thousand and $51,969 thousand, respectively, and the remuneration of directors amounted to $25,692 thousand and $41,575 thousand, respectively. The estimated amounts mentioned above were calculated based on the net income before tax, excluding the compensation to employees and the remuneration of directors of each period, multiplied by the percentage of compensation to employees and the remuneration of directors as specified in the Company's articles. These compensation and remuneration were expensed under operating costs or operating expenses for the years ended December 31, 2018 and 2017. Related information is available at the Market Observation Post System website. The amounts, as stated in the financial statements for the years ended December 31, 2018 and 2017, are identical to those of the actual distributions.

(y) Non-operating income and expenses

(i) Other income

The details of other income for the years ended December 31, 2018 and 2017 were as follows:

	For the years ended December 31,		
		2018	2017
Interest income	$	860	2,511
Dividend income		59,935	51,425
Rental income		52,754	48,687
	$	113,549	102,623

(ii) Other gains and losses

The details of other gains and losses for the years ended December 31, 2018 and 2017 were as follows:

	For the years ended December 31,		
		2018	2017
Foreign exchange gain (loss)	$	22,702	(25,325)
Net (loss) gain on disposal of property, plant and equipment		1,409	(33,195)
Net gain on disposal of investments		-	2,491

Net gain on disposal of investment property	3,133	-
(Loss) gain on disposal of financial assets and liabilities carried at fair value through profit or loss	2,548	(40,065)
Lease and improvement on land	30,554	-
Compensation gain (loss) on damage of assets	2,246	5,323
Others	34,112	34,235
	$ 96,704	(56,536)

(iii) Finance cost

The details of finance costs for the years ended December 31, 2018 and 2017 were as follows:

	For the years ended December 31,	
	2018	2017
Interest expense		
Bank borrowings	$ 122,643	71,144
Amortized interest of domestic corporate bond	12,187	1,168
Interest on domestic commercial paper	8,246	1,529
Less: interest capitalization	(2,635)	(8,567)
	$ 140,441	65,274

(z) Reclassification adjustments of the components of other comprehensive income

The details of reclassification of the components of comprehensive income for the years ended December 31, 2018 and 2017 were as follows:

	For the years ended December 31,	
	2018	2017
Cash flow hedge		
Less: Adjustments to the original carrying value of the hedged item	$ -	17,385
Available-for-sale financial assets		
Net change in fair value in the current period	-	358,587
Net change recognized in other comprehensive income	$ -	375,972

(aa) Financial instruments

(i) Credit risk

1) Exposure to credit risk

The carrying amount of financial assets excluding cash and cash equivalents represents the Company’s maximum credit exposure. As of December 31, 2018 and 2017, the maximum exposure to credit risk amounted to $5,998,049 thousand and $5,187,338 thousand, respectively.

2) Concentration of credit risk

Credit risk, which is mainly generated from operating activities, is the risk that counterparties default. The Company only deals with counterparties that are reputable. Therefore, it is not expected to generate any material credit risk. Moreover, the Company has numerous clients and does not make any concentrative transactions with any single client. Therefore, there is no concentration of credit risk for account receivables.

(ii) Liquidity risk

The following are the dates of contractual maturities of financial liabilities, including estimated interest payments but excluding the impact of netting agreements.

	Carrying amount	Contractual cash flows	Within 6 months	6-12 months	1-2 years	2-5 years	Over 5 years
December 31, 2018							
Non-derivative financial liabilities							
Unsecured bank loans	$ 11,488,087	11,568,348	8,338,529	14,496	3,215,323	-	-
Unsecured commercial papers payable	1,109,567	1,110,000	1,110,000	-	-	-	-
Accounts payable	1,412,820	1,412,820	1,412,820	-	-	-	-
Notes payable	160,777	160,777	160,777	-	-	-	-
Other payables	1,245,168	1,245,168	1,245,168	-	-	-	-
	$ 15,416,419	15,497,113	12,267,294	14,496	3,215,323	-	-
December 31, 2017							
Non-derivative financial liabilities							
Unsecured bank loans	$ 7,931,569	7,978,295	4,950,154	12,948	3,015,193	-	-
Unsecured commercial papers payable	469,234	470,000	469,234	-	-	-	-
Accounts payable	1,133,308	1,133,308	1,133,308	-	-	-	-
Notes payable	102,314	102,314	102,314	-	-	-	-
Other payables	1,196,341	1,196,341	1,196,341	-	-	-	-
	$ 10,832,766	10,880,258	7,851,351	12,948	3,015,193	-	-

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

(iii) Exchange rate risk

1) Exposure to exchange rate risk

The Company's financial assets and liabilities exposed to significant exchange rate risk were as follows:

	December 31, 2018			December 31, 2017		
	Foreign currency	Exchange rate (in dollars)	TWD	Foreign currency	Exchange rate (in dollars)	TWD
Financial assets						
Monetary items						
USD	$ 69,374	30.72	2,131,169	27,837	29.76	828,429
EUR	2	35.20	70	2	35.57	71
JPY	472	0.2782	131	176,439	0.2642	46,615
CNY	22	4.472	98	22	4.565	100
Financial liabilities						
Monetary items						

USD	57,244	30.72	1,758,536	16,085	29.76	478,690
EUR	1,884	35.20	66,317	1,059	35.57	37,669
JPY	47,607	0.2782	13,244	57,691	0.2642	15,242

2) Sensitivity analysis

The Company's exposure to exchange rate risk arises from the foreign currency exchange fluctuations on cash and cash equivalents, accounts receivable, and loans and borrowings, which were denominated in different foreign currencies. The overall effects to net income before tax for the years ended December 31, 2018 and 2017 assuming the TWD appreciate or depreciate by 1% against the USD, EUR, JPY, and CNY, while other factors remain constant, as of December 31, 2018 and 2017 were as follows:

	Effect of appreciation on net income after tax	Effect of depreciation on net income after tax
December 31, 2018		
USD (appreciation/depreciation of 1%)	$ 2,981	(2,981)
EUR (appreciation/depreciation of 1%)	(530)	530
JPY (appreciation/depreciation of 1%)	(105)	105
CNY (appreciation/depreciation of 1%)	1	(1)
	$ 2,347	(2,347)
December 31, 2017		
USD (appreciation/depreciation of 1%)	$ 2,903	(2,903)
EUR (appreciation/depreciation of 1%)	(312)	312
JPY (appreciation/depreciation of 1%)	260	(260)
CNY (appreciation/depreciation of 1%)	1	(1)
	$ 2,852	(2,852)

3) Exchange gains and losses on monetary items

Due to the variety of functional currencies, the Company disclosed the aggregated information on foreign exchange gains and losses; the Company’s foreign exchange gains and losses, including realized and unrealized, for the years ended December 31, 2018 and 2017, amounted to $(22,702) thousand and $25,325 thousand, respectively.

(iv) Interest rate analysis

The Company’s financial assets and liabilities exposed to interest rate risk are described in liquidity analysis within this Note.

The following sensitivity analysis is based on the risk exposure to interest rates of the derivative and non-derivative financial instruments on the reporting date. For variable rate instruments, the sensitivity analysis assumes the liabilities bearing variable interest rates are outstanding for the whole year. A 1% increase or decrease in interest rate is assessed by management to be a reasonably possible change in interest rate.

If the interest rate increases by 1%, the Company’s net income will decrease by $114,881 thousand and $79,316 thousand for the years ended December 31, 2018 and 2017 respectively, assuming all other variable factors remain constant.

(v) Other market price risk

The impact of hypothetical changes in prices of equity securities on comprehensive income on the reporting date was as follows:

	For the years ended December 31,	
	2018	**2017**
Security price on reporting date	**Other comprehensive income (after tax)**	**Other comprehensive income (after tax)**
Increase 1%	$ 3,777	13,641
Decrease 1%	$ (3,777)	(13,641)

(vi) Information on fair value

1) Types and fair value of financial instruments

The carrying and fair value of the Company's financial assets and liabilities, including fair value hierarchy, wherein, disclosures are not required for financial instruments not measured at fair value with a carrying value approximating its fair value; and those equity investments in which the fair value cannot be reliably measured and without any quoted price in the open market, are listed as follows:

	December 31, 2018				
	Carrying amount	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets mandatorily measured at fair value through profit or loss					
Non-derivative financial asset mandatorily measured at fair value through profit or loss - publicly listed domestic stocks	$ 134,560	134,560	-	-	134,560
Financial assets at fair value through other comprehensive income					
Publicly listed domestic stocks	377,716	377,716	-	-	377,716
Equity instruments measured at fair value with no publicly quoted price	180,199	-	-	180,199	180,199
Subtotal	557,915	377,716	-	180,199	557,915
Financial assets measured at amortized cost					
Cash and cash equivalents	329,264	-	-	-	-
Notes and accounts receivable	5,048,156	-	-	-	-
Other receivables	72,190	-	-	-	-
Refundable deposits	185,228	-	-	-	-
Subtotal	5,634,838	-	-	-	-
Total	$ 6,327,313	512,276	-	180,199	692,475
Financial liabilities at fair value through profit or loss					
Derivative financial instrument－foreign exchange forward contract	$ 1,745	-	1,745	-	1,745
Redemption options on convertible bonds	31,200	-	31,200	-	31,200
Subtotal	32,945	-	32,945	-	32,945
Financial liabilities measured at amortized cost					

Short-term borrowings	8,288,087	-	-	-	-
Short-term bills payable	1,109,567	-	-	-	-
Long-term borrowings	3,200,000	-	-	-	-
Convertible bonds	1,915,729	-	1,914,200	-	1,914,200
Notes and accounts payable	1,573,597	-	-	-	-
Other payables	1,245,168	-	-	-	-
Subtotal	17,332,148	-	1,914,200	-	1,914,200
Total	$ 17,365,093	-	1,947,145	-	1,947,145

	December 31, 2017				
	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss					
Non-derivative financial asset held for trading — publicly listed domestic stocks	$ 186,360	186,360	-	-	186,360
Subtotal	186,360	186,360	-	-	186,360
Financial assets carried at cost					
Unlisted domestic stocks	211,224	-	-	-	-
Available-for-sale financial assets					
Publicly listed stocks and stocks listed on emerging markets	1,364,071	1,364,071	-	-	1,364,071
Subtotal	1,364,071	1,364,071	-	-	1,364,071
Loans and receivables					
Cash and cash equivalents	508,003	-	-	-	-
Notes and accounts receivable	3,194,554	-	-	-	-
Other receivables	46,458	-	-	-	-
Refundable deposits	184,671	-	-	-	-
Subtotal	3,933,686	-	-	-	-
Total	$ 5,695,341	1,550,431	-	-	1,550,431
Financial liabilities at fair value through profit or loss					
Derivative financial instruments - foreign exchange foward contract	$ 5,238	-	5,238	-	5,238
Financial liabilities measured at amortized cost					
Short-term borrowings	4,931,569	-	-	-	-
Long-term borrowings	3,000,000	-	-	-	-
Short-term bills payable	469,234	-	-	-	-
Notes and accounts payable	1,235,622	-	-	-	-
Other payables	1,196,341	-	-	-	-
Subtotal	10,832,766	-	-	-	-
Total	$ 10,838,004	-	5,238	-	5,238

2) Technique for fair value evaluation of financial instruments not measured at fair value

The Company’s assumption and technique used to evaluate its financial instruments not measured at fair value are as follows:

a) Financial assets measured at amortized cost (Financial assets held to maturity)

If the quoted prices in active markets are available, the market price is established as the fair value. However, if quoted prices in active markets are not available, the estimated valuation or prices used by competitors are adopted.

b) Financial assets measured at amortized cost (debt investments with no active market) and financial liabilities measured at amortized cost

If the information on the quoted price of the market deals and market manipulation

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is available, the latest price of the transaction and quotation information should be used as the basis for evaluating its fair value. If no market information is available for reference, the evaluation method should be adopted. Estimates and assumptions of the evaluation method should be used to assess the fair value of the discounted cash flows.

3) Technique for fair value evaluation of financial instruments measured at fair value

a) Non- derivative financial instrument

If a financial instrument is quoted in an active market, the quoted price is its fair value. Announced prices at major exchanges and market prices of popular government bonds at the Taipei Exchange are bases of fair value for listed equity instruments and other debt investments with an active market.

A financial instrument is regarded as being quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency. If this condition is not met, the market is not active. Generally, if bid-ask spreads are very wide, the spread is increasing, or the transaction volume is low, the market is not active.

Fair value of the Company’ s financial instruments that have an active market is displayed by category and attributed as follows:

Listed stocks are financial assets and liabilities with standard transaction terms and conditions, and are traded on an active market. The fair value of such items is determined in reference to the quoted market price.

Except for the abovementioned financial instruments with an active market price, the fair value of other financial instruments is measured using the valuation techniques. The fair value obtained through valuation techniques can be used as a reference to the current fair value, discounted cash flow, or other valuation techniques for other financial instruments with substantially similar properties and conditions. Fair value calculated using the valuation models and the available market information on the balance sheet date are also accepted by the market.

The fair value and the attributes of a financial instrument without an active market held by the Consolidated Company is listed as follows:

- Equity instruments without an open quoted price: Fair value is estimated using the approach of comparative companies. The main assumptions are the estimated EBITDA of the investee, and the earnings multiplier derived from the quoted price of a comparative publicly listing company. Such estimate has been adjusted by the discount due from the lack of market circulation of the equity securities.

b) Derivative financial instruments

Such items are valued using the valuation models which are widely accepted by the market. Foreign exchange forward contracts normally are valued using the current forward exchange rates. Interest rate structured financial instruments are valued using the option pricing models or other valuation methods.

4) Transfers between Level 1 and Level 2

There were no transfers in either direction for the years ended December 31, 2018 and 2017.

5) Quantified information on significant unobservable inputs (Level 3) used in fair value measurement

The Consolidated Company's financial instruments that use Level 3 inputs to measure fair value include "financial assets measured at fair value through profit or loss – debt investments".

Multiple unobservable inputs exist with the fair value of the Consolidated Company's investments in equity instruments. Since the significant unobservable inputs are independent of each other, no interrelationship exists.

Quantified information of significant unobservable inputs was as follows:

Item	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Financial assets at fair value through other comprehensive income —equity investments without an active market	Comparative method	• Multiplier of P/E ratio (0.6~12.97 as of December 31, 2018) • Discount rate for lack of market circulation (15%~33.7% as of December 31, 2018)	• The higher the multiplier and the control premium, the higher the fair value • The higher the discount rate, the lower the fair value

6) Fair value measurements in Level 3 – sensitivity analysis of reasonably possible alternative assumptions

The measurement of fair value by the Consolidated Company is considerably reasonable. However, if a different valuation model or assumption is adopted, the result can differ. For fair value measurements in Level 3, changes in the assumptions would have the following effects:

	Input	Changes in assumptions	Changes in fair value reflected in OCI: Favorable	Unfavorable
December 31, 2018				
Financial assets at fair value through other comprehensive income				
Investment in equity instrument without an active market	Discount on circulation 15%~33.7%	5%	11,899	(11,899)

The favorable and unfavorable effects represent the changes in fair value, and fair value is based on a variety of unobservable inputs calculated using a valuation technique. The analysis above only reflects the effects of changes in a single input, and it does not include the interrelationships with another input.

a) Derivative financial instruments

Such items are valued using the valuation models which are widely accepted by the market. Foreign exchange forward contracts normally are valued using the current forward exchange rates. Interest rate structured financial instruments are valued using the option pricing models or other valuation methods.

There were no transfers among the fair value hierarchy levels for the years ended December 31, 2018 and 2017.

(ab) Financial risk management

(i) Summary

The Company is exposed to the following risks by using financial instruments:

1) Credit risk

2) Liquidity risk

3) Market risk

This disclosure contains the information of the risk exposure, the objectives, policies and procedures of the measurement and management of those risks. Detailed quantified information has been disclosed in related notes to the financial statements.

(ii) The structure of risk management

The goal of risk management of the Company is to seek balance between risk and revenue, reducing the negative impact of financial risks on financial performance. Based on that goal, the Company has already established risk management policies for identifying and analyzing the risks faced, set appropriate acceptable risk level, and designed corresponding internal control procedures in order to supervise the risk level of the Company. The Company will review these risk management policies and relevant internal control system periodically to adapt to the market or the changes in operational activities of the Company.

(iii) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company’s receivables from customers and investment securities.

1) Accounts receivable and other receivables

To maintain the credit quality of receivables, a credit risk management policy has been established. Under this policy, each customer is analyzed individually regarding customer’s financial situation, external and internal credit rating, historical trading record, and current economic condition which may affect customer’s payment ability. In addition, some methods are adopted to reduce the credit risk for specific customers, such as prepayment and insurance of accounts receivable.

2) Investments

The credit risk exposure on bank deposits, fixed income investments and other financial instruments are measured and monitored by the Company’s finance department. As the Company’s transactions are done with the banks and other external parties with good credit standing, management is not aware of any non-compliance issues and is not expecting significant credit risk.

3) Endorsements and guarantees

The parties whom the Company endorses and guarantees are its subsidiaries and affiliated companies; the items that the Company endorses and guarantees are mostly financing and import duties commodity tax. Because the affiliated companies are financially sound and operate stably, the Company has never suffered from losses due to endorsements and guarantees.

(iv) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. The Company’s approach to managing liquidity is to ensure, as much as possible, that it will always have sufficient current funds, such as cash and cash equivalent, securities with high liquidity, and sufficient credit line from banks, to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Company’s reputation. Therefore, the Company believes the liquidity risk is low.

The Company not only analyzes its debt structure and deadline periodically to maintain sufficient capital, but also consults with financial institutions to maintain its credit lines, thereby, mitigating liquidity risk. The Company obtains its credit lines from certain financial institutions, of which the unused credit lines amounted to $11,474,768 thousand as of December 31, 2018. The borrowings that had been used within the credit lines were listed separately in short-term and long-term loans.

(v) Market risk

Market risk is the risk of changes in market prices, such as foreign exchange rates, interest rates and equity prices that will affect the Company’s income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

1) Exchange rate risk

Exchange rate risks are the risks generated from the fluctuation of fair value or the future cash flows of the financial instruments. The Company’s exchange rate risks arise from transactions such as sales, purchases and borrowings that are not recognized at the Company’s functional currency.

Steel bars and sections are the two main products of the Company. Sales of steel bars mainly go to domestic clients and are recognized in New Taiwan dollar. The ratio of domestic sales to external sales for sections was about 7 to 3 for the year ended December 31, 2018. The external sales for the year ended December 31, 2018 was about $6,670,000 thousand, which was 19% of the total revenue. Because the functional currency for import and export sales are all recognized in United States dollar ("USD"), sales revenue in USD and payments in USD can offset each other. The Company uses foreign exchange forward contracts to avoid the risk of exchange rate fluctuation, recognizing the fluctuation of the fair value of the derivatives in profit or loss and takes the following steps to avoid exchange risk:

Collect relevant information about the daily fluctuation in exchange rate in order to know its trend. Decide whether to convert one currency into another specific currency at a proper time or retain foreign currency borrowings.

On dispatching foreign funds, the creditor's rights and debts in foreign currency offset each other through regular external sales and imports, causing the effect of natural hedge.

Consult with foreign exchange departments of banks about hedging strategies and decide the foreign position that depends on the actual need of capital and the fluctuation of the exchange rate.

2) Interest rate risk

Interest rate risks are the risks that arise due to fluctuations in fair value or future cash flows of financial instruments because of changes in interest rate.

The Company will obtain a more beneficial capital according to the compatibility of corresponding banks and the actual interest rate trends. The ratio of net interest revenue to the net operating revenue is not material; therefore, interest rate fluctuation does not cause any significant impact on the Company. Besides, the Company maintains a close relationship with certain corresponding banks and is well informed of any changes in the market in order to obtain a much more beneficial borrowing rate. The Company continues to observe changes of interest rate on the market and issues convertible bonds to raise capital at proper time, and to fix and reduce interest cost for the Company. Material capital expenditure will be evaluated with prudence and will be compared to different fund-raising instruments in order to raise capital with the least cost.

(ac) Capital management

Although business operated by the Company has reached the stage of maturity, a sufficient amount of capital is still required to support the operation of investee companies, construction and expand its production facilities and equipment. The Company's policy is to maintain adequate financial resources and operating plan to meet future operating capital, capital expenditure, research and development expenditure, loans reimbursement, and dividend distribution.

The Company uses the debt-to-capital ratio to manage capital. The debt-to-capital ratio is calculated by dividing the net liabilities by the total capital. Net liabilities derive from deducting cash and cash equivalents from total liabilities.

The Company reviews the ratio of debt-to-capital periodically to improve stockholders' value. The debt-to-capital ratios as of December 31, 2018 and 2017, were as follows:

	December 31, 2018	December 31, 2017
Total liabilities	$ 18,910,544	12,312,775

Less: cash and cash equivalents	(329,264)	(508,003)

Net liabilities	18,581,280	11,804,772
Total equity	23,903,085	23,952,441
Total capital	$ 42,484,365	35,757,213
Debt-to-capital ratio	43.74%	33.01%

As of December 31, 2018, there were no changes in the Company's approach to capital management during the period.

(ad) The investing and financing activities of non-cash transactions

Cash flow of non-cash investing and financing transactions for the years ended December 31, 2018 and 2017, were as follows:

	For the years ended December 31, 2018	2017
Conversion of convertible bonds payable to ordinary shares (including share premium)	$ -	131,302
Reclassification of prepayment of land and equipment to property, plant and equipment	$ 110,437	964,053
Reclassification of prepayment of land and equipment to investment property	$ -	74,315
Changes in unrealized gain or loss on financial instruments accounted for using the equity method	$ 14,626	358,587
Unrealized gain or loss on financial instruments accounted for using the equity method	$ (3,803)	1,725
Reclassification of financial assets carried at cost to available-for-sale financial assets	$ -	94,586
Foreign exchange differences arising from foreign operation	$ (84,312)	(383,473)
Increase in property, plant and equipment	$ 620,130	1,094,442
Add: payable for equipment as of January 1	43,579	49,349
Less: other payables–construction and equipment as of December 31	(120,519)	(43,579)
Less: loss on hedging instrument reclassified to property, plant and equipment	-	(17,385)
Cash paid	$ 543,190	1,082,827

Reconciliation of liabilities arising from financing activities were as follows:

		Cash flows			Non-cash changes	
	January 1,2018	Proceeds from loans	Repayment	Other	Other	December 31, 2018
Short-term borrowings	$ 4,931,569	53,929,277	(50,572,759)	-	-	8,288,087
Long-term borrowings	3,000,000	2,550,000	(2,350,000)	-	-	3,200,000
Short-term notes and bills payable	470,000	9,055,000	(8,415,000)	-	-	1,110,000
Bonds payable	-	2,000,000	-	-	(84,271)	1,915,729
Refundable deposits	22,219	-	-	(11,554)	-	10,665
Total liabilities from financing activities	$ 8,423,788	67,534,277	(61,337,759)	(11,554)	(84,271)	14,524,481

(7) Related-party transactions

(a) Names and relationship with related parties

Name of related party	Relationship with the Company
Tung Yuan International Corp.	A subsidiary
Tung Kang Steel Structure Corp.	A subsidiary
Goldham Development Ltd.	A subsidiary
Katec Creative Resources Corp.	A subsidiary
Tung Kang Wind Power Corp.	A subsidiary
Fa Da Corp.	A subsidiary
Tung Ho Steel Vietnam Corp.	A subsidiary
3 Oceans International Inc.	A subsidiary
Best-steel Trade Corp.	A subsidiary
Tung Kang Engineering and Construction Corp.	A subsidiary
Fujian Tung Kang Steel Co., Ltd.	A subsidiary
Fujian Dong Sheng Metal Processing Co., Ltd.	A subsidiary
Katec R & D Corp.	An associate
Taiwan Steel Union Co., Ltd.	An associate
Duc Hoa International Joint Stock Company	An associate
Fujian Sino-Japan Metal Corp.	An associate
Shen Yuan Investment Co., Ltd.	The entity's chairman is a second immediate family of the chairman of the Company
Far East Steel Enterprise Corp.	Same chairman with the Company
Delta Design Corp.	The entity's chairman is a second immediate family of the chairman of the Company
Tung Ho Steel Foundation ("THSF")	The entity's chairman is an immediate family of the chairman of the Company
Directors, general manager and vice general manager	

(b) Significant related-party transactions

(i) Sales to related parties

Significant sales to related parties and the balance of outstanding accounts receivable were as follows:

	Sales		Accounts receivable	
	For the years ended December 31,		December 31,	December 31,
Relationship	2018	2017	2018	2017
Subsidiaries	$ 5,260,365	2,625,375	2,525,807	1,033,870

The selling price and credit terms for sales to related parties are not significantly different from those to other customers, except for sales to Best-Steel Trade Corp. and Tung Ho Steel Vietnam Corp., Ltd., for which the credit terms for sales were within 110 days and 330 days respectively.

(ii) Purchases from related parties

	Purchases		Accounts payable	
	For the years ended December 31,		December 31,	December 31,
Relationship	2018	2017	2018	2017
Other related parties	$ 1,412	227	-	-
Associates	2,044	-	882	-
Subsidiaries	277,112	249,059	19,154	31,106
	280,568	249,286	20,036	31,106

The terms of purchase transactions and the payment terms with related parties were not significantly different from those with other vendors.

(iii) The unrealized profit resulting from the Company’ s downstream sales to its subsidiaries has been directly deducted from its operating gross profit. The realized profit has been added to its operating gross profit.

Significant unrealized (realized) profits from downstream sales for the years ended December 31, 2018 and 2017 were as follows:

	For the years ended December 31,	
	2018	2017
Downstream unrealized profit from sales	$ (43,741)	(35,941)
Downstream realized profit from sales	35,941	13,886
	$ (7,800)	(22,055)

As of December 31, 2018 and 2017, the balances of unrealized profits from downstream sale transactions were $43,471 thousand and $35,941 thousand, respectively, and were recognized as a reduction to investment accounted for using the equity method.

(iv) (1) In 2016, the Company entered into two seperate agreements with Tung Kang Engineering & Construction Corp for the "Taoyuan Phase II Expansion Project" and "Taiper Harbor Scrap Factory Construction", at the amounts of $70,421 thousand and $99,316 thousand respectively. Both constructions were completed in September and August of 2018, respectively, and were reclassified from construction in progress to property, plant and equipment, totaling $165,359 thousand, resulting in an unrealized gain of $40,691 thousand, which was recognized as a deduction to investment accounted for using the equity method.

(2) In 2018, the Company entered into an agreement with Tung Kang Steel Structure Corp. for

its "Taoyuan cut-to-length production factory", at an amount of $117,865 thousand. The construction was completed in August of 2018, and was reclassified from construction in progress to property, plant and equipment, totaling $106,079 thousand. As of December 31, 2018, the unpaid amount was $106,079 thousand, resulting in an unrealized gain of $9,779 thousand, which was recognized as a deduction to investment accounted for using the equity method.

(v) Endorsement/guarantees provided

The details regarding balances of financing endorsement were as follows:

Expressed in thousands of USD

	December 31, 2018		
	Highest balance for current period	Ending amount (Note)	Actual amount provided
Subsidiaries	USD305,500	USD254,500	USD128,220
Subsidiaries	CNY50,000	CNY50,000	CNY29,465

	December 31, 2017		
	Highest balance for current period	Ending amount (Note)	Actual amount provided
Subsidiaries	USD174,182	USD131,000	USD91,157

Note: The credit limit approved by the Board of Directors

(vi) Others

	Rental income		Miscellaneous revenue		Miscellaneous expenses	
	For the years ended December 31,		For the years ended December 31,		For the years ended December 31,	
Relationship	2018	2017	2018	2017	2018	2017
Subsidiaries	$ 4,718	4,258	16,704	6,631	-	-
Associates	3,249	3,249	-	312	-	-
Other related parties	2,893	23	-	-	-	-
	$ 10,860	7,530	16,704	6,943	-	-

	Other operating expenses		Donation expenses		Manufacturing expenses	
	For the years ended December 31,		For the years ended December 31,		For the years ended December 31,	
Relationship	2018	2017	2018	2017	2018	2017
Subsidiaries	$ 8,408	17,046	-	-	3,798	3,640
Associates	4,448	3,624	-	-	22,246	27,255
Other related parties	961	1,346	3,558	8,344	-	-
	$ 13,817	22,016	3,558	8,344	26,044	30,895

	Notes payable	
Relationship	December 31, 2018	December 31, 2017
Other related parties	640	705

	Other receivables	Other payables

Relationship	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Subsidiaries	$ 1,908	348	1,022	13,651
Associates	-	-	3,107	2,962
Other related parties	21	-	-	-
	$ 1,929	348	4,129	16,613

	Deposits received		Investment property	
Relationship	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Associates	$ 304	304	4,143	115,617

(c) Compensation of key management personnel

	For the years ended December 31, 2018	2017
Short-term employee benefits	$ 46,695	43,307
Post-employment benefits	2,362	1,600
	$ 49,057	44,907

For the years ended December 31, 2018 and 2017, the Company provided three and four cars that cost $12,543 thousand and $11,918 thousand for the key management personnel of the entity.

(8) Pledged assets

The details of the Company's pledged assets were as follows:

Pledged assets	Pledged to secure	December 31, 2018	December 31, 2017
Refundable deposits	Performance guarantee	$ 3,687	3,670

(9) Commitments and contingencies

(a) Commitments

(i) The guarantees were mainly for securing loans and gave rise to potential off-balance-sheet credit risk, which represents the risk of loss incurred by the default of counterparties or by the devaluation of collateral provided by the counterparties. The Company did not ask counterparties for collateral as secure guarantees. The amounts of the Company's guarantees were as following:

	December 31, 2018	December 31, 2017
Guarantees securities amounts	$ 8,041,840	3,898,560

(ii) The amounts of guaranteed notes issued by the Company were as follows:

Nature	December 31, 2018	December 31, 2017

Bank credit limit	$	1,000,000	1,000,000
Leases		200	200
Guaranteed payment for purchases of raw materials		40,030	28,780
	$	1,040,230	1,028,980

(iii) The amount of unused outstanding letters of credit for the importation of raw materials was as follows:

	December 31, 2018	December 31, 2017
Unused outstanding letters of credit	$ 1,122,575	1,535,517

(10) Losses due to major disasters: None

(11) Subsequent events:None

(12) Others

The Company’ s employee benefit, depreciation, and amortization expenses, categorized by function, were as follows:

	For the year ended December 31, 2018			For the year ended December 31, 2017		
	Classified as operating costs	Classified as operating expenses	Total	Classified as operating costs	Classified as operating expenses	Total
Employee benefits						
Salaries	983,679	375,902	1,359,581	936,073	423,918	1,359,991
Labor and health insurance	87,963	30,966	118,929	85,097	30,718	115,815
Pension expenses	52,017	15,361	67,378	52,939	15,202	68,141
Remuneration of directors	-	35,292	35,292	-	41,575	41,575
Other personnel expenses	35,110	10,064	45,174	34,656	9,714	85,945
Depreciation expenses	894,638	54,889	949,527	792,145	54,030	846,175
Amortization expenses	23,574	1,900	25,474	5,858	1,226	7,084

As of December 31, 2018 and 2017, there were 1,672 and 1,609 employees at the Company, respectively, with 9 and 9 non-employee directors included respectively.

