TWSE：2031

2019 ANNUAL REPORT

HSIN KUANG STEEL CO., LTD

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Hsin Kuang Steel Annual Report is available at ▸ http://www.hkssteel.com.tw/
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I. Letter to Shareholders

Dear Shareholders,

Both domestic and foreign economies and steel markets thrived in the first half of 2019, but showed rapid decline in the second half of year. First, there was the US Section 232 steel and aluminum tariffs, then the fallout from the US-China trade dispute. As a result the entire steel market saw a drop in both prices and production. Thanks to the effort of everyone in the Company, we are able to strengthen our response in terms of purchasing, production, and sales, allowing us to maintain normal operations and still turn a small profit.

Financial Performance

The Company's combined revenue for 2019 totaled NT$8.48 billion, down NT$210 million or 2.4% from the NT$8.69 billion earned in the previous year. Operating net loss was NT$98 million, a difference of NT$527 million from the net profit of NT$429 million in the previous year The EPS was NT$0.39, down NT$2.78 from the NT$3.17 in the previous year. Both revenue and profits have declined.

In products sales, the Company's operating goal for 2019 was to sell 370,000 metric tons of steel products. Combined sales for the year reached 340,000 metric tons, reaching the achievement rate of 91.9%.

In income and expenditures, cash flow in 2019 from business activities amounted to NT$411.22 million, which mainly came from bills receivable generated in sales and well as continuous sales to reduce inventory. Cash outflow for investment activities amounted to NT$157.64 million, mainly to purchase real estate properties, plants, and equipment. Cash outflow for financing activities amounted to NT$712.32 million, mainly due to the reduction of short-term capital needs, and adjustment of long-term and short-term loans to meet operational needs. The closing cash and cash equivalents of the period was NT$1.09916 billion.

Annual Corporate Development

Our 2020 business strategies include the following 5 aspects: 1. Purchasing: Strengthen supplier relationships and management 2. Sales: Adopt complex management styles and sell multiple types of steel. 3. Customer relations management: Focus on the value curve and develop new customers. 4. Public and private construction projects: Adopt concerted cooperation and accept new purchase orders. 5. Strategic integration and mid- to long-term plans: Implement supply chain integration, work with joint ventures and world-class steel plants, supply and manufacture steel parts for underwater foundations for offshore wind power projects, develop solar photovoltaic materials, and expand overseas investments.

Based on the aforementioned strategies, we shall implement the following four projects:

1. Develop new Blue Ocean : Cultivate talents, optimize the inventory structure, integrate value chains, and expand overseas markets.
2. Strengthen business management: Cultivate regional talent, adopt value-oriented strategies for profit centers, develop relationships with direct customers and customers that have not made transactions with the Company for a long time, improve on the capacity of the Central Region Steel Coil Cutting Center, and integrate supply chains.
3. Strengthen manufacturing management system: Improve production efficiency, utilization rates, improve labor safety management, improve production quality, reduce the outflow of mixed materials, improve environmental management, and implement production and management resources of joint ventures.
4. Simplify corporate procedures: Introduce tags into the production system, assess improvements of the CRM database system with the aim of increasing efficiency and reducing lead time, improve procedures, and fully update computer systems.

The total annual sales goal of 2020 is set at 437,000 metric tons of steel. Though the COVID-19 pandemic has deeply impacted the global economy, industrial manufacturing, finance, and commerce, it will eventually pass. There will be calm after the storm, along with new opportunities. In a completely free steel market, we must keep abreast of the volume, price, and lead time in the supply chain and pay close attention to the domestic midstream and downstream demand. With the reputation we have accumulated in the industry throughout the years, along with updated and expanded plants, equipment, manpower, logistics, and cutting and processing capabilities, we are confident that we will reach the operation target of 437,000 metric tons this year.

Corporate Social Responsibility

The Company is dedicated to establishing comprehensive corporate governance, steady operations and profits, as well as maintaining balance between the interests of the environment, society, and all stakeholders.

The Company upholds environmental protection, clean energy, space reuse, and other sustainable development ideals. In 2019, the Company's commercial rooftop solar power generators provided 10,340,000 kWh of electricity, reducing CO2 emissions by nearly 5,509 metric tons, which is equivalent to roughly 14 times the amount of CO2 that can be absorbed by Daan Forest Park. Over the years, we have reduced CO2 emissions by nearly 14,640 metric tons which is equivalent to 38 times the amount of CO2 that can be absorbed by Daan Forest Parks.

The Company puts focus on promoting green manufacturing, creating an inclusive workplace, cultivating talents, establishing a responsible supply chain, and caring for the disadvantaged. The Company will remain dedicated to doing its part as a corporate citizen and pursue a sustainable future.

Honors and Awards

In 2019, the Company received the Bronze Award in Manufacturing at the TCSA Taiwan Corporate Sustainability Awards awarded by the Taiwan Institute for Sustainable Energy for its achievements in corporate governance, sustainable development, and information disclosure.

Future Outlook

The government has announced policies to continue driving solar power, offshore wind power, forward-looking infrastructure, and expansion of domestic demand. In particular, the continued trend of overseas Taiwanese businesses returning to Taiwan will allow the domestic steel market to progress with stability and an optimistic outlook, with ample business opportunities in steel structure construction, steel decks, colored steel plates, C-shaped steel, and fire-proof doors. We shall continue to implement expansion policies, intensify task-based assignments for the departments, cultivate talent and recruit outstanding talent. We shall advance tasks while implementing effective management, develop existing customers and production lines, and work hard to develop new customers, solar power, wind power, and new products to embrace the new year.

Chairman Alexander M.T. Su

II. Company Profile

Date of establishment: January 1, 1967

Company history

Since Mr. Alexander M.T.Su was elected Chairman in 1985, Hsin Kuang Steel conducted vigorous reforms and established professional management based on ideals of practicality, services, innovation, and sharing. These ideals allowed the Company to grow, prosper, and transform into a steel manufacturing firm listed on the TWSE and received recognition and praise from all sectors. The Chairman's important achievements include:

1. In April 1991, Hsin Kuang Steel was registered by the Industrial Development Bureau, Ministry of Economic Affairs as a central plant in the Hsin Kuang Steel central-satellite system.
2. In November 1992, the Company was awarded the Golden Merchants Award by the Ministry of Economic Affairs. The Chairman Mr. Ming-Te Su was summoned by President Mr. Teng-Hui Lee for praise and encouragement.
3. In May 1994, the Chairman Mr. Ming-Te Su was elected Supervisor of Taiwan Steel & Iron Industries Association.
4. In August 1994, the Company was approved for public listing by the Securities and Futures Administration Committee, Ministry of Finance.
5. In September 1994, the Company was awarded the third-term National Award of Outstanding SMEs. The Chairman Mr. Ming-Te Su was summoned by President Mr. Teng-Hui Lee for praise and encouragement.
6. In August 1995, the Chairman Mr. Ming-Te Su was elected Chairman of the National Association of Hardware of R.O.C.
7. In September 1995, the Company completed the digitalization of internal corporate procedures.
8. In December 1995, the Chairman Mr. Ming-Te Su was elected the 18th-term Model of Entrepreneurs.
9. In December 1996, the Company was approved for listing on the Taipei Exchange by the Securities and Futures Administration Committee, Ministry of Finance and the Taipei Exchange.
10. In April 1997, the Company's stocks were traded on the Taipei Exchange.
11. In July 1998, the Company's Guanyin Plant and Xinwu Plant received ISO-9002

certification at the same time.

12. In August 1998, the Chairman Mr. Ming-Te Su was elected the 1st-term Model Achievement Award.
13. In August 2000, the Company was approved for listing on the Taiwan Stock Exchange by the Securities and Futures Administration Committee, Ministry of Finance and the Taiwan Stock Exchange. The Company's stocks are listed on the Taiwan Stock Exchange in September of the same year.
14. In February 2001, the Company's Guanyin Plant established the "Stainless Steel Cutting Center".
15. In September 2001, the Company's Guanyin Plant, Xinwu Plant, and Changbin Plant received ISO-9001:2000 certification at the same time.
16. In September 2003, the Company's Kaohsiung Plant established the "Southern Steel Product Logistics Center".
17. In September 2004, the Company's Kaohsiung Plant established the "Steel Structure Components Production Center" and the "Special Steel Cutting Center".
18. In September 2008, the Company's Guanyin Plant established the "Galvanized Steel Cutting Center".
19. In November 2009, the Company invested and established the "Hsin Kuang Alga Engineering Co., Ltd." to achieve vertical integration in product supply.
20. The Company's subsidiary Hsin Kuang Alga Engineering Co., Ltd. collaborated with ALGA s.p.a. on earthquake protection technologies for bridges; and established the "Taiwan Tech Structural Mechanics Laboratory" in an academic-industrial collaboration with National Taiwan University of Science and Technology.
21. In May 2010, the "Galvanized Steel Cutting Center" at the Company's Guanyin Plant began operations.
22. In July 2010, the Company's Guanyin Plant, Xinwu Plant, Changbin Plant, and Kaohsiung Plant received ISO-9001:2008 certification at the same time.
23. In October 2010, the Company established the "Stainless Steel Polishing and Cutting Center".
24. In January 2011, the Company established the "Patterned Worker's Board (road coverage construction and bridge construction platform) Polishing and Cutting Center".

25. In 2016, the construction of the "Steel Product Warehouse and Logistics Center" began at the Company's Guanyin Plant. The center was completed and inaugurated in 2017.
26. In 2018, the Company began construction of the "Underwater Foundation Pile Straight Steel Tube Production Center" for the offshore wind power industry. The Center was completed and inaugurated in 2019.
27. In April 2019, Company's Guanyin Plant, Changbin Plant, and Kaohsiung Plant received ISO-9001 (2015 version), ISO-14001 (2015 version), and ISO-45001 (2018 version) at the same time.
28. In October 2019, the Company was awarded the Bronze Award in Manufacturing at the TCSA Taiwan Corporate Sustainability Awards.

III. Corporate Governance Report

Overview

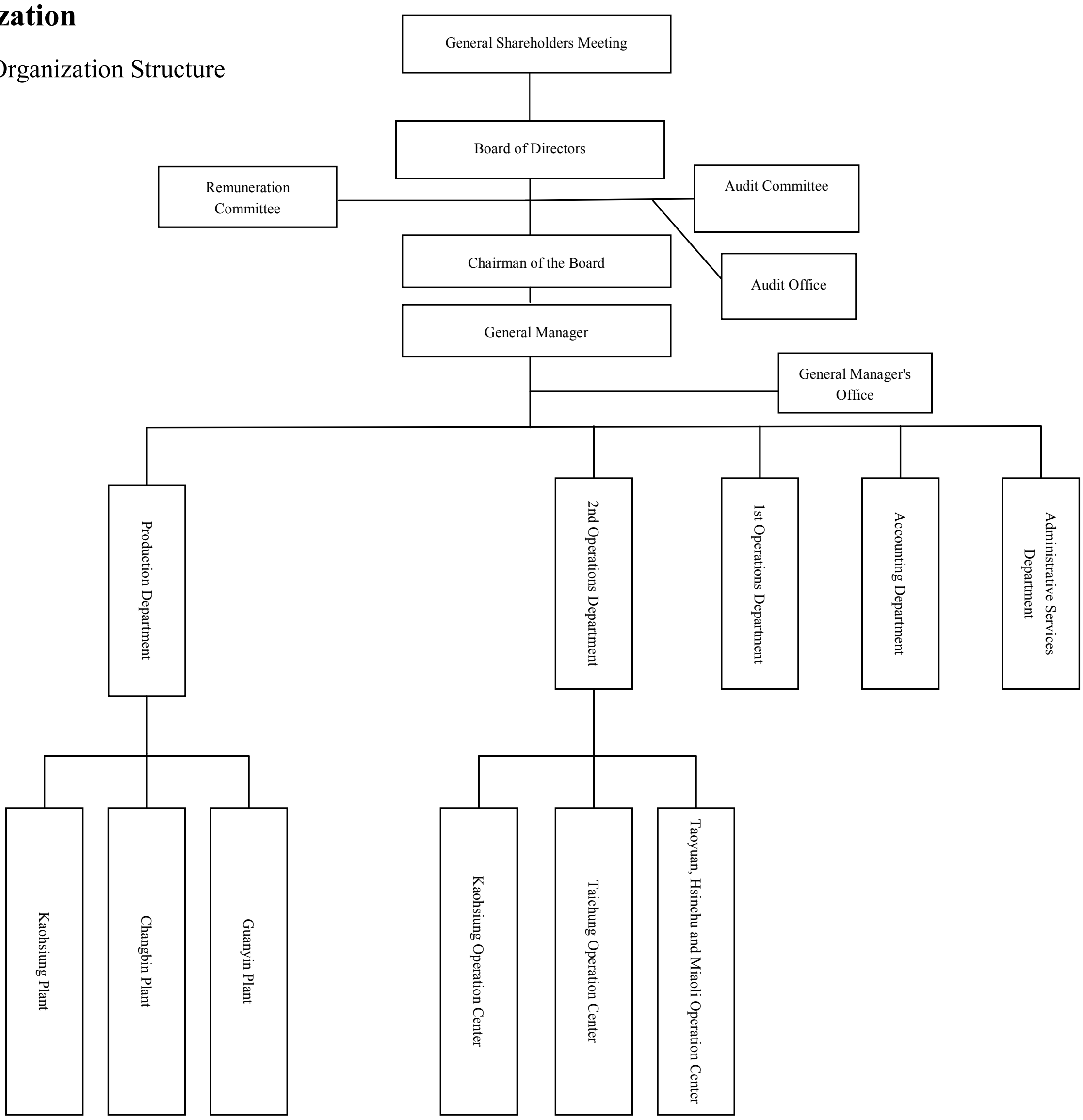
The Company upholds operational transparency and cares about shareholders' interests. We also believe that a sound and efficient Board of Directors is an underlying requirement for optimal corporate governance. Under this principle, the Audit Committee and Remuneration Committee established with the authorization of the Company's Board of Directors assist the Board of Directors in the performance of their supervisory duties. The Charters of the Committees have been approved by the Board of Directors and the Chairman of each Committee periodically reports their activities and resolutions to the Board.

Corporate Governance Awards Received in 2019

Organization	Award
Taiwan Institute for Sustainable Energy (TAISE)	TCSA Taiwan Corporate Sustainability Awards - Manufacturing Industry - Bronze

Organization

(i)Organization Structure



Organization Structure and Businesses of Main Departments

Unit	Main Duties
Operations Department	1.Market development and sales for steel plates. 2.Market development and sales for special steel plates. 3.Market development and sales for steel sections. 4.Market development and sales for steel coils. 5.Market development and sales for stainless steel products. 6.Market development and sales for steel structure components. 7.Market development and sales for patterned worker's board (road coverage construction and bridge construction platform). 8.Market development and sales for export trades. 9.Source development and procurement of domestic and foreign raw materials. 10.Customer returns, complaints, and other services. 11.Payment collection and processing accounts receivable. 12.Customer credit management. 13.Other related sales and procurement operations.
Production Department	1.Storage, management, cutting, processing, and shipping of steel plates. 2.Storage, management, cutting, processing, and shipping of steel coils (including galvanized steel coils) and special steel plates. 3.Storage, management, cutting, processing, and shipping of stainless steel products. 4.Storage, management, cutting, processing, and shipping of round steel bars. 5.Storage, management, cutting, processing, and shipping of steel sections. 6.Storage, management, cutting, processing, and shipping of steel structure components. 7.Storage, management, cutting, processing, and shipping of patterned worker's board (road coverage construction and bridge construction platform). 8.Transportation management and vehicle dispatch. 9.Production cost information collection and control. 10.Inventory. 11.Industrial safety and health. 12.Equipment maintenance and repairs. 13.Coordination between production and sales. 14.Other related production operations.

Unit	Main Duties
Administrative Services Department	1.Human resources, recruitment, appointment, promotion, attendance, assessment, salary, education and training, welfare, retirement, departure and other operations. 2.Document management and general affairs. 3.Procurement, management, inventory, insurance, and other operations for fixed assets. 4.Any other tasks assigned by superior officers.
Accounting Department	1.Cash disbursement management and storage of securities. 2.Fundraising, financial operations, financing management, and other operations. 3.Review, number, filing, and storage of various accounting vouchers. 4.Processing accounts, formulation of financial statements and reports, and other operations. 5.Processing and compiling cost accounting affairs. 6.Taxation payment, report of deductibles, registration, and other operations. 7.Dividend distribution, shareholder services, and other operations. 8.Development and design of electronic network systems. 9.Provide shareholder information and legal declarations, announce the shareholding status of Directors and Supervisors, and other operations. 10.Any other tasks assigned by superior officers.
General Manager's Office	1.Mid to long-term business development plans. 2.Annual Business Plan adjustment and compilation. 3.Corporate business environment analysis and strategy formulation. 4.Formulation of overall operation targets. 5.Related affairs for advancing the management of objectives. 6.Maintain records and keep track of production and sales coordination meetings, personnel evaluation meetings, management meetings, management of objectives, and items assigned by the General Manager. 7.Instruct executive management and strategic committee members. 8.Other project research and assigned tasks.
Audit Office	1.Audit items in accordance with the Company's established policies and instructions. 2.Audit items in various income and cost control operations. 3.Formulate and execute a written audit system. 4.Other related auditing operations.

Information of Directors, General Manager, Vice General Manager, Assistant Vice Presidents, and managers of various departments and branch offices

(i) Director Information

Organization of the Board of Directors

The current nine members of the Company's Board of Directors have extensive experience in company operations or expertise in the steel materials industry. The Company relies on their extensive professional knowledge, personal insight and business judgments.