(13) Other disclosures

(a) Information on significant transactions:

The following is the information on significant transactions required by the Regulations for the Company:

(i) Financing to other parties:

(in thousands of NTD/USD)

Number	Name of lender	Name of borrower	Account name	Related party	Highest balance of financing to other parties during the period	Ending balance	Actual usage amount during the period	Range of interest rates during the period	Purposes of fund financing for the borrower	Transaction amount for business between two parties	Reasons for short-term financing	Allowance for bad debt	Collateral Item	Collateral Value	Individual funding loan limits	Maximum limit of fund financing
1	Tung Yuan International Corp.	Duc Hoa International Joint Stock Company	Other receivables from related parties	Yes	30,720 (USD1,000)	-	-	3%~3.5%	(2)	-	Operating capital	-		-	80,517 (USD2,621)	161,034 (USD5,242)

Note 1: Financing to an individual party should not exceed 10% of the net equity on its latest financial statements. The maximum amount allowed for financing should not exceed 20% of the net equity on its latest financial statements.

Note 2: Reasons for short-term financing were as follows:

(1) Those with business contact

(2) Those necessary for short-term fund circulation

(ii) Guarantees and endorsements for other parties:

(in thousands of NTD/USD)

No.	Name of guarantor	Counter-party of guarantee and endorsement: Name	Counter-party of guarantee and endorsement: Relationship with the Company	Limitation on amount of guarantees and endorsements for a specific enterprise	Highest balance for guarantees and endorsements during the period	Balance of guarantees and endorsements as of reporting date	Actual usage amount during the period	Property pledged for guarantees and endorsements (amount)	Ratio of accumulated amounts of guarantees and endorsements to net worth of the latest financial statements	Maximum amount for guarantees and endorsements	Parent company endorsements/ guarantees to third parties on behalf of subsidiary	Subsidiary endorsements/ guarantees to third parties on behalf of parent company	Endorsements/ guarantees to third parties on behalf of companies in Mainland China
0	The Company (Note 2, 3)	Fujian Tung Kang Steel Co., Ltd	2	9,561,234	1,083,760 (USD28,000) (CNY50,000)	899,440 (USD22,000) (CNY50,000)	196,279 (USD2,100) (CNY29,465)	-	3.76%	9,561,234	Y	N	Y
0	The Company (Note2,3)	Tung Ho Steel Vietnam Corp., Ltd.	2	9,561,234	8,524,800 (USD277,500)	7,142,400 (USD232,500)	3,874,406 (USD126,120)	-	29.88%	9,561,234	Y	N	N
1	Tung Yuan International Corp. (Note 4, 5)	Best Steel Trade Corp	2	402,616 (USD13,106)	36,864 (USD1,200)	36,864 (USD1,200)	36,864 (USD1,200)	36,864 (USD1,200)	4.58%	805,202 (USD26,211)	Y	N	N
1	Tung Yuan International Corp. (Note 4, 5)	Fujian Sino-Japan Metal Corp.	6	402,616 (USD13,106)	322,560 (USD10,500)	161,280 (USD5,250)	161,280 (USD5,250)	-	20.03%	805,202 (USD26,211)	N	N	Y
1	Tung Yuan International Corp. (Note 4, 5)	Duc Hoa International Joint Stock Company	6	402,616 (USD13,106)	30,259 (USD985)	-	-	-	- %	805,202 (USD26,211)	N	N	N

Note 1: There are seven kinds of conditions in which the Company may have guarantees or endorsements for the receiving parties.

(1) The Company has business with the receiving parties.

(2) The Company holds directly more than 50% of the ordinary stock of the subsidiaries.

(3) In aggregate, the Company and its subsidiaries hold more than 50% of the investee.

(4) In aggregate, the Company holds directly or indirectly through its subsidiaries more than 50% of the investee.

(5) The Company is required to make guarantees or endorsements for the construction project based on the construction contract.

(6) The stockholders of the Company make guarantees or endorsements for the investee in proportion to their stockholding percentage.

(7) The companies in the same industry provide among themselves joint and several security for a performance guarantee of a sales contract for pre- construction homes pursuant to the Consumer Protection Act for each other.

Note 2: Guarantees and endorsements for an individual company should not exceed 40% of the net equity of the latest financial statements.

Note 3: The total amount of guarantees and endorsements should not exceed 40% of the net equity of the latest financial statements.

Note 4: Guarantees and endorsements for an individual company should not exceed 50% of the total amount of guarantees and endorsements.

Note 5: The total amount of guarantees and endorsements should not exceed the Company's net worth on its latest financial statements. The limitation amount for the current period is USD26,211 thousand. Guarantees and endorsements for an individual company should not exceed 50% of the company's net worth on its latest financial statements. Moreover, according to the Company's policy, the total amount of guarantees and endorsements made by the company should not exceed 45% of the Company's latest financial statement (limit of the current period: $10,756,388 thousand); the total amount of guarantees and endorsements on an individual company should not exceed 40% of the Company's net worth of its latest financial statements (limit of the current period: $9,561,234 thousand.)

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(iii) Securities held as of December 31, 2018 (excluding investment in subsidiaries, associates and joint ventures):

(in thousands of NTD/USD)

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value	
The Company	Stock－Zenitron Corporation	-	(a)	3,825,000	80,325	1.79%	80,325	None
The Company	Stock－Adlink	-	(a)	1,713,577	54,235	0.79%	54,235	〃
The Company	Stock－Shiao Kang Warehousing Corp.	One of its directors	(b)	2,384,060	16,927	19.87%	16,927	〃
The Company	Stock－Hexawave Photonic System, Inc.	One of its directors	(b)	11,687,916	50,492	16.35%	50,492	〃
The Company	Stock－Overseas Investment & Development Corp.	-	(b)	1,000,000	6,360	1.11%	6,360	〃
The Company	Stock－Power World Fund, Inc.	One of its directors	(b)	677,245	9,597	5.68%	9,597	〃
The Company	Stock－Universal Venture Fund, Inc.	One of its directors	(b)	558,255	7,257	4.76%	7,257	〃
The Company	Stock－Tung Jiang Investment Corp.	One of its directors	(b)	-	31,407	9.05%	31,407	〃
The Company	Stock－Taiwan Aerospace Corp.	-	(b)	1,621,441	30,694	1.19%	30,694	〃
The Company	Stock－Universal Venture Capital Investment Corp.	-	(b)	2,800,000	21,084	2.33%	21,084	〃
The Company	Stock－IBT	-	(b)	1,312,993	6,381	4.17%	6,381	〃
The Company	Katec Creative Resources Corporation－preferred stock	Subsidiary of the Company	(b)	577,031	-	65.18%	-	〃
The Company	Stock－Chien Shing Harbour Service Co., Ltd.	One of its directors	(b)	8,203,800	187,867	10.12%	187,867	〃
The Company	Stock－Taiwan High Speed Rail Corporation	-	(b)	6,214,376	189,849	0.11%	189,849	〃
Tung Yuan International Corp.	Chinese Products Promotion Center	-	(b)	2,500	227	0.66%	227	〃
Tung Yuan International Corp.	Pech alliance Corp.	-	(b)	1,791,562	4,953	5.69%	4,953	〃
Tung Kang Engineering & Construction Corp.	Toko Sanitaryware Trading Development Corp.	-	(b)	150,000	3,728	15.00%	3,728	〃

Note : (a) Financial assets at fair value through profit or loss －current

(b) Financial assets at fair value through other comprehensive income －non-current

(iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT$300 million or 20% of the capital stock:

(In Thousands of New Taiwan Dollars)

Name of company	Category and name of security	Account name	Name of counter-party	Relationship with the company	Beginning Balance		Purchases (Note)		Sales				Ending Balance	
					Shares	Amount	Shares	Amount	Shares	Price	Cost	Gain (loss) on disposal	Shares	Amount
The Company	Stock－Taiwan High Speed Rail Corporation	Note1	Note2		49,505,376	1,163,376	-	-	43,291,000	1,355,418	426,084	Note 3	6,214,376	189,849

Note1 : Financial assets at fair value through other comprehensive income －non-current.
Note2 : Non-related parties.
Note3 : The carrying value has been measured at the fair value before the disposal, and adjusted to retain earnings.

(v) Acquisition of individual real estate with amount exceeding the lower of NT$300 million or 20% of the capital stock: None

(vi) Disposal of individual real estate with amount exceeding the lower of NT$300 million or 20% of the capital stock: None

(vii) Related-party transactions for purchases and sales with amounts exceeding the lower of NT$100 million or 20% of the capital stock:

(in thousands of NTD/USD)

Name of company	Related party	Nature of relationship	Transaction details				Transactions with terms different from others		Notes/Accounts receivable (payable)		Note
			Purchase/Sale	Amount	Percentage of total purchases/sales	Payment terms	Unit price	Payment terms	Ending balance	Percentage of total notes/accounts receivable (payable)	
The Company	Tung Kang Steel Structure Corp.	Subsidiary of the Company	Sale	(1,331,164)	(3.84)%	Receivable within 60 days	-	-	401,438	7.95%	
The Company	Tung Ho Steel Vietnam Corp., Ltd.	Subsidiary of the Company	Sale	(2,238,824)	(6.45)%	330 days after B/L	-	-	1,465,747	29.04%	
The Company	Best Steel Trade Corp	Subsidiary of the Company	Sale	(1,637,176)	(4.72)%	110 days after B/L	-		650,273	12.88%	
Tung Kang Steel Structure Corp.	The Company	Parent company	Purchase	1,331,164	54.70%	Payable within 60 days	-	-	(391,155)	(51.33)%	
Tung Ho Steel Vietnam Corp., Ltd.	The Company	Parent company	Purchase	2,238,814	95.00%	Payable within 60 days	-	-	(1,465,747)	(94.57)%	
Best Steel Trade Corp	The Company	Parent company	Purchase	1,637,176	100.00%	110 days after B/L	-		(650,273)	(100.00)%	

(viii) Receivables from related parties with amounts exceeding the lower of NT$100 million or 20% of the capital stock:

(in thousands of NTD/USD)

Name of company	Counter-party	Nature of relationship	Ending balance	Turnover rate	Overdue		Amounts received in subsequent period	Allowance for bad debts
					Amount	Action taken		
The Company	Tung Kang Steel Structure Corp.	Subsidiary of the Company	401,438 (Accounts receivable—related parties)	4.40	-		401,438	-
			406 (Other receivables—related parties)	-	-		-	-
The Company	Tung Ho Steel Vietnam Corp., Ltd.	Subsidiary of the Company	1,465,747 (Accounts receivable—related parties)	2.04	-		154,999	-
	Best Steel Trade Corp		650,273 (Other receivables—related parties)	4.44	-		171,618	-

(ix) Trading in derivative instruments: Please refer to Notes 6(b).

(b) Information on investees:

The following is the information on investees for the year ended December 31, 2018 (excluding information on investees in Mainland China):

(in thousands of NTD/USD)

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2018			Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2018	December 31, 2017	Shares (thousands)	Percentage of ownership	Carrying value			
The Company	Tung Yuan International Corp.	British Virgin Islands	Investment activities	800,984	800,984	82	100.00%	790,234	(120,080)	(120,080)	Subsidiary
〃	Tung Kang Steel Structure Corp.	Taiwan	Metal structure and manufacture of architectural components	1,775,138	1,775,138	197,565,134	97.48%	2,011,688	93,585	59,708	Subsidiary
〃	Katec R & D Corp.	Taiwan	Metal inspection	35,352	35,352	4,705,332	46.19%	52,588	5,858	2,706	Associate
〃	Goldham Development Ltd.	British Virgin Islands	Investment activities	460,800	460,800	15,000,000	100.00%	404,855	(14,271)	(37,221)	Subsidiary
〃	Taiwan Steel Union Co., Ltd.	Taiwan	Waste disposal	113,291	113,291	24,829,009	22.31%	801,561	785,480	175,265	Associate
〃	Katec Creative Resources Corporation	Taiwan	Waste recycling	1,211,442	1,211,442	95,724,402	99.01%	730,094	(38,739)	(38,356)	Subsidiary
〃	Right Investment Corp.	Taiwan	Investment activities	189,827	189,827	499,800	49.00%	11,384	155	76	Associate
〃	Fa Da Enterprise Corp.	Taiwan	Waste recycling	90,000	100,000	9,000,000	100.00%	89,689	(69)	(69)	Subsidiary
〃	Tung Kang Wind Power Corp.	Taiwan	Electric power generation	155,000	155,000	15,500,000	100.00%	91,350	(16,879)	(16,879)	Subsidiary
〃	Tung Ho Steel Vietnam Corp., Ltd.	Vietnam	Steel industry	5,016,935	3,847,738	-	100.00%	4,098,293	(461,484)	(461,484)	Subsidiary
Tung Yuan International Corp.	3 Oceans International Inc.	Brunei	Investment activities	56,525	56,525	1,840,000	66.67%	26,570	(24,728)	(16,486)	Subsidiary
Tung Yuan International Corp.	Duc Hoa International Joint Stock Company	Vietnam	Quicklime factory	67,584	67,584	-	49.25%	46,400	7,508	3,698	Associate

TUNG HO STEEL ENTERPRISE CORPORATION
Notes to Financial Statements

Tung Yuan International Corp.	Best-steel Trade Corp.	U.S.A	Trading	9,216	9,216	-	60.00%	22,211	25,076	15,046	Subsidiary
Tung Kang Steel Structure Corp.	Tung Kang Engineering & Construction Corp.	Taiwan	Civil engineering	359,340	359,340	25,000,000	100.00%	265,000	11,637	34,800	Subsidiary

1 USD＝30.72 TWD, 1 CNY＝4.472 TWD

(c) Information on investment in Mainland China:

(i) The names of investees in Mainland China, the main businesses and products, and other information:

(in thousands of New Taiwan Dollars and USD)

Name of investee	Main businesses and products	Total amount of paid-in capital	Method of investment	Accumulated outflow of investment from Taiwan as of January 1, 2017	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2018	Net income (losses) of the investee	Percentage of ownership	Investment income (losses) (Note 3)	Book value (Note 2)	Accumulated remittance of earnings in current period
					Outflow	Inflow						
Fujian Sino-Japan Metal Corp.	Tin-coated plate	1,597,440 (USD52,000)	(2)	564,234 (USD18,367)	-	-	564,234 (USD18,367)	(349,101)	35.00%	(122,185)	553,271	-
Fujian Tung Kang Steel Co., Ltd.	Manufacture section steels and steel bars	460,800 (USD15,000)	(2)	409,498 (USD13,330)	-	-	409,498 (USD13,330)	(14,271)	100.00%	(37,221)	404,855	-
Fujian Dong Sheng Metal Processing Co., Ltd.	Manufacture of steels	22,360	(3)	-	-	-	-	(3,740)	51.00%	(1,907)	14,095	-

Note 1: List of the method of investments

(1) Direct investment

(2) Indirect investment

(3) Others

Note 2: On December 31, 2018, 1 USD＝30.72 TWD, 1 CNY＝4.472 TWD.

Note 3: For the year ended December 31, 2018, 1 USD＝30.15 TWD, 1 CNY ＝4.56 TWD.

(ii) Limitation on investment in Mainland China:

(in thousands of New Taiwan Dollars and USD)

Accumulated investment in Mainland China as of December 31, 2018	Investment amounts authorized by Investment Commission, MOEA	Upper limit on investment (Note)
1,035,172 (USD33,697)	1,035,172 (USD33,697)	14,341,851

Note: 60% of net equity.

(iii) Significant transactions:

For direct or indirect significant transactions between the Company and its investees in Mainland China, please refer to the illustrations in "Related information on Significant Transactions."

(14) Segment information

Please refer to the consolidated financial statements for the year ended December 31, 2018.

TUNG HO STEEL ENTERPRISE CORPORATION

DETAILS OF CASH AND CASH EQUIVALENTS

December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

Items	Description	Amount	Notes
Cash	Cash on hand	$ 268	
	Revolving funds	858	
	Subtotal	1,126	
Cash in banks	Checking accounts	106,036	
	Demand deposits accounts	194,523	
	Foreign currency demand deposits	12,582	Note 1
	Subtotal	313,141	
Cash equivalents	Short-term bills	14,997	Interest rate: 0.40%
Total		**$ 329,264**	

Note 1: Total amount of foreign currency

USD 402,505 (dollars)
JPY 470,737 (dollars)
EUR 636(dollars)
CNY 14,308 (dollars)

Exchange rate

USD →NT @30.72
JPY →NT @0.2782
EUR →NT @35.20
CNY →NT @4.472

TUNG HO STEEL ENTERPRISE CORPORATION

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

December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

Name of financial instruments－current	Description	Number of shares or unit	Book value	Total amount/ Nominal amount	Interest rate %	Acquisition costs	Fair value Unit price	Fair value Amount
Financial assets held for trading:								
Stock:								
Zenitron	Publicly Listed	3,825,000	$ 10	38,250	-	92,166	21.00	80,325
ADLINK	Publicly Listed	1,713,577	10	17,136	-	54,881	31.65	54,235
Total						$ 147,047		134,560

TUNG HO STEEL ENTERPRISE CORPORATION

DETAILS OF NOTES RECEIVABLE

December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

Client name	Description	Amount
Non-related parties:		
Fu Tsu Construction	Payment for goods	$ 30,164
Kung Sing Engineering	Payment for goods	27,936
Chien Chiao Construction	Payment for goods	16,661
Sheng Kun Construction	Payment for goods	10,701
Kong Chou Construction	Payment for goods	9,271
TASA Construction	Payment for goods	6,882
Chun Cheng Construction	Payment for goods	6,687
Chung Fu Construction	Payment for goods	5,169
Ying Bao Contractors	Payment for goods	4,668
Elilong Steel	Payment for goods	3,696
Others (Note)	Payment for goods	17,636
Subtotal		139,471
Total notes receivable		139,471
Less: Allowance for impairment		(423)
Total		$ 139,048

Note: Consisting of individual accounts with less than 5% of the total amount.

TUNG HO STEEL ENTERPRISE CORPORATION

DETAILS OF ACCOUNTS RECEIVABLE

December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

Client name	Description	Amount
Related parties:		
Tung Kang Steel Structure	Payment for goods	$ 401,438
Tung Kang Engineering & Construction	Payment for goods	8,310
Tung Ho Steel Vietnam Corp., Ltd.	Payment for goods	1,465,747
Best-Steel Trade Corp.	Payment for goods	650,273
Katec Creative Resources Corp.	Payment for goods	39
Subtotal		2,525,807
Non-related parties:		
Continental Engineering	Payment for goods	104,421
Gir Gai Steel	Payment for goods	83,109
BES Engineering Corporation	Payment for goods	70,396
Pan Asia Engineering	Payment for goods	66,430
Jin Jyun Construction	Payment for goods	65,648
Fu Tsu Construction	Payment for goods	63,412
Li Jin Engineering	Payment for goods	62,387
Yuan Yang Construction	Payment for goods	59,272
Asia Star Steel	Payment for goods	57,039
Asia World Construction	Payment for goods	54,640
Others (Note)	Payment for goods	1,718,081
Subtotal		2,404,835
Total accounts receivable		4,930,642
Less: Allowance for impairment		(21,534)
Total		**$ 4,909,108**

Note: Consisting of individual accounts with less than 5% of the total amount.

TUNG HO STEEL ENTERPRISE CORPORATION

DETAILS OF OTHER RECEIVABLES

December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

Items	Amount	
Refundable tax receivable	$	25,215
Proceeds from disposal of financial assets at fair value through other comprehensive income		39,062
Revenue of disposing metal shavings		1,377
Revenue of selling scrap iron and material supplies (related parties included)		783
Others (related parties included)		5,753
Total	**$**	**72,190**

TUNG HO STEEL ENTERPRISE CORPORATION

DETAILS OF INVENTORIES

December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

Items	Description	Amount		Notes
		Cost	Market price	
Finished goods	Deformed bars	$ 1,178,236	1,268,888	Market price based on net realizable value
	Sections	754,870	842,704	〃
	Universal plates	210,212	232,517	〃
	Subtotal	2,143,318	2,344,109	
Work in process	Billets	413,875	455,642	〃
	Beam blank	1,315,117	1,771,194	〃
	Bloom	266,940	305,494	〃
	Subtotal	1,995,932	2,532,330	
Raw materials	Scrap iron	5,758,210	7,177,878	〃
Material supplies	Electrode rods	468,083	449,682	〃
	Silicon iron	27,631	25,801	〃
	Manganese iron	28,959	30,731	〃
	Silicon manganese	158,802	158,815	〃
	Vanadium iron	156,334	146,486	〃
	Roller	38,764	39,089	〃
	Roller ring	50,669	50,669	〃
	Other material	637,293	637,783	〃
	Subtotal	1,566,535	1,539,056	
Inventories, net		$ 11,463,995	13,593,373	

TUNG HO STEEL ENTERPRISE CORPORATION

DETAILS OF PREPAYMENTS

December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

Items	Description	Amount	
Prepaid expenses	Insurance premium and rent expenses	$	18,288
	Prepaid supplies expenses		96,786
	Prepaid heavy oil and maintenance expenses		28,806
	Others		47,529
	Subtotal		191,409
Prepayments for goods			91,207
Total		**$**	**282,616**

Note: Consisting of individual accounts of less than 5% of the total amount

TUNG HO STEEL ENTERPRISE CORPORATION

DETAILS OF INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

For the year ended December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

	Balance as of January 1, 2018		Increase and reclassification		Decrease and reclassification		Investment income	Balance as December 31, 2018				
Name of company	Share	Amount	Share	Amount	Share	Amount	recognized under the equity method	Share	Share-holding percentage	Amount	Net value or market price	Pledged or collateralized
Subsidiaries:												
Tung Yuan International Corp.	82	$ 945,468	-	-	-	35,154 (Notes 1, 2, 6)	(120,080)	82	100.00%	790,234	805,308	No
Tung Kang Steel Structure Corp.	197,565,134	1,945,938	-	6,042 (Notes 2, 3, 6)	-	-	59,708	197,565,134	97.48%	2,011,688	2,090,454	No
Goldham Development Ltd.	15,000,000	451,716	-	-	-	9,640 (Note 1)	(37,221)	15,000,000	100.00%	404,855	482,351	No
Katec Creative Resources Corp.	95,724,402	768,450	-	-	-	-	(38,356)	95,724,402	99.01%	730,094	730,094	No
Tung Kang Wind Power Corp.	15,500,000	78,229	3,000,000	30,000 (Note 7)	3,000,000	- (Note 9)	(16,879)	15,500,000	100.00%	91,350	91,350	No
Fa Da Enterprise Corp.	10,000,000	99,758	-	-	1,000,000	10,000 (Note 8)	(69)	9,000,000	100.00%	89,689	89,689	No
Tung Ho Steel Vietnam Corp., Ltd.	-	3,447,851	-	1,169,197 (Note 7)	-	57,271 (Note 1)	(461,484)	-	100.00%	4,098,293	4,098,293	No
Subtotal		7,737,410		1,205,239		112,065	(614,381)			8,216,203		
Associates:												
Katec Research & Development Corp.	4,481,268	53,729	224,063 (Note 4)	72 (Note 3)	-	3,919 (Notes 5, 6)	2,706	4,705,331	46.19%	52,588	52,588	No
Taiwan Steel Union Co., Ltd.	24,829,009	570,009	-	190,085 (Note 10)	-	133,798 (Notes 3, 5)	175,265	24,829,009	22.31%	801,561	801,561	No
Right Investment Corp.	499,800	15,482	-	-	-	4,174 (Notes 5, 6)	76	499,800	49.00%	11,384	11,384	No
Subtotal		639,220		190,157		141,891	178,047			865,533		
Total		$ 8,376,630		1,395,396		253,956	(436,334)			9,081,736		

Note 1: Adjustments of exchange difference on translation of foreign operations.
Note 2: Resulting from downstream unrealized sales profit.
Note 3: From other comprehensive income on defined benefit plans of subsidiaries and associates.
Note 4: Acquisition of stock dividends.
Note 5: Proceeds from cash dividends.
Note 6: Adjustment of "evaluation of equity instrument at fair value through other comprehensive income" and "unrealized gain on financial instruments" due to changes in fair value.
Note 7: Subsidiary capital increase by cash.
Note 8: Capital reduction of the company.
Note 9: Subsidiary capital reduction to cover deficits.
Note 10: Changes in the net value of invested equity due to not purchasing new shares proportionally.

TUNG HO STEEL ENTERPRISE CORPORATION

DETAILS OF FINANCIAL ASSETS AT FAIR VALUE THOROUGH OTHER COMPREHENSIVE INCOME-NON CURRENT

December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

Name of company	Balance as of January 1, 2018		Increase and reclassification		Decrease and reclassification		Balance as December 31, 2018		Pledged or collateralized
	Share	Amount	Share	Amount	Share	Amount (Note 1)	Share	Amount	
Fair value through other comprehensive income－non current:									
Hsiao Kang Warehousing Corp.	2,384,060	$ 22,439	-	-	-	5,512	2,384,060	16,927	No
Hexawave Photonic System, Inc.	11,687,916	80,201	-	-	-	29,709	11,687,916	50,492	No
Taiwan Aerospace Corp.	1,621,441	18,030	-	12,664	-	-	1,621,441	30,694	No
Overseas Investment & Development Corp.	1,000,000	8,491	-	-	-	2,131	1,000,000	6,360	No
Power World Fund, Inc.	769,597	3,887	-	6,633	92,352	923 (Note 1)	677,245	9,597	No
Universal Venture Fund, Inc.	606,804	5,235	-	2,507	48,549	485 (Note 1)	558,255	7,257	No
IBT II Venture Capital Co.	1,312,993	10,213	-	-	-	3,832 (Note 1, 3)	1,312,993	6,381	No
Tung Jing Investment Corp.	-	30,700	-	3,628 (Note 4)	-	2,921	-	31,407	No
Universal Venture Capital Investment Corp.	2,800,000	26,258	-	-	-	5,174	2,800,000	21,084	No
Katec Creative Resources Corp.－preferred stock	577,031	5,770	-	-	-	5,770	577,031	-	No
Total		$ 211,224		25,432		56,457		180,199	
Public listed stocks －Taiwan High Speed Rail Corporation	49,505,376	1,163,376		378,269	43,291,000	1,351,796	6,214,376	189,849	No
Stock listed on emerging markets－Chien Shing Harbour Service Co., Ltd.	8,358,800	200,695	-	-	155,000	12,828	8,203,800	187,867	No
Total		$ 1,364,071		378,269		1,364,624		377,716	

Note 1： Capital reduction of the company

Note 2： Disposal of investment

Note 3： Disposal of investment and evaluation by fair value

Note 4： New acquisition

TUNG HO STEEL ENTERPRISE CORPORATION

DETAILS OF REFUNDABLE DEPOSITS

December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

Item	Description	Amount
Refundable deposits	Lease deposits	$ 3,112
	Golf card deposits	46,577
	Gas procurement guarantees	123,913
	Bid deposits and performance guarantees, etc.	11,626
Total		**$ 185,228**

Please refer to Note 6(j) for details of property, plant and equipment.

Please refer to Note 6(k) for details of investment property.

TUNG HO STEEL ENTERPRISE CORPORATION

DETAILS OF OVERDUE RECEIVABLES

December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

Item	Amount
Famous Technology	$ 8,929
Jian Kai Property	245
International Engineering & Construction	751
Tsun Sheng Corp.	95
Subtotal	10,020
Less: Allowance for bad debt expense	(10,020)
Total	$ -

TUNG HO STEEL ENTERPRISE CORPORATION

DETAILS OF SHORT-TERM BORROWINGS

December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

Bank	Description	Balance as of December 31, 2018	Duration	Interest rate	Amount	Pledge or collateralized
Bank of Taiwan	Unsecured loans	$ 500,000	December 5, 2018 ~ March 8, 2019	0.84%	500,000	No
Land Bank of Taiwan	Unsecured loans	650,000	December 24, 2018 ~ March 27, 2019	1.00%	800,000	No
First Commercial Bank	Unsecured loans	800,000	December 14, 2018 ~ January 25, 2019	0.87%	800,000	No
Taipei Fubon Bank	Unsecured loans	1,200,000	July 6 2018 ~ June 10, 2019	0.84%~0.93%	1,200,000	No
Cathay United Bank	Unsecured loans	700,000	September 14 2018 ~ March 14, 2019	0.84%	700,000	No
Citibank	Unsecured loans	150,000	December 3, 2018 ~ January 18, 2019	0.98%~0.99%	285,000	No
Taiwan Business Bank	Unsecured loans	200,000	December 11, 2018 ~ March 27, 2019	1.044%~1.045%	200,000	No
DBS Bank	Unsecured loans	50,000	December 26, 2018 ~ March 26, 2019	0.93%	600,000	No
HSBC Bank	Unsecured loans	600,000	December 24, 2018 ~ June 21, 2019	0.85%	600,000	No
Yuanta Bank	Unsecured loans	100,000	December 21, 2018 ~ March 18, 2019	0.95%	300,000	No
Bank SinoPac	Unsecured loans	500,000	November 9, 2018 ~ January 11, 2019	0.83%	600,000	No
E. Sun Bank	Unsecured loans	400,000	December 14, 2018 ~ January 25, 2019	0.85%	600,000	No
CTBC Bank	Unsecured loans	600,000	October 9 2018 ~ January 31, 2019	0.85%~0.95%	700,000	No
		6,450,000				
Bank of Taiwan	Letter of credit	179,773	July 13, 2018 ~ June 11, 2019	0.42%~3.70%	900,000	No
Land Bank of Taiwan	Letter of credit	45,123	October 24, 2018 ~ March 26, 2019	3.17%~3.57%	800,000	No
Taiwan Corporative Bank	Letter of credit	29,679	December 6, 2018 ~ March 24, 2019	3.45%~3.50%	1,200,000	No
First Commercial Bank	Letter of credit	39,231	October 30, 2018 ~ March 6, 2019	3.28%~3.68%	1,500,000	No
Hua Nan Commercial Bank	Letter of credit	223,468	August 6, 2018 ~ June 12, 2019	0.65%~3.65%	1,500,000	No
The Shanghai Commercial & Savings Bank	Letter of credit	47,378	October 15, 2018 ~ March 26, 2019	3.23%~3.68%	300,000	No
Taipei Fubon Bank	Letter of credit	70,000	July 16, 2018 ~ March 27, 2019	2.90%~3.22%	1,600,000	No
Cathay United Bank	Letter of credit	148,904	July 26, 2018 ~ June 18, 2019	3.50%~3.70%	950,000	No
Bank of Kaohsiung	Letter of credit	166,326	October 4, 2018 ~ June 27, 2019	2.96%~3.91%	450,000	No
Mega International Commercial Bank	Letter of credit	273,839	July 24, 2018 ~ June 18, 2019	0.53%~3.44%	900,000	No
Mizuho Bank	Letter of credit	139,562	July 20, 2018 ~ June 24, 2019	2.84%~3.38%	210,000	No
Citibank	Letter of credit	41,276	July 23, 2018 ~ June 17, 2019	3.25%	285,000	No
Taiwan Business Bank	Letter of credit	89,363	October 22, 2018 ~ March 17, 2019	3.02%~3.47%	450,000	No
Taichung Bank	Letter of credit	164,280	July 19, 2018 ~ June 21, 2019	2.82%~3.28%	300,000	No
Taipei Star Bank	Letter of credit	4,150	October 11, 2018 ~ January 29, 2019	3.08%~3.20%	200,000	No
Sunny Bank	Letter of credit	2,072	November 14, 2018 ~ January 18, 2019	2.85%	300,000	No
Bank of Panhsin	Letter of credit	10,850	November 16, 2018 ~ Febuary 15, 2019	3.44%~3.75%	160,000	No
BNP Paribas	Letter of credit	31,987	October 24, 2018 ~ June 24, 2019	3.02%~3.13%	300,000	No
Yuanta Bank	Letter of credit	1,157	December 18, 2018 ~ June 14, 2019	1.06%	300,000	No
Union Bank of Taiwan	Letter of credit	5,503	December 11, 2018 ~ January 24, 2019	3.40%~3.49%	300,000	No
E. Sun Bank	Letter of credit	67,897	July 18, 2018 ~ June 25, 2019	3.26%~3.49%	540,000	No
Chang Hwa Bank	Letter of credit	56,269	October 16, 2018 ~ March 27, 2019	3.26%~3.68%	1,000,000	No
Subtotal		1,838,087				
Total		$ 8,288,087				

Note 1: The effective period of the financing contract is two to three years. However, the banks will evaluate the terms of the contract periodically through credit checking every year.

TUNG HO STEEL ENTERPRISE CORPORATION

DETAILS OF SHORT-TERM NOTES AND BILLS PAYABLE

December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

Bank of acceptance	Duration	Interest rate	Originally issued amount	Unamortized discount on short-term bills payable	Carrying amount	Notes
Mega Bills	2019/1/8~2019/1/25	0.96%~1.058%	$ 185,000	(76)	184,924	
CBF	2019/1/17~2019/1/28	1.03%~1.04%	225,000	(125)	224,875	
IBFC	2019/1/17~2019/1/21	0.938%~0.95%	500,000	(120)	499,880	
Ta Ching	2019/1/21	1.02%	200,000	(112)	199,888	
			1,110,000	(433)	1,109,567	

TUNG HO STEEL ENTERPRISE CORPORATION

DETAILS OF NOTES PAYABLE

December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

Objects	Description	Amount
Related parties:		
Delta Design Corp.	Operating expenses	$ 640
Non-related parties:		
Guan Shiung Logistic	Operating expenses	8,599
Jing Cheng Construction	Operating expenses	10,775
GBF Bontex Taiwan	Operating expenses	76,068
Others (Note)	Operating expenses	64,695
Subtotal		160,137
Total		**$ 160,777**

Note: Consisting of individual accounts with less than 5% of the total amount

TUNG HO STEEL ENTERPRISE CORPORATION

DETAILS OF ACCOUNTS PAYABLE

December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

Objects	Description	Amount
Related parties:		
Katec Creative Resources	Payment for goods	$ 22
Katec Research & Development	Payment for goods	882
Tung Kang Engineering & Construction Corp.	Payment for goods	14,551
Tung Kang Steel Sturcture Corp.	Payment for goods	4,379
Fa Da Corp.	Payment for goods	202
Subtotal		20,036
Non-related parties:		
Hong Kuan Material	Payment for goods	100,967
Hung Ruen Co., Ltd.	Payment for goods	29,719
Shou Wei Enterprise	Payment for goods	22,137
AML	Payment for goods	3,144
Others (Note)	Payment for goods	1,236,817
Subtotal		1,392,784
Total		**$ 1,412,820**

Note: Consisting of individual accounts of less than 5% of the total amount

Please refer to Note 6(q) for details of other payables.

TUNG HO STEEL ENTERPRISE CORPORATION

DETAILS OF CONTRACT LIABILITIES

December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

Items	Description	Amount	
Non-related parties:			
Kedge Construction	Payment for goods	$	48,963
Yuan Jing Construction	Payment for goods		32,861
Sheng Jie Construction	Payment for goods		19,699
How Yu Construction	Payment for goods		9,890
Shen Yi Construction	Payment for goods		7,519
Chin Pao San	Payment for goods		7,441
Kai Yuan Construction	Payment for goods		7,279
Thaisia Construction	Payment for goods		6,594
Chien Kuo Construction	Payment for goods		6,567
Yu Feng Steel	Payment for goods		6,542
Others (Note)			175,655
Total advance receipts		**$**	**329,010**

Note: Consisting of individual accounts of less than 5% of the total amount

TUNG HO STEEL ENTERPRISE CORPORATION

DETAILS OF BONDS PAYABLE

December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

Item	Object	Original issuance date	Interest payment date	Coupon rate	Principal amount	Repurchased/ Converted amount	Balance as of December 31, 2018	Discount on bonds payable	Carrying amount	Repayment	Collateralized
The seventh unsecured domestic convertible bond	Taishin Securities	2018.05.14	-	-	$ 2,000,000	-	2,000,000	(84,271)	1,915,729.00	Please refer to Notes6(o)	No
Less : Redemption options of holders in one year						-	-	-			
							$ 2,000,000	(84,271)	1,915,729		

TUNG HO STEEL ENTERPRISE CORPORATION

DETAILS OF LONG-TERM BORROWINGS

December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

Bank	Duration	Nature	Interest rate	Amount	Pledged or Collateralized
Hua Nan Bank	April 26, 2018 ~ July 20, 2020 Principal repaid at maturity	Repayment of loan and improvement of financial structure	0.86%	1,000,000	No
Mizuho Bank	April 27, 2018 ~ April 27, 2020 Principal repaid at maturity	Repayment of loan and improvement of financial structure	0.88%	1,200,000	No
Mega Bank	October 11, 2018 ~ September 15, 2020 Principal repaid at maturity	Repayment of loan and improvement of financial structure	1.10%	400,000	No
Bank SinoPac	June 1, 2018 ~ July 31, 2020 Principal repaid at maturity	Repayment of loan and improvement of financial structure	0.84%	600,000	No
Total				$ 3,200,000	

TUNG HO STEEL ENTERPRISE CORPORATION

DETAILS OF GUARANTEE DEPOSITS

December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

Client name	Description	Amount
Related parties:		
Katec Research & Development	Rental deposits	$ 304
Non-related parties:		
Chang Jieh Logistics Corp.	Rental deposits	3,779
Chia Mei Construction	Performance guarantee	1,820
Ji Lian Container Co., Ltd.	Rental deposits	1,630
Kang Shiung Construction	Performance guarantee	1,071
Chin Chi Hsin	Performance guarantee	1,000
Others (Note)	Rental deposits and performance guarantee	1,061
Subtotal		10,361
Total		**$ 10,665**

Note: Consisting of individual accounts with less than 5% of the total amount.

TUNG HO STEEL ENTERPRISE CORPORATION

DETAILS OF OPERATING REVENUES

For the year ended December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

Item	Description	Amount
Deformed steel bar	973,538 tons	$ 17,429,584
Billet	39,515 tons	626,124
H-Section	556,750 tons	11,834,768
Universal plate	64,047 tons	1,394,345
Others	2,665 tons	63,139
I-Section	184,941 tons	2,256,292
Raw materials	65,739 tons	1,338,808
Total operating revenue		34,943,060
Less: Sales returns		(1,962)
Sales allowances		(248,816)
Net operating revenue		$ 34,692,282

TUNG HO STEEL ENTERPRISE CORPORATION

DETAILS OF OPERATING COSTS

For the year ended December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

Items	Amount Subtotal	Amount Total
Manufacturing:		
(a) Direct raw materials		
Beginning balance of raw materials	$ 2,623,906	
Self-manufactured transferred in	34,269,288	
Purchases of raw materials	23,955,751	
Sale of raw materials	(1,190)	
Reclassification to manufacturing overhead	(1,991)	
Reclassification to donation expenses	(240)	
Reclassification to other expenses	(55)	
Reclassification to construction in progress and equipment	(3,347)	
Transfer to material supplies	(286)	
Transfer to work in process	(738)	
R&D scrap transferred in	2,761	
Roller scrap transferred in	3,159	
Ending balance of raw materials	(5,758,210)	
Cost of direct raw materials consumed		55,088,808
(b) Indirect raw materials		
Beginning balance of raw materials	995,015	
Purchases of raw materials	4,880,279	
Sale of material supplies	(3,047)	
Reclassification to manufacturing overhead	(1,543,156)	
Reclassification to deferred expenses and prepaid expenses	(274,622)	
Reclassification to construction in progress and equipment	(8,574)	
Self-manufactured transferred out	(728)	
Transferr to material supplies	286	
Ending balance of raw materials	(1,561,056)	
Reclassification to consigned goods	(48)	
Cost of indirect materials consumed		2,484,349
(c) Direct labor, net		683,577
(d) Manufacturing overhead, net		6,189,378
Manufacturing cost		64,446,112
(e) Cost of by-products		(1,031,833)
Cost of finished goods (work in process)		63,414,279
(f) Beginning balance of work in process	1,234,570	
(g) Purchases of work in process	88,164	
(h) Raw materials transferred in	738	
(i) Work in process transferred to raw materials	(26,153,665)	
(j) Transfer to consigned goods	(1,214,284)	
(k) Ending balance of work in process	(1,994,373)	
(l) Reclassification to other expenses	(43)	
Subtotal		(28,038,893)
Cost of finished goods		
(m) Beginning balance of finished goods	1,264,592	
(n) Finished goods transferred to raw materials	(7,083,790)	
(o) Material supplies transferred to finished goods	728	
(p) Raw materials transferred to finished goods	5	
(q) Finished goods transferred to construction in progress and prepayment of equipment	(13,632)	
(r) Consigned goods transferred to finished goods	6,106,706	
(s) Transfer to consigned goods	(4,964,059)	
(t) Ending balance of finished goods	(1,958,218)	
(u) Reclassification to donation expenses	(1,087)	
(v) Reclassification to other expenses	(1,748)	
(w) Reclassification to deferred expenses	(90)	
(x) Temporapy adjustments for downstream/ upstream transactions	1,369	
Subtotal		(6,649,224)
Cost of work in process and finished goods		28,726,162
(y) Cost of by-products		
Beginning balance of by-products	-	
By-products manufactured	1,031,833	
By-product transferred to raw materials	(1,031,833)	
Ending balance of by-products	-	
Cost of by-products		-
(z) Cost of consigned goods		
Beginning balance of consigned goods	120,628	
Raw materials transferred in	48	
Work in process transferred in	1,214,284	
Finished goods transferred in	4,964,059	
Transfer to cost of equipment	(100)	
Transfer to work in process	(75)	
Transfer to finished goods	(6,106,706)	
Ending balance of consigned goods	(192,138)	
Cost of goods sold－manufacturing		
Selling:		
Beginning inventory	-	
Purchases	2,763,889	
Ending inventory	-	
Cost of goods sold－selling		2,763,889
Work in process		8,564
Adjustment for capacity variance		59,242
Revenue from sale of raw materiels and scrap		(50,460)
Operating costs		$ 31,507,397

TUNG HO STEEL ENTERPRISE CORPORATION

DETAILS OF MANUFACTURING OVERHEAD

For the year ended December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

Items	Amount
Indirect labor	$ 298,223
Utilities expense	2,257,438
Depreciation	894,638
Amortization	23,574
Repair and maintenance	664,693
Equipment insurance	36,458
Labor insurance	49,564
National health insurance	38,399
Meal expenses	35,110
Employee benefits	16,444
Pension	52,017
Fuel expenses	1,307,436
Cleaning expense	295,074
Taxes	34,204
Professional service fee	76,911
Packaging fee	48,606
Others	60,589
Total	**$ 6,189,378**

TUNG HO STEEL ENTERPRISE CORPORATION

DETAILS OF OPERATING EXPENSES

For the year ended December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

Item	Selling expenses	Administrative expenses	Total
Salaries	$ 52,962	332,540	385,502
Rental expense	1,857	29,291	31,148
Travel expense	1,112	10,811	11,923
Freight expense	527,401	118	527,519
Advertisement	30,003	547	30,550
Entertainment	15,629	10,986	26,615
Donation expense	5	19,076	19,081
Taxes	20	48,836	48,856
Depreciation	522	54,367	54,889
Professional service expense	609	16,159	16,768
Inspection expense	15,615	5,812	21,427
Meal expense	1,267	8,797	10,064
Labor pension	2,487	12,874	15,361
Export expense	232,419	-	232,419
Labor insurance	1,818	15,941	17,759
National health insurance	2,014	11,193	13,207
Others	10,536	110,134	120,670
Total	$ 896,276	687,482	1,583,758

TUNG HO STEEL ENTERPRISE CORPORATION

DETAILS OF NON-OPERATING INCOME AND EXPENSES

For the year ended December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

Item	Amount
Net gain on financial assets at fair value through profit or loss	$ (46,688)
Net loss on financial liabilities at fair value through profit or loss	49,236
Net gain on disposal of property, plant, and equipment	1,409
Gain on sale of miscellaneous purchases and scrap	6,825
Gain on disposal of investment property	3,133
Net foreign exchange gain	22,702
Net gain from compensation on damage of assets	2,246
Gain on disposal of metal shavings	4,075
Technical service revenue	5,266
Directors' remuneration and transportation fee	3,428
Foreign worker board and lodging income	3,015
Lease and improvement on land	30,554
Others	11,503
Total	**$ 96,704**

TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
Consolidated Financial Statements
For the Years Ended December 31, 2018 and 1017
(With Independent Auditor's Audit Report)

For translation, please refer to P.1~P.100 of the English version of the Tung Ho Steel Enterprise Corporation consolidated financial statements and independent auditor's audit report

Representation Letter

The entities that are required to be included in the combined financial statements of Tung Ho Steel Enterprise Corporation as of and for the year ended December 31, 2018 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 by the Financial Supervisory Commission, "Consolidated and Separate Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Tung Ho Steel Enterprise Corporation and its subsidiaries do not prepare a separate set of combined financial statements.

Company name: Tung Ho Steel Enterprise Corporation
Chairman: Henry Ho
Date: March 26, 2019

Independent Auditors' Report

To the Board of Directors of Tung Ho Steel Enterprise Corporation:

Opinion

We have audited the consolidated financial statements of Tung Ho Steel Enterprise Corporation ("the Company") and its subsidiaries ("the Consolidated Company"), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the consolidated statements of comprehensive income, consolidated statements of changes in equity, and consolidated statements of cash flows for the years then ended, and 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 Consolidated Company as of December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended, in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), interpretation as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the "Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants" and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Consolidated Company in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

Other Matter

The Company has prepared its parent-company-only financial statements as of and for the years ended December 31, 2018 and 2017, on which we have issued an unmodified 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 as of and for the year ended December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The key audit matters for the consoldiated financial statements as of and for the year ended Decemeber 31, 2018 are stated as follows:

1. Revenue recognition

   Please refer to Note 4(q) "Revenue recognition" and Note 6(w) "Revenue from contracts with customers" in the consolidated financial statements.

Explanation of the key audit matter:

The Consolidated Company mainly manufactures and sells rebar and formed steel. Revenue recognition is one of the key areas for our audit, and is where on which the report users and receivers pay great concern on. As a result, the test on revenue recognition is one of the key judgmental areas in our audit.

Our principal audit procedures included:

- assessing whether appropriate revenue recognition policies were applied and whether sufficient information was disclosed;

- testing the manual or systems-based controls on its sales and collection cycle, perform reconciliations between the information from sales systems and the general ledger;

- reading the sales contracts with significant clients and testing the consistency of their accounting policy;

- performing year-to-year analysis on the revenue by product and the revenue from the ten customers with the largest sales volume to determine if there were any abnormalities;

- vouching internal and external information of sales in the selected period before and after the reporting date (the length of the period was determined based on the sales terms) to determine whether sales revenue were recorded in the appropriate period.

2. Valuation of inventories

Please refer to Note 4(h) "Inventories" and Note 6(i) "Inventories" in the consolidated financial statements.

Explanation of the key audit matter:

Due to the changes in the international trade environment and the impact of price fluctuations on the raw materials and finished products of the steel industry, the risk that the book value of the inventory to be higher than the net realizable value may arise. Therefore, the inventory is one of the key judgmental areas in our audit.

Our principal audit procedures included:

- assessing the rationality of accounting policies for inventory evaluation;

- assessing whether the evaluation of inventory has been in accordance with the established accounting policies;

- understanding the sales price used by management and the changes in market price of futures inventory to assess the rationality of the net realizable value of inventories;

- assessing whether the management’s disclosure of the inventory allowance is acceptable.

3. Construction contracts

Please refer to Note 4(q) "Revenue recognition－Construction contracts", Note 5(a)(b) "Significant accounting assumptions and judgments, and major sources of estimation uncertainty", and Note 6(w) "Revenue from contracts with customers"of the consolidated financial statements.

Explanation of the key audit matter:

Contract accounting is considered to be an audit risk to the Consolidated Company as it requires a high degree of estimation and judgment of matters, such as the costs of the work required to complete the contract, the stage of completion of the contract, as well as the recognition of onerous contract. Different judgments could lead to different outcomes, leading to different profit or loss and revenue being reported in the consolidated financial statements.

Our principal audit procedures included:

- reviewing significant contracts and discussing them with the management to obtain a full understanding of specific terms and risks, to assess whether revenue was appropriately recognized;
- selecting a sample from the ongoing constructions to verify the costs between the estimation and the contracts, discussing with the management about the estimates for total contract costs and forecasted costs, including taking into account the historical accuracy of such estimates;
- selecting a sample from the completed constructions to assess settlement of revenue by examination of external evidence;
- obtaining the estimated warranty costs, vouching internal and external data to assess the rationality of the estimates and whether there are any abnormalities in the provisions estimated by the management;
- assessing whether the loss recognized for onerous contracts appropriately reflect the expected contractual position.

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 IFRSs, IASs, interpretation as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China, 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 Consolidated Company'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 Consolidated Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance (including the audit committee) are responsible for the oversight the Consolidated Company'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 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 Consolidated Company'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 Consolidated Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Consolidated Company 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 appropriate audit evidence regarding the financial information of the entities or business activities within the Consolidated Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit.

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 of the current period 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 Ko, Hui Chih and Kuo, Hsin Yi.

KPMG

Taipei, Taiwan (Republic of China)
March 26, 2019

Notes to Readers

The accompanying consolidated financial statements are intended only to present the consolidated financial statements of financial position, financial performance and cash flows in accordance with the 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 accepted and applied in the Republic of China.

The independent auditors' report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese independent auditors' report and consolidated financial statements, the Chinese version shall prevail.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	Assets	December 31, 2018 Amount	%	December 31, 2017 Amount	%
	Current assets:				
1100	Cash and cash equivalents (Note 6(a))	$ 1,097,976	2	1,020,460	2
1110	Current financial assets at fair value through profit or loss (Note 6(b))	134,560	-	186,360	1
1140	Current contract assets (Note 6(w))	1,603,030	3	-	-
1150	Notes receivable, net (Notes 6(f) and 7)	328,262	1	236,978	1
1170	Accounts receivable, net (including related parties) (Notes 6(f) and 7)	3,031,813	6	3,277,878	8
1190	Construction contracts receivable (Note 6(h))	-	-	1,087,887	2
1200	Other receivables, net (Notes 6(g) and 7)	79,853	-	185,739	1
1310	Inventories, net (Note 6(i))	15,453,079	32	8,175,732	19
1410	Prepayments	432,024	1	354,148	1
1470	Other current assets (Note 8)	808,355	2	310,171	1
	Total current assets	22,968,952	47	14,835,353	36
	Non-current assets:				
1517	Non-current financial assets at fair value through other comprehensive income (Note 6(c))	566,823	1	-	-
1523	Non-current available-for-sale financial assets, net (Note 6(d))	-	-	1,364,071	3
1543	Non-current financial assets at cost, net (Note 6(e))	-	-	218,711	1
1550	Investments accounted for using the equity method, net (Note 6(j))	1,465,204	3	1,381,834	3
1600	Property, plant and equipment (Notes 6(k) and 8)	20,694,943	43	20,582,554	50
1760	Investment property, net (Notes 6(k) and (l) and 7)	1,870,098	4	1,884,349	4
1780	Intangible assets	186,738	-	190,187	1
1840	Deferred tax assets (Note 6(t))	154,732	-	134,985	-
1900	Other non-current assets (Note 8)	316,027	1	293,083	1
1911	Natural resources (Note 6(z))	39,671	-	62,662	-
1915	Prepayments for equipment	95,236	-	145,173	-
1920	Refundable deposits (Note 8)	200,069	1	204,430	1
	Total non-current assets	25,589,541	53	26,462,039	64
	Total assets	**$ 48,558,493**	**100**	**41,297,392**	**100**

	Liabilities and equity	December 31, 2018 Amount	%	December 31, 2017 Amount	%
	Current liabilities:				
2100	Short-term loans (Note 6(m))	$ 11,752,724	24	8,294,012	20
2110	Short-term notes and bills payable (Note 6(n))	1,499,369	3	604,095	1
2120	Current financial liabilities at fair value through profit or loss (Note 6(b))	1,745	-	5,875	-
2130	Current contract liabilities (Note 6(w))	483,278	1	-	-
2150	Notes payable(including related parties) (Note 7)	172,020	-	108,197	-
2170	Accounts payable (including related parties) (Note 7)	1,999,344	4	1,864,857	5
2190	Construction contracts payable (Note 6(h))	-	-	437,188	1
2200	Other payables(including related parties) (Notes 6(r) and 7)	1,307,761	3	1,343,829	3
2230	Current tax liabilities	200,510	1	192,573	1
2250	Current provisions	64,118	-	113,822	-
2310	Advance receipts	-	-	301,389	1
2322	Long-term loans, current portion (Note 6(o))	7,143	-	-	-
2399	Other current liabilities, others	1,713	-	2,231	-
	Total current liabilities	17,489,725	36	13,268,068	32
	Non-current liabilities:				
2500	Non-current financial liabilities at fair value through profit or loss (Notes 6(b) and (r))	31,200	-	-	-
2530	Bonds payable (Note 6(p))	1,915,729	4	-	-
2540	Long-term loans (Note 6(o))	4,076,466	9	3,000,000	7
2550	Non-current provisions	-	-	2,915	-
2570	Deferred tax liabilities (Note 6(t))	174,488	-	170,171	1
2640	Non-current defined benefit liability, net (Note 6(s))	846,223	2	797,919	2
2645	Guarantee deposits received (Note 7)	13,898	-	25,288	-
	Total non-current liabilities	7,058,004	15	3,996,293	10
	Total liabilities	24,547,729	51	17,264,361	42
	Equity (Notes 6(u)):				
3100	Capital stock	10,040,606	20	10,040,606	25
3200	Capital surplus	6,592,236	14	6,320,178	16
	Retained earnings:				
3310	Legal reserve	3,530,282	7	3,358,789	8
3320	Special reserve	149,309	-	149,309	-
3350	Unappropriated retained earnings	4,237,676	9	3,891,371	9
	Total retained earnings	7,917,267	16	7,399,469	17
3400	Other equity interest	(647,024)	(1)	192,188	-
	Total equity attributable to owners of the parent	23,903,085	49	23,952,441	58
36XX	Non-controlling interests	107,679	-	80,590	-
	Total equity	24,010,764	49	24,033,031	58
	Total liabilities and equity	**$ 48,558,493**	**100**	**41,297,392**	**100**

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars , Except for Earnings Per Common Share)

		2018		2017	
		Amount	**%**	**Amount**	**%**
4000	**Operating revenue (Notes 6(w)(x) and 7)**	$ 39,769,621	100	31,749,271	100
5000	**Operating costs (Notes 6(h)(i)(s)(y) and 7)**	36,444,939	92	27,947,410	88
5900	**Gross profit from operations**	3,324,682	8	3,801,861	12
6000	**Operating expenses:**				
6100	Selling expenses (Notes 6(s)(y) and 7)	1,002,718	3	711,604	2
6200	Administrative expenses (Notes 6(s)(y) and 7)	1,006,750	2	1,248,267	4
6450	Expected credit loss (Notes 6(f))	39,861	-	-	-
6500	**Total operating expenses**	2,049,329	5	1,959,871	6
6900	**Operating income**	1,275,353	3	1,841,990	6
7000	**Non-operating income and expenses:**				
7010	Other income (Notes 6(z) and 7)	114,165	-	106,278	-
7020	Other gains and losses, net (Notes 6(z) and 7)	31,456	-	(26,457)	-
7050	Finance costs, net (Note 6(z))	(224,550)	-	(98,636)	-
7060	Share of profit of associates accounted for using the equity method, net (Note 6(j))	58,679	-	175,908	-
	Total non-operating income and expenses	(20,250)	-	157,093	-
7900	**Income before income tax**	1,255,103	3	1,999,083	6
7950	Less: Income tax expense (Note 6(t))	(366,164)	(1)	(298,349)	(1)
	Net income	888,939	2	1,700,734	5
8300	**Other comprehensive income:**				
8310	**Items that will not be reclassified to profit or loss**				
8311	Remeasurements of defined benefit plans	(71,970)	-	(63,359)	-
8316	Unrealized losses from investments in equity instruments measured at fair value through other comprehensive income	14,626	-	-	-
8320	Share of other comprehensive income of associates and joint ventures accounted for using equity method, items that will not be reclassified to profit or loss	(3,619)	-	197	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	21,919	-	10,771	-
	Total items that will not be reclassified to profit or loss	(39,044)	-	(52,391)	-
8360	**Items that may be reclassified subsequently to profit or loss**				
8361	Exchange differences on translation of foreign financial statements	(74,516)	-	(379,477)	(1)
8362	Unrealized gains on valuation of available-for-sale financial assets	-	-	358,587	1
8363	Gains (losses) on effective portion of cash flow hedges	-	-	17,385	-
8370	Share of other comprehensive income (loss) of associates accounted for using the equity method be reclassified subsequently to profit or loss (Note 6(j))	(2,125)	-	1,725	-
8399	Income tax related to components of other comprehensive income that may be reclassified to profit or loss	-	-	-	-
	Total items of other comprehensive income that may be reclassified subsequently to profit or loss	(76,641)	-	(1,780)	-
8300	**Other comprehensive income for the period**	(115,685)	-	(54,171)	-
8500	**Total comprehensive income for the period**	**$ 773,254**	**2**	**1,646,563**	**5**
8600	**Net income attributable to:**				
8610	Owners of the parent	$ 887,932	2	1,714,931	5
8620	Non-controlling interests	1,007	-	(14,197)	-
		$ 888,939	**2**	**1,700,734**	**5**
8700	**Comprehensive income attributable to:**				
8710	Owners of the parent	$ 762,869	2	1,656,764	5
8720	Non-controlling interests	10,385	-	(10,201)	-
		$ 773,254	**2**	**1,646,563**	**5**
9750	**Basic earnings per share (in dollars) (Note 6(v))**	**$**	**0.88**		**1.72**
9850	**Diluted earnings per share (in dollars) (Note 6(v))**	**$**	**0.87**		**1.71**

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent															
	Capital stock				Retained earnings				Total other equity interest							
	Ordinary shares	Certificate of entitlement to new shares from convertible bond	Total stock capital	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Total retained earnings	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	Unrealized gains (losses) on available-for-sale financial assets	Gains (losses) on effective portion of cash flow hedges	Total other equity interest	Total equity attributable to owners of the parent	Non-controlling interests	Total equity
Balance as of January 1, 2017	$ 9,982,215	-	9,982,215	6,247,267	3,210,321	149,309	3,674,987	7,034,617	(197,581)	-	412,930	(17,385)	197,964	23,462,063	90,791	23,552,854
Net income for the period	-	-	-	-	-	-	1,714,931	1,714,931	-	-	-	-	-	1,714,931	(14,197)	1,700,734
Other comprehensive income for the period	-	-	-	-	-	-	(52,391)	(52,391)	(383,473)	-	360,312	17,385	(5,776)	(58,167)	3,996	(54,171)
Total comprehensive income for the period	-	-	-	-	-	-	1,662,540	1,662,540	(383,473)	-	360,312	17,385	(5,776)	1,656,764	(10,201)	1,646,563
Appropriation and distribution of retained earnings:																
Legal reserve appropriated	-	-	-	-	148,468	-	(148,468)	-	-	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	-	-	(1,297,688)	(1,297,688)	-	-	-	-	-	(1,297,688)	-	(1,297,688)
Conversion of convertible bonds	20,026	38,365	58,391	72,911	-	-	-	-	-	-	-	-	-	131,302	-	131,302
Balance at December 31, 2017	10,002,241	38,365	10,040,606	6,320,178	3,358,789	149,309	3,891,371	7,399,469	(581,054)	-	773,242	-	192,188	23,952,441	80,590	24,033,031
Effects of retrospective application	-	-	-	-	-	-	655,429	655,429	-	101,745	(773,242)	-	(671,497)	(16,068)	5,836	(10,232)
Equity as of January 1, 2018 after adjustments	10,002,241	38,365	10,040,606	6,320,178	3,358,789	149,309	4,546,800	8,054,898	(581,054)	101,745	-	-	(479,309)	23,936,373	86,426	24,022,799
Net income for the period	-	-	-	-	-	-	887,932	887,932	-	-	-	-	-	887,932	1,007	888,939
Other comprehensive income for the period	-	-	-	-	-	-	(50,942)	(50,942)	(83,894)	9,773	-	-	(74,121)	(125,063)	9,378	(115,685)
Total comprehensive income for the period	-	-	-	-	-	-	836,990	836,990	(83,894)	9,773	-	-	(74,121)	762,869	10,385	773,254
Appropriation and distribution of retained earnings:																
Legal reserve appropriated	-	-	-	-	171,493	-	(171,493)	-	-	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	-	-	(1,405,685)	(1,405,685)	-	-	-	-	-	(1,405,685)	-	(1,405,685)
Other changes in capital surplus:																
Due to recognition of equity component of convertible bonds issued	-	-	-	81,973	-	-	-	-	-	-	-	-	-	81,973	-	81,973
Changes in equity of associates accounted for using the equity method	-	-	-	190,085	-	-	-	-	-	-	-	-	-	190,085	-	190,085
Conversion of convertible bonds	38,365	(38,365)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	10,868	10,868
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	-	-	431,064	431,064	-	(93,594)	-	-	(93,594)	337,470	-	337,470
Balance as of December 31, 2018	**$ 10,040,606**	**-**	**10,040,606**	**6,592,236**	**3,530,282**	**149,309**	**4,237,676**	**7,917,267**	**(664,948)**	**17,924**	**-**	**-**	**(647,024)**	**23,903,085**	**107,679**	**24,010,764**

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows
For the years ended December 31, 2018 and 2017
(Expressed in Thousands of New Taiwan Dollars)

	2018	2017
Cash flows from (used in) operating activities:		
Income before income tax	$ 1,255,103	1,999,083
Adjustments:		
Adjustments to reconcile profit or loss:		
Depreciation expense	1,307,037	1,162,811
Amortization expense	77,763	63,220
Expected credit loss	39,861	846
Net loss on financial assets or liabilities at fair value through profit or loss	64,386	-
Interest expense	224,550	98,636
Interest income	(6,078)	(8,518)
Dividend income	(59,935)	(51,808)
Share of profit of associates accounted for using the equity method	(58,679)	(175,908)
(Gain) Loss from disposal of property, plant and equipment	(979)	40,803
Property, plant and equipment transferred to expenses	447	12,469
Gain on disposal of investment properties	(3,133)	-
Gain from disposal of investments	-	(2,491)
Reversal of impairment loss on financial assets	-	(999)
Impairment loss on non-financial assets	20,811	14,694
Unrealized foreign exchange (gain) loss	(19,809)	8,450
Disposed property, plant and equipment reclassified to inventory	-	10
Total adjustments to reconcile profit or loss	1,586,242	1,162,215
Changes in operating assets and liabilities:		
Decrease in financial assets held for trading	-	439
Increase in contract assets	(515,143)	-
(Increase) decrease in notes receivable	(91,284)	240,135
Decrease (increase) in accounts receivable	206,589	(1,264,009)
Increase in construction contracts receivable	-	(90,392)
Decrease (increase) in other receivable	102,117	(90,707)
Increase in inventories	(6,801,912)	(1,849,987)
Increase in prepayments	(77,576)	(127,520)
Increase in other current assets	(461,700)	(238,511)
Increase in other operating assets	(37,275)	-
Increase in financial liabilities held for trading	-	5,875
Decrease in contract liabilities	(255,299)	-
Increase in notes payable	63,823	13,033
Increase in accounts payable	134,487	305,589
Increase in construction contracts payable	-	139,558
Decrease in other payables	(118,090)	(272,893)
Increase in receipts in advance	-	26,421
Decrease in other current liabilities	(518)	(1,223)
(Decrease) increase in net defined benefit liability	(24,040)	2,582
(Decrease) increase in provisions	(52,619)	82,863
Total adjustments	(6,342,198)	(1,956,532)
Cash (outflow) inflow from operations	(5,087,095)	42,551
Interest received	5,615	10,172
Dividends received	197,060	137,340
Interest paid	(207,205)	(93,831)
Income taxes paid	(347,378)	(224,768)
Net cash flows used in operating activities	(5,439,003)	(128,536)
Cash flows from (used in) investing activities:		
Acquisition of financial assets at fair value through other comprehensive income	(3,628)	-
Proceeds from disposal of financial assets at fair value through other comprehensive income	1,358,531	-
Proceeds from capital reduction of financial assets at fair value through other comprehensive income	2,075	-
Acquisition of financial assets at cost	-	(3,996)
Proceeds from disposal of financial assets at cost	-	4,743
Proceeds from capital reduction of financial assets at cost	-	2,917
Increase in restricted assets	(36,484)	(1,896)
Acquisition of property, plant and equipment	(1,705,982)	(3,491,881)
Proceeds from disposal of property, plant and equipment	8,345	5,582
Decrease (increase) in refundable deposits	4,361	(27,868)
(Increase) decrease in other receivables	-	16,125
Increase in computer software and unamortized expense	-	(6,441)
Acquisition of investment properties	(26,948)	(136,065)
Proceeds from disposal of investment properties	40,788	-
Increase in prepayments for equipment and land	(62,882)	(111,944)
Net cash flows used in investing activities	(421,824)	(3,750,724)
Cash flows from (used in) financing activities:		
Increase in short-term loans	61,414,940	41,214,164
Decrease in short-term loans	(57,973,533)	(35,217,427)
Increase in short-term notes and bills payable	12,730,000	3,575,000
Decrease in short-term notes and bills payable	(11,835,000)	(3,426,758)
Repayments of bonds	-	(1,100)
Proceeds from issuing bonds	2,000,000	-
Proceeds from long-term loans	3,427,413	200,000
Repayments of long-term loans	(2,353,571)	(700,000)
(Decrease) increase in guarantee deposits received	(11,390)	1,172
Cash dividends paid	(1,405,685)	(1,297,688)
Change in non-controlling interests	20,246	3,996
Net cash flows from financing activities	6,013,420	4,351,359
Effect of exchange rate changes on cash and cash equivalents	(75,077)	(1,540,113)
Net increase (decrease) in cash and cash equivalents	77,516	(1,068,014)
Cash and cash equivalents at beginning of period	1,020,460	2,088,474
Cash and cash equivalents at end of period	**$ 1,097,976**	**1,020,460**

(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

(1) Company history

Tung Ho Steel Enterprise Corporation (the "Company") was incorporated in May, 1962, as a company limited by shares and registered under the Ministry of Economic Affairs, R.O.C. The address of the Company's registered office is 6F., No. 9, Sec. 1, Chang An E. Rd., Taipei City, Taiwan (R.O.C.). The Company and its subsidiaries (the "Consolidated Company") are primarily involved in manufacturing and selling steel bars, steel sections, and steel plates.