1.Director

April 13, 2020

Title (Note 1)	Nationality or Place of Registration	Name	Gender	Date Elected (Appointed)	Term	Date First Elected (Note 2)	Shares Held When Elected		Shares Currently Held		Shares Currently Held by Spouse and Underage Children		Shares Held in the Name of Other Persons		Education and Work Experiences (Note 3)	Other Current Positions within the Company (Note 3)	Any Executive Officer, Director or Supervisor Who is a Spouse or Relative within the Second Degree of Kinship			Note (Note 4)
							Number of shares	Shareholding ratio	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio			Title	Name	Relationship	
Director	Republic of China	Representative of Han De Investment Co., Ltd.: Alexander M.T. Su	—	2017.6.15	3 years	2008.6.13	16,850,276	5.50%	21,055,276	6.78%	17,646,487	5.68%	-	-	Executive Management Course, Center for Public and Business Administration Education, National Chengchi University Chairman and General Manager of Hsin Kuang Steel Co., Ltd. Executive Director of Taiwan Steel & Iron Industries Association	Chairman of: Hsin Yuan Investment Co., Ltd. Hsin Ho Fa Metal Co., Ltd. APEX Wind Power Equipment Manufacturing Co., Ltd. B.V.I. Sinpao Investment Co., Ltd. Han De Investment Co., Ltd. Hui Jung Investment Co., Ltd. Hsin Ching International Co., Ltd. Hsin Cheng Logistics Development Co., Ltd. New Taipei City Private Hui Jung Welfare and Charity Foundation Director of: Cheng Yu Investment Co., Ltd. Hsin Wei Solar Co., Ltd.	Director	Johnathon Y.J. Su	Father-son	Refer to description in Note 4

Title (Note 1)	Nationality or Place of Registration	Name	Gender	Date Elected (Appointed)	Term	Date First Elected (Note 2)	Shares Held When Elected		Shares Currently Held		Shares Currently Held by Spouse and Underage Children		Shares Held in the Name of Other Persons		Education and Work Experiences (Note 3)	Other Current Positions within the Company (Note 3)	Any Executive Officer, Director or Supervisor Who is a Spouse or Relative within the Second Degree of Kinship			Note (Note 4)
							Number of shares	Shareholding ratio	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio			Title	Name	Relationship	
																Century Iron and Steel Industrial Co., Ltd. Mason Metal Industry Co., Ltd. Hsin Kuang Steel Tian-Cheng Charity Foundation Century International Construction Ltd. Myanmar Century Steel Structure Ltd. Supervisor of: Ching Shun Hardware Co., Ltd.				
Director	Republic of China	Representative of Trickle Co., Ltd.: Tian-Cheng, Chang	—	2017.6.15	3 years	74.4.28	14,662,469	4.79%	14,662,469	4.72%	5,228,283	1.68%	-	-	Primary Agricultural School (predecessor of Mu Zha Junior High School) Chairman of Trickle Co., Ltd.	Chairman of: Shin Fa Steel Mfg. Co., Ltd. Shin Shin Fa Investment Co., Ltd. Hsin Kuang Steel Tian-Cheng Charity Foundation Director of: Taiwan Chinsan Electronics Industrial Co., Ltd. Taiwan Steel Tower Co., Ltd. An Gang Metal Co., Ltd. Taipei City An Ho Social Welfare and Charity Foundation	No	No	No	No
Director	Republic of China	Ming-Shan Jheng	Male	2017.6.15	3 years	79.7.8	1,812,999	0.59%	1,812,999	0.58%	1,959	-	-	-	Junior high school Director and Vice General Manager of 2nd Operations Department of Hsin Kuang Steel Co., Ltd.	Chairman of: Hsin Hua Steel Industry Co., Ltd. Director of: Han De Investment Co., Ltd. Hsin Ching International Co., Ltd.	No	No	No	No

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							Number of shares	Shareholding ratio	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio			Title	Name	Relationship	
																New Taipei City Private Hui Jung Welfare and Charity Foundation Envirolink Corporation Director, Yun-Shen Energies Recycling Tech. Co., Ltd.				
Director	Republic of China	Fisher C.H. Yu	Male	2017.6.15	3 years	88.4.8	186,242	0.06%	186,242	0.06%	-	-	-	-	EMBA, College of Management, National Chung Hsing University Director and Vice General Manager of Special Steels Department of Hsin Kuang Steel Co., Ltd.	Director of: Hui Jung Investment Co., Ltd. Hsin Ho Fa Metal Co., Ltd. Hsin Chi Optoelectronics Co., Ltd. New Taipei City Private Hui Jung Welfare and Charity Foundation	No	No	No	No
Director	Republic of China	Johnathon Y.J. Su	Male	2017.6.15	3 years	2017.6.15	7,704,930	2.52%	7,704,930	2.48%	133,000	0.04%	-	-	Master, Birbeck, University of London (Birbeck, University of London) Director and Assistant Vice General Manager of Operations Department of Hsin Kuang Steel Co., Ltd.	Chairman of Cheng Yu Investment Co., Ltd. Director of Han De Investment Co., Ltd. Director of Hui Jung Investment Co., Ltd. Director of Mason Metal Industry Co., Ltd. SunnyRich Multifunction Solar Power Co., Ltd. Director of New Taipei City Private Hui Jung Welfare and Charity Foundation	Chairman / General Manager	Alexander M.T. Su	Father-son	No
Director	Republic of China	Shih-Yang Chen	Male	2017.6.15	3 years	2017.6.15	10,193	0.00%	10,193	0.00%	50,000	0.02%	-	-	Graduated from Dept. of Accounting, Soochow	Independent Director of: Yung Tay Engineering Co.,	No	No	No	No

Title (Note 1)	Nationality or Place of Registration	Name	Gender	Date Elected (Appointed)	Term	Date First Elected (Note 2)	Shares Held When Elected		Shares Currently Held		Shares Currently Held by Spouse and Underage Children		Shares Held in the Name of Other Persons		Education and Work Experiences (Note 3)	Other Current Positions within the Company (Note 3)	Any Executive Officer, Director or Supervisor Who is a Spouse or Relative within the Second Degree of Kinship			Note (Note 4)
							Number of shares	Shareholding ratio	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio			Title	Name	Relationship	
															University CPA, Chung Sun Certified Public Accountants Taipei Office 17th Vice Chairman, Taipei CPA Association Chairman, Tax Regulations Committee, National Federation of CPA Associations of the R.O.C. Deputy Chief Editor, Angle Review of Finance and Taxation Practices	Ltd. Smartax Consulting Inc. Supervisor of: Taiwan Chinsan Electronics Industrial Co., Ltd. Pai Lung Machinery Mill Co., Ltd.				
Independent Director	Republic of China	Winston Won	Male	2017.6.15	3 years	2017.6.15	-	-	-	-	-	-	-	-	EMBA, College of Management, National Taiwan University Certified Public Accountant of the Republic of China CPA and Director at Deloitte & Touche	Chairman of: Ofuna Technology Co., Ltd. Ofuna Develop Technology Co., Ltd. Shao Rui Development Co., Ltd. Director of: Ofuna Enterprise Co., Ltd. Ofuna Property Management Co., Limited Top International Investment Co., Ltd. Independent Director of: Hold-Key Electric Wire & Cable Co., Ltd. Taiwan Name Plate Co., Ltd.	No	No	No	No
Independent Director	Republic of China	Po-Young, Chu	Male	2017.6.15	3 years	2017.6.15	-	-	-	-	-	-	-	-	Ph.D. in Business Administration, Purdue University Professor, Republic of	Adjunct Professor, Department of Management Science, National Chiao Tung	No	No	No	No

Title (Note 1)	Nationality or Place of Registration	Name	Gender	Date Elected (Appointed)	Term	Date First Elected (Note 2)	Shares Held When Elected		Shares Currently Held		Shares Currently Held by Spouse and Underage Children		Shares Held in the Name of Other Persons		Education and Work Experiences (Note 3)	Other Current Positions within the Company (Note 3)	Any Executive Officer, Director or Supervisor Who is a Spouse or Relative within the Second Degree of Kinship			Note (Note 4)
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															China Professor, Department of Management Science, National Chiao Tung University Dean of Aspire Academy Research Fellow, Chinese Society for Management of Technology Founder, Executive Master of Business Administration, National Chiao Tung University Founder, Venture and Innovation Program (VIP Program), National Chiao Tung University Honorary Top 10 EMBA Teachers in Taiwan in survey conducted by Cheers Magazine	University Director, Union Winner International Co., Ltd. (Cayman Islands) Independent Director of: Shin Foong Specialty And Applied Materials Co., Ltd. Polytronics Technology Corp. E Ink Holdings Inc.				
Independent Director	Republic of China	Paul T.Y. Huang	Male	2017.6.15	3 years	2017.6.15	-	-	-	-	-	-	-	-	BA in Business Administration, National Chengchi University Honorary Consultant, Chung Hung Steel Corporation Consultant, Walsin Lihwa Corporation Chairman of Chung Hung Steel Corporation Chairman of China Steel Global Trading Corporation Assistant Vice President of Commercial	-	No	No	No	No

Title (Note 1)	Nationality or Place of Registration	Name	Gender	Date Elected (Appointed)	Term	Date First Elected (Note 2)	Shares Held When Elected		Shares Currently Held		Shares Currently Held by Spouse and Underage Children		Shares Held in the Name of Other Persons		Education and Work Experiences (Note 3)	Other Current Positions within the Company (Note 3)	Any Executive Officer, Director or Supervisor Who is a Spouse or Relative within the Second Degree of Kinship			Note (Note 4)
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															Division, China Steel Corporation Director, Taiwan Steel & Iron Industries Association					

Note 1: The names and representatives of corporate shareholders shall be listed separately (those who represent corporate shareholders should indicate corporate names) and fill in the following Table 1.
Note 2: Fill in the time when the individual first served as the Company's Director or Supervisor. Any interruptions should be indicated.
Note 3: Experience related to the current position. If the individual had served in the certifying CPA firm or an affiliated enterprise in the aforementioned period, the position and job functions shall be described.
Note 4: Where the Chairman, General Manager, or individual with equivalent roles are the same individual, spouses, or relatives within the first degree of kinship, the Company shall specify related information regarding the reason, reasonableness, necessity, and response measures (e.g., appointment of additional Independent Directors and requiring the appointment of more than half of the Directors from individuals who are not employees or managers).
Description: The Company appoints the same person as Chairman and General Manager to ensure that the decisions of the Board of Directors can be directly implemented. The Board of Directors currently includes 3 Independent Directors and two other Directors who do not serve concurrently as employees or managing directors. They account for more than half of all Directors.

2. Major Shareholders of Corporate Shareholders

(1)Major Shareholders of Corporate Shareholders

April 13, 2020

Name of Corporate Shareholder (Note 1)	Major Shareholders of Corporate Shareholders (Note 2)
Han De Investment Co., Ltd.	Alexander M.T. Su holds 25% Johnathon Y.J. Su holds 74%
Trickle Co., Ltd.	Tian-Cheng, Chang holds 61.16% Ya-Chi Wei holds 18.07% Tai-Tou Chang holds 11.49%

Note 1: If Directors and Supervisors are the representatives of corporate shareholders, the names of the corporate shareholders shall be disclosed.

Note 2: Fill in the names of main shareholders of the corporate shareholder (the top ten shareholders in terms of shareholding ratio) and their shareholding ratio. If the major shareholders are corporate shareholders, fill in Table 2 below.

Note 3: Where a corporate shareholder is not organized as a company, the name of the shareholders and shareholding ratio that must be disclosed in accordance with the above shall be the name of the funder or donor and the funding or donation ratio.

(2)Major shareholders of major corporate shareholders of corporate shareholders

April 13, 2020

Name of Institution (Note 1)	Major shareholders of institution (Note 2)
No	No

Note 1: If the major shareholders in the preceding Table 1 are corporate shareholders, the name of the corporate shareholder shall be disclosed.

Note 2: Fill in the names of main shareholders of the institution (the top ten shareholders in terms of shareholding ratio) and their shareholding ratio.

Note 3: Where a corporate shareholder is not organized as a company, the name of the shareholders and shareholding ratio that must be disclosed in accordance with the above shall be the name of the funder or donor and the funding or donation ratio.

Professional knowledge and independence of the Directors

Qualifications / Name (Note 1)	Having More Than 5 Years Work Experience and Professional Qualifications Listed Below			Compliance of independence (Note 2)												Number of Positions as an Independent Director 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 Specialists 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 Area 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	11	12	
Alexander M.T. Su			✓					✓	✓		✓	✓		✓	✓	
Tian-Cheng, Chang			✓	✓	✓		✓	✓	✓		✓	✓	✓	✓		
Ming-Shan Jheng			✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Fisher C.H. Yu			✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Johnathon Y.J. Su			✓					✓	✓	✓	✓	✓		✓	✓	
Shih-Yang Chen		✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Winston Won		✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2
Po-Young, Chu	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	3
Paul T.Y. Huang			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	

Note 1: Please add more rows to accommodate additional entries.

Note 2: If the director or supervisor meets any of the following criteria in the two years before being elected or during the term of office, please check "✓" the in corresponding boxes:

(1) Not employed by the Company or any of its affiliated companies.

(2) Not a Director or Supervisor of the Company or its affiliates (this restriction does not apply to independent directors in the Company, its parent company, subsidiaries, or subsidiaries of the same parent company which have been appointed in accordance with local laws or laws of the registered country).

(3) Not a natural-person shareholder whose shareholding, together with those of his/her spouse, minor children, and shares held under others' names, exceed 1% of the total number of outstanding shares of the Company, or ranks the person in the top ten shareholders of the Company.

(4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the managers listed in subparagraph (1) or persons listed in subparagraphs (2) and (3);

(5) Not a Director, Supervisor or employee of a corporate shareholder who directly holds more than 5% of the total number of issued shares of the Company or is ranked top five in terms of the number of shares held or is designated as a Director or Supervisor of the Company pursuant to Paragraph 1 or 2, Article 27 of the Company Act (this restriction does not apply to independent directors in the Company, its parent company, subsidiaries, or subsidiaries of the same parent company which have been appointed in accordance with local laws or laws of the registered country).

(6) Not a Director, Supervisor, or employee of a company with a majority of the company's director seats or voting shares and those of any other company are controlled by the same person (this restriction does not apply to independent directors in the Company, its parent company, subsidiaries, or subsidiaries of the same parent company which have been appointed in accordance with local laws or laws of the registered country).

(7) Not a Director, Supervisor, or employee of a company or institution with the same chairperson of the board, president, or equivalent position, or a spouse thereof (this restriction does not apply to independent directors in the Company, its parent company, subsidiaries, or subsidiaries of the same parent company which have been appointed in accordance with local laws or laws of the registered country).

(8) Not a Director, Supervisor, manager, or shareholder holding 5% or more of the shares of a specified company or institution that has a financial or business relationship with the company (this restriction does not apply to specific companies or institutions if they hold more than 20% but less than 50% of the outstanding shares of the Company or independent directors in the Company, its parent company, subsidiaries, or subsidiaries of the same parent company which have been appointed in accordance with local laws or laws of the registered country).

(9) Not a professional individual, or an owner, partner, director, supervisor, or manager of a sole proprietorship, partnership, company, or institution that, provides auditing services to the company or any affiliate of the company, or that provides commercial, legal, financial, accounting or related services to the company or any affiliate of the company for which the provider in the past 2 years has received cumulative compensation exceeding NT$500,000, or a spouse thereof; provided, this restriction does not apply to a member of the remuneration committee, public tender offer review committee, or special committee for merger/consolidation and acquisition, who exercises powers pursuant to the Securities and Exchange Act or to the Business Mergers and Acquisitions Act or related laws or regulations.

(10) Not a spouse or relative of second degree or closer to any other directors.

(11) Not having any of the situations set forth in Article 30 of the Company Act of the R.O.C.

(12) Not elected as a government or corporate representative, as described in Article 27 of The Company Act.