(2) Approval date and procedures of the consolidated financial statements

The consolidated financial statements as of and for years ended December 31, 2018 and 2017 were approved and authorized for issuance by the Board of Directors on March 26, 2019.

(3) New standards, amendments and interpretations adopted

(a) The impact of the International Financial Reporting Standards ("IFRSs") endorsed by the Financial Supervisory Commission, R.O.C. ("FSC") which have already been adopted

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2018.

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendment to IFRS 2 "Clarifications of Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendment to IAS 7 "Statement of Cash Flows–Disclosure Initiative"	January 1, 2017
Amendment to IAS 12 "Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of Investment Property"	January 1, 2018
Annual Improvements to IFRS Standards 2014-2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

Except for the following items, the Consolidated Company believes that the adoption of the above IFRSs would not have any material impact on its consolidated financial statements. The extent and impact of signification changes are as follows:

(i) IFRS 15 "Revenue from Contracts with Customers"

The standard replaces IAS 18 "Revenue", IAS 11 "Construction Contracts", and related interpretations, using a single analysis model to determine how, when, and how much an entity recognizes its revenue in five steps. The Consolidated Company adopts the cumulative effect method, and therefore is not required to restate its financial statements for comparative reporting periods. IAS 18, IAS 11, and related interpretations are still applied in prior periods. The impact of the cumulative effects are adjusted to the unappropriated retained earnings as of January 1, 2018.

The Consolidated Company uses the practical expedients for completed contracts, which means it need not restate those contracts that have been completed on January 1, 2018.

The following are the nature and impacts on changing of accounting policies:

1) Sales of goods

Under IAS 18, the revenue for the sale of goods was recognized at the shipping point for exports, with the risks and rewards of ownership transferred upon loading the goods onto the carrier at the port. The revenue for domestic sales was recognized when the goods were delivered to the customers' premises, which was taken to be the point at which the customer accepts the goods and the related risks and rewards of ownership transfer. Revenue was recognized at this point provided that the revenue and costs could be measured reliably, the recovery of the consideration was probable, and there was no continuing management involvement with the goods. Under IFRS 15, revenue is recognized when a customer obtains control of the goods.

2) Rendering of services

The Consolidated Company is engaged in the collection and disposal services of electric arc furnace dusts (EAF dusts). The revenue is recognized when the services are completed. Under IAS 18, if the services under a single arrangement are rendered in different reporting periods, then the consideration is allocated on a relative fair value basis between the different services. Under IFRS 15, the total consideration in the service contracts will be allocated to all services based on their stand-alone selling prices. The Consolidated Company does not expect significant differences in the timing of revenue recognition for these services.

3) Construction contracts

Under IAS 18, contract revenue included the initial amount agreed in the contract, plus, any variations in contract work, claims and incentive payments, to the extent that it was probable that they would result in revenue and could be measured reliably. When a claim or variation was recognized, the contract completion or contract price would be revised and the cumulative contract position would be reassessed at each reporting date. Under IFRS 15, claims and variations are accounted for when they are approved.

4) Impacts on financial statements

The following tables summarize the impacts of the adoption of IFRS 15 on the Consolidated Company's consolidated financial statements:

Impacted line items on the consolidated balance sheet	December 31, 2018 Balances prior to the adoption of IFRS 15	December 31, 2018 Impact of changes in accounting policies	December 31, 2018 Balance upon adoption of IFRS 15	January 1, 2018 Balances prior to the adoption of IFRS 15	January 1, 2018 Impact of changes in accounting policies	January 1, 2018 Balance upon adoption of IFRS 15
Construction contracts receivable	$ 1,603,030	(1,603,030)	-	1,087,887	(1,087,887)	-
Current contract assets	-	1,603,030	1,603,030	-	1,087,887	1,087,887
Impact on assets		$ -			-	
Construction contracts payable	$ 153,017	(153,017)	-	437,188	(437,188)	-
Advance receipts	330,261	(330,261)	-	301,389	(301,389)	-
Current contract liabilities	-	483,278	483,278	-	738,577	738,577
Impact on liabilities		$ -			-	

Impacted line items on the consolidated statement of cash flows	For the year ended December 31, 2018 Amounts prior to the adoption of IFRS 15	For the year ended December 31, 2018 Impact of changes in accounting polices	For the year ended December 31, 2018 Amounts with the adoption of IFRS 15
Cash flows from (used in) operating activities:			
Adjustments:			
Increase in contract assets	$ -	(515,143)	(515,143)
(Increase) decrease in construction contracts receivable	(515,143)	515,143	-
Decrease in contract liabilities	-	(255,299)	(255,299)
Increase (decrease) in construction contracts payable	(284,171)	284,171	-
Increase (decrease) in advance receipts	28,872	(28,872)	-
Impact on cash flows from operations		-	
Impact on net cash flows from operating activities		$ -	

(ii) IFRS 9 "Financial Instruments"

IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement" which contains classification and measurement of financial instruments, impairment and hedge accounting.

As a result of the adoption of IFRS 9, the Consolidated Company adopted the consequential amendments to IAS 1 "Presentation of Financial Statements" which requires impairment of financial assets to be presented in a separate line item in the statement of comprehensive income. Previously, the Consolidated Company's approach was to include the impairment of receivables in administrative expenses. Additionally, the Consolidated Company adopted the amended IFRS 7 "Financial Instruments: Disclosures" to disclose about the financial information of FY2018 but generally not to comparative information.

The details of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below:

1) Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI), and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables, and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. For an explanation of how the Consolidated Company classifies and measures financial assets and accounts for related gains and losses under IFRS 9, please see Note 4(g).

The adoption of IFRS 9 did not result in any significant impact on its accounting policies on financial liabilities.

2) Impairment of financial assets

IFRS 9 replaces the incurred loss model in IAS 39 with the expected credit loss (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to equity instruments. Under IFRS 9, credit losses are recognized earlier than they are under IAS 39; please see Note 4(g).

3) Transition

The adoption of IFRS 9 have been applied retrospectively, except as described below,

- Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and other equity as of January 1, 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

- The following assessments have been made on the basis of the facts and circumstances that existed as of the date of initial application.

  - The determination of the business model under which a financial asset is held.

  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

  - The designation of certain investments in equity instruments not held for trading as at FVOCI.

● If an investment in a debt security had low credit risk at the date of initial application of IFRS 9, then the Consolidated Company assumed that the credit risk on its asset will not increase significantly since its initial recognition.

4) Classification of financial assets as of the date of initial application of IFRS 9

The following table shows the original measurement categories and carrying amounts under IAS 39 and the new measurement categories and carrying amounts under IFRS 9 for each class of the Consolidated Company's financial assets as of January 1, 2018.

	IAS 39		IFRS 9	
	Measurement categories	**Carrying Amount**	**Measurement categories**	**Carrying Amount**
Financial assets				
Cash and equivalents	Loans and receivables	1,020,460	Amortized cost	1,020,460
Equity instruments	Held-for-trading	186,360	Mandatorily at FVTPL	186,360
Equity instruments	Available-for-sale (note 1)	1,582,782	FVOCI	1,572,550
Trade and other receivables	Loans and receivables (note 2)	3,700,595	Amortized cost	3,700,595
Other financial assets (including guarantee deposits)	Loans and receivables	209,210	Amortized cost	209,210

Note 1: These equity securities (including financial assets measured at cost) represent investments that the Consolidated Company intends to hold for the long term for strategic purposes. As permitted by IFRS 9, the Consolidated Company has designated these investments at the date of initial application as measured at FVOCI. Accordingly, a decrease of $10,232 thousand in those assets was recognized, and an increase of $655,429 thousand in the retained earnings, as well as a decrease of $671,497 thousand and an increase of $5,836 thousand in other equity and non-controlling interests were recognized on January 1, 2018.

Note 2: Notes receivable, accounts receivable, and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortized cost. No impact was imposed on the opening retained earnings upon transition to IFRS 9 on January 1, 2018.

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 on January 1, 2018.

	2017.12.31 IAS 39 Carrying Amount	Reclassifications	Remeasurements	2018.1.1 IFRS 9 Carrying Amount	2018.1.1 Retained earnings	2018.1.1 Other equity	2018.1.1 Non-controlling interests
Beginning balance of available-for-sale (including measured at cost) under IAS 39	$ 1,582,782	(1,582,782)	-		-	-	-
Reclassification from available-for-sale to FVOCI	-	1,582,782	(10,232)		655,429	(671,497)	5,836
Total	**$ 1,582,782**	**-**	**(10,232)**	**1,572,550**	**655,429**	**(671,497)**	**5,836**

(iii) Amendments to IAS 7 "Disclosure Initiative"

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes arising from both cash flow and non-cash changes.

To satisfy the new disclosure requirements, the Consolidated Company has presented a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities in Note 6(ae).

(b) The impact of IFRS endorsed by FSC but not yet effective

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2019 for publicly listed companies, in accordance with Ruling No. 1070324857 issued by the FSC on July 17, 2018:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
IFRS 16 "Leases"	January 1, 2019
IFRIC 23 "Uncertainty over Income Tax Treatments"	January 1, 2019
Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	January 1, 2019
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019
Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"	January 1, 2019
Annual Improvements to IFRS Standards 2015-2017 Cycle	January 1, 2019

Except for the following items, the Consolidated Company believes that the adoption of the above IFRSs would not have any material impact on its consolidated financial statements. The extent and impact of signification changes are as follows:

(i) IFRS 16 "Leases"

IFRS 16 replaces the existing leases guidance, including IAS 17 "Leases", IFRIC 4 "Determining Whether an Arrangement Contains a Lease", SIC-15 "Operating Leases – Incentives" and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease".

IFRS 16 introduces a single and an on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. In addition, the nature of expenses related to those leases will now be changed since IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. There are recognition exemptions for short-term leases and leases of low-value items. The lessor accounting remains similar to the current standard – i.e. the lessors will continue to classify leases as finance or operating leases.

1) Determining whether an arrangement contains a lease

On transition to IFRS 16, the Consolidated Company can choose to apply either of the following:

●apply the IFRS 16 definition of a lease to all its contracts; or

●apply a practical expedient and not reassess whether a contract is, or contains, a lease.

The Consolidated Company plans to apply the practical expedient to grandfather the definition of a lease upon transition. This means that it will apply IFRS 16 to all contracts entered into before January 1, 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

2) Transition

As a lessee, the Consolidated Company can either apply the standard using the following:

●retrospective approach; or

●modified retrospective approach with optional practical expedients.

On January 1, 2019, the Consolidated Company plans to initially apply IFRS 16 using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings as of January 1, 2019, with no restatement of comparative information.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Consolidated Company is assessing using practical as follows:

● apply a single discount rate to a portfolio of leases with similar characteristics.

● adjust the right-of-use assets, based on the amount reflected in IAS 37 onerous contract provision, immediately before the date of initial application, as an alternative to an impairment review.

● apply the exemption not to recognize the right-of-use assets and liabilities to leases with lease term that ends within 12 months of the date of initial application.

● exclude the initial direct costs from measuring the right-of-use assets at the date of initial application.

● use hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

3) So far, the most significant impact identified is that the Consolidated Company will have to recognize the new assets and liabilities for the operating leases of its offices, warehouses, and factory facilities. The Consolidated Company estimated that the right-of-use assets and the lease liabilities to both increase by $209,194 thousand respectively, as well as the retained earnings to decrease by $0 thousand on January 1, 2019. No significant impact is expected for the Consolidated Company' s finance leases. Besides, The Consolidated Company does not expect the adoption of IFRS 16 to have any impact on its ability to comply with the revised maximum leverage threshold loan covenant. Also, the Consolidated Company is not required to make any adjustments for leases where the Consolidated Company is the intermediate lessor in a sub-lease.

(ii) IFRIC 23 Uncertainty over Income Tax Treatments

In assessing whether and how an uncertain tax treatment affects the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, as well as tax rates, an entity shall assume that a taxation authority will examine the amounts it has the right to examine and have a full knowledge on all related information when making those examinations.

If an entity concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, as well as tax rates consistently with the tax treatment used or planned to be used in its income tax filings. Otherwise, an entity shall reflect the effect of uncertainty for each uncertain tax treatment by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty.

So far, the Consolidated Company does not expect above change will impact deferred tax liabilities and retained earnings as of January 1, 2019.

(c) The impact of IFRS issued by IASB but not yet endorsed by the FSC

As of the date, the following IFRSs that have been issued by the International Accounting Standards Board (IASB), but have yet to be endorsed by the FSC:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Effective date to be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020

The Consolidated Company assessed that the above IFRSs may not be relevant to the Consolidated Company.

(4) Summary of significant accounting policies

(a) Statement of compliance

The accompanying consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as the Regulations) and the International Financial Reporting Standards, International Accounting Standards, and IFRIC Interpretations and SIC Interpretations as endorsed by the Financial Supervisory Commissions of the Republic of China (hereinafter referred to IFRSs as endorsed by the FSC).

(b) Basis of preparation

(i) Basis of measurement

The consolidated financial statements have been prepared on historical cost basis, except for the following material items in the consolidated balance sheet.

1) Financial instruments measured at fair value through profit or loss;

2) Financial assets measured at fair value through OCI (available-for-sale financial assets) measured at fair value;

3) Net defined benefit liabilities measured as the fair value of plan assets, less the present value of defined benefit obligation and the upper limit of the effects described in Note 4(s)

(ii) Functional and presentation currency

The functional currency of the Consolidated Company is determined based on the primary economic environment in which the entity operates. The consolidated financial statements are presented in New Taiwan Dollar, which is the Company’ s functional currency. All financial information presented in New Taiwan Dollar has been rounded to the nearest thousand.

(c) Basis of consolidation

(i) Principle of preparing consolidated financial statements

The Consolidated Company comprise of the Company and the entities over which it possessed control (its subsidiaries). When the Company is exposed to variable rewards and the right to such rewards of an entity, the Company possesses control over such entities.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Balances, transactions, and any unrealized income and expenses arising from intra-group transactions are eliminated in the preparation of the consolidated financial statements. Attributable comprehensive income to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

The financial statements of the subsidiaries have been adjusted so that they align with the accounting policies of the Consolidated Company.

Changes in the Consolidated Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Adjustments or differences between purchase consideration and fair value of non-controlling interest are recognized as equity attributable to the owners of the Company.

(ii) A list of subsidiaries included in the consolidated financial statements is as follows:

Investor	The name of subsidiaries	Business activity	Percentage of ownership		Note
			December 31, 2018	December 31, 2017	
The Company	Tung Yuan International Corp.	Investment activities	100.00%	100.00%	
The Company	Tung Kang Steel Structure Corp.	Metal structure and manufacture of architectural components	97.48%	97.48%	
The Company	Goldham Development Ltd.	Investment activities	100.00%	100.00%	
The Company	Katec Creative Resources Corporation	Waste recycling	99.01%	99.01%	
The Company	Tung Kang Wind Power Corp.	Electric power generation	100.00%	100.00%	
The Company	Fa Da Enterprise Corp.	Waste recycling	100.00%	100.00%	
The Company	Tung Ho Steel Vietnam Corp., Ltd. (THSVC)	Steel industry	100.00%	100.00%	
Tung Yuan International Corp.	3 Oceans International Inc.	Investment activities	66.67%	66.67%	
Tung Yuan International Corp.	Best-Steel Trade Corp. (BST)	Trading	60.00%	60.00%	
Tung Kang Steel Structure Corp.	Tung Kang Engineering & Construction Corp.	Civil engineering	100.00%	100.00%	
Goldham Development Ltd.	Fujian Tung Kang Steel Co., Ltd.	Manufacture of section steels and steel structures	100.00%	100.00%	
Fujian Tung Kang Steel Co., Ltd.	Fujian DongSheng metal processing Co., Ltd.	Metal processing	51.00%	- %	Note 1

Note 1: Fujian Tung Kang Steel Corp. invested 51% in Fujian Dong Sheng metal processing Corporation which was established in September 2018, and was included into the consolidated financial statement at the same time.

(iii) All of the subsidiaries above were included in consolidation.

(d) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to respective functional currencies at exchange rates on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to functional currency at the exchange rate on that date. Foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interests and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

Foreign currency denominated non-monetary assets and liabilities measured at fair value are translated to the functional currency at the exchange rate on the date when fair value was determined. Foreign currency denominated non-monetary items measured at historical cost is translated using the exchange rate at the date of the transaction.

Exchange difference on translation of foreign operations is recognized in profit or loss, except for that arising from measured at fair value through other comprehensive income (available-for-sale) equity investment non-monetary securities, which is recognized through other comprehensive income.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising from acquisition, are translated to the Consolidated Company’s presentation currency at exchange rates on the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to the Consolidated Company’s presentation currency at average rate. Foreign currency translation differences are recognized in other comprehensive income.

When a foreign operation is disposed of such that control, significant influence, or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss. When the Consolidated Company disposes of any part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interest. When the Consolidated Company disposes of only part of an investment in an associate of joint venture that includes a foreign operation while retaining significant or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or a monetary item payable to a foreign operation is neither planned nor likely to happen in the foreseeable future, foreign currency gains and losses arising from such items are considered to form part of a net investment in the foreign operation and are recognized in other comprehensive income.

(e) Classification of current and non-current assets and liabilities

An asset is classified as current under any one of the following conditions. All other assets are classified as non-current.

(i) The asset is expected to be realized, or sold or consumed, during the Consolidated Company’s normal operating cycle;

(ii) The asset is held primarily for the purpose of trading;

(iii) The asset is expected to be realized within twelve months after the reporting date; or

(iv) The asset is cash and cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the balance sheet date.

A liability is classified as current under any one of the following conditions. All other liabilities are classified as non-current.

(i) The liability is expected to be settled during the Consolidated Company’s normal operating cycle;

(ii) The liability is held primarily for the purpose of trading;

(iii) The liability is due to be settled within twelve months after the reporting date; or

(iv) The Consolidated Company does not have any unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by issuing equity instruments do not affect its classification.

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in bank, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Term deposits that meet the above requirements and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes are classified under cash equivalents.

(g) Financial instruments

(i) Financial assets (applicable from January 1, 2018)

Financial assets are classified into the following categories: measured at amortized cost, fair value through other comprehensive income (FVOCI), and fair value through profit or loss (FVTPL).

The Consolidated Company shall reclassify all affected financial assets only when it changes its business model for managing its financial assets.

1) Financial assets measured at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held under a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset measured at amortized cost is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses, and impairment loss, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade date accounting.

2) Fair value through other comprehensive income (FVOCI)

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise to cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Consolidated Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an instrument-by-instrument basis.

A financial asset measured at FVOCI is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses, and impairment losses deriving from debt investments are recognized in profit or loss; whereas dividends deriving from equity investments are recognized as income in profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses of financial assets measured at FVOCI are recognized in OCI. On derecognition, gains and losses accumulated in OCI of equity investments are reclassified to profit or loss. However, gains and losses accumulated in OCI of equity investments are reclassified to retain earnings instead of profit or loss.

Dividend income derived from equity investments is recognized on the date that the Consolidated Company's right to receive payment is established, which is normally the exdividend date.

3) Fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVOCI described as above are measured at FVTPL, including derivative financial assets and account receivable(except for those presented as accounts receivable but measured at FVTPL). On initial recognition, the Consolidated Company may irrevocably designate a financial asset, which meets the requirements to be measured at amortized cost or at FVOCI, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent changes that are measured at fair value, which take into account any dividend and interest income, are recognized in profit or loss. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade date accounting.

4) Impairment of financial assets

The Consolidated Company recognizes loss allowances for expected credit losses on financial assets measured at amortized cost (including cash and cash equivalents, financial assets measured at amortized costs, notes and accounts receivable, other receivables, guarantee deposit), debt investments measured at FVOCI, accounts receivable and contract assets.

The Consolidated Company measures loss allowances at an amount equal to lifetime expected credit loss (ECL), except for the following which are measured as 12-month ECL:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowance for accounts receivable and contract assets are measured at an amount equal to lifetime ECL.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 month after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Consolidated Company is exposed to credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Consolidated Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Consolidated Company's historical experience and informed credit assessment as well as forward-looking information.

The Consolidated Company considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of ‘investment grade which is considered to be BBB- or higher per Standard & Poor's, Baa3 or higher per Moody's or twA or higher per Taiwan Ratings'.

The Consolidated Company assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The Consolidated Company considers a financial asset to be in default when the financial asset is more than 360 days past due or the borrower is unlikely to pay its credit obligations to the Consolidated Company in full.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Consolidated Company in accordance with the contract and the cash flows that the Consolidated Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Consolidated Company assesses whether the credit of financial assets carried at amortized cost are impaired. The credit of a financial asset is impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that the credit of a financial assets is impaired includes the following observable information:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- it is probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.For debt securities at FVOCI, the loss allowance is recognized in other comprehensive income instead of reducing the carrying amount of the asset. The Consolidated Company recognizes the amount of expected credit losses (or reversal) in profit or loss, as an impairment gain or loss.

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Consolidated Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Consolidated Company's procedures for recovery of amounts due.

5) Derecognition of financial assets

Financial assets are derecognized when the contractual rights to the cash flows from the assets expire, or when the Consolidated Company transfers substantially all the risks and rewards of ownership of the financial assets.

(ii) Financial assets (applicable before January 1, 2018)

Financial assets are categorized into financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets.

1) Financial assets at fair value through profit or loss

Financial assets classified under this category are mainly financial assets held for trading, or designated as at fair value through profit or loss upon initial recognition.

Financial assets are classified as held for trading if they are acquired principally for the purpose of selling in the short term. Financial assets, other than those classified as held for trading, are designated as at fair value through profit or loss upon initial recognition under one of the following situations:

a) Designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on a different basis;

b) Performance of the financial asset is evaluated on a fair value basis;

c) A hybrid instrument contains one or more embedded derivatives.

Upon initial recognition, financial assets in this category are measured at fair value. Attributable transaction costs are recognized through profit or loss as incurred. Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value and changes therein, which take into account any dividend and interest income, are recognized in profit or loss under non-operating income and expenses. Trade-date accounting is applied for purchases and sales of financial assets in the ordinary course of business.

If such financial instrument is an equity instrument which lacks active market and whose fair value cannot be reliably estimated, it is measured at cost less impairment and recognized as financial assets measured at cost.

2) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other categories of financial assets. Available-for-sale financial assets are recognized initially at fair value, plus any directly attributable transaction cost. Subsequent to initial recognition, and except for impairment losses, effective interest income, dividend income, and foreign currency gain or loss on monetary assets, which are recognized through profit or loss, available-for-sale financial assets are measured at fair value in other comprehensive income and presented under fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss, and is recognized as gain or loss on disposal of investments under non-operating income and expenses. For regular practices of purchases and sales of financial assets in the ordinary course of business, trade date accounting should be applied.

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, are measured at cost less impairment loss, and are included in financial assets measured at cost.

Dividend income is recognized on the date that the Consolidated Company’s right to receive payment is established, which is normally the ex-dividend date. Such dividend income is recognized as other income under non-operating income and expenses.

Interest income from investment in debt securities is recognized as other income.

3) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market which comprise accounts receivable and other receivables. Such assets are recognized initially at fair value, plus any directly attributable transaction costs. Subsequent to initial recognition, receivables are measured at amortized cost using the effective interest method, less any impairment losses, except for short-term receivables in which the effect of discounting is immaterial. For regular practices of purchase and sale of financial assets, trade-date accounting should be applied.

Interest income from receivables is recognized in profit or loss, under other income under non-operating income and expenses.

4) Impairment of financial assets

Except for financial assets at fair value through profit or loss, a financial asset is assessed for impairment at reporting date. A financial asset is impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a loss event) that occurred subsequent to the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial assets which can be estimated reliably.

Objective evidence that financial assets are impaired includes delinquency or default (such as unpaid or delayed payment of interest or principal) by a debtor, indications that a debtor will enter bankruptcy, financial adversity that results in the disappearance of an active market for a security. In addition, for an available-for-sale investment in an equity security, a significant or prolonged decline in its fair value below its cost is accounted for as objective evidence of impairment.

After individual accounts receivable are assessed as not impaired, accounts receivable are collectively assessed for impairment. Objective evidence that receivables are impaired includes historical experiences of collection, increasing level of overdue receivables which are collected beyond the credit term, and regional or global changes in the economies related to the delay in payments of receivables.

An impairment loss in respect of a financial asset measured at amortized cost is determined based on the excess of its carrying amount over the present value of the estimated future cash flows discounted at the asset’s original effective interest rate.

An impairment loss of a financial asset measured at cost is determined based on the excess of its carrying amount over the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversible in subsequent periods.

An impairment loss in respect of a financial asset is written off directly against its carrying amount, except for accounts receivable, in which an impairment loss is credited to an allowance account against the receivables. When a receivable is determined to be uncollectible, it is written off from the allowance account. Any subsequent recovery of receivable written off is charged to the allowance account. Changes in the amount of the allowance accounts are recognized in profit or loss.

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the other equity interest in equity to profit or loss.

If, in subsequent periods, the amount of the impairment loss of a financial assets measured at amortized cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost before impairment was recognized at the reversal date.

Impairment losses originally recognized through profit or loss on available-for-sale equity security cannot be reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income, and accumulated in other equity interest. If the amount of recovery in impairment can be objectively associated to events that occur after the impairment loss is recognized through profit or loss, such recovery can be recognized through profit or loss.

Impairment losses on receivables are recognized as selling expenses. Recoveries of impairment loss are recognized as other gains and losses under non-operating income and expenses. Impairment losses and recoveries of financial assets other than receivables are recognized in other gains and losses under non-operating income and expenses.

5) Derecognition of financial assets

Financial assets are derecognized when the contractual rights to the cash inflow from the asset are terminated, or when the Consolidated Company transfers substantially all the risks and rewards of ownership of the financial assets.

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

If the transferred asset is part of a larger financial asset and the part transferred qualifies for de-recognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognized and the part that is derecognized, based on the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received for the part derecognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income are recognized in profit or loss as other gains and losses under non-operating income and expenses. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is derecognized, based on the relative fair values of those parts.

(iii) Financial liabilities and equity instruments

1) Classification of debt or equity

Debt or equity instruments issued by the Consolidated Company are classified as financial liabilities or equity in accordance with the substance of the contractual agreement.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Consolidated Company are recognized based on the proceeds received, net of direct issue costs.

Compound financial instruments issued by the Consolidated Company comprise convertible bonds that can be converted to shares of capital at the option of the holder. The number of shares to be issued does not vary with its fair value.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

Interests, gains and losses related to financial liabilities are recognized in profit or loss as finance costs under non-operating income and expenses.

Financial liabilities are reclassified to equity on conversion, on which no gains or losses are recognized.

2) Financial liabilities at fair value through profit or loss

Financial liabilities classified under this category are mainly financial liabilities held for trading, or designated as at fair value through profit or loss upon initial recognition.

Financial liabilities are classified as held for trading if they are acquired principally for the purpose of selling in the short term. Financial liabilities, other than those held for trading, are designated as at fair value through profit or loss at initial recognition under one of the following situations:

a) Designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on a different basis;

b) Performance of the financial liabilities is evaluated on a fair value basis;

c) A hybrid instrument contains one or more embedded derivatives.

At initial recognition, financial liabilities in this category are measured at fair value. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value and changes therein, which take into account any interest expense, are recognized as other gains and losses under non-operating income and expenses.

Financial liabilities at fair value through profit or loss are measured at cost when the obligations are to deliver equity investments that do not have a quoted price borrowed by a short seller and are recognized as financial liabilities measured at cost.

3) Other financial liabilities

Except for those held for trading or designated as at fair value through profit or loss, financial liabilities, including short-term and long-term loans, accounts payable or other payables, are measured at fair value, plus any directly attributable transaction cost at the time of initial recognition. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method. Interest expense not capitalized is recognized as finance cost under other non-operating income or expenses.

4) Derecognition of financial liabilities

A financial liability is derecognized when the contractual obligation thereon has been discharged or cancelled or has expires.

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 as other gains and losses under non-operating income and expenses.

5) Offsetting of financial assets and liabilities

Financial assets and liabilities are presented on a net basis only when the Consolidated Company has the legal enforceable rights to offset, and the intention to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

(iv) Derivative financial instruments

The Consolidated Company holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Derivatives are initially measured at fair value. Any attributable transaction costs thereof are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss and are included in the line item of non-operating income and expenses in the statement of comprehensive income. When a derivative is designated as, and effective for, a hedging instrument, its timing of recognition in profit or loss is determined based on the nature of the hedging relationship. When the fair value of a derivative instrument is positive, it is classified as a financial asset, whereas when the fair value is negative, it is classified as a financial liability.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the non-financial asset's host contract are not closely related to the embedded derivatives and the host contract is not measured at FVTPL.

(h) Inventories

The cost of inventories shall comprise all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to the location and condition ready for sale or production. The allocation of fixed production overheads to the finished goods and work in process is based on the normal capacity of the production facilities. However, in the case where the practical capacity is larger than the normal capacity, the allocation is based on the practical capacity. Variable production overheads are allocated to each unit of production on the basis of the actual use of the production facilities. Inventories are subsequently measured at the lower of cost or net realizable value. The cost of inventories is based on the monthly weighted-average cost. Net realizable value is the estimated as the selling price in the ordinary course of business at the reporting date, less the estimated costs until completion and selling expenses. If the inventory is reserved for a contract, its net realizable value shall be based on the price of the contract.

(i) Construction contracts (applicable before January 1, 2018)

Construction contracts represent the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognized to date (see Note 6(h)) less progress billings and recognized losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Consolidated Company’s contract activities based on normal operating capacity.

Construction contracts in progress is presented as the amount due from customers for contract work in the statements of financial position for all contracts with costs incurred plus recognized profits exceeding their progress billings. If progress billings exceed costs incurred plus recognized profits, the difference is presented as amount due to customers for contract work in the statement of financial position.

(j) Investment in associates

Associates are those entities in which the Consolidated Company has significant influence, but not control, over the financial and operating policies.

Investments in associates are accounted for using the equity method and are recognized initially at cost, which includes transaction costs. The carrying amount of the investment in associates includes goodwill resulted from the acquisition less any accumulated impairment losses.

The consolidated financial statements included the Consolidated Company’s share of the profit or loss and other comprehensive income of investments accounted for under the equity method, after adjustments to align the accounting policies with those of the Consolidated Company, from the date that significant influence commences until the date that significant influence ceases. When changes in items other than profit or loss and other comprehensive income that do not affect the Company’s shareholding percentage occur, the Company recognizes its share of changes in equity of the associate under capital surplus.

Unrealized profits resulting from the transactions between the Consolidated Company and an associate are eliminated to the extent of the Consolidated Company’s interest in the associate. Unrealized losses on transactions with associates are eliminated in the same way, except to the extent that the underlying asset is impaired.

When the Consolidated Company’s share of losses exceeds or equals its share of interest in an associate, the recognition of further losses is discontinued except to the extent that the Consolidated Company has an obligation or has made payments on behalf of the investee.

(k) Investment property

Investment property is the property held either to earn rental income, or for capital appreciation, or for both, but not for sale in the ordinary course of business, for use in the production or supply of goods or services, or for administrative purposes. Investment property is measured at cost upon initial recognition and subsequently at cost less accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of raw materials and direct labor, capitalized borrowing costs, and any other costs directly attributable to bringing the investment property to a working condition for its intended use.

When the use of an investment property changes such that it is reclassified as property, plant and equipment, its carrying amount at the date of reclassification becomes its cost for subsequent accounting.

(l) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment loss. Cost includes expenditures that is directly attributed to the acquisition of the asset, any cost directly attributable to transporting the asset to the location and condition necessary for it to be utilized by the manner intended by management, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, and any borrowing cost eligible for capitalization. Cost of the property, plant and equipment also include the portion transferred from equity of effective cash flow hedges. Purchased software that is integral to the functionality of the related equipment is capitalized as part of the equipment cost.

When a piece of property, plant and equipment consist of different components, each component that is significant to the total cost with different applicable depreciation methods and useful lives should be regarded as a separate item (significant component).

Gain or loss arising from the disposal of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and is recognized as other gains and losses under non-operating income and expenses.

(ii) Subsequent cost

Subsequent expenditure is capitalized only when it is highly probable that the future economic benefits associated with the expenditure and will flow to the Consolidated Company and can be assessed reliably. The carrying amount of those parts that are replaced is derecognized. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

Depreciation of property, plant and equipment is measured over their estimated useful lives using the straight-line method. Each significant part of a property, plant and equipment is evaluated individually and depreciated separately should it possess a different useful life. The depreciation charged for each period is recognized in profit or loss.

Land has an unlimited useful life and therefore is not depreciated.

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

1) Buildings: 3 to 60 years

2) Machinery and equipment: 2.75 to 25 years

3) Miscellaneous equipment: 3 to 30 years

Depreciation methods, useful lives, and residual values are reviewed at each reporting date. If expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

(m) Leases

(i) Lessor

Lease income from an operating lease is recognized in profit or loss using a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income. Incentives granted to the lessee to enter into the operating lease are spread over the lease term on a straight-line basis so that the lease income received is reduced accordingly.

Contingent rents are recognized as income for the period when the lease adjustments are confirmed.

(ii) Lessee

Leases which the Consolidated Company assumes substantially all of the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the lease asset is measured at an amount equal to the lower of its fair value or the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to the asset.

Other leases are operating leases and are not recognized on the Consolidated Company’s balance sheets.

Payments made under operating lease (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense and spread over the term of the lease.

Minimum lease payments made under finance leases are apportioned between financial cost and reduction of the outstanding liability. The finance cost is allocated to each period during the lease term using a fixed periodic rate of interest on the remaining balance of the liability.

Contingent rent is recognized as expense in the periods in which it is incurred.

(n) Impairment of non-financial assets

The Consolidated Company assesses whether impairment has occurred on its non-financial assets other than inventories, deferred tax assets, and assets arising from employee benefit at every reporting date, and estimate the recoverable amounts of asset with indication of impairment. If the Consolidated Company is not able to estimate the recoverable amounts of individual assets, the Consolidated Company estimates the recoverable amount of the cash generating unit (CGU) to which the asset belongs.

The recoverable amount of an individual assets or a CGU is the higher of its fair value less costs of disposal and its value in use. If the recoverable amount of an asset or a CGU is less than its carrying amount, the carrying amount of the asset or CGU should be reduced to its recoverable amount, and that reduction will be accounted for as an impairment loss, which should be recognized immediately in profit or loss.

The Consolidated Company re-assesses whether indications of impairment exist at every reporting date whether previously recognized impairment no longer exists or decreases. If there are any changes in the determination of recoverable amounts, the Consolidated Company reverses the impairment loss to increase the carrying value of the individual asset or the CGU. However, the carrying value should not exceed the amount less depreciation or amortization had it not been impaired.

(o) Provision

A provision for warranties is recognized based on the estimated expenditures that may incur during the warranty period of the contracted projects. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities. Provisions are reversed when actual expenditures incur. If the expenditures exceed the balance of the provisions, they are recognized as expenses for the period. In accordance with the Consolidated Company’s policies that require an obligation to be settled, a provision for site demolition is recognized as expense during the period of demolition.

(p) Treasury stock

Repurchased shares are recognized as treasury stocks, a contra-equity account, based on its repurchase price (including all directly attributable costs). Gain on disposal of treasury stocks should be recognized under capital surplus–treasury stocks transactions. If the proceed from the disposal is less than the carrying amount, the difference should be offset against existing capital surplus arising from similar types of treasury stocks transactions. If capital surplus is insufficient for the offset, the deficiency is charged to retained earnings. The carrying value of treasury stocks is calculated using the weighted-average method for different types of repurchased shares.

If treasury stocks are cancelled, capital surplus–share premiums and ordinary stocks are debited proportionately. If the carrying value is higher than the sum of par value and share premium, the difference is debited to capital surplus arising from similar types of treasury stocks transactions. Loss on cancellation of treasury stocks is offset against existing capital surplus arising from similar types of treasury stocks transactions with insufficient amount debited to retained earnings. If the carrying value is lower than the sum of par value and share premium, the difference is credited to capital surplus.

(q) Revenue recognition

(i) Revenue from contracts with customers (applicable since January 1, 2018)

Revenue is measured based on the consideration to which the Consolidated Company expects to be entitled in exchange for transferring goods or services to a customer. The Consolidated Company recognizes revenue when it satisfies a performance obligation by transferring control of a good or a service to a customer. The accounting policies for the Consolidated Company's main types of revenue are explained below.

1) Sale of goods

The Consolidated Company recognizes revenue when control of the products has transferred, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Consolidated Company has objective evidence that all criteria for acceptance have been satisfied.

2) Construction contracts

The Consolidated Company engages in construction contracts. Because its customer controls the asset as it is constructed, the Consolidated Company recognizes revenue over time on the basis of the construction costs incurred to date as a proportion of the total estimated costs of the contract. The customer pays the fixed amount based on a payment schedule. If the Consolidated Company has recognized revenue, but not issued a bill, then the entitlement to consideration is recognized as a contract asset. The contract asset is transferred to receivables when the entitlement to payment becomes unconditional.

If the Consolidated Company cannot reasonably measure its progress towards the completion of a construction contract, the Consolidated Company shall recognize revenue only to the extent of the costs expected to be recovered.

A provision for onerous contracts is recognized when the Consolidated Company expects the unavoidable costs of performing the obligations under a construction contract exceed the economic benefits expected to be received under the contract.

Estimates of revenues, costs, or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

The Consoldiated Company recognizes provisions for its warranty for the agreed specifications of the construction contracts.

3) Rendering of services

The Consolidated Company is engaged in the collection and disposal services of electric arc furnace dusts (EAF dusts). The revenue is recognized when the services are completed. Under IAS 18, if the services under a single arrangement are rendered in different reporting periods, then the consideration is allocated on a relative fair value basis between the different services. Under IFRS 15, the total consideration in the service contracts will be allocated to all services based on their stand-alone selling prices. The Consolidated Company does not expect significant differences in the timing of revenue recognition for these services.

4) Financing components

The Consolidated Company does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Consolidated Company does not adjust any of the transaction prices for the time value of money.

(ii) Revenue recognition (applicable before January 1, 2018)

1) Goods sold

Revenue from the sale of goods in the ordinary course of business is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume discounts. Revenue is recognized when persuasive evidence exists, usually in the form of a signed sales agreement, that significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue when the sales are recognized.

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreements. For international shipments, transfers usually occur upon loading the goods onto the relevant carrier at the port. For domestic sales, transfers occur upon delivery to the customers' warehouses.

2) Construction contracts revenue

Contract revenue and contract expense is recognized to the extent that the result of the construction contract is probable and can be measured reliably using the percentage of completion method. Completion progress is assessed using the ratio of the contract costs incurred to date to the estimated total contract costs.

If the result of such construction contract cannot be reliably estimated, the construction contract will be treated differently as follows:

a) It is probable that all the expenses incurred are recoverable. Hence, all contract costs shall be recognized as an expense in the period in which they are incurred; the contract revenue is recognized only to the extent of costs incurred that are expected to be recoverable.

b) It is not probable that all the expenses incurred are recoverable. Hence, contract costs are expensed as incurred.

3) Services revenue

After EAF dusts are shipped to and accepted into the warehouse, the Consolidated Company will issue invoices according to the amount of EAF dusts accepted into warehouse to request payments from suppliers and recognize the payments as advance receipts, which will be recognized as revenue after the completion of EAF dusts process.

4) Rental income

Rental income from investment property is recognized on a straight-line basis over the lease term. Incentives granted for entering into the operating lease are spread over the lease term on a straight-line basis, with lease income received reduced accordingly. Revenue generated from leasing properties is recognized as other income under other non-operating income and expenses.

(r) Contract costs (applicable since January 1, 2018)

(i) Incremental costs of obtaining a contract

The Consolidated Company recognizes as an asset the incremental costs of obtaining a contract with a customer if the Consolidated Company expects to recover those costs. The incremental costs of obtaining a contract are those costs that the Consolidated Company incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained shall be recognized as an expense when incurred, unless those costs are explicitly chargeable to the customer regardless of whether the contract is obtained.

The Consolidated Company applies the practical expedient to recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that the entity otherwise would have recognized is one year or less.

(ii) Costs to fulfil a contract

If the costs incurred in fulfilling a contract with a customer are not within the scope of other standards (for example, IAS 2 "Inventories", IAS 16 "Property, Plant and Equipment" or IAS 38 "Intangible Assets"), the Consolidated Company recognizes an asset from the costs incurred to fulfil a contract only if those costs meet all of the following criteria:

● the costs relate directly to a contract or to an anticipated contract that the Consolidated Company can specifically identify;

● the costs generate or enhance resources of the Consolidated Company that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and

● the costs are expected to be recovered.

General and administrative costs, costs of wasted materials, labor or other resources to fulfil the contract that were not reflected in the price of the contract, costs that relate to satisfied performance obligations (or partially satisfied performance obligations), and costs for which the Consolidated Company cannot distinguish whether the costs relate to unsatisfied performance obligations or to satisfied performance obligations (or partially satisfied performance obligations), the Consolidated Company recognizes these costs as expenses when incurred.

(s) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss for the period in which services are rendered by employees.

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Consolidated Company’s net obligation in respect of a defined benefit pension plan is calculated separately for each plan by estimating the discounted present value of future benefit that employees have earned in return for their service in the current and prior periods. The fair value of any plan assets is deducted from aforementioned net obligation. The discount rate is the yield on the reporting date of government bonds that have maturity dates approximating the terms of the Consolidated Company’s obligations and are denominated in the same currency in which the benefits are expected to be paid.

An actuarial calculation of pension costs and related liabilities are performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Consolidated Company, an asset is recognized but the recognized asset is limited to the total of the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Consolidated Company. An economic benefit is available to the Consolidated Company if it is realizable during the life of the plan, or on settlement of the plan liabilities.

Remeasurement of the net defined benefit assets (liability), comprising (a) actuarial gains and losses, (b) the return on plan assets, excluding the amounts included in the net interest of the net defined benefit liability (asset); and (c) any change of upper limit of assets, excluding the amounts included in the net interest of the net defined benefit liability (asset), is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected in retained earnings and may not be reclassified to profit or loss.

Gains or losses on the curtailment or settlement of a defined benefit plan are also recognized as pension expenses when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets, change in the present value of defined benefit obligation and any related actuarial gains or losses and past service cost that was not previously recognized.

(iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Consolidated Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(t) Income taxes

Tax expense comprises current tax expense and deferred tax expense. Current and deferred taxes are included in profit or loss for the period, except for tax resulted from a business combination or a transaction or event which is recognized directly in equity or other comprehensive income.

Current tax comprises the amount expected to be paid to (recovered from) the tax authorities, using the tax rates that have been enacted or substantively enacted by the reporting date, and any adjustments for tax payables of prior periods.

Deferred tax is recognized at the amount of temporary differences between the carrying amounts and the corresponding tax bases of the assets and liabilities at the reporting date. The temporary differences under the following circumstances are not recognized as deferred tax assets or liabilities:

(i) the initial recognition of an asset or liability in a transaction which is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit (loss); or

(ii) the investments in subsidiaries, branches and associates, and interests in joint ventures, and it is probable that the temporary difference will not reverse in the foreseeable future; or

(iii) the initial recognition of goodwill.

Deferred tax is measured, at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, and tax laws that have been enacted or substantively enacted by the reporting date.

The Consolidated Company offset deferred tax assets and deferred tax liabilities only if:

(i) the Consolidated Company has the legal right to settle tax assets and tax liabilities on a net basis; and

(ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same tax authority on either:

1) the same taxable entity; or

2) different taxable entities which intent either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously; in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

A deferred tax asset is recognized for the carry-forward of unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profit will be available against such amounts. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and limited to the extent that it is probable that the benefit of part or all of that deferred tax asset will be utilized.

(u) Business combination

The Consolidated Company measures goodwill as the fair value of the consideration transferred on the acquisition date, including the amount of any non-controlling interest of the acquiree , net of the amounts of identifiable assets acquired and liabilities assumed (generally at fair value as of the date of acquisition). If the residual balance is negative, the Consolidated Company shall re-assess whether it has correctly identified all of the assets acquired and liabilities assumed, and recognize a gain on the bargain purchase through profit or loss.

The Consolidated Company selects whether to measure non-controlling interest at fair value as of the date of acquisition or at the amount of identifiable net assets in proportion to the shareholding percentage of the non-controlling interest, based on each of the basis of transaction.

In a business combination achieved in stages, the Consolidated Company shall re-measure its previously-held equity interest in the acquiree at fair value as of the date of acquisition and recognize the resulting gain or loss, if any, in profit or loss. In prior reporting periods, the Consolidated Company may have recognized changes in the value of its equity interest in the acquiree in other comprehensive income. If so, the amount that was recognized in other comprehensive income shall be recognized on the same basis as would be required if the Consolidated Company had disposed directly of the previously held equity interest. If the disposal of the equity interest requires a reclassification to profit or loss, such an amount shall be reclassified to profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Consolidated Company shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the Consolidated Company shall retrospectively adjust the provisional amounts recognized at the acquisition date, or recognize additional assets or liabilities to reflect new information obtained about facts and circumstances that exists as of the date of acquisition. The measurement period shall not exceed one year from the date of acquisition.

All transaction costs incurred for the business combination are recognized immediately as the Consolidated Company’ s expenses when incurred, except for the issuance of debt or equity instruments.

(v) Earnings per share

The basic earnings per share is calculated based on the profit attributable to the ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding. The diluted earnings per share is calculated based on the profit attributable to ordinary shareholders of the Company, divided by the weighted average number of ordinary shares outstanding after adjustments for the effects of all potentially dilutive ordinary shares, including convertible bonds and employee stock options.

(w) Natural resource

Natural resource is the mining right acquired for a specific area and the necessary cost incurred to acquire the mining right, including developing costs. It is measured at costs less accumulated amortization and accumulated impairment. Natural resource is amortized after the mining license is acquired by production life (20 years) using the straight-line method, with the amortized amount recognized through profit or loss.

Salvage value, amortization period, and amortization method should be inspected at least at every fiscal year-end. If any changes occur, changes should be recognized as changes in accounting estimate.

(x) Operating segments

An operating segment is a component of the Consolidated Company that engages in business activities from which it may incur revenues and incur expenses. Operating results of the operating segment are regularly reviewed by the Consolidated Company’s chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance.

(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty

The preparation of the consolidated financial statements in conformity with the IFRSs endorsed by the FSC requires management to make judgments, estimates, and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

The management continues to monitor the accounting estimates and assumptions. Any impact from the changes in accounting estimates are recorded in the period in which the changes occur and in future periods.

Information about judgments made in the application of accounting policies that have the risks of significant effects in the next reporting period is as follows:

(a) Recognition and measurement of provisions and contingent liabilities

Provision for construction warranty is estimated when the construction is complete, other provisions are recognized as incurred. The Consolidated Company regularly reviews the basis of the estimate and, if necessary, amends it as appropriate. There could be a significant impact on provision for warranty for any change in the abovementioned basis of the estimate.

(b) Revenue recognition of construction contracts

Contract revenue is recognized by reference to the stage of completion of each contract. The stage of completion of a contract is measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. Estimated total contract costs of contracted items are assessed and determined by the management based on the nature of activities, expected sub-contracting charges, construction periods, processes, methods, etc., for each construction contract. Changes in these estimates might affect the calculation of the percentage of completion and related profits from construction contracts.

(c) Measurement of defined benefit obligations

Defined benefit costs and net defined benefit liabilities under defined benefit pension plans are calculated using the Projected Unit Credit Method. Actuarial assumptions comprise the discount rate, rate of employee turnover, future salary increase rate, etc. 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. Refer to Note 6(s) for further description of the actuarial assumptions and sensitivity analysis.

The Consolidated Company’s accounting policies include measuring financial and non-financial assets and liabilities at fair value through profit or loss. The Consolidated Company financial instrument valuation group conducts independent verification on fair value by using data sources that are independent, reliable, and representative of exercise prices. This financial instrument valuation group also periodically adjusts valuation models, conducts back-testing, renews input data for valuation models, and makes all other necessary fair value adjustments to assure the rationality of fair value. The Consolidated Company strives to use market observable inputs when measuring assets and liabilities. Different levels of the fair value hierarchy to be used in determining the fair value of financial instruments are as follows:

Level 1: quoted prices (unadjusted) in active markets for identifiable assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the assets or liability that are not based on observable market data.

For any transfers between the fair value hierarchies, the impact of the transfer is recognized on the reporting date.

Please refer to the notes listed as below for related information on assumptions used in measuring fair value:

Note 6(l), Investment property

Note 6(ab), Financial instruments

(6) Explanation of significant accounts

(a) Cash and cash equivalents

	December 31, 2018	December 31, 2017
Cash on hand	$ 1,756	1,434
Checking and demand deposits	876,498	792,243
Term deposits	147,768	191,794
Cash equivalents	71,954	34,989
Cash and cash equivalents on the statement of cash flows	$ 1,097,976	1,020,460

(i) Please refer to Note 6(ab) for interest rate risk and sensitivity analysis of the financial assets and liabilities of the Consolidated Company.

(ii) As of December 31, 2018 and 2017, certain term deposits were pledged as collateral of performance guarantee, and such term deposits were reclassified to refundable deposits. Please refer to Note 8 for details.

(b) Financial assets and liabilities at fair value through profit or loss

	December 31, 2018	December 31, 2017
Mandatorily measured at fair value through profit or loss:		
Non-derivative financial assets		
Stocks listed on domestic markets	$ 134,560	-
Financial assets held-for-trading:		
Derivative instruments not used for hedging	-	-
Non-derivative financial assets		
Stocks listed on domestic markets	-	186,360
Total	$ 134,560	186,360

	December 31, 2018	December 31, 2017
Financial liabilities designated as at fair value through profit or loss:		
Derivative instruments not used for hedging		
Foreign exchange forward contracts	$ 1,745	5,875
Redemption options on convertible bonds	31,200	-
Total	$ 32,945	5,875

The Consolidated Company uses derivative financial instruments to hedge certain foreign exchange and interest rate risks that the Consolidated Company is exposed to arising from its operating, financing, and investing activities. The Consolidated Company held the following derivative financial instruments, which did not meet the criteria for hedge accounting, under financial assets held for trading, were classfied as mandatorily measured at fair value through profit or loss on December 31, 2018 and held-for-trading financial instruments on December 31, 2017:

	December 31, 2018		
	Nominal amount (in thousands)	**Currency**	**Maturity dates**
Foreign exchange forward	USD 19,258	Sell USD/buy TWD	2019.01.07~2019.02.27

	December 31, 2017		
	Nominal amount (in thousands)	**Currency**	**Maturity dates**
Foreign exchange forward	USD 28,655	Sell USD/buy TWD	2018.01.18~2018.05.10

None of the financial assets were pledged as collateral as of December 31, 2018 and 2017, respectively.

(c) Financial assets at fair value through other comprehensive income

	December 31, 2018
Equity investments at fair value through other comprehensive income:	
Publicly listed stocks and stocks listed on emerging markets	$ 377,716
Unlisted stocks	189,107
Total	**$ 566,823**

(i) The Consolidated Company designated the investments shown above as equity securities as at fair value through other comprehensive income because these equity securities represent those investments that the Consolidated Company intends to hold for long-term for strategic purposes. These investments were classified as available-for-sale financial assets on December 31, 2017.

(ii) The Consolidated Company disposed a part of its shares in Taiwan High Speed Rail Corporation in 2018, where it realized a gain of $429,706 thousand, which was recognized under other comprehensive income, and later on, reclassified to retained earnings.

(iii) The Consolidated Company disposed a part of its shares in Chien Shing Harbour Service Co., Ltd in 2018, where it realized a gain of $1,358 thousand, which was recognized under other comprehensive income, and later on, reclassified to retained earnings.

(iv) For credit risk and market risk, please refer to Note 6(ab).

(v) None of the financial assets were pledged as collateral as of December 31, 2018.

(d) Available-for-sale financial assets

(i) The details were as follows:

	December 31, 2017
Available-for-sale financial assets:	
Publicly listed stocks and stocks listed on emerging markets	$ 1,364,071

(ii) Please refer to Note 6(ab) for the credit, currency, and interest exposure on financial instruments of the Consolidated Company.

(iii) None of the available-for-sale financial assets were pledged as collateral as of December 31, 2017.

(e) Financial assets carried at cost

	December 31, 2017
Unlisted ordinary stock	$ 218,711

(i) The aforementioned investments held by the Consolidated Company were measured at cost less impairment as of December 31, 2017. These investments were classified as financial assets at fair value through other comprehensive income as of December 31, 2018.

(ii) For the year ended December 31, 2017, the investee companies returned $2,917 thousand, respectively, for reduction of capital.

(iii) An investee company the Consolidated Company held for the year ended December 31, 2017, was listed on the emerging market in March 2017 and was thus reclassified to available-for-sale financial assets at $94,586 thousand. The remaining carrying value which amounted to $2,274 thousand was disposed of with proceeds amounting to $4,743 thousand and a gain on disposal of investment amounting to $2,469 recognized as other gains or losses.

(iv) For credit risk and market risk, please refer to Note 6(ab).

(v) None of the available-for-sale financial assets were pledged as collateral as of December 31, 2017.

(f) Notes and accounts receivable

	December 31, 2018	December 31, 2017
Notes receivable from operating activities	$ 328,685	237,401
Accounts receivable	3,089,946	3,315,284
Accounts receivable from related parties	2,910	1,154
Overdue receivables	10,020	10,020
Less: loss allowance	(71,486)	(49,003)
	$ 3,360,075	3,514,856

The Consolidated Company applies the simplified approach to provide for its expected credit losses, i.e. the use of lifetime expected loss provision for all receivables as of December 31, 2018. To measure the expected credit losses, notes and accounts receivable have been grouped based on shared credit risk characteristics and the days past due, as well as incorporated forward looking information. The loss allowance provision in the Steel Structure Department in China, in Vietnam Department and the other Departmentas of December 31, 2018 was determined as follows:

	Gross carrying amount	Weighted-average rate of expected credit loss	Loss allowance for expected credit losses
Current	$ 273,137	0	-
Overdue less than 90 days	-		-
More than 90 days past due	-		-
	$ 273,137		-

The analysis of expected credit loss of the notes and accounts receivable of the Consolidated Company, except for the Steel Structure Department in China, the Vietnam Department, and the Other Departments, was as follows:

	Gross carrying amount	Weighted-average rate of expected credit loss	Loss allowance for expected credit losses
With low risk	$ 1,385,884	0.25%	3,430
With moderate risk	1,726,563	1.28%	22,060
With financial difficulties	45,977	100%	45,977
	$ 3,158,424		71,467

As of December 31, 2017, the Consolidated Company applied the incurred loss model to consider the loss allowance provision of notes and accounts receivable.

The aging analysis of notes and accounts receivable, which were past due but not impaired, was as follows:

	December 31, 2018	December 31, 2017
1 to 60 days past due	$ 4,785	-
61 to 90 days past due	-	-
91 to 120 days past due	-	-
	$ 4,785	-

The changes in the allowance for notes and accounts receivable were as follows:

	For the year ended December 31, 2018	For the year ended December 31, 2017	
		Individually assessed impairment	Collectively assessed impairment
Balance as of January 1, 2018 and 2017 per IAS 39	$ 49,003	32,546	21,983
Adjustment on initial application of IFRS 9	-		
Balance on January 1, 2018 per IFRS 9	49,003		
Impairment losses recognized	39,861	846	-
Impairment losses reversed	-	218	-
Amount written off due to uncollectibility	(16,993)	(6,007)	-
Foreign exchange losses	(385)	(147)	-
Balance as of December 31, 2018 and 2017	$ 71,486	27,456	21,983

(g) Other receivables

	December 31, 2018	December 31, 2017
Other receivables	$ 79,796	185,687
Other receivables from related parties	57	52
Less: allowance for impairment	-	-
	$ 79,853	185,739

For the year ended December 31, 2018, no other receivables were impaired resulted from overdue. For credit risk, please refer to Note 6 (ab).

For the year ended December 31, 2017, the changes in the allowance for impairment of other receivables was as follows:

	Individually assessed impairment	Collectively assessed impairment	Total
Balance as of January 1, 2017	$ 781	-	781
Amount written off	(781)	-	(781)
Balance as of December 31, 2017	$ -	-	-

(h) Construction contracts

(i) For the year ended December 31, 2017,construction contract revenue of the Consolidated Company has been determined based on the stage-of-completion method was as follows:

	December 31, 2017
Accumulated costs incurred	$ 3,537,213
Add: accumulated profit and losses recognized arising from the construction	(424,659)
Accumulated costs and profit recognized	3,112,554
Less: progress billings	(2,737,586)
Amount due from customers for contract work–presented as an asset	$ 771,172
Amount due to customers for contract work–presented as a liability	$ 396,204
Retention payable from construction contract	$ 173,439

(ii) The Consolidated Company is unable to estimate the costs of signed construction contract reliably; however, it is probable that all the expenses incurred are recoverable. Hence, all contract costs shall be recognized as an expense in the period in which they are incurred, and the contract revenue with the same amount is recognized in the same period. At completion, if the total revenue exceeds the aggregate revenue recognized in previous years, the differences should be recognized immediately as contract revenue.

	December 31, 2017
Accumulated costs incurred	$ 1,139,144
Less: progress billings	(863,413)
Amount due from customers for contract work – presented as an asset	$ 316,715
Amount due to customers for contract work – presented as a liability	$ 40,984

(iii) For the year ended December 31, 2017, construction contract costs recognized was as follows:

		For the years ended December 31, 2017,
Construction contract costs	$	2,603,022

(iv) For the amount of contract balance as of December 31, 2017 and revenue recognized during the year ended December 31, 2017, please see Note 6(w).

(i) Inventories

		December 31, 2018	December 31, 2017
Finished goods (including consigned goods)	$	2,882,305	1,414,631
Work in process (including consigned goods)		2,155,407	1,481,246
Raw materials (including goods in transit)		8,119,784	4,243,757
Material supplies (including goods in transit and consigned goods)		2,295,583	1,036,098
Inventories, net	$	15,453,079	8,175,732

(i) For the years ended December 31, 2018 and 2017, cost of sales recognized were as follows:

	For the years ended December 31,	
	2018	2017
Cost of goods sold	32,752,928	25,094,481
Loss on decline of inventory market price	181,615	-
Unallocated fixed overheads — capacity variance	131,393	93,636
Revenue from sale of materials and scrap	(136,225)	(112,751)
Total	32,929,711	25,075,366

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses. Any changes of competitors' reactions and market condition would impact the estimation which is based on the current market condition and past experience. The management would make evaluation on every reporting date.

None of the inventory was pledged as collateral as of December 31, 2018 and 2017.