(ii) Information of General Manager, Vice General Manager, Assistant Vice Presidents, and Managers of Various Departments and Branch Offices

April 13, 2020

Title (Note 1)	Nationality	Name	Gender	Date Elected (Appointed)	Shares Held		Shares Held by Spouse and Underage Children		Shares Held in the Name of Other Persons		Education and Work Experiences (Note 2)	Positions Currently Held in Other Companies	Other Manager Who is the Spouse or a Relative within Second Degree of Kinship			Note (3)
					Number of shares	Shareholding ratio	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio			Title	Name	Relationship	
General Manager	Republic of China	Alexander M.T. Su	Male	1985	16,530,719	5.32%	1,115,768	0.36%	-	-	Executive Management Course, Center for Public and Business Administration Education, National Chengchi University Chairman and General Manager of Hsin Kuang Steel Co., Ltd. Executive Director of Taiwan Steel & Iron Industries Association	Chairman of: —Hsin Kuang Steel Co., Ltd. —Hsin Yuan Investment Co., Ltd. —Hsin Ho Fa Metal Co., Ltd. —APEX Wind Power Equipment Manufacturing Co., Ltd. —B.V.I. Sinpao Investment Co., Ltd. —Han De Investment Co., Ltd. —Hui Jung Investment Co., Ltd. —Hsin Ching International Co., Ltd. —Hsin Cheng Logistics Development Co., Ltd. —New Taipei City Private Hui Jung Welfare and Charity Foundation Director of: —Hsin Wei Solar Co., Ltd. —Century Iron and Steel Industrial Co., Ltd. —Cheng Yu Investment Co., Ltd. —Mason Metal Industry Co., Ltd. —Hsin Kuang Steel Tian-Cheng Charity Foundation —Century International Construction Ltd. —Myanmar Century Steel Structure Ltd. Supervisor of: —Ching Shun Hardware Co., Ltd.	Business Day Management	Johnathon Y.J. Su	Father-son	Description in Note 3

Title (Note 1)	Nationality	Name	Gender	Date Elected (Appointed)	Shares Held		Shares Held by Spouse and Underage Children		Shares Held in the Name of Other Persons		Education and Work Experiences (Note 2)	Positions Currently Held in Other Companies	Other Manager Who is the Spouse or a Relative within Second Degree of Kinship			Note (3)
					Number of shares	Shareholding ratio	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio			Title	Name	Relationship	
Assistant Vice President of Operations	Republic of China	Johnathon Y.J. Su	Male	2016	7,704,930	2.48%	133,000	0.04%	-	-	Master, Birbeck, University of London (Birbeck,Univensity of London) Director and Assistant Vice General Manager of Operations Department of Hsin Kuang Steel Co., Ltd.	Chairman of Cheng Yu Investment Co., Ltd. Director of Han De Investment Co., Ltd. Director of Hui Jung Investment Co., Ltd. Director of Mason Metal Industry Co., Ltd. Director of SunnyRich Multifunction Solar Power Co., Ltd. Director of New Taipei City Private Hui Jung Welfare and Charity Foundation Supervisor of: —APEX Wind Power Equipment Manufacturing Co., Ltd.	General Manager	Alexander M.T. Su	Father-son	No
Vice General Manager of Administration	Republic of China	Chao-Lang Hsu	Male	1995	902,660	0.29%	-	-	-	-	Bachelor's degree	Director of: —Hsin Yuan Investment Co., Ltd. —Hsin Ho Fa Metal Co., Ltd. —New Taipei City Private Hui Jung Welfare and Charity Foundation	No	No	No	No
Vice General Manager of Operations	Republic of China	Ming-Shan Jheng	Male	1996	1,812,999	0.58%	1,959	-	-	-	Junior high school Director and Vice General Manager of 2nd Operations Department of Hsin Kuang Steel Co., Ltd.	Chairman of: Hsin Hua Steel Industry Co., Ltd. Director of: —Hsin Kuang Steel Co., Ltd. —Han De Investment Co., Ltd. —Hsin Ching International Co., Ltd. —New Taipei City Private Hui Jung Welfare and Charity Foundation —Envirolink Corporation —Yun-Shen Energies Recycling Tech. Co., Ltd.	No	No	No	No

Title (Note 1)	Nationality	Name	Gender	Date Elected (Appointed)	Shares Held		Shares Held by Spouse and Underage Children		Shares Held in the Name of Other Persons		Education and Work Experiences (Note 2)	Positions Currently Held in Other Companies	Other Manager Who is the Spouse or a Relative within Second Degree of Kinship			Note (3)
					Number of shares	Shareholding ratio	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio			Title	Name	Relationship	
Vice General Manager of Special Steel Operations	Republic of China	Fisher C.H. Yu	Male	2014	186,242	0.06%	-	-	-	-	EMBA, College of Management, National Chung Hsing University Director and Vice General Manager of Special Steels Department of Hsin Kuang Steel Co., Ltd.	Director of: —Hsin Kuang Steel Co., Ltd. —Hui Jung Investment Co., Ltd. —Hsin Chi Optoelectronics Co., Ltd. —New Taipei City Private Hui Jung Welfare and Charity Foundation	No	No	No	No
Vice General Manager, 2nd Operations Department	Republic of China	Teng-Kuei Kao	Male	2014	-	-	-	-	-	-	Junior high school Vice General Manager of Project Office, Hsin Kuang Steel Co., Ltd.	Director of: —APEX Wind Power Equipment Manufacturing Co., Ltd. —Hsin Ho Fa Metal Co., Ltd.	No	No	No	No
Vice General Manager of Finance and Accounting	Republic of China	Jessica P.H. Liu	Female	2014	629,575	0.20%	-	-	-	-	Bachelor's degree	Director of: —Hsin Yuan Investment Co., Ltd. —Hsin Ching International Co., Ltd. —New Taipei City Private Hui Jung Welfare and Charity Foundation Supervisor of: —Hsin Wei Solar Co., Ltd. —Mason Metal Industry Co., Ltd. —Hsin Chi Optoelectronics Co., Ltd. —Envirolink Corporation —APEX Wind Power Equipment Manufacturing Co., Ltd.	No	No	No	No
Assistant Vice President of Finance and Accounting	Republic of China	Lisa H.C. Chien	Female	2014	195,497	0.06%	-	-	-	-	Bachelor's degree	Director of: Hsin Yuan Investment Co., Ltd. Supervisor of: Hsin Ching International Co., Ltd.	No	No	No	No

Title (Note 1)	Nationality	Name	Gender	Date Elected (Appointed)	Shares Held		Shares Held by Spouse and Underage Children		Shares Held in the Name of Other Persons		Education and Work Experiences (Note 2)	Positions Currently Held in Other Companies	Other Manager Who is the Spouse or a Relative within Second Degree of Kinship			Note (3)
					Number of shares	Shareholding ratio	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio			Title	Name	Relationship	
Assistant Vice President of Auditing	Republic of China	Daisy Y.H. Chen	Female	2019	-	-	-	-	-	-	Bachelor's degree	No	No	No	No	No
Assistant Vice President of International Trade	Republic of China	Frank C.C. Huang	Male	2014	53,038	0.02%	-	-	-	-	Master's degree	APEX Wind Power Equipment Manufacturing Co., Ltd. Director and General Manager	No	No	No	No
Assistant Vice President of Taipei Office	Republic of China	Kuo-San Yang	Male	2014	44,000	0.01%	-	-	-	-	Bachelor's degree	No	No	No	No	No
Assistant Vice President of Taipei Office	Republic of China	Wen-Chieh Lo	Male	2017	1,365,972	0.44%	-	-	-	-	Senior high school	No	No	No	No	No
Guanyin Plant Director	Republic of China	Ri-Shi Ye	Male	2019	94,000	0.03%	-	-	-	-	Bachelor's degree	No	No	No	No	No
Changbin Plant Director	Republic of China	Ho-Shu Kao	Male	2000	480,000	0.15%	-	-	-	-	Senior high school	No	No	No	No	No
Kaohsiung Plant Director	Republic of China	Zhi-Cheng Kao	Male	2010	80,000	0.03%	-	-	-	-	Senior high school	No	No	No	No	No

Note 1: This table should include Information of the General Manager, vice general managers, assistant vice presidents, and managers of various departments and branch offices as well as disclose information of those with equivalent positions of the General Manager, vice general managers, and assistant vice presidents regardless of job title.

Note 2: Experience related to the current position. If the individual had served in the certifying CPA firm or an affiliated enterprise in the aforementioned period, the position and job functions shall be described.

Note 3: Where the Chairman, General Manager, or individual with equivalent roles are the same individual, spouses, or relatives within the first degree of kinship, the Company shall specify related information regarding the reason, reasonableness, necessity, and response measures (e.g., appointment of additional Independent Directors and requiring the appointment of more than half of the Directors from individuals who are not employees or managers).

Description: The Company appoints the same person as Chairman and General Manager to ensure that the decisions of the Board of Directors can be directly implemented. The Board of Directors currently includes 3 Independent Directors and two other Directors who do not serve concurrently as employees or managing directors. They account for more than half of all Directors.

Remunerations to Directors (including Independent Directors), Supervisors, General Manager, and Vice General Manager in the most recent year

(i)Remunerations to Directors (including Independent Directors) in the most recent year

December 31, 2019; Unit: NT$1,000; market value is in NT$ and number of shares is in share units

Title	Name	Remuneration of Directors								Ratio of total compensation (A+B+C+D) to net income (%) (Note 10)		Remuneration Paid to Concurrent Employees								Percentage of the total sums of A, B, C, D, E, F, and G on the net profit (Note 10)		Remuneration received from investees other than subsidiaries (Note 11)
		Remuneration (A) (Note 2)		Severance pay and pension (B)		Director remuneration (C) (Note 3)		Fees for conducting business (D) (Note 4)				Salary, bonuses and allowances (E) (Note 5)		Severance pay and pension (F)		Employee remuneration (G) (Note 6)						
		The Company	All companies in the financial report (Note 7)	The Company	All companies in the financial report (Note 7)	The Company	All companies in the financial report (Note 7)	The Company	All companies in the financial report (Note 7)	The Company	All companies in the financial report	The Company	All companies in the financial report (Note 7)	The Company	All companies in the financial report (Note 7)	The Company		All companies in the financial report (Note 7)		The Company	All companies in the financial report	
																Cash amount	Stock amount	Cash amount	Stock amount			
Chairman of the Board	Alexander M.T. Su																					No
Corporate Director	Han De Investment Co., Ltd.																					No
Corporate Director	Trickle Co., Ltd.																					No
	Tian-Cheng, Chang																					No
Director	Ming-Shan Jheng																					No
Director	Fisher C.H. Yu	585	775	-	-	4,199	5,627	2,320	2,490	5.89%	5.78%	7,671	7,671	-	-	924	-	1,924	-	13.01%	15.32%	No
Director	Johnathon Y.J. Su																					No
Director	Shih-Yang Chen																					No
Independent Director	Winston Won																					No
Independent Director	Po-Young, Chu																					No
Independent Director	Paul T.Y. Huang																					No

1.Please describe the policy, system, standards and structure of the compensation of the Independent Directors and explain the relevance of the amount of remuneration paid to them based on factors such as responsibility, risk and time commitment: The remuneration for the Chairman and Directors of the Company shall be determined in accordance with the Articles of Incorporation. In addition, the Articles of Incorporation also specifies that the Company shall appropriate no more than 3% of profits as director remuneration. The payment of the remuneration for directors shall be based on the individuals' participation in Company's operations and the value of their contributions and it shall be processed in accordance with the Company's "Directors, Supervisors, and Managers Remuneration Policy".

2.Except as disclosed above, remuneration received by directors in the latest year for on-balance sheet services (e.g. acting as a non-employee consultant) rendered to the company: The total director remuneration paid by the Company and all companies in the financial report in 2019 was NT$4,199 thousand which accounted for 3.55% of the after-tax profit of 2019.

* Please list related information on Directors (general Directors who are not Independent Directors) and Independent Directors separately.

Remuneration Range Table

Remuneration Range Paid to Directors of the Company	Name of Director			
	Total amount for the 4 preceding remunerations (A+B+C+D)		Total amount for the 7 preceding remunerations (A+B+C+D+E+F+G)	
	The Company (Note 8)	All companies in the financial report (Note 9) H	The Company (Note 8)	All companies in the financial report (Note 9) I
Less than NT$2,000,000	Alexander M.T. Su, Tian-Cheng, Chang, Ming-Shan Jheng, Winston Won, Po-Young Chu, Paul T.Y. Huang, Johnathon Y.J. Su, Fisher C.H. Yu, Shih-Yang Chen, Han De Investment Co., Ltd., Trickle Co., Ltd.	Alexander M.T. Su, Tian-Cheng, Chang, Ming-Shan Jheng, Winston Won, Po-Young Chu, Paul T.Y. Huang, Johnathon Y.J. Su, Fisher C.H. Yu, Shih-Yang Chen, Han De Investment Co., Ltd., Trickle Co., Ltd.	Tian-Cheng, Chang, Winston Won, Po-Young, Chu, Paul T.Y. Huang, Johnathon Y.J. Su, Shih-Yang Chen, Han De Investment Co., Ltd., Trickle Co., Ltd.	Tian-Cheng, Chang, Winston Won, Po-Young, Chu, Paul T.Y. Huang, Johnathon Y.J. Su, Shih-Yang Chen, Han De Investment Co., Ltd., Trickle Co., Ltd.
NT$2,000,000 (inclusive) to NT$5,000,000			Alexander M.T. Su, Ming-Shan Jheng, Fisher C.H. Yu	Alexander M.T. Su, Ming-Shan Jheng, Fisher C.H. Yu
NT$5,000,000 (inclusive) to NT$10,000,000				
NT$10,000,000 (inclusive) to NT$15,000,000				
NT$15,000,000 (inclusive) to NT$30,000,000				
NT$30,000,000 (inclusive) to NT$50,000,000				
NT$50,000,000 (inclusive) to NT$100,000,000				
Greater than NT$100,000,000				
Total	9	9	9	9

Note 1: The names of the Directors must be listed separately (for institutional shareholders, the names of institutional shareholders and representatives should be listed respectively) and the various payment amounts using the summary disclosure method for general Directors and Independent Directors. This table and the General Manager and Vice General Manager Remuneration Range Table shall be filled if a Director serves concurrently as General Manager or Vice General Manager.

Note 2: Remuneration of the Director for the most recent year (include Director salary, additional duty payments, severance pay, various bonuses, or incentive payments).

Note 3: The amount is the proposed remuneration to directors approved by the Board of Directors for the most recent fiscal year.

Note 4: This is the business expense of Directors in the past year (including transportation allowance, special allowance, stipends, dormitory, and car). If housing, cars, other transportation vehicles, or exclusive personal expenditures are provided, the nature, cost, actual rent or fair value rent of the assets, fuel expenses, and other payments shall also be disclosed. If a driver is provided, please indicate the amount of compensation paid to the driver by the company, excluding remuneration, in a separate note.

Note 5: All pays to the director who is also employee of the Company (including the position of General Manager, Vice General Manager, other manager and staff), including salary, additional pay, pension, severance pay, bonuses, rewards, transportation allowance, special allowance, stipends, dormitory, and car. If housing, cars, other transportation vehicles, or exclusive personal expenditures are provided, the nature, cost, actual rent or fair value rent of the assets, fuel expenses, and other payments shall also be disclosed. If a driver is provided, please indicate the amount of compensation paid to the driver by the company, excluding remuneration, in a separate note. Furthermore, any compensation recognized in the IFRS 2 - "Share-Based Payment" section, including issuance of employee stock options, new restricted employee shares and capital increase by stock subscription, shall be included in the calculation of remuneration.

Note 6: For directors concurrently serving as employees (including general manager, vice general managers, other managers and employees) who receive employee rewards (including shares and cash), the amount of employee rewards that have been approved by the Board of Directors and are distributed to them in the most recent fiscal year shall be disclosed. If the amount of rewards cannot be estimated, the amount of rewards in the current fiscal year shall be calculated based on the ratio of the amount of rewards distributed in the previous fiscal year, and this amount shall also be filled in the General Manager and Vice General Manager Remuneration Range Table.

Note 7: The total pay to the director from all companies in the consolidated statements (including the Company) shall be disclosed.

Note 8: The name of each director shall be disclosed in the range of remuneration corresponding to the amount of all the remuneration paid to the director by the Company.

Note 9: The total amount of all the remuneration paid to each director of the Company by all the companies (including the Company) listed in its consolidated financial statements shall be disclosed. The name of each director shall be disclosed in the range of remuneration corresponding to the total amount mentioned in the preceding sentence.

Note 10: The net profit after tax refers to the net profit after tax in the parent company only or individual financial report in the most recent year.

Note 11:
a. The amount of remuneration received from subsidiaries other than investee companies or the parent company by the Company's Directors shall be stated clearly in this column (please specify "none" if there is no remuneration).
b. If a Director of the Company receives remuneration from investee companies other than subsidiaries or the parent company, the amount of remuneration received by the director from investee companies other than subsidiaries or the parent company shall be combined into Column I of the table for ranges of remuneration, and this column shall be renamed as "Parent Company and All Investee Companies".
c. The remuneration means pay, compensation (including compensation of employees, directors and supervisors) and business expenses received by the Director serving as a director, supervisor or manager of an investee company or parent company of the Company other than subsidiaries.

* The remuneration disclosed in the table is different from income as defined in the Income Tax Act. This table is therefore provided for disclosure only and is not used for taxation purposes.

(ii)Remuneration to the General Manager and Vice General Managers in the Most Recent Year

December 31, 2019; Unit: NT$1,000; market value is in NT$ and number of shares is in share units

Title	Name	Salary (A) (Note 2)		Severance pay and pension (B)		Bonuses and allowances, etc. (C) (Note 3)		Employee remuneration (D) (Note 4)				Ratio of total compensation (A+B+C+D) to net income (%) (%) (Note 8)		Remuneration received from investee companies other than subsidiaries or the parent company (Note 9)
		The Company	All companies in the financial report (Note 6)	The Company	All companies in the financial report (Note 6)	The Company	All companies in the financial report (Note 6)	The Company		All companies in the financial report (Note 5)		The Company	All companies in the financial report (Note 6)	
								Cash bonus	Stock bonus	Cash bonus	Stock bonus			
General Manager	Alexander M.T. Su	11,709	11,869	-	-	-	-	1,470	-	2,257	-	10.92%	11.71%	None
Vice General Manager	Chao-Lang Hsu													
Vice General Manager	Ming-Shan Jheng													
Vice General Manager	Jessica P.H. Liu													
Vice General Manager	Fisher C.H. Yu													
Vice General Manager	Teng-Kuei Kao													

Note 1: Policies, standards, and packages for payment of remuneration for managers, procedures, and its linkage to business performance and future risk exposure:
The remuneration paid to the Company's General Manager and Vice General Managers shall be proposed by the Chairman based on their roles, positions, participation in operations, value of contribution, the Company's performance in the current year, and consideration for the Company's future risks. The proposal shall be submitted to the Remuneration Committee for review and delivered to the Board of Directors for approval.
The remuneration paid to other managers shall be proposed by the General Manager and the proposal shall be submitted to the Remuneration Committee for review and delivered to the Board of Directors for approval.

Remuneration Range Table

Range of Remuneration Paid to General Managers and Vice General Managers	Names of General Manager or Vice General Manager	
	The Company (Note 6)	All Companies in Consolidated Statements (Note 7) E
Less than NT$2,000,000	Chao-Lang Hsu, Fisher C.H. Yu, Jessica P.H. Liu, Teng-Kuei Kao	Chao-Lang Hsu, Fisher C.H. Yu, Jessica P.H. Liu, Teng-Kuei Kao
NT$2,000,000 (inclusive) to NT$5,000,000 (exclusive)	Alexander M.T. Su, Ming-Shan Jheng	Alexander M.T. Su, Ming-Shan Jheng
NT$5,000,000 (inclusive) to NT$10,000,000 (exclusive)		
NT$10,000,000 (inclusive) to NT$15,000,000 (exclusive)		
NT$15,000,000 (inclusive) to NT$30,000,000 (exclusive)		
NT$30,000,000 (inclusive) to NT$50,000,000 (exclusive)		
NT$50,000,000 (inclusive) to NT$100,000,000 (exclusive)		
Greater than NT$100,000,000		
Total	6	6

Note 1: The names of General Managers and Vice General Managers shall be listed separately and the amounts paid shall be disclosed in a summary. This table and the Directors (including Independent Directors) Remuneration Range Table shall be filled if a Director serves concurrently as General Manager or Vice General Manager.

Note 2: Salary, additional pay, and severance pay received by the General Manager and Vice General Managers in the past year.

Note 3: Bonus, reward, transportation allowance, special allowance, stipends, dormitory, car and other pays received by the General Manager and Vice General Managers in the past year. If housing, cars, other transportation vehicles, or exclusive personal expenditures are provided, the nature, cost, actual rent or fair value rent of the assets, fuel expenses, and other payments shall also be disclosed. If a driver is provided, please indicate the amount of compensation paid to the driver by the company, excluding remuneration, in a separate note. Furthermore, any compensation recognized in the IFRS 2 - "Share-Based Payment" section, including issuance of employee stock options, new restricted employee shares and capital increase by stock subscription, shall be included in the calculation of remuneration.

Note 4: Fill the amount of employee rewards (including shares and cash) that have been approved by the Board of Directors and are distributed to the general manager and vice general manager in the most recent fiscal year. If the amount of rewards cannot be estimated, the amount of rewards in the current fiscal year shall be calculated based on the ratio of the amount of rewards distributed in the previous fiscal year, and this amount shall also be filled in the Names of the Managers who were Distributed Employee Remuneration and the Distribution.

Note 5: The total pay to the General Manager and Vice General Managers from all companies in the consolidated statements (including the Company) shall be disclosed.

Note 6: The names and remuneration of General Managers and Vice General Managers paid by the Company shall be disclosed in their respective remuneration range.

Note 7: The names of General Managers and Vice General Managers paid by all companies in the consolidated statements (including the Company) shall be disclosed in their respective remuneration range.

Note 8: The net profit after tax refers to the net profit after tax in the parent company only or individual financial report in the most recent year.

Note 9: a. The amount of remuneration received from subsidiaries other than investee companies or the parent company by the Company's General Managers and Vice General Managers shall be stated clearly in this column (please specify "none" if there is no remuneration).

b. If a General Manager or Vice General Manager of the Company received remuneration from investees other than subsidiaries of the Company or the parent company, the remuneration received by the General Manager or Vice General Manager of the Company from investees other than subsidiaries of the Company or the parent company shall be included in E column of the Remuneration Range Table and the name of the field shall be changed to "Parent Company and All Investment Companies".

c. The remuneration means pay, compensation (including compensation of employees, directors and supervisors) and business expenses received by the General Managers Vice General Managers serving as a director, supervisor or manager of an investee company or parent company of the Company other than subsidiaries.

* The remuneration disclosed in the table is different from income as defined in the Income Tax Act. This table is therefore provided for disclosure only and is not used for taxation purposes.

(iii)Names of the Managers who were Distributed Employee Remuneration and the Distribution

December 31, 2019; Unit: NT$1,000; market value is in NT$ and number of shares is in share units

<table>
<tr><th></th><th>Title (Note 1)</th><th>Name (Note 1)</th><th>Stock amount</th><th>Cash amount</th><th>Total</th><th>Percentage of total bonuses to net profit after tax (%)</th></tr>
<tr><td rowspan="7">Manager</td><td>General Manager</td><td>Alexander M.T. Su</td><td rowspan="7">-</td><td rowspan="7">1,470</td><td rowspan="7">1,470</td><td rowspan="7">1.22%</td></tr>
<tr><td>Vice General Manager of Administration</td><td>Chao-Lang Hsu</td></tr>
<tr><td>Vice General Manager of Operations</td><td>Ming-Shan Jheng</td></tr>
<tr><td>Vice General Manager of Special Steel Operations</td><td>Fisher C.H. Yu</td></tr>
<tr><td>Vice General Manager of Operations</td><td>Teng-Kuei Kao</td></tr>
<tr><td>Vice General Manager of Finance and Accounting</td><td>Jessica P.H. Liu</td></tr>
<tr><td>Assistant Vice President of Finance and Accounting</td><td>Lisa H.C. Chien</td></tr>
</table>

The amount is the employee bonus (including stock bonus and cash bonus) to the managers according to the most recent earnings distribution that has been approved by the Board of Directors but has not been submitted to the shareholders' meeting. If the proposed profit sharing and bonus cannot be estimated, the proposed distribution amount shall be calculated based on the actual amount distributed in the previous year. The value of stock bonus of a company listed whose stock is listed on the stock exchange or traded over the counter shall be calculated by the fair value in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers (the closing price of the company's stock on the balance sheet date); if the company's stocks are not listed on the stock exchange or traded over the counter, it shall be calculated by the net value of profits on the closing date of the fiscal year. The net profit after tax refers to the net profit after tax in the most recent fiscal year.

Note 1: Names and titles of individuals should be disclosed, but the disclosure can be shown in aggregate profit distribution.

Note 2: Fill the amount of employee rewards (including shares and cash) that have been approved by the Board of Directors and are distributed to the managers in the most recent fiscal year. If this amount of rewards cannot be estimated, the amount of rewards in the current fiscal year shall be calculated based on the ratio of the amount of rewards distributed in the previous fiscal year. The net profit after tax refers to the net profit after tax in the most recent fiscal year; for companies that have adopted IFRSs, the net profit after tax refers to the net profit after tax in the parent company only or individual financial report in the most recent year.

Note 3: The applicability of managers shall be in accordance with the Financial Supervisory Commission's Tai-Cai-Zheng-3 No. 0920001301 Letter on March 27, 2003 specifying the range as follows:

(1)The General Manager and those with equivalent powers

(2)Vice General Managers and those with equivalent powers

(3)Assistant Vice Presidents and those with equivalent powers

(4)Supervisor of the Finance Department

(5)Supervisor of Accounting Department

(6)Other individuals with the authority of managing company affairs and signatory rights

Note 4: If the Director, General Manager, and Vice General Managers have collected employee remuneration (including stock remuneration and cash remuneration), in addition to disclosure of the remuneration, this Table shall also be filled out.

(iv)Analysis of the total remuneration paid by this Company and by all consolidated entities (including this Company) for the most recent two fiscal years to the Company's Directors, General Managers, and Vice General Managers as a percentage of net profit after tax in the Individual Financial Report:

<table>
<tr><td rowspan="3">Title</td><td colspan="4">Ratio of total remuneration to net profit after tax in the Individual Financial Report %</td></tr>
<tr><td colspan="2">2018</td><td colspan="2">2019</td></tr>
<tr><td>The Company</td><td>All Companies in Consolidated Statements</td><td>The Company</td><td>All Companies in Consolidated Statements</td></tr>
<tr><td>Remuneration to Directors</td><td>5.20%</td><td>5.79%</td><td>5.89%</td><td>7.37%</td></tr>
<tr><td>Remuneration to Supervisors</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>Remunerations to General Manager and Vice General Managers</td><td>2.06%</td><td>2.31%</td><td>10.92%</td><td>11.71%</td></tr>
</table>

(v)Policies, standards, and packages for payment of remuneration, procedures, and its linkage to business performance and future risk exposure:

i.Policies, standards, and packages for payment of remuneration for directors, procedures, and its linkage to business performance and future risk exposure:

The remuneration for the Chairman and Directors of the Company shall be determined in accordance with the Articles of Incorporation. In addition, the Articles of Incorporation also specifies that the Company shall appropriate no more than 3% of profits as director remuneration. The payment of the remuneration for directors shall be based on the individuals' participation in Company's operations and the value of their contributions and it shall be processed in accordance with the Company's "Directors, Supervisors, and Managers Remuneration Policy".

ii.Policies, standards, and packages for payment of remuneration for managers, procedures, and its linkage to business performance and future risk exposure:

The remuneration paid to the Company's General Manager and Vice General Managers shall be proposed by the Chairman based on their roles, positions, participation in operations, value of contribution, the Company's performance in the current year, and consideration for the Company's future risks. The proposal shall be submitted to the Remuneration Committee for review and delivered to the Board of Directors for approval. The remuneration paid to other managers shall be proposed by the General Manager and the proposal shall be submitted to the Remuneration Committee for review and delivered to the Board of Directors for approval.

Implementation of Corporate Governance

(i)Board of Directors operating status

The current nine members of the Company's Board of Directors have extensive experience in company operations or expertise in the industry. We rely on the extensive professional knowledge, personal insight and business judgments of Directors. Three out of the nine Directors are Independent Directors including: Winston Won, CPA, former director of Deloitte, Taiwan; Dr. Po-Young, Chu, former Dean of Aspire Academy and Professor of the Department of Management Science, National Chiao Tung University; Mr. Paul T.Y. Huang, former chairman of Chung Hung Steel Corporation. The number of Independent Directors accounts for one third of all Directors.

The Company upholds operational transparency and cares about shareholders' interests. We also believe that a sound and efficient Board of Directors is an underlying requirement for optimal corporate governance. Under this principle, the Audit Committee and Remuneration Committee established with the authorization of the Company's Board of Directors assist the Board of Directors in the performance of their supervisory duties. The Charters of the Committees have been approved by the Board of Directors and the Chairman of each Committee periodically reports their activities and resolutions to the Board. All members of the Audit Committee and the Remuneration Committee are Independent Directors.

In 2019, the average attendance rate of Directors in board meetings was 100%. The attendance rates of members of the Audit Committee and Remuneration Committee were 100% and 100%, respectively.

Chairman Alexander M.T. Su convened a total of seven meetings of the Board of Directors in 2019 and the attendance was as follows:

Title	Name (Note 1)	Attendance (Voting and Non-Voting) in Person B	Attendance by Proxy	Attendance Rate (%) [B/A] (Note 2)	Note
Chairman of the Board	Alexander M.T. Su	7	0	100%	
Director	Representative of Han De Investment Co., Ltd.: Alexander M.T. Su	7	0	100%	
Director	Representative of Trickle Co., Ltd.: Tian-Cheng, Chang	7	0	100%	
Director	Ming-Shan Jheng	7	0	100%	
Director	Fisher C.H. Yu	7	0	100%	
Director	Johnathon Y.J. Su	7	0	100%	
Director	Shih-Yang Chen	7	0	100%	

Title	Name (Note 1)	Attendance (Voting and Non-Voting) in Person B	Attendance by Proxy	Attendance Rate (%) [B/A] (Note 2)	Note
Independent Director	Winston Won	5	2	72%	
Independent Director	Po-Young, Chu	7	0	100%	
Independent Director	Paul T.Y. Huang	7	0	100%	

Other details that need to be recorded in meeting minutes:

Items specified in Article 14-3 of the Securities and Exchange Act and other items that should be recorded:

i. (i). Items specified in Article 14-3 of the Securities and Exchange Act

Date of Meeting (Term and Session)	Content of the Proposal	Opinions of all Independent Directors and the Company's handling of opinions of Independent Directors
March 19, 2019 (12th Session of 14th Board of Directors)	Approval of the Company's loan to the subsidiary - Hsin Ho Fa Metal Co., Ltd.	Approved by all Independent Directors
	Approval of the amendment of the Procedures for Extending Loans to Others.	
	Approval of the amendment of the Endorsement and Guarantee Making Procedure.	
December 17, 2019 (18th Session of 14th Board of Directors)	Approved the Company's appointment of the CPAs Sheng-Hsiung Yao and Jui-Na Chang assigned by Deloitte Taiwan to audit the Company's 2020 Financial Report.	Approved by all Independent Directors
	Approval of the purchase of liability insurance for Directors, Supervisors and important corporate officers	Approved by all Independent Directors
March 17, 2020 (20th Session of 14th Board of Directors)	Approval of the Company's endorsement and guarantee for the subsidiary APEX Wind Power Equipment Manufacturing Co., Ltd.	Approved by all Independent Directors

(ii). Other resolutions adopted by the Board of Directors to which an Independent Director has a dissenting or qualified opinion that is on record or stated in a written statement: None

ii. Recusals of Directors due to conflicts of interests: No such occurrences.

iii. The company listed on TWSE/TPEx shall disclose the evaluation cycle and duration, scope of evaluation, methodology, and evaluation contents of the evaluation of the Board of Directors. Refer to the evaluation status of the Board of Directors for details.

iv. An evaluation of the goals set for strengthening the functions of the Board and implementation status during the current and immediately preceding fiscal years:

- Three out of the nine Directors of the Company are Independent Directors and the number of Independent Directors is one-third of the entire Board.
- The Audit Committee and Remuneration Committee established with the authorization of the Company's Board of Directors assist the Board of Directors in the performance of their supervisory duties. The members of the two Committees consist of the three Independent Directors. The Chairman of each Committee periodically

Title	Name (Note 1)	Attendance (Voting and Non-Voting) in Person B	Attendance by Proxy	Attendance Rate (%) [B/A] (Note 2)	Note
reports their activities and resolutions to the Board.					

Note 1: If a Director or Supervisor is an institution, the names of institutional shareholder and its representative should be disclosed.

Note 2: (1) If a Director or Supervisor has resigned before the end of the year, the resignation date must be specified in the remarks section. The actual attendance rate (%) shall be calculated by dividing the number of the Board of Directors meetings held during the period by the number of the meetings that the Director has actually attended.

(2) If a Director or Supervisor has been reelected before the end of the year, the names of the new and old Director and Supervisors must be filled in and the resignation, new appointment, second term appointment, or reelection dates shall be specified in the remarks section. The actual attendance rate (%) shall be calculated by dividing the number of the Board meetings held during the period by the number of the meetings that the Director has actually attended.

Board of Directors evaluation status

Evaluation Cycle (Note 1)	Once every year
Evaluation Period (Note 2)	From January 1, 2019 to December 31, 2019
Scope of Evaluation (Note 3)	Performance evaluation of the Board of Directors and individual Directors
Evaluation Method (Note 4)	Evaluations are conducted with the "Board of Directors Self-Evaluation Questionnaire" and "Board Member Self-Evaluation Questionnaire".
Evaluation Contents (Note 5)	The evaluation items for evaluating the performance of the Board of Directors of the Company included: "Participation in the operations 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 evaluations results met standards which demonstrated that the overall operating status of the Company's Board of Directors was sound and met corporate governance requirements. The Chairman's comment was

	"Members of the Board of Directors performed their duties and engaged in effective communication and decision making which helped the Company's development". The evaluation items for the self-evaluation of the members of the Board of Directors of the Company included: "Familiarity with the goals and missions of the Company", "knowledge of the duties of Directors", "degree of participation in the Company's operations", "management of internal relations and communication", "professional and continuous education of Directors", and "internal control". The results of the self-evaluation showed that the Company's Directors met requirements in standards in terms of both the efficiency and results of the evaluation indicators.

Note 1: Fill out the evaluation cycle for the evaluation of the Board of Directors such as: Once every year.

Note 2: Fill out the evaluated period for the evaluation of the Board of Directors such as: Evaluation of the performance of the Board of Directors from January 1, 2019 to December 31, 2019.

Note 3: The scope of evaluation covers the evaluation of the performance of the Board of Directors, individual Directors, and functional committees.

Note 4: Methods of evaluations include the self-evaluation of the board, self-evaluation by individual board members, peer evaluation, and evaluation by appointed external professional institutions, experts, or other appropriate methods.

Note 5: The contents of the evaluation shall include at least the following items:

(1)Board performance evaluation: The evaluation shall include at least the "participation in the operations 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".

(2)Performance evaluation of individual Directors: The evaluation shall include at least the "familiarity with the goals and missions of the Company", "knowledge of the duties of Directors", "degree of participation in the Company's operations", "management of internal relations and communication", "professional and continuous education of Directors", and "internal control".

(3)Performance evaluation of functional committees: Degree of participation in the Company's operations, knowledge of the duties of the functional committee, improvement in the quality of functional committee decisions, functional committee composition and election of members, and internal control.

(ii)Operations of the Audit Committee

The Chair of the Audit Committee Winston Won, CPA convened a total of six meetings in 2019 and the attendance of the Independent Directors is specified in the Table below. In addition to the aforementioned meeting, the members of the Audit Committee, the certifying accountant, and the management conducted two communication meetings to review the results of the audit (examination) of the financial report and the Internal Control Audit Report compiled by the Company in accordance with the laws and regulations of the Republic of China. They also discussed and communicated on the applicability of certain accounting principles and the impact of newly-amended laws.