(ii) The Consolidated Company's processing costs recognized for providing services for the years ended December 31, 2018 and 2017, consisted of the following:

	For the years ended December 31,	
	2018	**2017**
Processing costs	$ 357,333	269,022

(j) Investments accounted for using the equity method

(i) The components of the investments accounted for using the equity method were as follows:

	December 31, 2018	December 31, 2017
Associates	$ 1,465,204	1,381,834

(ii) The financial information in aggregate of the individually immaterial components of the investments accounted for using the equity method were as follows:

	December 31, 2018	December 31, 2017
The aggregate carrying amount of associates that were individually immaterial	$ 1,465,204	1,381,834

	For the years ended December 31,	
	2018	**2017**
Attributable to the Consolidated Company:		
Net income from continuing operations	$ 58,679	175,908
Other comprehensive income	(3,804)	1,922
Total	$ 54,875	177,830

(iii) The details of cash dividends paid by the Consolidated Company's associates recognized as deductions of investment accounted for using equity method were as follows:

	For the years ended December 31,	
	2018	**2017**
Katec Research & Development Corp.	$ 2,241	854
Taiwan Steel Union Co., Ltd.	132,835	84,418
Right Investment Corp.	2,049	260
Total	$ 137,125	85,532

(iv) Collateral

None of the investments accounted for using the equity method were pledged for collateral as of December 31, 2018 and 2017.

(k) Property, plant and equipment

The details of the changes in the property, plant and equipment of the Consolidated Company for the years ended December 31, 2018 and 2017 were as follows:

		Land	Buildings	Machinery equipment	Miscellaneous equipment	Other assets	Construction in progress	Total
Cost or deemed cost:								
Balance as of January 1, 2018	$	2,750,817	8,120,861	25,983,021	328,117	601,150	2,619,614	40,403,580
Additions		-	142,714	266,723	31,660	33,338	1,308,572	1,783,007
Reclassification in (out) (Note 1)		-	1,094,382	2,166,857	28,973	-	(3,715,147)	(424,935)
Disposals		-	(2,229)	(45,095)	(21,917)	(928)	-	(70,169)
Effects of exchange rate and others		-	14,298	29,161	(218)	-	(7,473)	35,768
Balance as of December 31, 2018	$	2,750,817	9,370,026	28,400,667	366,615	633,560	205,566	41,727,251
Balance as of January 1, 2017	$	2,740,419	7,791,795	24,136,138	321,283	454,409	1,344,909	36,788,953
Additions		10,398	211,982	796,161	21,165	146,741	2,317,846	3,504,293
Reclassification in (Note 1)		-	268,631	1,304,003	6,797	-	(629,571)	949,860
Disposals		-	(105,625)	(150,874)	(19,565)	-	-	(276,064)
Effects of exchange rate and others		-	(45,922)	(102,407)	(1,563)	-	(413,570)	(563,462)
Balance as of December 31, 2017	$	2,750,817	8,120,861	25,983,021	328,117	601,150	2,619,614	40,403,580
Depreciation and impairment:								
Balance as of January 1, 2018	$	-	3,393,494	16,243,302	184,230	-	-	19,821,026
Depreciation for the period		-	228,457	1,035,643	35,094	-	-	1,299,194
Reclassification out (Note 1)		-	(23,472)	-	-	-	-	(23,472)
Disposals		-	(1,743)	(39,883)	(21,177)	-	-	(62,803)
Effects of exchange rate and others		-	(554)	(941)	(142)	-	-	(1,637)
Balance as of December 31, 2018	$	-	3,596,182	17,238,121	198,005	-	-	21,032,308
Balance as of January 1, 2017	$	-	3,298,060	15,429,134	173,254	-	-	18,900,448
Depreciation for the period		-	202,635	922,963	29,846	-	-	1,155,444
Impairment for the period		-	-	7,907	-	-	-	7,907
Disposals		-	(104,931)	(106,177)	(18,561)	-	-	(229,669)
Effects of exchange rate and others		-	(2,270)	(10,525)	(309)	-	-	(13,104)
Balance as of December 31, 2017	$	-	3,393,494	16,243,302	184,230	-	-	19,821,026
Carrying value								
Balance as of December 31, 2018	$	2,750,817	5,773,844	11,162,546	168,610	633,560	205,566	20,694,943
Balance as of December 31, 2017	$	2,750,817	4,727,367	9,739,719	143,887	601,150	2,619,614	20,582,554

Note 1: Reclassification to prepayments and investment property and reclassification from prepayments for equipment.

(i) Because some of the Consolidated Company's property, plant and equipment and investment property are agricultural lands, transfer registration could not be undertaken using the Consolidated Company's own title; therefore, the Consolidated Company was registered as a trust registrant temporarily and signed the real estate trust registration contract, which stipulates the rights and obligations of both parties to preserve the ownership of the land. The Consolidated Company is applying successively for registration of change in the category of land from relevant authorities. The details of the abovementioned land was as follows:

Accounts		December 31, 2018	December 31, 2017
Property, plant and equipment	$	633,561	601,150
Investment property		483,769	517,327
	$	**1,117,330**	**1,118,477**

(ii) Impairment

For the years ended December 31, 2018 and 2017, the Consolidated Company performed an assessment on the property, plant and equipment that indicated impairment. The recoverable amount was calculated using the value in use. For the year ended December 31, 2018, the carrying value was lower than the value in use. For the year ended December 31, 2017, since the carrying value was higher than the value in use, the Consolidated Company recorded an impairment loss which amounted to $7,907 thousand as other gains or losses under non-operating income.

For the year ended December 31, 2017, the estimated of value in use was determined using a pre-tax discount rate of 8.07%.

(iii) Collateral

Please refer to Note 8 for the details of the property, plant and equipment pledged for collateral for the years ended December 31, 2018 and 2017.

(l) Investment property

		Land and improvements	Buildings	Total
Cost or deemed cost:				
Balance as of January 1, 2018	$	1,808,269	224,718	2,032,987
Additions		13,249	13,699	26,948
Disposal		(37,655)	-	(37,655)
Reclassification in		-	27,771	27,771
Balance as of December 31, 2018	**$**	**1,783,863**	**266,188**	**2,050,051**

		Land and improvements	Buildings	Total
Balance as of January 1, 2017	$	1,597,889	225,265	1,823,154
Additions		136,065	-	136,065
Disposal		-	(547)	(547)
Reclassification in		74,315	-	74,315
Balance as of December 31, 2017	$	1,808,269	224,718	2,032,987
Depreciation and impairment:				
Balance as of January 1, 2018	$	-	148,638	148,638
Reclassification in		-	23,472	23,472
Depreciation for the period		-	7,843	7,843
Balance as of December 31, 2018	$	-	179,953	179,953
Balance as of January 1, 2017	$	-	141,818	141,818
Depreciation for the period		-	7,367	7,367
Disposal		-	(547)	(547)
Balance as of December 31, 2017	$	-	148,638	148,638
Carrying amounts:				
Balance as of December 31, 2018	$	1,783,863	86,235	1,870,098
Balance as of December 31, 2017	$	1,808,269	76,080	1,884,349
Fair value:				
Balance as of December 31, 2018				$ 6,502,176
Balance as of December 31, 2017				$ 6,473,770

(i) Investment property includes the investment in Kuo Kong Section, Houlong town, Miaoli County, and several construction sites and factories leased to others; leased objects mentioned above are the factory in Chienchen District of Kaohsiung, the factory in Bade City of Taoyuan, the building in Taichung, and the office in Taipei.

(ii) The investment in Kuo Kong Section, Houlong Town, Miaoli County is in a general industrial zone. The Consolidated Company has planned a wind power generation project and has now established wind generator sets to improve the efficiency of the use of the land. The Consolidated Company has successively invested costs into the land in an effort to make the industrial zone available for use. As of December 31, 2018 and 2017, the carrying value for the above investment amounted to $977,524 thousand and $967,728 thousand, respectively.

(iii) The fair value of investment property is in reference to the appraisal report done by independent professionals (with certificated qualification and recent experience in appraisals of items that are within the same area or of similar items). The valuation technique used is classified as the second and the third hierarchy of input value.

(iv) Please refer to Note 6(k) for relevant information on investment property acquired under the ownership of others.

(v) None of the investment property was for pledged for collateral as of December 31, 2018 and 2017.

(m) Short-term loans

(i) Details of the Consolidated Company's short-term loans were as follows:

	December 31, 2018	December 31, 2017
Letters of credits	$ 1,838,088	613,462
Unsecured bank loans	9,838,612	7,634,900
Secured bank loans	76,024	45,650
	$ 11,752,724	8,294,012
Unused credit lines (including notes and bills payable)	$ 16,543,386	14,287,226
Range of interest rates	0.42%~6.20%	0.42%~5.22%

(ii) For the collateral pledge for short-term loans, please refer to Note 8.

(n) Short-term notes and bills payable

(i) Details of the Consolidated Company's short-term bills payable were as follows:

	Bank of acceptance	December 31, 2018 Interest rate	Amount
Commercial papers payable	CBF, Mega Bills, Grand Bills, Ta Ching Bills, IBFC, TFC	0.94%~1.06%	$ 1,500,000
Less: discount on short-term bills payable			(631)
Total			$ 1,499,369

	Bank of acceptance	December 31, 2017 Interest rate	Amount
Commercial papers payable	CBF, Grand Bills, Ta Ching Bills, IBFC, TFC	0.45%~0.99%	$ 605,000
Less: discount on short-term bills payable			(905)
Total			$ 604,095

Please refer to Note 6(m) for unused credit lines.

(o) Long-term loans

(i) Details of the Consolidated Company's long-term loans were as follows:

	December 31, 2018			
	Currency	**Interest rate**	**Maturity**	**Amount**
Unsecured bank loans	TWD	0.84%~1.55%	2020.07.31~2022.04.21	$ 3,246,429
Unsecured bank loans	USD	3.81%	2022.04.21	837,180
Less: current portion				(7,143)
Total				$ 4,076,466
Unused credit lines				$ 1,100,000

	December 31, 2017			
	Currency	**Interest rate**	**Maturity**	**Amount**
Unsecured bank loans	TWD	0.81%~0.94%	2019.04.27~2020.03.10	$ 3,000,000
Less: current portion				-
Total				$ 3,000,000
Unused credit lines				$ 1,450,000

(p) Bonds payable

(i) Major conditions of the issuance of unsecured bonds payable were as follows:

Item	The seventh unsecured domestic convertible bond	The sixth unsecured domestic convertible bond
1. Principal amount	$2,000,000 thousand	$2,500,000 thousand
2. Par value	$100 thousand	$100 thousand
3. Original issuance date	2018.05.14~2023.05.14	2012.11.05~2017.11.05
4. Maturity	5 years	5 years
5. Coupon rate	0%	0%
6. Redemption method	(1) Three months after the issuance date and 40 days prior to maturity, the bonds may be redeemed if the closing price of the ordinary shares, for a period of 30 consecutive trading days, is at least 30% of the conversion price then in effect. 30 trading days prior to maturity, the Company may redeem all bonds for cash.	(1) 30 days after the issuance date and 40 days prior to maturity, the bonds may be redeemed if the closing price of the ordinary shares, for a period of 30 consecutive trading days, is at least 30% of the conversion price then in effect. 30 trading days prior to maturity, the Company may redeem all bonds for cash.
	(2) If at least 90% in principal amount of the bonds has already been redeemed, repurchased and cancelled, or converted.	(2) If at least 90% in principal amount of the bonds has already been redeemed, repurchased and cancelled, or converted.

Item	The seventh unsecured domestic convertible bond	The sixth unsecured domestic convertible bond
7. Redemption option of bondholders	The bondholders could request the Company to redeem the bond at face value plus the interest premium of 0.75% and 1% three and four years after the issue date, respectively (actual yield: 0.25% and 0.25%, respectively).	The bondholders could request the Company to redeem the bond at face value plus the interest premium of 1.51% and 3.04% three and four years after the issue date, respectively (actual yield: 0.5% and 0.75%, respectively).
8. Conversion price and adjustment	The conversion price of NT27.8. dollars at the original issuance date was reduced to NT26.2 dollars as of July 7, 2018, because the ratio of the cash dividends to the current price per share exceeded 1.5% in 2017.	

(ii) Bonds payable as of December 31, 2018 and 2017, were as follows:

	December 31, 2018	December 31, 2017
Originally issued amount of unsecured domestic convertible bonds	$ 2,000,000	2,500,000
Accumulated redeemed and executed convertible bonds	-	(2,500,000)
Adjustment on the equity and liability component from repurchases and conversions	16,715	(124,864)
Capital surplus–stock options	(81,973)	-
Call option, put options, and conversion rights	(31,200)	-
Accumulated interest expenses	12,187	124,864
Total	$ 1,915,729	-

	For the years ended December 31, 2018	For the years ended December 31, 2017
Interest expense	$ 12,187	1,168

(iii) As of December 31, 2018 and 2017, accumulated repurchase and conversion of the sixth and seventh unsecured domestic convertible bonds were as follows:

Accumulated purchased and redeemed redemption rights	Face value of the seventh domestic unsecured convertible bonds (in thousand)	Face value of the sixth domestic unsecured convertible bonds (in thousand)
December 31, 2018	$ -	-
December 31, 2017	$ -	2,368,500
Accumulated conversion		
December 31, 2018	$ -	-
December 31, 2017	$ -	131,500

(iv) As of December 31, 2017, all of the transactions related to the sixth domestic unsecured convertible bonds had been completed.

(q) Operating lease

The Consolidated Company leased its investment property under operating leases; please refer to Note 6(l) for related information. The future minimum lease payments receivable under non-cancellable leases were as follows:

	December 31, 2018	December 31, 2017
Less than one year	$ 25,516	24,410
Between one and five years	26,310	34,574
	$ 51,826	58,984

The operating lease revenues for the years ended December 31, 2018 and 2017, were $44,618 thousand and $43,892 thousand, respectively.

(r) Other payables

	December 31, 2018	December 31, 2017
Accrued payroll, year-end bonuses, provisionally estimated bonuses, remuneration of directors and supervisors, and employee benefits	$ 281,106	339,511
Freight payable	201,463	150,496
Utilities payable	215,793	206,325
Sales bonuses payable	182,369	179,984
Waste disposal payable (including to related parties)	46,254	97,146
Cash dividends payable (including from prior years)	38,525	36,124
Taxes payable	479	615
Other operating and manufacturing overhead payable	341,772	333,628
	$ 1,307,761	1,343,829

The above payables are planned to be paid within one year. Please refer Note 6(ab) for the interest rate risk and sensitivity analysis of the aforementioned financial assets and liabilities.

(s) Employee benefits

(i) Defined benefit plan

Reconciliation between the present value of the Company's defined benefit obligation and the fair value of the plan assets were as follows:

	December 31, 2018	December 31, 2017
Present value of the defined benefit obligation	$ 1,595,547	1,528,074
Fair value of the plan assets	(749,324)	(730,155)
Net defined benefit liabilities	**$ 846,223**	**797,919**

Reconciliation between the present value of the subsidiaries's defined benefit obligation and the fair value of plan assets were as follows:

	December 31, 2018	December 31, 2017
Present value of defined benefit obligation	$ (635)	(684)
Fair value of plan assets	12,107	11,636
Net defined benefit assets	**$ 11,472**	**10,952**

1) Composition of the plan assets

The Labor Pension Fund Supervisory Committee manages the Consolidated Company's pension fund which is being funded according to the Labor Standards Act. Under the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, this fund is required to distribute income of not less than the interest income derived from two-year time deposit with the local banks.

As of December 31, 2018 and 2017, the balance of the Consolidated Company's pension fund at Bank of Taiwan amounted to $761,431 thousand and $741,791 thousand, respectively. Please refer to the related information published on the website of the Labor Pension Supervisory Committee concerning the utilization off the labor pension fund, related yield rate and its asset allocation.

2) Changes in the present value of the defined benefit obligation

Changes in the present value of the Company's defined benefit obligation were as follows:

	For the years ended December 31, 2018	2017
Balance as of January 1	$ 1,528,074	1,443,804
Service cost and interest expense for the period	38,600	43,242
Remeasurements of the net defined benefit liabilities (assets):		
－Experience adjustments	93,942	24,022
－Actuarial (gains) losses arising from changes in population statistics assumptions	263	37,536
Benefits paid	(65,332)	(20,530)
Balance as of December 31	$ 1,595,547	1,528,074

Changes in the present value of the subsidiaries' defined benefit obligation were as follows:

	For the years ended December 31, 2018	2017
Balance as of January 1	$ (684)	(656)
Service cost and interest expense for the period	(9)	(10)
Remeasurements of the net defined benefit liabilities (assets):		
Experience adjustments	76	3
Actuarial losses arising from changes in financial assumptions	(18)	(21)
Balance as of December 31	$ (635)	(684)

3) Changes in the fair value of the plan assets

Changes in the Company's fair value of the plan assets were as follows:

	For the years ended December 31, 2018	2017
Balance as of January 1	$ 730,155	701,181
Interest income	7,295	8,776
Remeasurements of the net defined benefit liabilities:		
Return on plan assets (excluding interests for the period)	21,861	(1,877)
Contributions from employer	55,345	42,605
Benefits paid	(65,332)	(20,530)
Balance at December 31	$ 749,324	730,155

Changes in the subsidiaries' fair value of the plan assets were as follows:

	For the years ended December 31, 2018	2017
Balance as of January 1	$ 11,636	11,523
Interest income	145	173
Remeasurements of the net defined benefit assets:		
Return on plan assets (excluding interests for the period)	326	(60)
Balance as of December 31	$ 12,107	11,636

The Consolidated Company's pension costs recognized in profit or loss were as follows:

	For the years ended December 31, 2018	2017
Service cost for the period	$ 23,528	25,431
Net interest expense of net defined benefit liabilities	7,777	9,036
	$ 31,305	34,467

	For the years ended December 31, 2018	2017
Cost of sales	$ 25,057	27,806
Selling expenses	1,032	1,142
Administrative expenses	5,216	5,519
	$ 31,305	34,467

The subsidiaries' pension costs recognized in profit or loss were as follows:

	For the years ended December 31, 2018	2017
Net interest expense of net defined benefit liabilities	$ (137)	(163)

	2018	2017
Administrative expenses	$ (137)	(163)

4) Changes in the remeasurement of the net defined benefit (assests) liabilities recognized in other comprehensive income

The Company’s cumulated remeasurement of the net defined benefit liabilities recognized in other comprehensive income was as follows:

	For the years ended December 31,	
	2018	**2017**
Balance at January 1	$ 251,085	187,650
Recognized in the current period	72,344	63,435
Balance at December 31	**$ 323,429**	**251,085**

The subsidiaries’ cumulated pretax remeasurement of the net defined benefit liabilities recognized in other comprehensive income was as follows:

	For the years ended December 31,	
	2018	**2017**
Balance as of January 1	$ (196)	(120)
Recognized in the current period	374	(76)
Balance as of December 31	**$ 178**	**(196)**

5) Actuarial assumptions

The principal assumptions of the Company’s actuarial valuation were as follows:

	For the years ended December 31,	
	2018	**2017**
Discount rates	1.00%	1.00%
Rates of increase in future salary	1.50%	1.50%

The Company expects to make a contribution of NT$42,359 thousand to its defined benefit plans in the following year, beginning December 31, 2018. The weighted average duration of the defined benefit obligation is 9 years.

The principal assumptions of the subsidiaries’ actuarial valuation were as follows:

	For the years ended December 31,	
	2018	**2017**
Discount rates	1.00%	1.25%
Rates of increase in future salary	2.00%	2.00%

The subsidiaries do not expect to make contributions to its defined benefit plans in the following year, beginning December 31, 2018. The weighted average duration of the defined benefit obligation is 11 years.

6) Sensitivity analysis

If the actuarial assumptions had changed, the impact on the present value of the defined benefit obligation shall be as follows:

		Effects on the Company's defined benefit obligations	
		Increase by 0.25%	**Decrease by 0.25%**
December 31, 2018			
Discount rate	$	(37,029)	38,326
Rate of increase in future salary		38,039	(36,939)
December 31, 2017			
Discount rate		(37,419)	38,785
Rate of increase in future salary		38,494	(37,329)

		Effects on the subsidiaries' defined benefit obligations	
		Increase by 0.25%	**Decrease by 0.25%**
December 31, 2018			
Discount rate	$	(18)	19
Rate of increase in future salary		19	(18)
December 31, 2017			
Discount rate		(21)	22
Rate of increase in future salary		22	(21)

The above sensitivity analysis was based on the changes of a single assumption while holding other assumptions constant. In practicality, it is reasonably possible that the changes in different assumptions are linked to one another. The sensitivity analysis adopts the same method for determining the defined benefit assets at the reporting date.

There was no change of method and assumptions used in the sensitivity analysis for 2018 and 2017.

(ii) Defined contribution plan

The Consolidated Company allocates 6% of each employee’s monthly wages to the Labor Pension Personal Accounts at the Bureau of the Labor Insurance in accordance with the provisions of the Labor Pension Act. Under this defined contribution plan, the Consolidated Company does not bear any additional legal or constructive obligations other than the allocation of a fixed amount to the Bureau of the Labor Insurance.

The Consolidated Company’s pension costs under the defined contribution plan were $53,091 thousand and $51,486 thousand for 2018 and 2017, respectively. The payment was made to the Bureau of the Labor Insurance and .

(t) Income tax

According to the amendments to the "Income Tax Act" enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, an increase in the corporate income tax rate from 17% to 20% is applicable upon filing the corporate income tax return commencing FY2018.

(i) The details of income tax expense for the years ended December 31,2018 and 2017 were as follows:

	For the years ended December 31,		
		2018	2017
Income tax expense for the period			
Current tax expense incurred during the period	$	349,161	294,836
Adjustments for prior years		10,516	(16,273)
		359,677	278,563
Deferred tax expense			
The origination and reversal of temporary differences		6,487	19,786
Income tax expense for continuing operations	**$**	**366,164**	**298,349**

The income tax (expense) benefit related to components of other comprehensive income for the years ended December 31, 2018 and 2017, were as follows:

	For the years ended December 31,		
		2018	2017
Adjuestment in tax rate	$	7,533	-
Remeasurement of the defined benefit plans		14,386	10,771
	$	**21,919**	**10,771**

The reconciliation of income tax expense and income before income tax for the years ended December 31, 2018 and 2017, was as follows:

	For the years ended December 31, 2018	2017
Income before income tax	$ 1,255,103	1,999,083
Income tax using the Company' s domestic tax rate	$ 251,021	339,844
Adjuestment in tax rate	(33,087)	-
Effect of difference in income tax rates between foreign investees and the Company	69,495	(1,362)
Permanent difference	(2,544)	(20,930)
Tax-exempt income	-	(56,541)
Current investment tax credits used	(6,035)	(5,600)
Previously of unrecognized deferred tax assets used	(2,286)	(17,019)
Changes of unrecognized temporary difference	(28,324)	53,881
Previously of unrecognized deferred tax assets reversed	12,772	-
Losses from current periods of unrecognized deferred tax assets	70,663	12,665
Over-estimation from prior periods	8,352	(21,294)
10% surtax on unappropriated earnings	8,536	6,603
Difference between administrative remedy and assessment by the tax authority	2,165	6,723
Other adjustments	15,436	1,379
Total	$ 366,164	298,349

(ii) Deferred tax assets and liabilities

1) Unrecognized deferred tax liabilities

There was no unrecognized deferred tax liabilities as of December 31, 2018 and 2017.

2) Unrecognized deferred tax assets

The items of unrecognized deferred tax assets were as follows:

	December 31, 2018	December 31, 2017
Tax effect of deductible temporary differences	$ 59,000	78,588
Loss carry-forward	155,059	98,147
	$ 214,059	176,735

The R.O.C. Income Tax Act allows net losses, as assessed by the tax authorities, to offset taxable income over a period of ten years for local tax reporting purposes. No deferred tax assets have been recognized in respect of the losses due to the uncertainty about whether there will be sufficient taxable gains in the future to utilize the temporary differences.

As of December 31, 2018, the Consolidated Company's unused loss carry-forwards that were not recognized as deferred tax assets were as follows:

Year of occurrence	Remaining creditable amount	Expiry year
2009 (assessment)	$ 4,970	2019
2010 (assessment)	50,683	2020
2011 (assessment)	62,295	2021
2012 (assessment)	71,502	2022
2013 (assessment)	80,531	2023
2014 (assessment)	57,551	2024
2015 (assessment)	129,343	2025
2016 (filing)	109,822	2026
2017 (projection)	167,303	2027
2018 (filing)	41,296	2028
	$ 775,296	

3) Recognized deferred tax assets and liabilities

Changes in deferred tax assets and liabilities for the years ended December 31, 2018 and 2017 were as follows:

	Reserve for land appreciation tax	Others	Total
Deferred tax liabilities:			
Balance as of January 1, 2018	$ 167,174	2,997	170,171
Recognized in profit or loss	-	4,232	4,232
Recognized in other comprehensive income	-	85	85
Balance as of December 31, 2018	**$ 167,174**	**7,314**	**174,488**
Balance as of January 1, 2017	$ 167,174	2,930	170,104
Recognized in profit or loss	-	80	80
Recognized in other comprehensive income	-	(13)	(13)
Balance as of December 31, 2017	**$ 167,174**	**2,997**	**170,171**

		Defined benefit plans	Unrealized loss on financial assets and liabilities	Reversal of difference on difference between financial and tax reports arising from deferred gain on foreign exchange forward contracts	Loss carry-forward	Others	Total
Deferred tax assets:							
Balance as of January 1, 2018	$	83,792	890	19,190	15,313	15,800	134,985
Recognized in profit or loss		2,447	(541)	1,482	(9,333)	3,690	(2,255)
Recognized in other comprehensive income		22,002	-	-	-	-	22,002
Balance as of December 31, 2018	$	108,241	349	20,672	5,980	19,490	154,732
Balance as of January 1, 2017	$	74,392		20,809	16,651	32,055	143,907
Recognized in profit or loss		(1,384)	890	(1,619)	(1,338)	(16,255)	(19,706)
Recognized in other comprehensive income		10,784	-	-	-	-	10,784
Balance as of December 31, 2017	$	83,792	890	19,190	15,313	15,800	134,985

As of December 31, 2018, the Consolidated Company’ s unused loss carry-forwards that were recognized as deferred tax assets were as follows:

Year of occurrence		Remaining creditable amount	Expiry year
2009 (assessment)	$	1,670	2019
2010 (assessment)		2,110	2020
2011 (assessment)		2,550	2021
2012 (assessment)		2,990	2022
2013 (assessment)		3,430	2023
2014 (assessment)		3,430	2024
2015 (assessment)		3,430	2025
2016 (filing)		3,430	2026
2017 (projection)		3,430	2027
2018 (projection)		3,430	2028
	$	29,900	

(iii) The Company's income tax returns have been examined by the ROC tax authorities through 2016.

(iv) The Company is entitled to "the Incentive for a Five Year Exemption from Corporate Income Tax on Investments Made by Enterprises in the Manufacturing Industry and the Technical Service Industry between July 1, 2008, and December 31, 2009." Upon the approval by the Industrial Development Bureau, Ministry of Economic Affairs, the Company has chosen the start date of the tax exemption. Details regarding the Five-year Exemption are as follows:

Types of tax exemption	Approval No.	Project	Tax-exemption period
Construction and expansion	No. 09801075640 No. 09901135580	Basic metal manufacturing	2013.01.01~2017.12.31

(u) Capital and other equity

(i) Capital stock

As of December 31, 2018 and 2017, the Company's government-registered total authorized capital amounted to $12,000,000 thousand, with par value per share of $10 (dollars), and total issued ordinary shares amounted to 1,004,061 thousand and 1,000,224 thousand shares, respectively. All issued shares were paid up upon issuance.

The convertible bondholders exercised certain conversion rights in the year ended December 31, 2017; therefore, the Company issued 5,839 thousand shares at par value which totaled $58,391. Among the newly issued shares, the legal registration procedures of 2,003 thousand shares was completed as of December 31, 2017.

The reconciliation for numbers of outstanding shares was as follows:

	For the years ended December 31,	
(in thousands of shares)	**2018**	**2017**
Balance as of January 1	$ 1,000,224	998,221
Conversion of convertible bonds	3,837	2,003
Balance as of December 31	**$ 1,004,061**	**1,000,224**

On September 22, 1994, the Company issued 6,000 thousand Global Depositary Receipts (GDRs), in the Multilateral Trading Facility (MTF) market of the Luxembourg Stock Exchange (LSE). The details were as follows:

(in shares)	**December 31, 2018**	**December 31, 2017**
Total issued shares	**68,610,809**	**68,610,809**
Outstanding shares	**7,345,128**	**8,000,728**

(ii) Capital surplus

The balances of capital surplus were as follows:

	December 31, 2018	**December 31, 2017**
Additional paid-in capital	$ 2,289,734	2,289,734
Conversion of bonds	3,840,072	3,840,072
Treasury stock transactions	59,036	59,036
Difference between the acquiring value and the carrying value of subsidiaries	21,274	21,274
Changes in equity of associates accounted for using the equity method	190,445	360
Stock options	81,973	-
Others	109,702	109,702
	$ 6,592,236	**6,320,178**

According to the Company Act amended in January, 2012, capital surplus cannot be distributed as cash or stock dividends in proportion to the shareholding ratio before covering the accumulated deficit, if any. The aforementioned capital surplus includes the additional paid-in capital from issuance of ordinary stock in excess of the par value and donation from others. The Company' s paid-in capital in excess of par value reclassified to ordinary stock each year shall not exceed 10% of total issued and outstanding ordinary stock according to Regulations Governing the Offering and Issuance of Securities by Securities Issuers.

(iii) Retained earnings

Based on the Company's articles of incorporation, the Company's annual earnings should first be used to provide for income tax and to cover accumulated deficits, before being set aside 10% as a legal reserve, or if necessary, a special reserve. The remainder, along with accumulated earnings, is to be distributed as dividends and earnings distribution under the stockholders' resolution.

The Company is at a stable and mature stage, so the dividend plan is that the percentages of cash dividends and stock dividends shall not be less than 80% and more than 20%, respectively, of the total distribution.

1) Legal reserve

According to the Company Act amended in January, 2012, the Company's annual net profit, after providing for income tax, is appropriated for legal reserve at the rate of 10% thereof until the accumulated balance of legal reserve equals the total issued capital. If the Company incurs no accumulated deficit, legal reserve in excess of 25% of paid-in capital can be distributed as new shares or cash under the shareholders' resolution.

2) Special reserve

By choosing to apply exemptions granted under IFRSs 1 First-time Adoption of IFRSs during the Consolidated Company's first-time adoption of the IFRSs as approved by the FSC, unrealized revaluation gains recognized under shareholders' equity and cumulative translation adjustments (gains) shall be reclassified as investment property at the adoption date. According to regulations, retained earnings would be increased by $333,057 thousand, by recognizing the fair value on the adoption date as deemed cost. The increase in retained earnings occurring before the adoption date due to the first-time adoption of the IFRSs amounted to $149,309 thousand. In accordance with Ruling No. 1010012865 issued by the FSC on April 6, 2012, an increase in retained earnings due to the first time adoption of the IFRSs shall be reclassified as a special earnings reserve during earnings distribution, and when the relevant asset were used, disposed of, reclassified, this special earnings reserve shall be reversed as distributable earnings proportionately. The carrying amount of special earnings reserve amounted to $149,309 thousand on December 31, 2018.