Title	Name	Attendance in Person	Attendance by Proxy	Attendance Rate	Note
Convener	Winston Won	5	1	83%	
Committee Member	Po-Young, Chu	6	0	100%	
Committee Member	Paul T.Y. Huang	6	0	100%	

Other details that need to be recorded in meeting minutes:

Items specified in Article 14-5 of the Securities and Exchange Act and other items that should be recorded:

i. (i). Items specified in Article 14-5 of the Securities and Exchange Act

Date of Meeting (Term and Session)	Content of the Proposal	Opinions of all Independent Directors and the Company's handling of opinions of Independent Directors
March 5, 2019 (12th Session of 1st Audit Committee)	Approval of the Company's 2018 financial statements Approval of the amendment of the Procedures for Extending Loans to Others. Approval of the amendment of the Endorsement and Guarantee Making Procedure.	Approved by all Independent Directors
March 19, 2019 (13th Session of 1st Audit Committee)	Approval of the 2018 "Statement on Internal Control" Approval of the loan to a subsidiary company in which the Company holds 83.37% of shares	Approved by all Directors
August 5, 2019 (14th Session of 1st Audit Committee)	Approval of the Company's 2019 Quarter 2 financial statements	Approved by all Independent Directors
December 17, 2019 (17th Session of 1st Audit Committee)	Approved the Company's appointment of the CPAs Sheng-Hsiung Yao and Jui-Na Chang assigned by Deloitte Taiwan to audit the Company's 2020 Financial Report. Approval of the purchase of liability insurance for Directors, Supervisors and important corporate officers	Approved by all Independent Directors
March 3, 2020 (18th Session of 1st	Approval of the Company's 2019 financial statements	Approved by all Independent

Audit Committee)		Directors
March 17, 2020 (19th Session of 1st Audit Committee)	Approval of the 2019 "Statement on Internal Control" Approval of the Company's endorsement and guarantee for the subsidiary APEX Wind Power Equipment Manufacturing Co., Ltd.	Approved by all Independent Directors

(ii). In addition to matters above, other resolutions that have not been approved by the Audit Committee but have been passed by a vote of two-thirds or more of the entire Board of Directors: None

ii. Recusals of Independent Directors due to conflicts of interests: None.

iii. Independent Directors' communication with internal auditors and CPAs (including communication over the Company's financial and business status and the methods and results, etc.)

- The Company's internal chief internal auditor periodically communicates with the Audit Committee on the results of the audit reports and the chief internal auditor also formulates the Internal Audit Report in the meeting of the Audit Committee each quarter. The chief internal auditor reports to the Audit Committee promptly in the event of special conditions. There were no such special conditions in 2019. Both the Company's Audit Committee and the chief internal auditor have maintained good communications.
- The Company's certifying CPA reports the results of the audit or examination of the financial statements of the current quarter as well as other items that require communication based on regulatory requirements in the meetings of the Audit Committee each quarter. The chief internal auditor reports to the Audit Committee promptly in the event of special conditions. There were no such special conditions in 2019. Both the Company's Audit Committee and CPAs have maintained good communications.

Communication between Independent Directors and internal auditors and certifying CPA are specified in the Table below:

Date of Meeting (Term and Session)	Communication with the chief internal auditor	Communication with the certifying CPA
March 5, 2019 (12th Session of 1st Audit Committee)	Reviewed internal audit reports Reviewed the 2018 "Statement on Internal Control"	－Discussed the 2018 financial statements audit status including any issues or difficulties in audits and the responses of the management －Internal audit status report －Report and description of changes in laws and regulations
May 7, 2019 (13th Session of 1st Audit Committee)	Reviewed internal audit reports	
August 5, 2019 (14th Session of 1st Audit Committee)	Reviewed internal audit reports	
November 5, 2019 (15th Session of 1st Audit Committee)	Reviewed internal audit reports	
December 17, 2019 (17th Session of 1st Audit Committee)	Reviewed internal audit reports Reviewed and approved the 2020 annual internal audit plan	－Discussed the 2019 financial statements audit plans including any issues or difficulties in audits and the responses of the management －Reviewed the experience, performance, and independence of certifying CPAs
March 3, 2020 (18th Session of 1st Audit Committee)	Reviewed internal audit reports Reviewed the 2019 "Statement on Internal Control"	－Discussed the 2019 financial statements audit status including any issues or difficulties in audits and the responses of the management －Internal audit status report

Results: The aforementioned items have been reviewed or approved by the Audit Committee with no objections from the Independent Directors.

(iii)Differences and Reasoning for the Status of Corporate Governance and Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies:

Evaluation Item	Implementation Status (Note 1)			Deviation from the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons
	Yes	No	Summary	
i. Has the Company established and disclosed its code of practice on corporate governance based on "Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies"?	✓		The Company has established corporate governance principles in accordance with the TWSE and TPEx Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies. Please refer to the description in the "Corporate Governance Report" in this Annual Report (page 40 to 49) for the Company corporate governance status.	None
ii.Shareholding structure & shareholders' rights (i)Has the Company set internal operations procedures for dealing with shareholder proposals, doubts, disputes, and litigation as well as implemented those procedures through the proper procedures?	✓		The Company instructed the General Manager's Office, Administrative Services Department, Shareholder Service Agency and related departments to process shareholder questions, disputes, and litigation and processed related matters accordingly.	None
(ii)Did the company maintain a register of major shareholders with controlling power as well as a register of persons exercising ultimate control over those major shareholders?	✓		The Company maintains knowledge of shareholding status of Directors, managers, and shareholders with shareholding ratios of 10% or greater at all times and disclose the information in accordance with regulations. The shareholding structure of the Company remains stable.	None
(iii)Did the company establish and enforce risk control and firewall systems with its affiliate	✓		The Company has established related regulations on internal control mechanisms in its internal control system and "Transaction Procedures with Related	None

Evaluation Item	Implementation Status (Note 1)			Deviation from the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons
	Yes	No	Summary	
enterprises?			Parties, Specific Companies, and Companies of the Group" in accordance with regulations. Business and financial dealings between the Company and an affiliate are treated as dealings with an independent third party to prevent non-arm's-length transactions.	
(iv)Did the company establish internal regulations stipulating that employees shall not use undisclosed information to engage in the transaction of marketable securities?	✓		The Company has established "Procedures for Handling Material Inside Information" to regulate all company employees, managers, and Directors, as well as those who have learned of the Company's information based on positions or controlling relations to prevent any insider trading activities. The Company also conducts regular internal education, training, and announcements.	None
iii.Composition and responsibilities of the Board of Directors (i)Has the Board of Directors devised and implemented a plan for a more diverse composition of the Board?	✓		In 2017, the Board of Directors established the "Independent Director Candidate Nomination and Review Standards and Operating Procedures" and established related procedures and standards for the nomination, qualifications, and evaluation of the candidate for Directors in accordance with the resolution of the Board of Directors. The nomination of the Company's Board of Directors was carried out in accordance with rigorous internal procedures that not only take into account their diverse backgrounds and professional capabilities but also their personal ethics and leadership reputation. The nine members of the Company's Board of Directors consist of Directors with extensive experience in company operations or expertise in the industry. We rely on the	None

Evaluation Item	Implementation Status (Note 1)			Deviation from the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons
	Yes	No	Summary	
			extensive professional knowledge, personal insight and business judgments of Directors. The members of the Company's Board of Directors come from diverse backgrounds including experience in different industries, academic disciplines, and accounting. The Board includes three Independent Director who account for one third of the entire Board. The scope of duties of the Board of Directors, the Chairman, and the General Manager shall be regulated by the "Authorization of Approval Table of the Board of Directors and Management" and the "Duties Division Table of the Board of Directors, Chairman, and General Manager" established by the Company.	
(ii)In addition to Salary and Remuneration Committee and Audit Committee established according to law, has the Company voluntarily established other functional committees? (iii)Does the Company establish standards and method for evaluating the performance of the Board of Directors, and implemented it annually?	 ✓	✓	The Audit Committee (established in 2017): All three members are Independent Directors; The Remuneration Committee (established in 2012): All three members are Independent Directors; Executive Management and Strategy Committee (established in 2016): The Committee is composed of the management team who regularly reports the implementation status and results to the Board of Directors. Based on the Company's ideals for corporate governance, the main duties of the Board of Directors are to supervise and evaluate the performance of the management team, appoint and dismiss managers, decide on important matters, and instruct the management team. Members of the	As summarized. None

Evaluation Item	Implementation Status (Note 1)			Deviation from the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons
	Yes	No	Summary	
			Company's Board of Directors have extensive corporate management experience or professional experience in the industry. They maintain the highest ethical standards and adhere to the commitments made to the Company. The Company convenes Board of Directors meetings regularly every quarter. In addition to approval of various proposals, the Board also discusses with the management team on business strategies and future plans in order to create maximum value for shareholders. The Company's long-term business performance provide ample evidence for the sound performance of the Company's Board of Directors. The Company has established related performance evaluation indicators for the operations of the Board in the "Regulations Governing Performance Evaluation of the Board of Directors and Managers". The Company uses a questionnaire for performance self-assessment and discussion of issues that require special attention in the future.	
(iv)Does the Company periodically evaluate the level of independence of the CPA?	✓		The Company's Audit Committee evaluates the independence of CPAs periodically each year and reports the evaluation results to the Board of Directors. The evaluation items include the following: 1. The report on the independence of the CPA 2. The audit or non-audit services provided by the CPA to ensure that non-audit services do not affect the results of audits	None

Evaluation Item	Implementation Status (Note 1)			Deviation from the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons
	Yes	No	Summary	
			3. No CPA has provided audit services for over five consecutive years 4. The Company uses an eligibility questionnaire to compile results of the assessment of the independence of CPAs each year	
iv.For companies listed on the TWSE or TPEx, does the Company have a unit or staff that specializes (or is involved) in corporate governance (including but not limited to providing information necessary for directors and supervisors to perform their duties, organizing board meetings and general meetings, handling business registration and any change of registration, and compiling minutes of board meetings and general meetings)?	✓		The Company's Chairman designated the Accounting Department as the unit responsible for Board of Directors meetings. The Company's Legal Compliance Division reports to the Chief Financial Officer directly and it is also responsible for assisting in related affairs including providing information necessary for Directors' operations, convening meetings of the Board of Directors, Committees, and shareholder meetings and recording meeting minutes. The Company's Accounting Department is responsible for company registration and amendment registration. All related registration documents shall require the approval of the General Manager's Office.	None
v.Does the Company establish a communication channel and build a designated section on its website for stakeholders (including but not limited to shareholders, employees, customers and suppliers) and properly respond to corporate social responsibility issues of	✓		The Company instructs the General Manager's Office, Audit Office, Shareholder Service Agency, Administrative Services Department, Human Resources, Customer Service, Procurement, and other departments to communicate with stakeholders in accordance with circumstances. The Company established a spokesperson system on the Company website and contact information with various related business	None

Evaluation Item	Implementation Status (Note 1)			Deviation from the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons
	Yes	No	Summary	
concern to the stakeholders?			departments. The Company also built a designated section on its website for stakeholders to appropriately respond to important corporate and social responsibility issues that stakeholders are concerned about. The members of the Company's Audit Committee may, when they deem it necessary, communicate directly with stakeholders.	
vi.Has the Company hired a professional agency to handle tasks and issues related to holding the shareholder's meeting?	✓		The Company has appointed the Department of Stock Affairs at President Securities Corp. to process affairs related to shareholders meetings.	None
vii.Information disclosure (i)Has the Company established a corporate website to disclose information regarding the company's financial, business and corporate governance status?	✓		The Company readily discloses related information on its website (http://www.hksteel.com.tw) and the Market Observation Post System (http://mops.twse.com.tw).	None
(ii)Has the Company adopted other information disclosure methods (such as establishing English websites, assign dedicated personnel to collect and disclose company data, implement the spokesperson system, upload the investor conference processes to the company's website, etc.)?	✓		Other means of information disclosure adopted by the Company: 1. The Company instructed the General Manager's Office, Administrative Services Department, and related departments to collect and disclose related information in accordance with regulations. 2. The Company has established a spokesperson system and readily discloses financial and business information, corporate governance information disclosure, the proceedings of institutional	None

Evaluation Item	Implementation Status (Note 1)			Deviation from the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons
	Yes	No	Summary	
			investor conferences, and related information on its website (http://www.hksteel.com.tw) and the Market Observation Post System (http://mops.twse.com.tw).	
(iii)Does the Company publish and report its annual financial report within two months after the end of a fiscal year, and publish and report its financial reports for the first, second and third quarters as well as its operating status for each month ahead of schedule before the specified deadline?	✓		The Company publishes and reports its annual financial report within three months after the end of a fiscal year, and publishes and reports its financial reports for the first, second and third quarters as well as its operating status for each month before the specified deadline in each quarter. Please refer to the Market Observation Post System (http://mops.twse.com.tw) for the disclosure of the aforementioned information.	None
iii.Is there any other important information to facilitate a better understanding of the Company's corporate governance practices (including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, continuing education of directors and supervisors, the implementation of risk management policies and risk evaluation standards, the implementation of customer	✓		The Company readily discloses related information on its website (http://www.hksteel.com.tw) and the Market Observation Post System (http://mops.twse.com.tw). (1). Implementation status of employee rights and caring for employees: The Company has always treated employees honorably and provides protection of their legal rights in accordance with the Labor Standards Act and related labor regulations. The Company has established a welfare system that provides stability for employees' lives and a sound education and training system to build good relations with	None

Evaluation Item	Implementation Status (Note 1)			Deviation from the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons
	Yes	No	Summary	
relations policies, and purchasing insurance for directors and supervisors)?			employees based on mutual trust and reliance. For instance, the Company subsidizes employees' on-the-job training and provides them with cultural entertainment, subsidies for healthcare, and daily-life necessities for boarding employees. Please refer to the descriptions in the "5. Employees-employer relations" section of the Operational Highlights in the Annual Report (page 106 to 110). (2). Implementation status of investor relations, supplier relations, and the rights and interest of stakeholders: The Company values the opinions of various stakeholders and uses visits, emails, telephone calls, faxes, mail (written, package, and official documents), instant communication software, various forms of meetings (coordination meetings, press conferences, conferences, seminars, and creditors' meetings), associations, video conference, regulations, and other means of active communication to appropriately respond to external requirements. The Company instructed the General Manager's Office, Administrative Services Department, and related departments to process shareholder advice, questions, disputes, and other affairs. Please refer to "(6) Performance of corporate social responsibility" section of the Corporate Governance Report in the Annual Report	

Evaluation Item	Implementation Status (Note 1)			Deviation from the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons
	Yes	No	Summary	
			(page 53 to 65). (3). Continuing education of Directors: Members of the Company's Board of Directors have extensive corporate management experience or professional experience in the industry. They maintain the highest ethical standards and adhere to the commitments made to the Company. The Company's Legal Compliance Division is instructed to report to the Chief Financial Officer directly and it is also responsible for assisting in related affairs including providing information necessary for Directors' operations and information for related securities regulations. Please refer to "(5) Continuing education of Directors" section of the Corporate Governance Report in the Annual Report (page 52 to 53). (4). Implementation of risk management policies and risk assessment standards: The Company has established various internal regulations and conducted various risk management and assessment in accordance with regulations. Please refer to the descriptions in the "Review of Financial Conditions, Financial Performance and Risk Management" in the Annual Report (page 126 to 143). (5). Implementation status of customer policies: The Company maintains stable and good relations with customers in order to generate profits.	

Evaluation Item	Implementation Status (Note 1)			Deviation from the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons
	Yes	No	Summary	
			(6). The Company has purchased liability insurance for Directors and managers.	
ix. Improvements made in the most recent fiscal year in response to the results of corporate governance evaluation conducted by the Corporate Governance Center of the Taiwan Stock Exchange Corporation, and improvement measures and plans for items yet to be improved	✓		The Company's 2018 and 2019 "Corporate Governance Evaluation" results were acceptable. The Company has established Independent Directors and the Audit Committee in 2017 and this item shall increase the Company's score in the "Corporate Governance Evaluation".	None

Note: Regardless of whether "Yes" or "No" was selected, explanation shall be provided in the Summary column.

(iv)Operations of the Remuneration Committee

(1) Information on members of the Remuneration Committee

Identification Type (Note 1)	Qualifications / Name	Having More Than 5 Years Work Experience and Professional Qualifications Listed Below			Compliance of independence (Note 2)										Number of other public companies where he/she is a member of the remuneration committee	Note
		Currently serving as a lecturer or a higher post in a private or public college or university in the field of business, law, finance, accounting, or the business sector of the Company	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialists 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 commerce, law, finance, or accounting or a profession necessary for the business of the Company	1	2	3	4	5	6	7	8	9	10		
Independent Director	Winston Won		✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2	
Independent Director	Po-Young, Chu	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	3	
Independent Director	Paul T.Y. Huang			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		

Note 1: For Position, please identify whether the person is a Director, Independent Director, or other.

Note 2: If a committee member meets any of the following criteria in the two years before being appointed or during the term of office, please check "☐" in the corresponding boxes:

(1)Not employed by the Company or any of its affiliated companies.

(2)Not a Director or Supervisor of the Company or its affiliates (this restriction does not apply to independent directors in the Company, its parent company, subsidiaries, or subsidiaries of the same parent company which have been appointed in accordance with local laws or laws of the registered country).

(3)Not a natural-person shareholder whose shareholding, together with those of his/her spouse, minor children, and shares held under others' names, exceed 1% of the total number of outstanding shares of the Company, or ranks the person in the top ten shareholders of the Company.

(4)Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the managers listed in subparagraph (1) or persons listed in subparagraphs (2) and (3);

(5)Not a Director, Supervisor or employee of a corporate shareholder who directly holds more than 5% of the total number of issued shares of the Company or is ranked top five in terms of the number of shares held or is designated as a Director or Supervisor of the Company pursuant to Paragraph 1 or 2, Article 27 of the Company Act (this restriction does not apply to independent directors in the Company, its parent company, subsidiaries, or subsidiaries of the same parent company which have been appointed in accordance with local laws or laws of the registered country).

(6)Not a Director, Supervisor, or employee of a company with a majority of the company's director seats or voting shares and those of any other company are controlled by the same person (this restriction does not apply to independent directors in the Company, its parent company, subsidiaries, or subsidiaries of the same parent company which have been appointed in accordance with local laws or laws of the registered country).

(7)Not a Director, Supervisor, or employee of a company or institution with the same chairperson of the board, president, or equivalent position, or a spouse thereof (this restriction does not apply to independent directors in the Company, its parent company, subsidiaries, or subsidiaries of the same parent company which have been appointed in accordance with local laws or laws of the registered country).

(8)Not a Director, Supervisor, manager, or shareholder holding 5% or more of the shares of a specified company or institution that has a financial or business relationship with the company (this restriction does not apply to specific companies or institutions if they hold more than 20% but less than 50% of the outstanding shares of the Company or independent directors in the Company, its parent company, subsidiaries, or subsidiaries of the same parent company which have been appointed in accordance with local laws or laws of the registered country).

(9)Not a professional individual, or an owner, partner, director, supervisor, or manager of a sole proprietorship, partnership, company, or institution that, provides auditing services to the company or any affiliate of the company, or that provides commercial, legal, financial, accounting or related services to the company or any affiliate of the company for which the provider in the past 2 years has received cumulative compensation exceeding NT$500,000, or a spouse thereof; provided, this restriction does not apply to a member of the remuneration committee, public tender offer review committee, or special committee for merger/consolidation and acquisition, who exercises powers pursuant to the Securities and Exchange Act or to the Business Mergers and Acquisitions Act or related laws or regulations.

(10)Not having any of the situations set forth in Article 30 of the Company Act of the R.O.C.

(2) Operations of the Remuneration Committee

i.The Company's Remuneration Committee is comprised of three individuals who are Independent Directors.

ii.Current term for the members: The current term of office is from August 7, 2017 to August 5, 2020. The Chair of the Remuneration Committee Mr. Winston Won convened a total of three regular meetings in 2019 and the qualifications and attendance of members of the Remuneration Committee are specified in the Table below:

Title	Name	Attendance in Person	Attendance by Proxy	Attendance Rate	Note
Convener	Winston Won	3	0	100%	None
Committee Member	Po-Young, Chu	3	0	100%	None
Committee Member	Paul T.Y. Huang	3	0	100%	None

Other details that need to be recorded in meeting minutes:

i.Opinions of the members of the Remuneration Committee that are not accepted or amended by the Board of Directors: None.

ii.Objections or reservations by the members that have been recorded in writing during the Remuneration Committee resolution: None.

(v)Continuing education of Directors

Continuing education of Directors in 2019 is as follows

Title	Name	Organizer	Course	Course Date	Course Duration
Chairman of the Board	Alexander M.T. Su	Taiwan Corporate Governance Association	Culture of Communication and Quality of the Board of Directors' Decision Making	2019.05.07	3
		Taiwan Corporate Governance Association	Director Responsibilities and Obligations in Corporate Governance and the Securities and Exchange Act	2019.07.27	3
		Taiwan Corporate Governance Association	Group Governance and Performance Management	2019.11.05	3
		Taiwan Corporate Governance Association	Actual Operations of the Audit Committee	2019.11.06	3
Director	Tian-Cheng, Chang	Taiwan Corporate Governance Association	Culture of Communication and Quality of the Board of Directors' Decision Making	2019.05.07	3
		Taiwan Corporate Governance Association	Group Governance and Performance Management	2019.11.05	3
Director	Ming-Shan Jheng	Taiwan Corporate Governance Association	Culture of Communication and Quality of the Board of Directors' Decision Making	2019.05.07	3
		Taiwan Corporate Governance Association	Group Governance and Performance Management	2019.11.05	3
Director	Fisher C.H. Yu	Taiwan Corporate Governance Association	Culture of Communication and Quality of the Board of Directors' Decision Making	2019.05.07	3
		Taiwan Corporate Governance Association	Group Governance and Performance Management	2019.11.05	3
Director	Johnathon Y.J. Su	Taiwan Corporate Governance Association	Culture of Communication and Quality of the Board of Directors' Decision Making	2019.05.07	3
		Taiwan Corporate Governance Association	Group Governance and Performance Management	2019.11.05	3
Director	Shih-Yang Chen	Taiwan Corporate Governance Association	Culture of Communication and Quality of the Board of Directors' Decision Making	2019.05.07	3
		Taiwan Corporate Governance Association	Group Governance and Performance Management	2019.11.05	3
Independent Director	Winston Won	Taiwan Corporate Governance Association	Culture of Communication and Quality of the Board of Directors' Decision Making	2019.05.07	3
		Institute of Internal Auditors, ROC	Crucial New Corporate Governance Regulations and Trends for Directors and Supervisors in 2019	2019.09.05	6
		Taiwan Corporate	Group Governance and	2019.11.05	3

		Governance Association	Performance Management		
Independent Director	Po-Young, Chu	Taiwan Corporate Governance Association	Culture of Communication and Quality of the Board of Directors' Decision Making	2019.05.07	3
		Taiwan Corporate Governance Association	The Reforms and Prospects for Corporations under the Amendments of the Company Act	2019.08.02	3
		Taiwan Corporate Governance Association	Group Governance and Performance Management	2019.11.05	3
Independent Director	Paul T.Y. Huang	Taiwan Corporate Governance Association	Culture of Communication and Quality of the Board of Directors' Decision Making	2019.05.07	3
		Taiwan Corporate Governance Association	Group Governance and Performance Management	2019.11.05	3

Note: All Directors have met the requirements for the number of hours of continuing education as specified in the "Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and TPEx Listed Companies".

(vi)Performance of Corporate Social Responsibility

Steel is an important material for building a circular economy. Hsin Kuang Steel has established a goal to "create a beautiful new Taiwan" and uphold the four main ideals for "trust, harmony, innovation, and sharing". The Company closely follows important international trends for sustainable development such as the UN's Sustainable Development Goals and we fulfill corporate social responsibility ideals by continuously reviewing and improving related systems. Hsin Kuang Steel established the "Hsin Kuang Steel Corporate Social Responsibility Policy" and "Hsin Kuang Steel Corporate Social Responsibility Best Practice Principles" in 2015 to actively implement social responsibilities and sustainable development as a corporate citizen.

In addition to focusing on development of its operations in the industry, the Company maintains an ethical and harmonious corporate culture in its fair treatment of shareholders, employees and the public. The Company has adopted basic ideals for compliance with laws, conducts business in accordance with laws, and shall not take part in illegal activities. The Company values corporate governance and seeks to attain balance in the benefits of shareholders, employees, and all stakeholders. It also provides high-quality work opportunities including good pay, challenging work content, and a comfortable and secure work environment. It is the Company's responsibility to take care of the physical and mental needs of employees. The Company also participates in social welfare activities, donates life-support systems and ambulances to give back to society. In the future, the Company shall continue to fulfill corporate social responsibilities and strive to become a good corporate citizen.

The Company has established the 7 principles and objectives for the execution of corporate social responsibilities as follows in order to achieve the goal of becoming a good corporate citizen.

(1)Adhere to the principles of ethics in business management and fulfill the core corporate values of an "ethical and harmonious" corporate culture to provide shareholders, employees, customers, suppliers, and the public with fair treatment.

(2)The Company shall abide by laws, conduct business in accordance with laws, and shall not take part in illegal activities.

(3)The Company values corporate governance and seeks to attain balance in the benefits of shareholders, employees, and all stakeholders.
(4)The Company provides high-quality work opportunities including good pay, challenging work content, and a comfortable and secure work environment to take care of the physical and mental needs of employees.
(5)The Company dedicates itself to long-term care of the community, participates in social welfare activities, and shall continue to sponsor education and cultural activities.
(6)The Company values and continues to implement environmental protection measures in response to climate change.
(7)The Company opposes corruption, rejects nepotism and strictly adheres to principles of recusal in conflicts of interest. The Company does not partake in bribery nor pursue political relations.

The Company firmly believes that both the related domestic regulations and recognized international standards shall be met when advancing environmental protection, safety, and sanitation operations.

The Company also dedicates itself to advancing corporate social responsibilities and safety and sanitation management. The Company has adopted a spirit for continuous improvement to promote safety and health, strengthen resource utilization and pollution prevention, regulate environmental safety and sanitation risks, establish environmental safety and sanitation cultural values, and adopt strategies for constructing green supply chains to fulfill corporate social responsibilities.

The Company continues to dedicate itself to advancing corporate social responsibilities, energy conservation, carbon emissions reduction, resource recycling, and other environmental protection efforts. The Company has always dedicated efforts on reducing greenhouse gas emissions. For a company that has continued to expand productivity and product lines, it is a difficult task to lower carbon dioxide emissions produced in the use of electricity. However, the Company remains dedicated to the planning and execution of these efforts. At the same time, the Company also adopted energy conservation designs in newly-built plants and offices as well as continuous increase in energy efficiency in preparation for the carbon dioxide trade and corporate carbon resources management in future domestic regulations. These measures not only reduce costs but also achieve the objective of lowering CO_2 emissions that cause global warming.

The Company upholds sustainable development ideals for environmental protection, clean energy, and space reuse. In 2019, the installed capacity of rooftop solar power generation systems in Hsin Kuang Steel's plants reached 8,840 Wp and the Company installed the largest singular commercial rooftop solar power system in Taiwan in DuPont™ "Safe Rooftop for Secure Power Generation" project. It generated 10.34 million kWh of electricity in 2019 and reduced 5,509 metric tons of CO_2 emissions which is equivalent to the CO_2 absorption volume of 14 Daan Forest Parks. We have reduced CO_2 emissions by nearly 14,640 metric tons which is equivalent to the CO_2 absorption volume of 38 Daan Forest Parks.

The Company's production line does not require vast amounts of water resources but in order to effectively use water resources, the Company has also adopted recycling and reuse measures to reduce water consumption in non-production operations. For instance, the Company reduced water consumption in its air-conditioning systems, installed water-conservation devices in sanitation systems, monitors water consumption in washing external walls and irrigation of plants, and decreased general water consumption.

The Company made donations totaling NT$1 million to the Food Bank Program to help disadvantaged families and children obtain quick and appropriate resources, adoption of veterans' survivors, year-end dinner parties for the homeless and elderly that live alone, promotion of indigenous peoples' cultures, and provided work opportunities for institutions of the disabled. In the past 10 years, the Company has accumulated donations amounting to over NT$15.7 million (excluding the NT$20 million founding fund donated to the Tian-Cheng Charity Foundation and donations totaling NT$10.8 million over the past 5 years) to assist the disadvantaged (Genesis Social Welfare Foundation's Year-End Party for the Homeless, Guanyin Kind Garden, Food Bank Program, etc.), talent development (orphans of Veterans, Army Family Fund's Scholarships for the Poor, Taiwan Action Buddha Society's after school care classes in remote areas), implement community care (rebuilding the Assembly Hall of Longyuan Elementary School, donations for the Kaohsiung gas explosions, promotion of indigenous peoples' cultures, etc.) and medical assistance (Taiwan Root Medical Peace Corps' voluntary medical services, donations for ambulances in Guanyin etc.).

The Company and Trickle Co., Ltd. established the "Hsin Kuang Steel Tian-Cheng Charity Foundation" (hereinafter referred to as the "Hsin Kuang Steel Tian-Cheng Charity Foundation") in January 2009. The Company current Director Tian-Cheng, Chang represented the Company and serves as the Chairman of the Foundation. The Foundation contributes to social development and fulfills corporate social responsibilities by providing emergency social assistance, children and youth education welfare, assistance for the disabled, elderly welfare, subsidies for low-income individuals, special medical assistance, and other social charity assistance. Since its establishment, Hsin Kuang Steel Tian-Cheng Charity Foundation has donated 12 vehicles (for emergency assistance, rehabilitation, and transport of disabled persons to hospitals). The Foundation recognizes the importance of emergency medical aid and it continues to donate ambulances and related equipment to fire departments in Taipei City, Hualien County, New Taipei City, Taichung City, and Hsinchu County. It also donated rehabilitation, shower medical vehicles for Sisters of Our Lady of China Catholic Charity Social Welfare Foundation, shuttle vehicles for the disabled for Taipei Veterans General Hospital and Chia-Yi Christian Hospital, Taoyuan Kind Garden shuttle bus, and Hualien County Government disaster relief vehicles, etc. to provide convenience for the disabled in seeking medical care. The Foundation has donated more than NT$43.17 million since its establishment and the recipients included social welfare organizations and individual disadvantaged groups. Recipients of continuous donations include the aforementioned emergency medical services as well as talent development (scholarships for outstanding undergraduate and graduate students, intensive courses for the Comprehensive Assessment Program in remote junior high schools, subsidies for tuition fees for elementary and junior high school students from poor families, obligatory after-class care courses, etc.), community care (establishment of a cafeteria for the elderly in Minxiong Township in Chiayi, etc.), assisting the disadvantaged (donation of supplies to the Flying Slow Angels and other institutions for the disabled), and donations to hospitals (voluntary international medical services, replacement of medical instruments, subsidies for poor families, etc.)
In 2019, Hsin Kuang Steel Tian-Cheng Charity Foundation donated NT$5.29 million to actively contribute to social development. The funds were mainly used for the cultivation of tertiary education talents, subsidies for disadvantaged children and youths, emergency social assistance, assistance for the disabled, elderly welfare, medical assistance, and other social charity assistance. The main tasks are described below:

Item	Talent Development and Promotion of Education and Culture	Implement Community Care	Assistance for the Disadvantaged	Medical Subsidies
Weight	61.4%	3.9%	21.2%	13.5%

The Company's Chairman Alexander M.T. Su values corporate social responsibilities and established the "New Taipei City Private Hui Jung Welfare and Charity Foundation" (hereinafter referred to as the Hui Jung Foundation) in 2003 based on his beliefs to promote the main tasks of "talent development and promotion of education and culture", "implementation

of community care", "assistance for the disadvantaged", and "establishment of emergency medical equipment" in order to contribute to society and implement his personal will in caring for society. Since its establishment, Hui Jung Welfare and Charity Foundation has donated 18 vehicles (for emergency assistance and transport of disabled persons in mountain areas to hospitals). The Foundation recognizes the importance of emergency medical aid and it continues to donate ambulances and related equipment to fire departments in Kaohsiung City, Taoyuan County, New Taipei City, Taichung City, Changhua County, Chiayi County, Yunlin County, Yilan County, and Hsinchu County as well as the Taipei Medical University Hospital. It also donated mobile medical care vehicles for mountain regions to St. Mary's Hospital Luodong to help people living in remote areas. The Foundation donated shuttle vehicles to Hsiang Yuan Memorial Institute, Hung-Chia Sanctuary for the Handicapped, and Tainan Buddhist Guanyin Village Care and Mediation Home for the Elderly. The Foundation has donated more than NT$101.2 million since its establishment and recipients of continuous donations include the aforementioned emergency medical services as well as institutions for talent development (scholarships for outstanding undergraduate and graduate students, talent cultivation for sports teams in junior high school and elementary school, poor students introduced by various schools and associations such as World Vision Foundation, the Mustard Seed Mission, orphans of Veterans, Ginling Girls' High School, etc.), community care (dance troupes of indigenous peoples, Nanao Jinyue Community Development Association, Association for Victims Support, Taipei Batou Liren Association, the Village of Angelic Children, etc.), assisting the disadvantaged (Genesis Social Welfare Foundation, Associations for the Blind, Associations for the disabled, orphanages, associations for people with hearing, linguistic disabilities, and mental disabilities, students in special education courses in Tianmu Elementary School, individual emergency relief, etc.), and medical subsidies (continuous donations to volunteer medical care groups such as Taiwan Root Medical Peace Corps, Taipei Medical University Hospital, and medical care subsidies for poor families).
In 2019, Hui Jung Welfare and Charity Foundation donated a total of NT$13.13 million to actively contribute to social development and the work is described below:

Item	Talent Development and Promotion of Education and Culture	Implement Community Care	Assistance for the Disadvantaged	Medical Subsidies
Weight	62.7%	13.5%	20.8%	3.0%

The Company fulfills social responsibilities to all stakeholders. Customers would place more trust in the Company due to its ethical and law-abiding principles as well as its sound corporate management. Investors would be more willing to commit to long-term investments due to the Company's clear core values. Employees would also identify with corporate values and form stronger coherence. The implementation of corporate social responsibilities shall create stronger competitive advantages for the Company, create higher values for shareholders, and produce prosperity for all related parties of the Company.