In accordance with the guidelines of the above Ruling, a portion of current-period earnings and unappropriated prior-period earnings shall be reclassified as a special earnings reserve during earnings distribution. The amount to be reclassified should be equal to the difference between the total net current period reduction of special earnings reserve resulting from the first time adoption of IFRSs and the carrying amount of other shareholders' equity as stated above. Similarly, a portion of unappropriated prior period earnings shall be reclassified as a special earnings reserve (which does not qualify for earnings distribution) to account for cumulative changes to other shareholders' equity pertaining to prior periods due to the first-time adoption of IFRSs. Amounts of subsequent reversals pertaining to the net reduction of other shareholders' equity shall qualify for additional distributions.

3) Earnings distribution

The appropriation of earnings of the year ended December 31, 2017 and 2016 were resolved by the shareholders' meeting on June 11, 2018 and June 16, 2017. The amounts of the appropriated dividends per share were as follows:

	For the years ended December 31, 2017	For the years ended December 31, 2016
Dividends per ordinary share (in dollars)		
Cash dividend	$ 1.40	1.30

The abovementioned distribution approved by the shareholders' meeting is consistent with that approved by the Board of Directors. Related information can be found through the Market Observation Post System website.

4) OCI accumulated in reserves, net of tax

	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on available-for-sale financial assets	Cash flow hedge	Unrealized gains (losses) from financial assets measured at fair value through OCI	Total
Balance as of January 1, 2018	$ (581,054)	773,242	-	-	192,188
Effects of retrospective application	-	(773,242)	-	101,745	(671,497)
Balance as of January 1, 2018 after adjustments	(581,054)	-	-	101,745	(479,309)
Exchange differences on translation of foreign operations (net of taxes):					
The Consolidated Company	(83,894)	-	-	-	(83,894)
Disposal of investments in equity instruments designated at fair value through other comprehensive income:					
The Consolidated Company	-	-	-	(93,594)	(93,594)
Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income					
The Consolidated Company	-	-	-	14,626	14,626
Associates	-	-	-	(4,853)	(4,853)
Balance as of December 31, 2018	$ (664,948)	-	-	17,924	(647,024)

		Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on available-for-sale financial assets	Cash flow hedge	Unrealized gains (losses) from financial assets measured at fair value through OCI	Total
Balance as of January 1, 2017	$	(197,581)	412,930	(17,385)	-	197,964
Exchange differences on translation of foreign operations (net of taxes):						
The Consolidated Company		(383,473)	-	-	-	(383,473)
Effective portion of cash flow hedge (net of taxes):						
The Consolidated Company		-	-	17,385	-	17,385
Unrealized gains (losses) on available-for-sale financial assets:						
The Consolidated Company		-	358,587	-	-	358,587
Associates		-	1,725	-	-	1,725
Balance as of December 31, 2017	$	(581,054)	773,242	-	-	192,188

(v) Earnings per share

(i) Basic earnings per share

The basic earnings per share for the years ended December 31, 2018 and 2017, were calculated on the basis of profit attributable to common shareholders, which were $887,932 thousand and $1,714,931 thousand, respectively, and the weighted-average number of outstanding ordinary shares, which were 1,004,061 thousand and 999,513 thousand, respectively. The calculations were as follows:

1) Profit attributable to ordinary shareholders of the Company (basic)

	For the years ended December 31,		
		2018	2017
Profit attributable to the Company	$	887,932	1,714,931
Profit attributable to the ordinary shareholders	$	887,932	1,714,931

2) Weighted-average number of outstanding ordinary shares (basic) (in thousands of shares)

	For the years ended December 31,	
	2018	2017
Number of outstanding shares	1,004,061	999,513

(ii) Diluted earnings per share

The diluted earnings per share for the years ended December 31, 2018 and 2017, were calculated on the basis of profit attributable to ordinary shareholders, which were $913,011 thousand and $1,716,995 thousand, respectively, and the weighted average number of outstanding ordinary shares after adjustments for the effect of any potentially dilutive ordinary shares, which were 1,054,202 thousand and 1,066,188 thousand, respectively. Calculations were as follows:

1) Profit attributable to ordinary shareholders of the Company (diluted):

	For the years ended December 31, 2018	2017
Profit attributable to the ordinary shareholders of the Company (basic)	$ 887,932	1,714,931
Interest expense after tax and valuation of convertible bonds	25,079	2,064
Profit attributable to the ordinary shareholders of the Company (dilutive)	**$ 913,011**	**1,716,995**

2) Weighted-average number of ordinary shares (diluted) (in thousands of shares)

	For the years ended December 31, 2018	2017
Weighted-average number of outstanding ordinary shares (basic)	1,004,061	999,513
Effects of convertible bonds	47,942	4,234
Effects of employee stock bonus	2,199	2,441
Weighted-average number of outstanding ordinary shares (dilutive)	**1,054,202**	**1,006,188**

(w) Revenue from contracts with customers

(i) Disaggregation of revenue

	For the years ended December 31, 2018			
	Sale of goods	**Construction contracts**	**Rendering of services**	**Total**
Primary geographical markets:				
Taiwan	$ 26,873,601	3,866,973	146,452	30,887,026
The United States	1,667,568	-	-	1,667,568
Asia	4,533,070	870,068	-	5,403,138
Others	1,811,889	-	-	1,811,889
	$ 34,886,128	**4,737,041**	**146,452**	**39,769,621**

	For the years ended December 31, 2018			
	Sale of goods	**Construction contracts**	**Rendering of services**	**Total**
Main product/service line:				
Deformed bars	$ 17,377,738	-	-	17,377,738
Sections	13,057,300	-	-	13,057,300
Billets	4,213,094	-	-	4,213,094
Rendering of services	-	-	146,452	146,452
Steel manufacture	-	4,641,996	-	4,641,996
Civil engineering	-	95,045	-	95,045
Others	237,996	-	-	237,996
	$ 34,886,128	4,737,041	146,452	39,769,621

For details on revenue for the year ended December 31, 2017, please refer to note 6(x).

(ii) Contract balances

	December 31, 2018	**January 1, 2018**
Notes receivable	$ 328,685	237,401
Accounts receivable	3,092,856	3,316,438
Overdue receivables	10,020	10,020
Less: allowance for impairment	(71,486)	(49,003)
Total	$ 3,360,075	3,514,856

	December 31, 2018	**January 1, 2018**
Contract assets－construction contract	$ 1,603,030	1,087,887

	December 31, 2018	**January 1, 2018**
Contract liabilities－advance receipts	$ 153,017	301,389
Contract liabilities－construction contract	330,261	437,188
Total	$ 483,278	738,577

For details on accounts receivable and allowance for impairment for , please refer to note 6(f).

For details on construction contracts, please refer to note 6(h).

The amount of revenue recognized for the year ended December 31, 2018 that was included in the contract liability balance at the beginning of the period was 301,389 thousand.

The major changes in the balance of the contract assets and contract liabilities is the difference between the timing in the performance obligation to be satisfied and the payment to be received.

(x) Revenue

The details of the components of revenue for the year ended December 31, 2017 were as follows:

		For the years ended December 31, 2017,
Sale of goods	$	28,378,155
Rendering of service		114,764
Construction contract revenue		3,256,352
	$	31,749,271

For the revenue for the year ended December 31, 2018, please refer to Note 6(w).

(y) Employee compensation and remuneration of directors

In accordance with the articles of incorporation, the Company should contribute no less than 2.5% of the profit as employee compensation and less than 2% as remuneration of directors when there is profit for the year. However, if the Company has accumulated deficits, the profit should be reserved to offset the deficit.

For the years ended December 31, 2018 and 2017, the Company’s estimated employee compensation amounted to $32,115 thousand and $51,969 thousand, and the remuneration of directors amounted to $25,692 thousand and $41,575 thousand, respectively. The estimated amounts mentioned above were calculated based on the net income before tax, excluding the compensation to employees and the remuneration to directors of each period, multiplied by the percentage of compensation employees and remuneration to directors as specified in the Company’s articles. These compensation and remuneration were expensed under operating costs or operating expenses for the years ended December 31, 2017 and 2016. Related information is available at the Market Observation Post System website. There amounts, as stated in the financial statements for the years ended December 31, 2017 and 2016, are identical to those of the actual distributions.

(z) Non-operating income and expenses

(i) Other income

The details of other income for the years ended December 31, 2018 and 2017 were as follows:

		For the years ended December 31, 2018	2017
Interest income	$	6,078	8,518
Dividend income		59,935	51,808
Rental income		48,152	45,952
	$	114,165	106,278

(ii) Other gains and losses

The details of other gains and losses for the years ended December 31, 2018 and 2017 were as follows:

	For the years ended December 31,	
	2018	**2017**
Foreign exchange loss	$ (15,661)	(9,851)
Net gain (loss) on disposal of property, plant and equipment	4,112	(40,803)
Net gain on disposal of investments	-	2,491
Gain (loss) on disposal of financial assets and liabilities carried at fair value through profit or loss	3,391	(41,916)
Impairment loss	(20,811)	(14,694)
Others	60,425	78,316
	$ 31,456	(26,457)

The Consolidated Company performed an assessmemt on natural resources, which indicated an impairment loss. The recoverable ampunt was calculated using the value-in-use. Since the carring value was higher than the value-in-use, the Consolidated Company recognized an impairment loss amounting to $20,811 thousand as other gains and losses under non-oparating income for the year ended December 31, 2018.

(iii) Finance cost

The details of financial costs for the years ended December 31, 2018 and 2017 were as follows:

	For the years ended December 31,	
	2018	**2017**
Interest expense		
Bank borrowings	$ 212,244	106,222
Amortized interest of domestic corporate bond	8,246	1,168
Interest on domestic commercial paper	12,187	2,327
Less: interest capitalization	(8,127)	(11,081)
	$ 224,550	98,636

(aa) Reclassification adjustments of the components of other comprehensive income

The details of reclassification of the components of comprehensive income for the years ended December 31, 2018 and 2017 were as follows:

	For the years ended December 31,	
	2018	**2017**
Cash flow hedges：		
Less: Adjustments to the original carrying value of the hedged item	$ -	17,385
Available-for-sale financial assets		
Net change in fair value in the current period	-	358,587
Net change recognized in other comprehensive income	**$ -**	**358,587**

(ab) Financial instruments

(i) Credit risk

1) Exposure to credit risk

The carrying amount of financial assets excluding cash and cash equivalents represents the Consolidated Company' s maximum credit exposure. As of December 31, 2018 and 2017, the maximum exposure to credit risk amounted to $4,382,644 thousand and $5,678,947 thousand, respectively.

2) Concentration of credit risk

Credit risk, which is mainly generated from operating activities, is the risk that counterparties default. The Consolidated Company only deals with counterparties that are reputable. Therefore, it is not expected to generate any material credit risk. Moreover, the Consolidated Company has numerous clients and does not make any concentrative transactions with any single client. Therefore, there is no concentration of credit risk for account receivables.

(ii) Liquidity risk

The following are the dates of contractual maturities of financial liabilities, including estimated interest payments but excluding the impact of netting agreements.

	Carrying amount	Contractual cash flows	Within 6 months	6-12 months	1-2 years	2-5 years	Over 5 years
December 31, 2018							
Non-derivative financial liabilities							
Secured bank loans	$ 76,024	76,405	76,405	-	-	-	-
Unsecured bank loans	15,760,309	15,961,813	11,126,297	697,557	4,110,690	27,269	-
Commercial papers payable	1,499,369	1,499,369	1,499,369	-	-	-	-
Accounts and notes payable	2,171,364	2,171,364	2,171,364	-	-	-	-
Other payables	1,307,761	1,307,761	1,307,761	-	-	-	-
	$ 20,814,827	**21,016,712**	**16,181,196**	**697,557**	**4,110,690**	**27,269**	**-**

		Carrying amount	Contractual cash flows	Within 6 months	6-12 months	1-2 years	2-5 years	Over 5 years
December 31, 2017								
Non-derivative financial liabilities								
Secured bank loans	$	45,650	45,650	45,650	-	-	-	-
Unsecured bank loans		11,248,362	11,328,134	6,463,030	1,849,911	3,015,193	-	-
Commercial paper payable		604,095	605,000	604,095	-	-	-	-
Accounts and notes payable		1,973,054	1,973,054	1,973,054	-	-	-	-
Other payables		1,343,829	1,343,829	1,343,829	-	-	-	-
	$	15,214,990	15,295,667	10,429,658	1,849,911	3,015,193	-	-

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

(iii) Exchange rate risk

1) Exposure to exchange rate risk

The Consolidated Company's financial assets and liabilities exposed to significant exchange rate risk were as follows:

	December 31, 2018			December 31, 2017		
	Foreign currency	Exchange rate (in dollars)	TWD	Foreign currency	Exchange rate (in dollars)	TWD
Financial assets						
Monetary items						
USD	$ 76,365	30.72	2,345,933	29,974	29.76	892,026
EUR	2	35.20	70	2	35.57	71
JPY	472	0.2782	131	176,439	0.2642	46,615
CNY	22	4.472	98	22	4.565	100
Financial liabilities						
Monetary items						
USD	$ 174,832	30.72	5,370,839	109,006	29.76	3,244,019
EUR	1,884	35.20	66,317	1,059	35.57	37,669
JPY	47,607	0.2782	13,244	232,363	0.2642	61,390

Due to the variety of functional currencies, the Consolidated Company disclosed the aggregated information on foreign exchange gains or losses. The realized and unrealized exchange loss amounted to $15,661 thousand and $9,851 thousand for the months ended December 31, 2018 and 2017, respectively.

2) Sensitivity analysis

The Consolidated Company's exposure to exchange rate risk arises from the foreign currency exchange fluctuations on cash and cash equivalents, accounts receivable, and loans and borrowings, which were denominated in different foreign currencies. The overall effects to net income before tax for the months ended December 31, 2018 and 2017 assuming the TWD appreciate or depreciate by 1% against the USD, EUR, JPY, and CNY, while other factors remain constant, as of December 31, 2018 and 2017 were as follows:

	Effect of appreciation on net income after tax	Effect of depreciation on net income after tax
December 31, 2018		
USD (appreciation/depreciation of 1%)	$ (24,199)	24,199
EUR (appreciation/depreciation of 1%)	(530)	530
JPY (appreciation/depreciation of 1%)	(105)	105
CNY (appreciation/depreciation of 1%)	1	(1)
	$ (24,833)	**24,833**
December 31, 2017		
USD (appreciation/depreciation of 1%)	$ (19,522)	19,522
EUR (appreciation/depreciation of 1%)	(312)	312
JPY (appreciation/depreciation of 1%)	(123)	123
CNY (appreciation/depreciation of 1%)	1	(1)
	$ (19,956)	**19,956**

(iv) Interest rate analysis

The Consolidated Company's financial assets and liabilities exposed to interest rate risk are described in liquidity analysis within this Note.

The following sensitivity analysis is based on the risk exposure to interest rates of the derivative and non-derivative financial instruments on the reporting date. For variable rate instruments, the sensitivity analysis assumes the liabilities bearing variable interest rates are outstanding for the whole year. A 1% increase or decrease in interest rate is assessed by management to be a reasonably possible change in interest rate.

If the interest rate increases by 1%, the Company's net income will decrease by $158,363 thousand and $112,940 thousand for the years ended December 31, 2018 and 2017 respectively, assuming all other variable factors remain constant.

(v) Other market price risk:

The impact of hypothetical changes in prices of equity securities on other comprehensive income on the reporting date was as follows:

	For the years ended December 31,		
	2018		2017
Security price on reporting date	**Other comprehensive income (after tax)**		**Other comprehensive income (after tax)**
Increase 1%	$	3,777	13,641
Decrease 1%	$	(3,777)	(13,641)

(vi) Information on fair value

1) Types and fair value of financial instruments

The carrying and fair value of the Consolidated Company's financial assets and liabilities, including fair value hierarchy, wherein, disclosures are not required for financial instruments not measured at fair value with a carrying value approximating its fair value; and those equity investments in which the fair value cannot be reliably measured and without any quoted price in the open market, are listed as follows:

	December 31, 2018					
	Carrying amount		Fair value			
			Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss						
Non-derivative financial asset mandatorily measured at fair value through profit or loss	$	134,560	134,560	-	-	134,560
Financial assets at fair value through other comprehensive income						
Publicly listed stocks and stocks listed on emerging markets		377,716	377,716	-	-	377,716
Equity instruments measured at fair value with no publicly quoted price		189,107	-	-	189,107	189,107
Subtotal		566,823	377,716	-	189,107	566,823
Financial assets measured at amortized cost						
Cash and cash equivalents		1,097,976	-	-	-	-
Notes and accounts receivable		3,360,075	-	-	-	-
Other receivables		79,853	-	-	-	-
Refundable deposits and pledged deposits		241,333	-	-	-	-
Subtotal		4,779,237	-	-	-	-
Total	$	5,480,620	512,276	-	189,107	701,383
Financial liabilities at fair value through profit or loss						
Derivative financial liabilities－foreign exchange forward contracts	$	1,745	-	1,745	-	1,745
Redemption options on convertible bonds		31,200	-	31,200	-	31,200
Subtotal		32,945	-	32,945	-	32,945

	December 31, 2018				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial liabilities measured at amortized cost					
Short-term loans	$ 11,752,724	-	-	-	-
Long-term loans (including current portion)	4,083,609	-	-	-	-
Bonds payable	1,915,729	-	1,914,200	-	1,914,200
Short-term notes and bills payable	1,499,369	-	-	-	-
Notes and accounts payable	2,171,364	-	-	-	-
Other payables	1,307,761	-	-	-	-
Subtotal	22,730,556	-	1,914,200	-	1,914,200
Total	$ 22,763,501	-	1,947,145	-	1,947,145

	December 31, 2017				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss					
Non-derivative financial asset held for trading－publicly listed domestic stocks	$ 186,360	186,360	-	-	186,360
Financial assets carried at cost					
Unlisted domestic/foreign stocks	218,711	-	-	-	-
Available-for-sale financial assets					
Publicly listed stocks	1,364,071	1,364,071	-	-	1,364,071
Loans and receivables					
Cash and cash equivalents	1,020,460	-	-	-	-
Notes and accounts receivable	3,514,856	-	-	-	-
Other receivables	185,739	-	-	-	-
Refundable deposits and pledged deposits	209,210	-	-	-	-
Subtotal	4,930,265	-	-	-	-
Total	$ 6,699,407	1,550,431	-	-	1,550,431
Financial liabilities at fair value through profit or loss					
Derivative financial liabilities－foreign exchange forward contracts	$ 5,875	-	5,875	-	5,875
Financial liabilities measured at amortized cost					
Short-term loans	8,294,012	-	-	-	-
Long-term loans (including current portion)	3,000,000	-	-	-	-
Short-term bills payable	604,096	-	-	-	-
Notes and accounts payable	1,973,055	-	-	-	-
Other payables	1,343,829	-	-	-	-
Total	$ 15,220,867	-	5,875	-	5,875

2) Technique for fair value evaluation of financial instruments not measured at fair value

The Consolidated Company's assumption and technique used to evaluate its financial instruments not measured at fair value are as follows:

a) Financial assets measured at amortized cost (Financial assets held to maturity)

If the quoted prices in active markets are available, the market price is established as the fair value. However, if quoted prices in active markets are not available, the estimated valuation or prices used by competitors are adopted.

b) Financial assets measured at amortized cost (debt investments with no active market) and financial liabilities measured at amortized cost

If the information on the quoted price of the market deals and market manipulation is available, the latest price of the transaction and quotation information should be used as the basis for evaluating its fair value. If no market information is available for reference, the evaluation method should be adopted. Estimates and assumptions of the evaluation method should be used to assess the fair value of the discounted cash flows.

3) Technique for fair value evaluation of financial instruments measured at fair value

a) Non-derivative financial instrument

If a financial instrument is quoted in an active market, the quoted price is its fair value. Announced prices at major exchanges and market prices of popular government bonds at the Taipei Exchange are bases of fair value for listed equity instruments and other debt investments with an active market.

A financial instrument is regarded as being quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency. If this condition is not met, the market is not active. Generally, if bid-ask spreads are very wide, the spread is increasing, or the transaction volume is low, the market is not active.

Fair value of the Consolidated Company's financial instruments that have an active market is displayed by category and attributed as follows:

Listed stocks are financial assets and liabilities with standard transaction terms and conditions, and are traded on an active market. The fair value of such items is determined in reference to the quoted market price.

Except for the abovementioned financial instruments with an active market price, the fair value of other financial instruments is measured using the valuation techniques. The fair value obtained through valuation techniques can be used as a reference to the current fair value, discounted cash flow, or other valuation techniques for other financial instruments with substantially similar properties and conditions. Fair value calculated using the valuation models and the available market information on the balance sheet date are also accepted by the market.

The fair value and the attributes of a financial instrument without an active market held by the Consolidated Company is listed as follows:

- Equity instruments without an open quoted price: Fair value is estimated using the approach of comparative companies. The main assumptions are the estimated EBITDA of the investee, and the earnings multiplier derived from the quoted price of a comparative publicly listing company. Such estimate has been adjusted by the discount due from the lack of market circulation of the equity securities.

b) Derivative financial instruments

Such items are valued using the valuation models which are widely accepted by the market. Foreign exchange forward contracts normally are valued using the current forward exchange rates. Interest rate structured financial instruments are valued using the option pricing models or other valuation methods.

4) Transfers between Level 1 and Level 2

There were no transfers in either direction in the years ended December 31, 2018 and 2017.

5) Quantified information on significant unobservable inputs (Level 3) used in fair value measurement

The Consolidated Company's financial instruments that use Level 3 inputs to measure fair value include "financial assets measured at fair value through profit or loss – debt investments".

Multiple unobservable inputs exist with the fair value of the Consolidated Company's investments in equity instruments. Since the significant unobservable inputs are independent of each other, no interrelationship exists.

Quantified information of significant unobservable inputs was as follows:

Item	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Financial assets at fair value through other comprehensive income －equity investments without an active market	Comparative method	• Multiplier of P/E ratio (0.60~12.97 as of December 31, 2018) • Discount rate for lack of market circulation (10.00%~34.80% as of December 31, 2018)	• The higher the multiplier and the control premium, the higher the fair value • The higher the discount rate, the lower the fair value

6) Fair value measurements in Level 3 – sensitivity analysis of reasonably possible alternative assumptions

The measurement of fair value by the Consolidated Company is considerably reasonable. However, if a different valuation model or assumption is adopted, the result can differ. For fair value measurements in Level 3, changes in the assumptions would have the following effects:

	Input	Changes in assumptions	Changes in fair value reflected in OCI	
			Favorable	Unfavorable
December 31, 2018				
Financial assets at fair value through other comprehensive income				
Investment in equity instrument without an active market	Discount on circulation 10.66%~34.79%	5%	12,449	(12,449)

The favorable and unfavorable effects represent the changes in fair value, and fair value is based on a variety of unobservable inputs calculated using a valuation technique. The analysis above only reflects the effects of changes in a single input, and it does not include the interrelationships with another input.

(ac) Financial risk management

(i) Summary

The Consolidated Company is exposed to the following risks by using financial instruments:

1) Credit risk

2) Liquidity risk

3) Market risk

This disclosure contains the information of the risk exposure, the objectives, policies and procedures of the measurement and management of those risks. Detailed quantified information has been disclosed in related notes to the financial statements.

(ii) The structure of risk management

The goal of risk management of the Consolidated Company is to seek balance between risk and revenue, reducing the negative impact of financial risks on consolidated financial performance. Based on that goal, the Consolidated Company has already established risk management policies for identifying and analyzing the risks faced, set appropriate acceptable risk level, and designed corresponding internal control procedures in order to supervise the risk level of the Consolidated Company. The Consolidated Company will review these risk management policies and relevant internal control system periodically to adapt to the market or the changes in operational activities of the Consolidated Company.

(iii) Credit risk

Credit risk is the risk of financial loss to the Consolidated Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Consolidated Company’ s receivables from customers and investment securities.

1) Accounts receivable and other receivables

To maintain the credit quality of receivables, a credit risk management policy has been established. Under this policy, each customer is analyzed individually regarding customer’ s financial situation, external and internal credit rating, historical trading record, and current economic condition which may affect customer’ s payment ability. In addition, some methods are adopted to reduce the credit risk for specific customers, such as prepayment and insurance of accounts receivable.

2) Investments

The credit risk exposure on bank deposits, fixed income investments and other financial instruments are measured and monitored by the Consolidated Company’ s finance department. As the Consolidated Company’ s transactions are done with the banks and other external parties with good credit standing, management is not aware of any non-compliance issues and is not expecting significant credit risk.

3) Endorsements and guarantees

The parties whom the Consolidated Company endorses and guarantees are its subsidiaries and affiliated companies; the items that the Consolidated Company endorses and guarantees are mostly financing and import duties commodity tax. Because the affiliated companies are financially sound and operate stably, the Consolidated Company has never suffered from losses due to endorsements and guarantees.

(iv) Liquidity risk

Liquidity risk is the risk that the Consolidated Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. The Consolidated Company’ s approach to managing liquidity is to ensure, as much as possible, that it will always have sufficient current funds, such as cash and cash equivalent, securities with high liquidity, and sufficient credit line from banks, to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Consolidated Company’ s reputation. Therefore, the Consolidated Company believes the liquidity risk is low.

The Consolidated Company not only analyzes its debt structure and deadline periodically to maintain sufficient capital, but also consults with financial institutions to maintain its credit lines, thereby, mitigating liquidity risk. The Consolidated Company obtains its credit lines from certain financial institutions, of which the unused credit lines amounted to $17,643 thousand as of December 31, 2018. The borrowings that had been used within the credit lines were listed separately in short-term and long-term loans.

(v) Market risk

Market risk is the risk of changes in market prices, such as foreign exchange rates, interest rates and equity prices that will affect the Consolidated Company’ s income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

1) Exchange rate risk

Exchange rate risks are the risks generated from the fluctuation of fair value or the future cash flows of the financial instruments. The Consolidated Company’ s exchange rate risks arise from transactions such as sales, purchases and borrowings that are not recognized at the Consolidated Company’ s functional currency.

Steel bars and sections are the two main products of the Consolidated Company. Sales of steel bars mainly go to domestic clients and are recognized in New Taiwan dollar. The ratio of domestic sales to external sales for sections was about 83 to 17 for the year ended December 31, 2018. The external sales for the year ended December 31, 2018 was about $80,100,000 thousand which was 23% of the total revenue. Because the functional currency for import and export sales are all recognized in United States dollar ("USD"), sales revenue in USD and payments in USD can offset each other. The Consolidated Company uses foreign exchange forward contracts to avoid the risk of exchange rate fluctuation, recognizing the fluctuation of the fair value of the derivatives in profit or loss and takes the following steps to avoid exchange risk.

a) Collect relevant information about the daily fluctuation in exchange rate in order to know its trend. Decide whether to convert one currency into another specific currency at a proper time or retain foreign currency borrowings.

b) On dispatching foreign funds, the creditor’ s rights and debts in foreign currency offset each other through regular external sales and imports, causing the effect of natural hedge.

c) Consult with foreign exchange departments of banks about hedging strategies and decide the foreign position that depends on the actual need of capital and the fluctuation of the exchange rate.

2) Interest rate risk

Interest rate risks are the risks that arise due to fluctuations in fair value or future cash flows of financial instruments because of changes in interest rate.

The Consolidated Company will obtain a more beneficial capital according to the compatibility of corresponding banks and the actual interest rate trends. The ratio of net interest revenue to the net operating revenue is not material; therefore, interest rate fluctuation does not cause any significant impact on the Consolidated Company. Besides, the Consolidated Company maintains a close relationship with certain corresponding banks and is well informed of any changes in the market in order to obtain a much more beneficial borrowing rate. The Consolidated Company continues to observe changes of interest rate on the market and issues convertible bonds to raise capital at proper time, and to fix and reduce interest cost for the Consolidated Company. Material capital expenditure will be evaluated with prudence and will be compared to different fund-raising instruments in order to raise capital with the least cost.

(ad) Capital management

Although business operated by the Consolidated Company has reached the stage of maturity, a sufficient amount of capital is still required to support the operation of investee companies, construction and expand its production facilities and equipment. The Consolidated Company’s policy is to maintain adequate financial resources and operating plan to meet future operating capital, capital expenditure, research and development expenditure, loans reimbursement, and dividend distribution.

The Consolidated Company uses the debt-to-capital ratio to manage capital. The debt-to-capital ratio is calculated by dividing the net liabilities by the total capital. Net liabilities derive from deducting cash and cash equivalents from total liabilities.

The Consolidated Company reviews the ratio of debt-to-capital periodically to improve stockholders’ value. The debt-to-capital ratios as of December 31, 2018 and 2017, were as follows:

	December 31, 2018	December 31, 2017
Total liabilities	$ 24,547,729	17,264,361
Less: cash and cash equivalents	(1,097,976)	(1,020,460)
Net liabilities	23,449,753	16,243,901
Total equity	24,010,763	24,033,031
Total capital	$ 47,460,516	40,276,932
Debt-to-capital ratio	49.41%	40.33%

As of December 31, 2018, there were no changes in the Consolidated Company’s approach to capital management during the period.

(ae) The investing and financing activities of non-cash transactions

The cash flow of non-cash investing and financing transactions for the years ended December 31, 2018 and 2017, were as follows:

	For the years ended December 31, 2018	2017
Reclassification of financial assets carried at cost to available-for-sale financial assets	$ -	94,586
Conversion of convertible bonds payable to ordinary shares (including share premium)	$ -	131,302
Reclassification of prepayment of land and equipment to property, plant and equipment	$ 112,709	981,795
Reclassification of prepayment of land and equipment to investment property	$ -	74,315
Changes in unrealized gain or loss on financial instruments	$ 14,626	358,587
Unrealized gain or loss on financial instruments accounted for using the equity method	$ 148,531	1,725
Change in related companies recognized by the equity method	(83,894)	(383,473)
Increase in property, plant and equipment	$ 1,783,007	3,504,293
Add: Payable for equipment as of January 1	44,376	49,349
Less: Payable for equipment as of December 31	(121,401)	(44,376)
Less: Loss on hedging instrument transferred to property, plant and equipment	-	(17,385)
Cash paid	$ 1,705,982	3,491,881

Reconciliation of liabilities arising from financing activities were as follows:

		Cash flows			Non-cash changes		
	January 1,2018	Proceeds from loans	Repayment	Other	Foreign exchange	Other	December 31, 2018
Short-term loans	$ 8,294,012	61,414,940	(57,973,533)	-	17,305	-	11,752,724
Long-term loans (including current portion)	3,000,000	3,427,413	(2,353,571)	-	9,767	-	4,083,609
Short-term notes and bills payable	605,000	12,730,000	(11,835,000)	-	-	-	1,500,000
Bonds payable	-	2,000,000	-	-	-	(84,271)	1,915,729
Refundable deposits	25,288	-	-	(11,390)	-	-	13,898
Total liabilities from financing activities	$ 11,924,300	79,572,353	(72,162,104)	(11,390)	27,072	(84,271)	19,265,960

(7) Related-party transactions

(a) Names and relationship with related parties

Name of related party	Relationship with the Consolidated Company
Katec R & D Corp.	An associate
Taiwan Steel Union Co., Ltd.	An associate
Duc Hoa International Joint Stock Company	An associate
Fujian Sino-Japan Metal Corp.	An associate
Far East Steel Enterprise Corp.	The entity's chairman is the same as the chairman of the Company
Shen Yuan Investment Co., Ltd.	The entity's chairman is a second immediate family of the chairman of the Company
Delta Design Corp.	The entity's chairman is a second immediate family of the chairman of the Company

Directors, general manager and vice general manager

(b) Significant related-party transactions

(i) Sales to related parties

1) Significant sales to related parties and the balance of outstanding accounts receivable were as follows:

	Sales		Accounts receivable	
	For the years ended December 31,		December 31,	December 31,
	2018	2017	2018	2017
Associates	$ 20,081	22,679	2,910	1,154

The selling price and credit terms for sales to related parties are not significantly different from those to other customers.