Corporate Social Responsibility (CSR), Deviations from "Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies" and Reasons

Evaluation Item	Implementation Status (Note 1)			Deviations from Corporate Social Responsibility Best Practice Principles for TWSE/TPEx listed
	Yes	No	Summary (Note 2)	

				companies and reasons
i.Does the Company perform assessments of risks in environmental, social, and corporate governance issues relevant to its business activities and devise risk management policies and strategies based on the principle of materiality? (Note 3)	✓		To fulfill corporate social responsibilities and promote the economic, environmental, and social advancement for the purpose of achieving sustainable development, the Company has established the "Corporate Social Responsibility Best Practice Principles" in accordance with the "Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies" to provide guidance and manage its risks and impact on the environment, society, and corporate governance. The Company shall actively implement corporate social responsibilities while conducting corporate operations in order to match international development trends in balanced environment, social, and corporate governance development. The Company shall increase its contribution to the national economy and improve the quality of life for employees, communities, and society by fulfilling its duties as a corporate citizen and advance its competitive advantages based on corporate social values. Please refer to "(6)	

			Performance of corporate social responsibility" section of the Corporate Governance Report in the Annual Report (page 53 to 65).	
ii.Does the Company have a unit that specializes (or is involved) in CSR practices? Is the CSR unit run by senior management and reports its progress to the Board of Directors?		✓	The Chairman instructs the General Manager's Office and the Audit Office to implement the Company's CSR decision-making and operations. They are also responsible for coordinating all internal units to implement CSR tasks. The Company has included the report on CSR implementation and results of the current year and work plans for the following year into the formal agenda of the Board of Directors meeting every year since 2017.	None
iii.Environmental issues (i)Has the Company established a proper environmental management system based on the characteristics of the industry?	✓		The Company has established an ISO-9001 quality management system. Please refer to "(8) Performance of corporate social responsibility" section of the Corporate Governance Report in the Annual Report (page 53 to 65).	None
(ii)Is the company committed to improving the efficiency of the various resources and using recycled materials which have a low impact on the environment?	✓		The Company has established management procedures in response to environmental requirements. Please refer to "(6) Performance of corporate social responsibility" section of	None

			the Corporate Governance Report in the Annual Report (page 53 to 65).	
(iii)Does the Company assess the potential risks and opportunities of climate change for its current and future operations and undertake response measures with respect to climate change?	✓		The Company has addressed the identification of potential risks in climate change based on the increase of the cost of purchased electricity, changes in rain models, and impact of extreme weather on infrastructure and assessed the possible negative impact on the cost of business operations and revenue. On the other hand, climate change has also brought forth new business opportunities. The Company has focused on investments in green energy and steel materials necessary for the installation of green energy equipment which increase both revenue and improves the corporate image.	None
(iv)Does the Company take inventory of its greenhouse gas emissions, water consumption, and the total weight of waste in the last two years, and draw up policies on energy efficiency and carbon reduction, greenhouse gas reduction, water reduction, or waste management?	✓		The Company upholds sustainable development ideals for environmental protection, clean energy, and space reuse and regularly reviews electricity consumption within the plants to strengthen the advancement of energy conservation, carbon reduction, and greenhouse gas reduction policies. Reduce the amount of water used for air conditioning, replacement of water conservation devices, and control.	None

iv.Social issues (i)Has the company formulated appropriate management policies and procedures in accordance with laws and the International Bill of Human Rights?	✓		The Company complies with relevant labor laws and regulations, protects of the legal rights and interests of employees, and communicates with employees in the promotion of company policies and understanding employee opinions through open communication channels. The Company shall establish human resources policies that comply with internationally-recognized principles for the protection of basic labor rights. For more information, please refer to the descriptions in "5. Employees-employer relations" section of the Operational Highlights in the Annual Report (page 106 to 110).	None
(ii)Has the company established and implemented reasonable employee benefits (including compensation, leave, and other benefits) and reflected the business performance or results in employee compensation appropriately?	✓		The Company has established internal management regulations such as the Regulations on the Appointment and Dismissal of Employees and Distribution of Employee Remuneration and Employee Leave Application Regulations to provide standards for compliance.	None
(iii)Does the company provide employees with a safe and healthy work environment? Are employees trained regularly on safety and health issues?	✓		The Company believes the employees' health to be the foundation of sustaining normal corporate operations and it is the	None

			Company's responsibility to look after the physical and mental health of employees. The Company organizes periodic physical examinations, safety lectures, and labor safety and health training for employees at least once every two years. The Company also organizes regular or unscheduled health promotion activities including aerobics courses, establishment of the breastfeeding room, physical and mental health seminars, and response strategies and health seminars for prevention of new infectious diseases to satisfy employees' health requirements.	
(iv)Does the Company offer its employees effective occupational empowerment training programs?	✓		The Company believes that the growth of the Company cannot be achieved without employee development and employees require "systematic, disciplined, and planned" learning and development. The Company dedicates itself to building a lasting and rewarding learning environment and has established the "Education and Training Management Regulations" to provide guidance. It also integrates internal and external resources to cultivate and improve employees' capabilities for employees and the Company to grow	None

			together. The Company provides comprehensive learning channels and development resources in accordance with the nature and requirements of personal work, results of performance evaluation, and career development requirements. They include on-the-job training, classroom education, work guidance, internal mentor system, work rotations etc. The Company also systematically provides a series of general knowledge, professional, and management training courses for employees of different levels. The courses include lectures given by external experts and the Company also encourages employees to give lectures to pass on important knowledge of the Company and establish effective career capabilities development training programs for technical personnel. For more information, please refer to the descriptions in "5. Employees-employer relations" section of the Operational Highlights in the Annual Report (page 106 to 110).	
(v)Does the Company comply with relevant laws and international standards in relation to customer health and safety, customer privacy, marketing, and labeling of products and services, and does	✓		The Company is not a manufacturer of final products and this evaluation item is not applicable.	None

it establish relevant consumer protection policies and grievance procedures?				
(vi)Does the Company establish supplier management policies, which require suppliers to observe relevant regulations on environmental protection, occupational safety and hygiene, or labor and human rights? If so, describe the implementation results.	✓		The Company continues to strengthen supply chain management. It requires and encourages suppliers and contractors to constantly improve in quality, costs, delivery period, environmental protection, safety and sanitation. The Company and main suppliers and contractors maintain mutually beneficial cooperation through regular exchanges between management as well as exchanges and sharing of experience in production technologies to enhance partnerships and pursue better performance and greater contributions to the society. As described above, when contractors conduct high-risk operations, they shall be required to clearly define safety protection and preventive measures required of the workers. The contractors that carry out factory construction or work at heights shall also be required to establish Occupational Health and Safety Assessment Series (OHSAS 18001) standards or related control systems. Their employees shall also be required to complete	None

			comprehensive work training.	
v. Does the Company prepare corporate social responsibility reports and other reports that disclose non-financial information by following international reporting standards or guidelines? Does the Company obtain third-party assurance or qualified opinion for the reports above?	✓		The Company has prepared and published reports such as the Corporate Social Responsibility Report in accordance with international standards or guidelines since 2017. The aforementioned report has received third-party assurance.	None
vi. If the Company has established corporate social responsibility principles based on "Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies", please describe any difference between the principles and their implementation: The Company has established the "Corporate Social Responsibility Best Practice Principles" but has not compiled a "Corporate Social Responsibility Report". However, in addition to focusing on development of its operations in the industry, the Company maintains an ethical and harmonious corporate culture in its fair treatment of shareholders, employees, and the public. The Company has adopted basic ideals for compliance with laws, conducts business in accordance with laws, and shall not take part in illegal activities. The Company values corporate governance and seeks to attain balance in the benefits of shareholders, employees, and all stakeholders. It also provides high-quality work opportunities including good pay, challenging work content, and a comfortable and secure work environment. It is the Company's responsibility to take care of the physical and mental needs of employees. The Company also participates in social welfare activities, donates life-support systems and ambulances to give back to society. Please refer to descriptions in "(6) Performance of corporate social responsibility" (page 53 to 65) of the Corporate Governance Report in the Annual Report.				
vii. Other key information useful for explaining status of corporate social responsibility practices: 1. The Company made donations totaling NT$1 million to the Food Bank Program to help disadvantaged families and children obtain quick and appropriate resources, adoption of veterans' survivors, year-end dinner parties for the homeless and elderly that live alone, promotion of indigenous peoples' cultures, and provided work opportunities for institutions of the disabled. 2. In 2019, Hsin Kuang Steel Tian-Cheng Charity Foundation donated NT$5.29 million (including NT$2 million from Hsin Kuang Steel Co., Ltd.). 61.4% of the funds were used for talent development and promotion of education and culture, 3.9% were used for implementing community care, 21.2% were used for assistance for the disadvantaged, and 13.5% were used for medical subsidies in order to actively contribute to social development.				

3. The Company's Chairman Alexander M.T. Su values corporate social responsibilities and established a social welfare and charity foundation who donated NT$13.13 million in 2019. 62.7% of the funds were used for talent development and promotion of education and culture, 13.5% were used for implementing community care, 20.8% was used for assistance for the disadvantaged, and 3% were used for medical subsidies in order to actively contribute to social development. 4. The Company continues to dedicate itself to advancing corporate social responsibilities, energy conservation, carbon emissions reduction, resource recycling, and other environmental protection efforts. The Company upholds sustainable development ideals for environmental protection, clean energy, and space reuse and uses rooftop of factories to set up PV panels to produce energy in order to reduce energy consumption and carbon emissions and implement environmental protection measures. The Company also sets up solar-powered street lights. The Company generated 10.34 million kWh of electricity in 2019. We have reduced CO_2 emissions by nearly 5,509 metric tons which is equivalent to the CO_2 absorption volume of 14 Daan Forest Parks. 5. Please refer to "(6) Performance of corporate social responsibility" section of the Corporate Governance Report in the Annual Report (page 53 to 65).

Note 1: If "Yes" is selected in the operating status, please explain the important policies, strategies, and measures adopted, and the implementation status; if "No" is selected in the operating status, please specify the reason and explain related future policies and plans for strategies and measures.

Note 2: If the Company has produced a corporate social responsibility report, the Company may reference the CSR report or indicate the page number in the operating status.

Note 3: The materiality principle refers to related environmental, social, and corporate governance issues that may cause material impact on the Company's investors and other stakeholders.

(vii)Ethical corporate management and measures adopted

The ethical and harmonious corporate culture has always been the Company's core value. The Company has always upheld integrity in all business activities and has always maintained a fair, honest, trustworthy, and transparent code of conduct to put our words into practice.

It is the responsibility of all members of the Company to uphold the Company's core values in our corporate culture and the Company's reputation. Therefore, the Company requires each member of the Company in its Ethical Corporate Management Best Practice Principles (hereinafter referred to as the "Principles") to adhere to the following: avoid sacrificing or conflicting with company interest for personal gains; avoid any bribery, unfair competition, fraud, waste, and abuse of company resources; prohibition against any actions harmful to the Company, the environment, and society; abide by all laws and regulations and respect legislative purposes; avoid any actions that may inappropriately affect anyone's decisions, including government officials, public servants, courts, customers, suppliers, and contractors.

The Principles also require all employees, managers, and Board members to adhere to the core values of the Principles. The Company's management is required to establish a good example for ethical corporate management. The Company's manager, particularly the Chief Executive Officer, Chief Financial Officer, and Chief Information Officer of the product profit center, shall be supervised by the Board of Directors and be responsible for fully, fairly, accurately, promptly, and clearly disclosing the Company's financial and accounting information in financial statements submitted to the competent authority and disclosed to the public.

The Company shall enforce management and punishment to ensure that all employees, managers, and supervisors adhere to the Principles, Ethical Corporate Management Operating Procedures and Code of Conduct. The Company hopes that the Company's customers, suppliers, contractors, consultants, and other partners with contractual relationships understand and respect the Company's corporate culture for ethical, transparent and responsible corporate governance.

In the event that an employee discovers or has reasonable doubts of any violation of the Principles, he/she shall immediately file a report to the following individuals or through the following channels in accordance with the status of the violation: the direct supervisor, the General Manager's Office, internal audit chief, employee complaint channels, or the Supervisors. Upon discovering or receiving a complaint about involvement of any personnel in unethical conduct, the Company shall ascertain the relevant facts without delay; if it is verified that there is indeed a violation of applicable laws and regulations or the Company's ethical corporate management policies, the Company shall immediately require the violator to cease the conduct and shall punish the individual accordingly. where necessary, the Company shall file for damage claims through legal proceedings to protect the reputation and interests of the Company. For unethical conduct that have occurred, the Company shall instruct related units to review the internal control system and operating procedures and provide improvement measures in order to prevent the same conduct from reoccurring. The Company shall instruct units to report the unethical conduct, the processing methods, and follow up review and improvement measures to the Board of Directors.

If any of the Company's personnel discovers that another party has engaged in unethical conduct towards the Company, and such unethical conduct is of an illegal nature, the Company shall immediately notify judicial agencies and prosecutors of related facts. If the unethical conduct involves public offices or public servants, the government's agencies against corruption shall be notified.

Implementation of ethical corporate management, deviation from "Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies", and reasons for deviation:

Evaluation Item	Implementation Status (Note)			Deviation from the "Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies" and reasons for deviation
	Yes	No	Summary	
i.Establishment of ethical corporate management policy and approaches (i)Has the Company established the ethical corporate management policies approved by the Board of Directors and stated its policies and practices in its	✓		The ethical and harmonious corporate culture has always been the Company's most important core value. The Company has always upheld integrity in all business activities and has established the "Ethical Corporate Management Operating Procedures and Code of ConductEthical Corporate Management Operating Procedures and Code of Conduct" as	None

Evaluation Item	Implementation Status (Note)			Deviation from the "Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies" and reasons for deviation
	Yes	No	Summary	
Memorandum or external correspondence to maintain business integrity? Are the Board of Directors and the managers committed in fulfilling this commitment?			guidance to strictly require each employee to adhere to the ethical policies. The Company also provides detailed explanation of the Company's ethical corporate management policies and the Board of Directors and management's active implementation of these policies.	
(ii)Does the Company have mechanisms in place to assess the risk of unethical conduct and perform regular analysis and assessment of business activities with a higher risk of unethical conduct within the scope of business? Does the Company implement programs to prevent unethical conduct based on the above and ensure the programs cover at least the matters described in Paragraph 2, Article 7 of the Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies?			In Article 7 of the "Ethical Corporate Management Operating Procedures and Code of ConductEthical Corporate Management Operating Procedures and Code of Conduct", the Company established related policies and guidelines with regard to different legal compliance requirements under the processing procedures for collecting unlawful interests in order to implement ethical management. All employees of the Company, including subsidiaries and affiliated enterprises, shall be required to understand regulations related to their businesses and make correct business and ethical judgments. The Company's internal auditing department also plays an important role in ensuring ethical management and legal compliance in order to ensure the accuracy, reliability, and promptness in financing, management, and business information and to establish policies, guidelines, procedures, and regulations related to employee conduct. The internal auditing department shall conduct various audits in the annual audit plan approved by the Board of Directors and submit the results of the audit and follow-up improvement plans to the Board and management to implement the effects of the audit.	None

Evaluation Item	Implementation Status (Note)			Deviation from the "Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies" and reasons for deviation
	Yes	No	Summary	
(iii)Has the company established policies to prevent unethical conduct with relevant procedures, guidelines of conduct, punishment for violation, rules of appeal clearly stated in the policies, and implemented the policies, and reviewed the aforementioned policies on a regular basis?	✓		The "Ethical Corporate Management Operating Procedures and Code of ConductEthical Corporate Management Operating Procedures and Code of Conduct" are the core guidance in the Company's implementation of the above values and ideals. The Company requires all employees, including members of subsidiaries and affiliated enterprises to shoulder the responsibilities of maintaining high-level ethical standards, the Company's reputation, and compliance with regulations in accordance with the Code of Conduct, which is announced on the Company's internal website for employees to reference at any time. In addition, the Company also promotes the Company's core values and compliance policies to employees through education and training courses, posters, educational short films, and other diverse methods. With respect to any suspected violation of ethical conduct, the Company has always maintained the attitude of not punishing the innocent and not permitting the guilty to go unpunished. The Company treats all verified cases with the utmost seriousness and imposes severe punishments on violator such as termination of employment or business relations as well as appropriate legal actions. The Company has included the principles of ethical corporate management as part of employees' performance appraisal and the Company's human resource policy. There are clear and effective systems in place to enforce discipline and reporting of dishonest conduct. If any of the Company's personnel seriously violates ethical conduct rules, the Company shall dismiss the person	None

Evaluation Item	Implementation Status (Note)			Deviation from the "Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies" and reasons for deviation
	Yes	No	Summary	
			in accordance with applicable laws and regulations or internal human resources guidelines.	
ii.Full Implementation of Ethical Management Principles (i)Does the Company evaluate the integrity of all counterparties it has business relationships with? Are there any integrity clauses in the agreements it signs with business partners?	✓		The Company takes practical actions based on the "Ethical Corporate Management Operating Procedures and Code of Conduct" to assist the Company's customers, suppliers, business partners, and other individuals with whom the Company has business relations, including consultants or other individuals who are authorized to conduct business activities on behalf of the Company, to identify with and implement the Company's ethical management policies and corporate culture. The Company requests all suppliers or contractors to submit written commitments to respect and comply with the Company's ethical management policies and corporate culture. The Company also regularly invites them for education on the Company's ethical management policies in order to understand whether there has been any unethical conduct. In the event that a transaction or cooperation counterparty is found to be unethical, the Company shall terminate business relations immediately and blacklist the counterparty in order to implement the Company's ethical management policies.	None
(ii)Does the Company have a unit responsible for business integrity on a full-time basis under the Board of Directors, which will report the business integrity policy and programs against unethical conduct	✓		To carry out supervision responsibilities for its ethical management policies, the Company's Board of Directors has established various organization and management procedures such as the Remuneration Committee, the internal audit etc. In addition, the Company has charged the General Manager's Office and internal auditing department to periodically report	None

Evaluation Item	Implementation Status (Note)			Deviation from the "Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies" and reasons for deviation
	Yes	No	Summary	
regularly (at least once a year) to the Board of Directors while overseeing such operations?			related implementation status to the Board of directors. Under the supervision of the Board of Directors, the Company's managers, particularly the General Manager, Chief Financial Officer, and Spokesperson shall ensure that the financial and accounting information the Company submits to the competent authority of securities or disclosed to external parties is complete, fair, prepared, prompt, and easy to understand.	
(iii)Did the company establish policies that prevent conflict of interests, provide appropriate channels for filing related complaints and implement such policies and channels?	✓		When the Company hires new employees, it shall request employees to sign the "Commitment to Ethical Conduct" in accordance with requirements. In addition, all employees are required to actively inform the Company of any conflicts of interest or suspected conflicts of interest in accordance with the Company's "Ethical Corporate Management Operating Procedures and Code of Conduct".	None
(iv)Does the Company have effective accounting and internal control systems in place to implement business integrity? Does the internal audit unit follow the results of unethical conduct risk assessments and devise audit plans to audit the systems accordingly to prevent unethical conduct, or engage CPAs to perform the audits?	✓		The Company has always valued the accuracy and integrity of its financial report procedures and controls and it has established related internal control systems for operating procedures with potentially higher risks for unethical conduct. The internal auditing unit also carries out various audits in accordance with the annual audit plan established on the results of risk analyses and it reports the results of audits and follow-up improvement plans to the Board of Directors and the management to implement the effects of the audits. The Company also conducts annual self-assessment procedures on internal controls of the Company. The Company's departments and subsidiaries shall inspect the design of the internal control system and	None