2) Construction contract revenue of the Consolidated Company that was determined based on the stage-of-completion method to related parties was as follows:

			Construction contract revenue	
			For the years ended December 31,	
Relationship	Activity	Total	2018	2017
Associates	Construction	$ 38,930	1,359	32,992

(ii) Purchase from related parties

	Purchases		Accounts payable	
	For the years ended December 31,		December 31,	December 31,
	2018	2017	2018	2017
Associates	$ 34,168	49,256	1,142	4,336
Other related parties	1,412	227	-	-
	$ 35,580	49,483	1,142	4,336

The terms of purchase transactions and the payment terms with related parties were not significantly different from those with other vendors.

(iii) Financing to related parties

Interest income incurred by financing was as follows:

	Interest income		
	For the years ended December 31,		
	2018	2017	Interest rates
Associates	$ 264	160	3.0%

(iv) Endorsement/guarantees provided

The details regarding balances of financing endorsement were as follows:

Expressed in thousands of USD

	December 31, 2018		
	Highest balance for current period	Ending amount (Note)	Actual amount provided
Associates	USD$11,485	USD5,250	USD5,250

	December 31, 2017		
	Highest balance for current period	Ending amount (Note)	Actual amount provided
Associates	USD$12,667	USD6,235	USD6,235

Note: The credit limit approved by the Board of Directors

(v) Others

Relationship	Rental income For the years ended December 31, 2018	Rental income 2017	Miscellaneous revenue For the years ended December 31, 2018	Miscellaneous revenue 2017	Manufacturing expenses For the years ended December 31, 2018	Manufacturing expenses 2017
Associates	$ 3,309	3,304	218	762	22,246	27,255
Other related parties	2,893	23	-	-	-	-
	$ 6,202	3,327	218	762	22,246	27,255

Relationship	Other operation expenses For the years ended December 31 2018	Other operation expenses 2017	Donation expenses For the years ended December 31 2018	Donation expenses 2017
Associates	$ 62,989	72,112	-	-
Other related parties	961	1,346	-	-
Other related parties －THSF	-	-	3,558	8,344
	$ 63,950	73,458	3,558	8,344

Relationship	Notes payable December 31, 2018	Notes payable December 31, 2017
Other related parties	$ 640	705

Relationship	Other receivables December 31, 2018	Other receivables December 31, 2017	Other payables December 31, 2018	Other payables December 31, 2017
Associates	$ 36	52	10,706	17,248
Other related parties	21	-	-	-
	$ 57	52	10,706	17,248

Relationship	Investment property December 31, 2018	Investment property December 31, 2017	Deposits received December 31, 2018	Deposits received December 31, 2017
Associates	$ -	115,617	304	304

(c) Compensation of key management personnel

Compensation of key management personnel consists of:

	For the years ended December 31,	
	2018	2017
Short-term employee benefits	$ 52,360	49,022
Post-employment benefits	2,552	1,764
	$ 54,912	50,786

As of December 31, 2018 and 2017, the Consolidated Company provided three cars and four cars that cost $12,453 thousand and $11,918 thousand, respectively, for the key management personnel of the entity.

(8) Pledged assets

The details of the Consolidated Company's pledged assets were as follows:

Pledged assets	Pledged to secure	December 31, 2018	December 31, 2017
Other current and non-current assets	Guarantee for bank loans and performance guarantee	$ 41,264	4,780
Refundable deposits	Performance guarantee	3,687	3,670
Land use right (Listed as other non-current assets)	Guarantee for bank loans	6,570	6,988
Property, plant and equipment	Guarantee for bank loans	643,810	658,442
		$ 695,331	673,880

(9) Commitments and contingencies

(a) Commitments

(i) The guarantees were mainly for securing loans and gave rise to potential off-balance-sheet credit risk, which represents the risk of loss incurred by the default of counterparties or by the devaluation of collateral provided by the counterparties. The Consolidated Company did not ask counterparties for collateral as secure guarantees. The amounts of the Consolidated Company's guarantees were as following:

	December 31, 2018	December 31, 2017
Guarantees securities amounts	$ 161,280	185,554

(ii) The amounts of guaranteed notes issued by the Consolidated Company were as follows:

Nature	December 31, 2018	December 31, 2017
Bank credit limit	$ 11,831,879	7,603,364
Leases	200	200
Guaranteed payment for purchases of raw materials	40,030	28,780
	$ 11,872,109	7,632,344

(iii) The amount of unused outstanding letters of credit for the importation of raw materials was as follows:

	December 31, 2018	December 31, 2017
Unused outstanding letters of credit	$ 1,293,171	1,590,390

(10) Losses due to major disasters: None

(11) Subsequent events:None

(12) Others

(a) The Consolidated Company's employee benefit, depreciation, and amortization expenses, categorized by function, were as follows:

	For the year ended December 31, 2018			For the year ended December 31, 2017		
	Classified as operating costs	Classified as operating expenses	Total	Classified as operating costs	Classified as operating expenses	Total
Employee benefits						
Salaries	1,247,159	501,910	1,749,069	1,197,243	540,726	1,737,969
Labor and health insurance	115,087	43,217	158,304	111,905	42,378	154,283
Pension expenses	63,123	21,136	84,259	64,091	21,862	85,953
Other personnel expenses (Note)	50,877	41,334	92,211	43,089	54,740	97,829
Depreciation expenses	1,213,693	93,344	1,307,037	1,082,043	80,768	1,162,811
Amortization expenses	61,602	16,161	77,763	52,166	11,054	63,220

Note: Included remuneration of directors $35,292 thousand and $41,575 thousand for the years ended December 31, 2018 and 2017 respectively.

(b) As of December 31,2018 and 2017, the analysis of the liquidity of the Company's assets and liabilities was as follows:

	December 31, 2018		
	Receivables / Payables expected to be realized within twelve months	Receivables / Payables expected to be realized after twelve months	Total
Assets			
Cash and cash equivalents	$ 1,097,976	-	1,097,976
Current financial assets at fair value through profit or loss	134,560	-	134,560
Notes and accounts receivable	3,199,533	160,542	3,360,075
Other receivables	79,853	-	79,853
Inventories	15,453,079	-	15,453,079
Contract assets	-	1,603,030	1,603,030
Prepayments and other current assets	1,240,379	-	1,240,379
	$ 21,205,380	1,763,572	22,968,952
Liabilities			
Short-term loans	$ 11,752,724	-	11,752,724
Current financial liabilities at fair value through profit or loss	1,745	-	1,745
Short-term notes and bills payable	1,499,369	-	1,499,369
Current contract liabilities	-	483,278	483,278
Notes and accounts payable	2,171,364	-	2,171,364
Other payables	1,307,761	-	1,307,761
Current tax liabilities	200,510	-	200,510
Provisions and other current liabilities	72,974	-	72,974
	$ 17,006,447	483,278	17,489,725

	December 31, 2017		
	Expected to receive or paid within twelve months	**Expected to receive or paid over twelve months**	**Total**
Assets			
Cash and cash equivalents	$ 1,020,460	-	1,020,460
Current financial assets at fair value through profit or loss	186,360	-	186,360
Notes and accounts receivable	3,424,721	90,135	3,514,856
Other receivables	185,739	-	185,739
Inventories	8,175,732	-	8,175,732
Construction contracts receivable	-	1,087,887	1,087,887
Prepayments and other current assets	664,319	-	664,319
	$ 13,657,331	1,178,022	14,835,353
Liabilities			
Short-term loans	$ 8,294,012	-	8,294,012
Current financial liabilities at fair value through profit or loss	5,875	-	5,875
Short-term notes and bills payable	604,095	-	604,095
Construction contracts payable	-	437,188	437,188
Notes and accounts payable	1,973,054	-	1,973,054
Other payables	1,343,829	-	1,343,829
Current tax liabilities	192,573	-	192,573
Provisions and other current liabilities	314,075	103,367	417,442
	$ 12,727,513	540,555	13,268,068

(13) Other disclosures

(a) Information on significant transactions

The following is the information on significant transactions of the Consolidated Company required by the Regulations:

(i) Financing to other parties:

(in thousands of NTD/USD)

Number	Name of lender	Name of borrower	Account name	Related party	Highest balance of financing to other parties during the period	Ending balance	Actual usage amount during the period	Range of interest rates during the period	Purposes of fund financing for the borrower (Note 2)	Transaction amount for business between two parties	Reasons for short-term financing	Allowance for bad debt	Collateral		Individual funding loan limits	Maximum limit of fund financing
													Item	Value		
1	Tung Yuan International Corp.	Duc Hoa International Joint Stock Company	Other receivables from related parties	Yes	30,720 (USD1,000)	-	-	3%~3.5%	2	-	Operating capital	-	-	-	80,517 (USD2,621)	161,034 (USD5,242)

Note 1: Financing to an individual party should not exceed 10% of the net equity on its latest financial statements. The maximum amount allowed for financing should not exceed 20% of the net equity on its latest financial statements.

Note 2: Reasons for short-term financing were as follows:

(1) Those with business contact

(2) Those necessary for short-term fund circulation

(ii) Guarantees and endorsements for other parties:

(in thousands of NTD/USD)

No.	Name of guarantor	Counter-party of guarantee and endorsement		Limitation on amount of guarantees and endorsements for a specific enterprise	Highest balance for guarantees and endorsements during the period	Balance of guarantees and endorsements as of reporting date	Actual usage amount during the period	Property pledged for guarantees and endorsements (amount)	Ratio of accumulated amounts of guarantees and endorsements to net worth of the latest financial statements	Maximum amount for guarantees and endorsements	Parent company endorsements/ guarantees to third parties on behalf of subsidiary	Subsidiary endorsements/ guarantees to third parties on behalf of parent company	Endorsements/ guarantees to third parties on behalf of companies in Mainland China
		Name	Relationship with the Company										
0	The Company (Note 2, 3)	Fujian Tung Kang Steel Co., Ltd.	2	9,561,234	1,083,760 (USD28,000) (CNY50,000)	899,440 (USD22,000) (CNY50,000)	196,279 (USD2,100) (CNY29,465)	-	3.76%	9,561,234	Y	N	Y
0	The Company (Note 2, 3)	THSVC	2	9,561,234	8,524,800 (USD277,500)	7,142,400 (USD232,500)	3,874,406 (USD126,120)	-	29.88%	9,561,234	Y	N	N
1	Tung Yuan International Corp. (Note 4, 5)	Best-Steel Trade Corp.	2	402,616 (USD13,106)	36,864 (USD1,200)	36,864 (USD1,200)	36,864 (USD1,200)	36,864 (USD1,200)	4.58%	805,202 (USD26,211)	N	N	N
1	Tung Yuan International Corp. (Note 4, 5)	Fujian Sino-Japan Metal Corp.	6	402,616 (USD13,106)	322,560 (USD10,500)	161,280 (USD5,250)	161,280 (USD5,250)	-	20.03%	805,202 (USD26,211)	N	N	Y
1	Tung Yuan International Corp. (Note 4, 5)	Duc Hoa International Joint Stock Company	6	402,616 (USD13,106)	30,259 (USD985)	- (USD0)	- (USD0)	-	- %	805,202 (USD26,211)	N	N	N

Note 1: There are seven kinds of conditions in which the Company may have guarantees or endorsements for the receiving parties.

1 The Company has business with the receiving parties.

2 In aggregate, the Company and its subsidiaries hold more than 50% of the investee.

3 The Company is held more than 50% by the investor.

4 .In aggregate, the Company and its subsidiaries hold more than 90% of the investee.

5 The Company is required to make guarantees or endorsements for the construction project based on the construction contract.

Note 2: Not exceeding 40% of the net equity of the latest financial statements. Net equity is determined using the latest financial statements audited or reviewed by an independent accountant.

Note 3: Not exceeding 40% of the net equity of the latest financial statements. Net equity is determined using the latest financial statements audited or reviewed by an independent accountant.

Note 4: Not exceeding 50% of the net equity on the latest financial statements.

Note 5: The total amount of guarantees and endorsements should not exceed the Company's net equity on its latest financial statements. The limitation amount for the current period is USD 26,211 thousand. Guarantees and endorsements for an individual company should not exceed 50% of the company's net equity on its latest financial statements. Moreover, according to the Company's policy, the total amount of guarantees and endorsements made by the Company should not exceed 45% of the company's latest financial statement (limit as of the current period: 10,756,388 thousand); the total amount of guarantees and endorsements on an individual company should not exceed 40% of the Company's net worth of its latest financial statements (limit of the current period: 9,561,234 thousand).

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(iii) Securities held as of December 31, 2018 (excluding investment in subsidiaries, associates and joint ventures):

(in thousands of NTD)

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Highest	
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value	Percentage of ownership (%)	Note
The Company	Stock－Zenitron Corporation	-	(a)	3,825,000	80,325	1.79%	80,325	1.79%	None
The Company	Stock－Adlink	-	(a)	1,713,577	54,235	0.79%	54,235	0.79%	〃
The Company	Stock－Shiao Kang Warehousing Corp.	One of its directors	(b)	2,384,060	16,927	19.87%	16,927	19.87%	〃
The Company	Stock－Hexawave Photonic System, Inc.	One of its directors	(b)	11,687,916	50,492	16.35%	50,492	16.35%	〃
The Company	Stock－Overseas Investment & Development Corp.	-	(b)	1,000,000	6,360	1.11%	6,360	1.11%	〃
The Company	Stock－Power World Fund, Inc.	One of its directors	(b)	677,245	9,597	5.68%	9,597	5.68%	〃
The Company	Stock－Universal Venture Fund, Inc.	One of its directors	(b)	558,255	7,257	4.76%	7,257	4.76%	〃
The Company	Stock－Tung Jiang Investment Corp.	One of its directors	(b)	-	31,407	9.13%	31,407	9.13%	〃
The Company	Stock－Taiwan Aerospace Corp.	-	(b)	1,621,441	30,694	1.19%	30,694	1.19%	〃
The Company	Stock－Universal Venture Capital Investment Corp.	-	(b)	2,800,000	21,084	2.33%	21,084	2.33%	〃
The Company	Stock－IBT	-	(b)	1,312,993	6,381	4.17%	6,381	4.17%	〃
The Company	Katec Creative Resources Corporation－preferred stock	Subsidiary of the Company	(b)	577,031	-	65.18%	-	65.18%	Note 1
The Company	Stock－Chien Shing Harbour Service Co., Ltd	One of its directors	(b)	8,203,800	187,867	10.11%	187,867	11.38%	None
The Company	Stock－Taiwan High Speed Rail Corporation	-	(b)	6,214,376	189,849	0.11%	189,849	0.88%	〃
Tung Yuan International Corp.	Chinese Products Promotion Center	-	(b)	2,500	227	0.66%	227	0.66%	〃
Tung Yuan International Corp.	Pech alliance Corp.	-	(b)	1,791,562	4,953	5.69%	4,953	5.69%	〃
Tung Kang Engineering & Construction Corp.	Toko Sanitaryware Trading Development Corp.	-	(b)	150,000	3,728	15.00%	3,728	15.00%	〃

Note: (a) Current financial assets at fair value through profit or loss

(b) Non-current financial assets at fair value through other comprehensive income

Note 1: Intercompany transactions of the above have already been eliminated during the preparation of the consolidated financial statements.

(iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT$300 million or 20% of the capital stock:

(In Thousands of New Taiwan Dollars)

Name of company	Category and name of security	Account name	Name of counter-party	Relationship with the company	Beginning Balance		Purchases		Sales				Ending Balance	
					Shares	Amount	Shares	Amount	Shares	Price	Cost	Gain (loss) on disposal	Shares	Amount
The Company	Tung Ho Steel Vietnam Corp., Ltd	Note 1	Note 2	Non-related	49,505,376	1,163,376	-	-	43,291,000	1,355,418	426,084	Note 3 -	6,214,376	189,849

Note 1: Non-current financial assets at fair value through other comprehensive income.

Note 2: Non-related.

Note 3: The book cost has been adjusted at fair value before disposed and has been adjusted to retained earnings.

(v) Acquisition of individual real estate with amount exceeding the lower of NT$300 million or 20% of the capital stock: None

(vi) Disposal of individual real estate with amount exceeding the lower of NT$300 million or 20% of the capital stock: None

(vii) Related-party transactions for purchases and sales with amounts exceeding the lower of NT$100 million or 20% of the capital stock:

(in thousands of NTD)

Name of company	Related party	Nature of relationship	Transaction details				Transactions with terms different from others		Notes/Accounts receivable (payable)		Note
			Purchase/Sale	Amount	Percentage of total purchases/sales	Payment terms	Unit price	Payment terms	Ending balance	Percentage of total notes/accounts receivable (payable)	
The Company	Tung Kang Steel Structure Corp.	Subsidiary of the Company	Sale	(1,331,164)	(3.84)%	Receivable within 60 days	-	-	401,438	7.95%	
The Company	THSVC	Subsidiary of the Company	Sale	(2,238,824)	(6.45)%	330 days after B/L	-	-	1,465,747	29.04%	
The Company	BST	Subsidiary of the Company	Sale	(1,637,176)	(4.19)%	110 days after B/L	-	-	650,273	12.88%	
Tung Kang Steel Structure Corp.	The Company	Subsidiary of the Company	Purchase	1,331,164	54.70%	Payable within 60 days	-	-	(391,155)	(51.33)%	
THSVC	The Company	Subsidiary of the Company	Purchase	2,338,814	95.00%	330 days after B/L	-	-	(1,502,688)	(94.57)%	
BST	The Company	Subsidiary of the Company	Purchase	1,637,176	100.00%	110 days after B/L	-	-	(650,273)	(100)%	

Note1: The transactions have already been written off in the consolidated financial statements.

(viii) Receivables from related parties with amounts exceeding the lower of NT$100 million or 20% of the capital stock:

(in thousands of NTD)

Name of company	Counter-party	Nature of relationship	Ending balance	Turnover rate	Overdue		Amounts received in subsequent period	Allowance for bad debts
					Amount	Action taken		
The Company	Tung Kang Steel Structure Corp.	Subsidiary of the Company	401,438 (Accounts receivable—related parties)	4.40	-		401,438	-
			406 (Other receivables—related parties)	-	-		-	-
The Company	THSVC	Subsidiary of the Company	1,465,747 (Accounts receivables—related parties)	2.04	-		154,999	-
The Company	BST	Subsidiary of the Company	650,273 (Accounts receivables—related parties)	4.44	-		171,618	-

Note ：The transactions have already been written off in the consolidated financial statements.

(ix) Trading in derivative instruments: Please refer to Note 6(b).

(x) Business relationships and significant intercompany transactions:

(in thousands of NTD)

No.	Name of company	Name of counter-party	Nature of relationship	Intercompany transactions			
				Account name	Amount	Trading terms	Percentage of the consolidated net revenue or total assets
0	The Company	Tung Kang Steel Structure Corp. and subsidiaries	1	Sales	1,375,147	General conditions	3.46%
0	The Company	Tung Kang Steel Structure Corp. and subsidiaries	1	Accounts receivable	409,748	OA60	0.84%
0	The Company	THSVC	1	Sales	2,238,824	General conditions	5.63%
0	The Company	THSVC	1	Accounts receivable	1,465,747	330 days after B/L	3.02%

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0	The Company	Tung Yuan International Corp. and subsidiaries	1	Sales	1,637,176	General conditions	4.12%

No.	Name of company	Name of counter-party	Nature of relationship	Intercompany transactions			
				Account name	Amount	Trading terms	Percentage of the consolidated net revenue or total assets
0	The Company	Tung Yuan International Corp. and subsidiaries	1	Accounts receivable	650,273	110 days after B/L	1.34%
1	Tung Kang Steel Structure Corp. and its subsidiaries	The Company	2	Sales	189,060	OA30	0.48%

Note 1: The numbers represent the following:

1. 0 represents the parent company.

2. Subsidiaries are numbered from 1.

Note 2: Transactions are categorized as follows：

1. Parent company to subsidiary.

2. Subsidiary to parent company.

3. Subsidiary to subsidiary.

For significant intercompany transactions, only information regarding sales, funding and finances, and accounts receivables were disclosed; the opposing items of the transactions were not disclosed.

(b) Information on investees:

The following is the information on investees for the year ended December 31, 2018 (excluding information on investees in Mainland China):

(in thousands of NTD/USD)

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2018			Highest	Net income	Share of	
				December 31, 2018	December 31, 2017	Shares (thousands)	Percentage of ownership	Carrying value	Percentage of ownership	(losses) of investee	profits/losses of investee	Note
The Company	Tung Yuan International Corp.	British Virgin Islands	Investment activities	800,984	800,984	82	100.00%	790,234	82	(120,080)	(120,080)	Subsidiary (Note 1)
〃	Tung Kang Steel Structure Corp.	Taiwan	Steel manufacture and manufacture of architectural components	1,775,138	1,775,138	197,565,134	97.48%	2,011,688	197,565,134	93,585	59,708	Subsidiary (Note 1)
〃	Katec R & D Corp.	Taiwan	Waste recycling	35,352	35,352	4,705,332	46.19%	52,588	4,705,332	5,858	2,706	Associate
〃	Goldham Development Ltd.	British Virgin Islands	Investment activities	460,800	460,800	15,000,000	100.00%	404,855	15,000,000	(14,271)	(37,221)	Subsidiary (Note 1)
〃	Taiwan Steel Union Co., Ltd.	Taiwan	Waste disposal	113,291	113,291	24,829,009	22.31%	801,561	25,208,009	785,480	175,265	Associate
〃	Katec Creative Resources Corporation	Taiwan	Waste recycling	1,211,442	1,211,442	95,724,402	99.01%	730,094	95,724,402	(38,739)	(38,356)	Subsidiary (Note 1)
〃	Right Investment Corp.	Taiwan	Investment activities	189,827	189,827	499,800	49.00%	11,384	499,800	155	76	Associate
〃	Fa Da Enterprise Corp.	Taiwan	Waste recycling	90,000	100,000	9,000,000	100.00%	89,689	10,000,000	(69)	(69)	Subsidiary (Note 1)
〃	Tung Kang Wind Power Corp.	Taiwan	Electric power generation	155,000	155,000	15,500,000	100.00%	91,350	15,500,000	(16,879)	(16,879)	Subsidiary (Note 1)
〃	THSVC	Vietnam	Steel industry	5,016,935	3,847,738	-	100.00%	4,098,293	-	(461,484)	(461,484)	Subsidiary (Note 1)
Tung Yuan International Corp.	3 Oceans International Inc.	Samoa	Investment activities	56,525	56,525	1,840,000	66.67%	26,570	1,840,000	(24,728)	(16,486)	Subsidiary (Note 1)
Tung Yuan International Corp.	Duc Hoa International Joint Stock Company	Vietnam	Quicklime factory	67,584	67,584	-	49.25%	46,400	-	7,508	3,698	Associate
Tung Yuan International Corp.	BST	U.S.A.	Trading	9,216	9,216	-	60.00%	22,211	-	25,076	15,046	Subsidiary (Note 1)
Tung Kang Steel Structure Corp.	Tung Kang Engineering & Construction Corp.	Taiwan	Civil engineering	359,340	359,340	25,000,000	100.00%	265,000	25,000,000	11,637	34,800	Subsidiary (Note 1)

1 USD＝30.72 TWD, 1 CNY＝4.472 TWD.

Note1: The transactions were written off in the consolidated financial statements.

(c) Information on investment in Mainland China:

(i) The names of investees in Mainland China, the main businesses and products, and other information:

(in thousands of NTD/USD/CNY)

Name of investee	Main businesses and products	Total amount of paid-in capital	Method of investment (Note 1)	Accumulated outflow of investment from Taiwan as of January 1, 2018	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2018	Net income (losses) of the investee	Percentage of ownership	Highest Percentage of ownership	Investment income (losses) (Note 3)	Book value (Note 2)	Accumulated remittance of earnings in current period
					Outflow	Inflow							
Fujian Sino-Japan Metal Corp.	Tin-coated plate	1,597,440 (USD52,000)	(2)	564,234 (USD18,367)	-	-	564,234 (USD18,367)	(349,101)	35.00%	35.00%	(122,185)	553,271	-
Fujian Tung Kang Steel Co., Ltd.	Manufacture of section steels and steel structures	460,800 (USD15,000)	(2)	409,498 (USD13,330)	-	-	409,498 (USD13,330)	(14,271)	100.00%	100.00%	(37,221)	404,855	-
Fujian Dong Sheng Metul Processing Co., Ltd.	Manufacturo of Steel	22,360 (CNY5,000)	(3)	-	-	-	-	(3,740)	51.00%	51.00%	(1,907)	14,095	-

Note 1: List of the method of investment

(1) Direct investment

(2) Indirect investment

(3) Others

Note 2: On December 31, 2018, 1 USD＝30.72 TWD, 1 CNY＝4.472 TWD.

Note 3: For the year ended December 31, 2018, 1 USD＝ 30.15 TWD, 1 CNY ＝4.56 TWD.

(ii) Limitation on investment in Mainland China:

(in thousands of NTD/USD)

Accumulated Investment in Mainland China as of December 31, 2018	Investment amounts authorized by Investment Commission, MOEA	Upper limit on investment (Noted)
1,035,172 (USD33,697)	1,035,172 (USD33,697)	14,341,851

Note: 60% of net equity.

(iii) Significant transactions:

For direct or indirect significant transactions between the Company and its investees in Mainland China, please refer to the illustrations in "Related information on Significant Transactions".

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(14) Segment information

(a) General information

There are six reportable segments in the Consolidated Company, namely, Kaohsiung, Taoyuan, Miaoli, Taipei, Vietnam, and Steel Structure. The Kaohsiung Department manufactures steel bars for construction and civil engineering, and H beams for steel-structured buildings and basic civil engineering, universal plates, and tampered and parallel flange channel; the Taoyuan Department only produces steels for building structures and steel bars for construction and civil engineering; the Miaoli Department manufactures H beams, universal plates, and tampered and parallel flange channel for steel-structured buildings and basic civil engineering; the Taipei Department manages the Consolidated Company and evaluates investment activities; the Vietnam Department manufactures and sells various types of billets and steel bars for construction and civil engineering; the Steel Structure department exclusively assembles H beams and others.

(b) Information about reportable segments and their measurement and reconciliations

The reportable segments are the Consolidated Company's strategic divisions. They offer different products and services, and are managed separately because they require different technology and marketing strategies. Most of the strategic divisions were acquired separately. The management of the acquired divisions remains employed by the Consolidated Company.

Tax expenses are not able to be allocated to each reportable segment. In addition, not all reportable segments include depreciation and amortization of significant non-cash items. The reportable amount is similar to that in the report used by the chief operating decision maker.

The operating segment accounting policies are similar to the ones described in Note 4 "Significant Accounting Policies." The Consolidated Company treated intersegment sales and transfers as third-party transactions. They are measured at market price.

The operating segments of the Consolidated Company for the years ended December 31, 2018 and 2017, were as follows:

	For the year ended December 31, 2018								
	Kaohsiung	Taoyuan	Miaoli	Taipei	Steel Structure	Vietnam	Others	Adjustments and eliminations	Total
Revenue:									
Net revenue from external customers	$ 4,989,298	13,875,542	8,642,715	-	4,781,352	3,588,782	3,891,932	-	39,769,621
Inter-segment revenue	388,924	44,176	2,581,228	2,246,037	449,164	-	17,362	(5,726,891)	-
Total revenues	**$ 5,378,222**	**13,919,718**	**11,223,943**	**2,246,037**	**5,230,516**	**3,588,782**	**3,909,294**	**(5,726,891)**	**39,769,621**
Interest expense	$ -	-	-	(140,441)	(9,717)	(65,879)	(8,513)	-	(224,550)
Interest revenue	-	-	-	861	1,662	1,234	2,321	-	6,078
Reportable segment profit or loss	**$ 42,449**	**375,341**	**1,093,918**	**(278,141)**	**95,407**	**(461,484)**	**(145,356)**	**532,969**	**1,255,103**
Reportable segment assets	**$ 2,021,425**	**14,373,219**	**7,585,727**	**17,881,720**	**4,759,063**	**9,016,398**	**4,231,890**	**(11,310,949)**	**48,558,493**
Reportable segment liabilities	**$ 281,328**	**1,012,097**	**894,026**	**16,619,520**	**2,138,229**	**4,918,105**	**1,525,858**	**(2,841,434)**	**24,547,729**

	For the year ended December 31, 2017								
	Kaohsiung	Taoyuan	Miaoli	Taipei	Steel Structure	Vietnam	Others	Adjustments and eliminations	Total
Revenue:									
Net revenue from external customers	4,082,237	9,751,827	7,281,875	-	3,383,165	5,910,153	1,340,014	-	31,749,271
Inter-segment revenue	24,926	73,370	703,400	1,823,679	334,106	-	15,443	(2,974,924)	-
Total revenues	**$ 4,107,163**	**9,825,197**	**7,985,275**	**1,823,679**	**3,717,271**	**5,910,153**	**1,355,457**	**(2,974,924)**	**31,749,271**
Interest expense	$ -	-	-	(65,274)	(3,020)	(20,221)	(10,121)	-	(98,636)
Interest revenue	-	-	-	2,511	2,478	1,900	1,629	-	8,518
Reportable segment profit or loss	**$ 432,916**	**881,022**	**1,757,664**	**(1,138,985)**	**(273,430)**	**129,468**	**(31,722)**	**242,150**	**1,999,083**
Reportable segment assets	**$ 1,952,536**	**12,356,562**	**6,425,654**	**17,320,570**	**4,430,546**	**6,917,862**	**2,956,041**	**(11,062,379)**	**41,297,392**
Reportable segment liabilities	**$ 602,556**	**1,192,956**	**929,638**	**11,622,184**	**1,895,101**	**3,470,012**	**703,834**	**(3,151,920)**	**17,264,361**

(c) Products information

Revenue from the external customers of the Consolidated Company was as follows:

Product Name	2018	2017
Deformed bars	$ 17,377,738	11,426,428
Sections	13,057,300	10,546,446
Billets	4,213,094	6,096,243
Construction Contracts	4,737,041	3,256,352
Others	384,448	423,802
	$ 39,769,621	**31,749,271**

(d) Geographic information

The Consolidated Company's revenue from continuing operations from external customers by location of operations and information about its non-current assets by location were as follows:

Geographic information	2018	2017
Net revenue from external customers:		
Taiwan	$ 30,860,367	22,639,182
China	894,914	810,671
Vietnam	3,588,782	5,910,153
Others	4,425,558	2,389,265
	$ 39,769,621	**31,749,271**

Geographic information	December 31, 2018	December 31, 2017
Non-current assets:		
Taiwan	$ 18,191,882	18,775,032
China	175,781	175,139
Vietnam	4,995,004	4,349,465
Others	40,115	62,802
	$ 23,402,782	**23,362,438**

Non-current assets include property, plant and equipment, investment property, and other non-current assets, not including financial instruments, investments accounted for using the equity method, deferred tax assets, and post-employment benefit assets.

(e) Information about major customers

	2018	2017
Customer A	**$ 2,361,564**	**1,899,633**
Customer B	**$ 1,613,402**	**1,133,647**

Tung Ho Steel Enterprise Corporation
Chairman: Jieteng Hou