Evaluation Item	Implementation Status (Note)			Deviation from the "Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies" and reasons for deviation
	Yes	No	Summary	
			the effectiveness of its implementation.	
(v)Does the Company periodically provide internal and external training programs on integrity management?	✓		The Company places great value on legal compliance education and training. The Company not only allows employees to gain knowledge on latest or closely related regulations through regulation promotion and training courses, but also further strengthens employees' firm commitment to compliance with ethical business policies. The Company also regularly invites its suppliers or contractors to educate them on the ethical business policies of the Company to ensure that they fully understand the necessity of the Company's implementation of ethical business policies.	None
iii.Operation of whistle-blowing system in the Company (i)Has the Company established concrete whistleblowing and reward system and have a convenient reporting channel in place, and assign an appropriate person to communicate with the accused?	✓		The Company established guidelines in the "Ethical Corporate Management Operating Procedures and Code of ConductEthical Corporate Management Operating Procedures and Code of Conduct" to provide employees with channels to report any inappropriate financial or legal conduct. If an employee suspects that unethical conduct has occurred, he/she is responsible for reporting to the direct supervisor or the highest-ranking officer in the Administrative Services Department, report through existing employee reporting channels, or notify the Supervisors directly. The Company shall establish independent internal report mailbox and dedicated line on the Company	None

Evaluation Item	Implementation Status (Note)			Deviation from the "Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies" and reasons for deviation
	Yes	No	Summary	
(ii)Has the Company established standard operating procedures for investigating reported issues, follow-up measures to be adopted after the investigation, and related confidentiality mechanisms?	✓		website and internal website and assign personnel to take charge of processing reports. The Company shall keep the identity of the whistle-blower and the content confidential. As specified in the internal regulations, the Company maintains the confidentiality of received reports and subsequent investigations and processes reports rigorously.	None
(iii)Did the company adopt measures for protecting the whistle-blower against improper treatment or retaliation?	✓		The Company strictly prohibits any form of retaliation against whistle-blowers who provided reports in good faith or individuals who assist in investigations.	None
iv.Enhancing information disclosure Has the Company disclosed its Ethical Corporate Management Best Practice Principles and progress onto its website and M.O.P.S.?	✓		The Company places related regulations and education material for ethical corporate management policies on the Company's internal website for employees to read at any time. The Company places its Annual Reports and discloses related information on ethical corporate management policies on the Company's external website (http://www.hksteel.com.tw) (the Annual Reports are also placed on the M.O.P.S. (http://mops.twse.com.tw)).	None
v.If the company has established Ethical Corporate Management Best Practice Principles in accordance with "Ethical Corporate Management Best Practice Principles for TWSE/TPEx-Listed Companies", describe difference with the principles and implementation status: The Company has established the "Ethical Corporate Management Best Practice Principles" and				

<table>
<tr><td rowspan="2">Evaluation Item</td><td colspan="3">Implementation Status
(Note)</td><td rowspan="2">Deviation from the "Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies" and reasons for deviation</td></tr>
<tr><td>Yes</td><td>No</td><td>Summary</td></tr>
<tr><td colspan="5">"Ethical Corporate Management Operating Procedures and Code of Conduct". All employees, managers, Board members, and subsidiaries shall follow the provisions in the Principles and related regulations. Regarding the implementation of the Company's ethical corporate management policies, please refer to "(7) Ethical corporate management and measures adopted" (page 66) in the Corporate Governance Report.</td></tr>
<tr><td colspan="5">vi.Other critical information conducive to understanding the operation of the company's integrity management: (e.g., review/revision of the company's Ethical Corporate Management Best Practice Principles)
1. The Company shall disclose the its ethical management policies in internal regulations, Annual Reports, company website, or other materials and declare the policies at appropriate times in product launch events, investor conferences, and other external activities so that the Company's suppliers, customers or other related institutions and personnel are fully aware of the Company's principles and rules with respect to ethical corporate management.
2. When carrying out business activities, the Company shall explain its ethical management policies and related regulations to counterparties and clearly refuse to directly or indirectly offer, promise to offer, request or accept any improper benefits, including kickbacks, commissions, facilitation payments, or offer or accept improper benefits in any other form.
3. When the Company signs contracts with other entities, it shall fully understand the status of the counterparty's ethical management and include provisions requiring compliance to its ethical management policies and unconditional termination or cancellation of the contract at any time in the event of unethical conduct by the other party.
4. The Company shall periodically organize training and awareness programs for Directors, managers, employees, and substantial controllers and invite the companies' commercial transaction counterparties so they understand the companies' resolve to implement ethical corporate management, the related policies, prevention programs and the consequences of committing unethical conduct.
5. The Company shall apply the policies of ethical corporate management when creating its employee performance appraisal system and human resource policies to establish a clear and effective reward and discipline system.
6. The Company shall at all times monitor the development of relevant local and international regulations concerning ethical corporate management and encourage Directors, managers, and employees to make suggestions, based on which the adopted Ethical Corporate Management Best Practice Principles will be reviewed and improved with a view to achieving better effectiveness of ethical management.
Please refer to the descriptions in "(7) Ethical corporate management and measures adopted" in the Corporate Governance Report in the Annual Report (page 66).</td></tr>
</table>

Note: Regardless of whether "Yes" or "No" was selected, explanation shall be provided in the Summary column.

(viii)Corporate governance principles, related guidelines, and the means of accessing this information:

The Company has established the "Corporate Governance Code of Conduct", "Rules of Procedure for Shareholders' Meetings", "Rules of Procedure for the Board of Directors' Meetings", "Regulations Governing the Election of Directors", "Code of Ethics for Managerial Officers and Supervisors Ranked Level 1 and Above", "Ethical Corporate Management Best Practice Principles", and "Corporate Social Responsibility Best Practice Principles" which have been published in the Corporate Governance section on the Company's website (http://www.hksteel.com.tw) and the M.O.P.S. (http://mops.twse.com.tw) for investors.

(ix)**Status of implementation of internal control system**

1.Statement on Internal Control

Hsin Kuang Steel Co., Ltd.

Statement on Internal Control **Stock Code: 2031**

Date: March 17, 2020

This Statement of Internal Control System is issued based on the self-assessment results of the Company for year 2019.

i. The Company acknowledges and understands that the establishment, enforcement and maintenance of the internal control system are the responsibility of the Board of Directors and the managers, and that the Company has already established such a system. The objective is to provide reasonable assurances that the goals of operational effectiveness and efficiency (including profitability, performance, asset security, etc.), financial report reliability, timeliness, transparency, and regulatory compliance will be achieved.

ii. Internal control regulations possess inherent shortcomings. Regardless of its design, an effective internal control system can only provide reasonable assurance of the three objectives as mentioned above. Furthermore, its effectiveness may change due to changes in the Company's environment and circumstances. However, self-supervision measures were implemented within the Company's internal control policies to facilitate immediate rectification once procedural flaws have been identified.

iii. The Company determines the effectiveness of the design and implementation of its internal control system in accordance with the items in "Governing Regulations for Public Company's Establishment of Internal Control System" (hereinafter called "Governing Regulations") that are related to the effectiveness of internal control systems. The criteria introduced by the "Governing Regulations" cover the process of management control and consist of five major elements, each representing a different stage of internal control: (1) Control Environment, (2) Risk Evaluation, (3) Control Operation, (4) Information and Communication, and (5) Monitoring. Each of the elements in turn contains certain audit items. Please refer to "Governing Regulations" for details.

iv. The Company has already adopted the aforementioned internal control system judgment items to assess the effectiveness of the internal control system design and implementation.

v. Based on the findings of the aforementioned examination, the Company believes it can reasonably assure that the design and implementation of its internal control system as of December 31, 2019 (including supervision and management of subsidiaries), including the effectiveness and efficiency in operation, reliability in financial reporting and compliance with relevant regulatory requirements, have achieved the aforementioned objectives.

vi. This statement shall be an integral part of the Annual Report and prospectus of the Company and will be made public. Should any of the aforementioned disclosure contents be fictitious or concealed in an illegal manner, the company shall bear legal responsibilities pursuant to Articles 20, 32, 171, and 174 of the Securities and Exchange Act.

vii. This statement was approved by the Board on March 17, 2020 in the presence of 9 Directors, who concurred unanimously.

Hsin Kuang Steel Co., Ltd.

Chairman of the Board:	Alexander M.T. Su	Signature and Seal
General Manager:	Alexander M.T. Su	Signature and Seal

2.According to requirements of the Securities and Futures Bureau of the Financial Supervisory Commission, if the company engages an accountant to examine its internal control system, it shall disclose the CPA examination report: None.

(x)Penalty on the Company and its personnel or punishment imposed by the Company on personnel in violation of internal control system regulations, major deficiencies and improvement in the past year and up to the date of report: None.

(xi)Important resolutions made during shareholders and Board of Directors' meetings in recent years and up to the publication date of this annual report:

1.Key Resolutions of the Shareholders Meeting and Implementation

The Company's 2019 general shareholders meeting was held at the Company's Guanyin Plant Conference Office in the Guanyin Industrial Park, Guanyin District, Taoyuan City on June 11, 2019. The resolutions passed by attending shareholders and their status of implementation are as follows:

(1).Ratification of the 2018 business report and final financial statements.

Implementation status: Ratification of the 2018 business report and final financial statements. The annual consolidated revenue was approximately NT$8,836.33 million and the net profit after tax was approximately NT$1,000.01 million. The EPS was NT$3.17.

(2).Approval of 2018 Earnings Distribution Proposal.

Implementation status: Approval of the distribution of NT$1.5 in cash dividends to common shares. July 22, 2019 was established as the ex-dividend date and the cash dividends were issued on August 8, 2019.

(3).Approved the amendments of the Articles of Incorporation.

Implementation status: The resolution was passed and has been completed according to the resolution passed by the Shareholders' Meeting.

(4).Approval of the amendment of the "Procedures for the Acquisition or Disposal of Assets".

Implementation status: The resolution was passed and has been completed according to the resolution passed by the Shareholders' Meeting.

(5).Approval of the amendment of the Procedures for Extending Loans to Others.

Implementation status: The resolution was passed and has been completed according to the resolution passed by the Shareholders' Meeting.

(6).Approval of the amendment of the Endorsement and Guarantee Making Procedure.

Implementation status: The resolution was passed and has been completed according to the resolution passed by the Shareholders' Meeting.

2.Important Resolutions of the Board of Directors

The important resolutions adopted in the Board of Directors' meetings in 2019 up to the date of Annual Report are summarized below:

－12th meeting of the 14th Board of Directors on March 19, 2019:

－Approved the distribution of remuneration to Directors, Supervisors, and employees for 2018;

－Approved the 2018 business report and final financial statements;

—Approved the 2018 Earnings Distribution Proposal;

—Approved the Company's annual evaluation on the effectiveness of the Company's internal control system and the Statement on Internal Control;

—Approved the amendments of the Articles of Incorporation;

—Approved the amendment of "MRM034 Standard Operating Procedures for Requests filed by Directors";

—Approved the amendment of "MRM008 Procedures for Extending Loans to Others";

—Approved the amendment of "MRM001 Endorsement and Guarantee Making Procedure";

—Approved the loan to a subsidiary company in which the Company holds 83.37% of shares;

—Approved the capital increase baseline date for the conversion of the convertible bonds to common shares in the fourth quarter of 2018;

—Approved the proposed calling of the 2019 general shareholders meeting.

(2).13th meeting of the 14th Board of Directors on May 7, 2019:

—Approved Quarter 1 financial statements for 2019;

—Approved the Company's plans for the acquisition of land near Guanyin Plant;

—Approved the Company's plans for the acquisition of land and buildings near Changbin Plant;

—Approved the Company's lease of certain plants at Changbin Plant;

—Approved the proposal for participating in the subscription of shares cash capital increase of the investee company;

—Approved the proposal for the Company's new investment.

(3).14th meeting of the 14th Board of Directors on June 11, 2019:

—Established July 22, 2019 as the ex-dividend date and the distribution of cash dividends on August 8, 2019. Each common share received cash dividends of NT$1.5 (NT$1.5 in cash dividends per share).

(4).15th meeting of the 14th Board of Directors on August 8, 2019:

—Approved Quarter 2 financial statements for 2019.

(5).16th meeting of the 14th Board of Directors on November 5, 2019:

—Approved Quarter 3 financial statements for 2019.

(6).17th meeting of the 14th Board of Directors on November 25, 2019:

—Approved the proposed increase in budget for capital expenditure.

(7).18th meeting of the 14th Board of Directors on December 17, 2019:

—Approved the Company's business plan for 2020;

—Approved the Company's appointment of the CPAs Sheng-Hsiung Yao and Jui-Na Chang assigned by Deloitte Taiwan to audit the Company's 2020 Financial Report.

—Approved the renewal of liability insurance for Directors, Supervisors and important corporate officers;

—Approved internal audit operations and inspection plans for 2020;

(8).19th meeting of the 14th Board of Directors on March 17, 2020:

—Approved the distribution of remuneration to Directors, Supervisors, and employees for 2019;

—Approved the 2019 business report and final financial statements;

—Approved the 2019 Earnings Distribution Proposal;

—Approved the Company's annual evaluation on the effectiveness of the Company's internal control system and the Statement on Internal Control;

—Approved the reelection of all Directors;

—Approved the acceptance of candidates for Director nominated by the Company in the general shareholders meeting and related affairs;

—Proposed to release the newly elected Directors from the non-competition restrictions in the shareholder meeting;

—Approved the acceptance of proposals from shareholders in the general shareholders meeting and related affairs;

—Approved the proposed calling of the 2020 general shareholders meeting;

—Approved the Company's endorsement and guarantee for the subsidiary APEX Wind Power Equipment Manufacturing Co., Ltd. in which the Company holds 53.41% of shares.

(9).20th meeting of the 14th Board of Directors on March 19, 2020:

—Approved the implementation of the buyback of the Company's treasury shares.

(10). 21th meeting of the 14th Board of Directors on April 22, 2020:

— Proposal to review the list of candidates for Director nominated (independent directors).

— Approved the proposal for the Company’ s investmen

(xii)Dissenting or qualified opinion of Directors or the Audit Committee against an important resolution passed by the Board of Directors that is on record or stated in a written statement in the past year and up to the date of report: None

(xiii)Resignation and dismissal of professional managerial officers related to the financial report including Chairman, General Manager, Chief Accounting Officer, Chief Financial Officer, Chief R&D Officer and Chief Internal Auditor, in the past year and up to the date of report: None

Information on fees to CPAs

The Company's CPA audit fees are approved by the Audit Committee and submitted to the Board of Directors for approval

Unit: NT$1,000

Name of Accounting Firm	CPA Name	Audit Fees	Non-Auit Fees					Auditing Period	Note
			System Design	Business Registration	Human Resource	Others (note 2)	Total		
Deloitte & Touche	Sheng-Hsiung Yao Jui-Na Chang	3,961	-	415	-	1,162	1,577	2019.01.01~2019.12.31	

Note 1：If the company changes accountants or accounting firms this year, please list the verification period separately, and explain the reason for the replacement in the remarks column, and disclose the audit and non-audit public fees paid in sequence.

Note 2：The other amount in the non-audit public expenses is NT1,162 thousand, which is the corporate social responsibility consulting project and the confirmation of public expenses.。

Information on change of CPAs: None.

The Company's Chairman, General Manager, financial responsible person, or accounting affairs manager who has served in a certified public accountant firm or its affiliates within the last year: None.

Share transfer by Directors, managers and shareholders holding more than 10% equity and changes to share pledging by them in the past year and up to the date of report

1.Share Equity Change Status for Directors, Managers and Major Shareholders

Title (Note 1)	Name	2019		Current year as of April 30	
		Increase (decrease) in shares held	Increase (decrease) in pledged shares	Increase (decrease) in shares held	Increase (decrease) in pledged shares
Chairman of the Board	Alexander M.T. Su	-	-	(70,000)	-
Director	Han De Investment Co., Ltd.	2,140,000	4,700,000	1,000,000	500,000
Director	Trickle Co., Ltd.	-		-	-
Director	Ming-Shan Jheng	-	-	-	-
Director	Fisher C.H. Yu	-	-	-	-
Director	Johnathon Y.J. Su	-	-	-	-
Director	Shih-Yang Chen	-	-	-	-
Independent Director	Winston Won	-	-	-	-
Independent Director	Po-Young, Chu	-	-	-	-
Independent Director	Paul T.Y. Huang	-	-	-	-

Note 1: Shareholders with over 10% of the Company's total share shall be classified as major shareholders and listed separately.

Note 2: Information regarding the transfer of shares or shares pledged to the counterparty being the related party shall be filled in the following Table.

2.Information on transfer of shares: There has been no transfer of shares with counterparties who are related parties.
3.Information on pledged shares: There have been no shares pledged to counterparties who are related parties.
4.Overview of investee companies: Please refer to the descriptions in the "Special Record Items" in the Annual Report (page 144 to 148).

Information on the relationship between any of the top ten shareholders (related party, spouse, or kinship within the second degree) Please refer to the description in "Fundraising Conditions" in the Annual Report (page 83).

The shareholding of the Company, Directors, managers and an enterprise that is directly or indirectly controlled by the Company in the invested company and the consolidated shareholding ratio

Unit: shares; %

Investee Company (Note)	Investment by the Company		Investments of Directors, Supervisors, Managers and Directly or Indirectly Controlled Businesses		Comprehensive Investment	
	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio
Hsin Yuan Investment Co., Ltd.	30,000,000	100%	-	-	30,000,000	100%
Sinpao Investment	USD 4,173,498	99.82%	-	-	USD 4,173,498	99.82%
Hsin Ho Fa Metal Co., Ltd.	17,258,211	83.37%	-	-	17,258,211	83.37%
APEX Wind Power Equipment Manufacturing Co., Ltd.	35,314,000	53.51%	3,982,840	6.03%	39,296,840	59.54%
Hsin Wei Solar Co., Ltd.	5,440,000	40%	-	-	5,440,000	40%
Hsin Ching International Co., Ltd.	15,000,000	60%	-	-	15,000,000	60%
Mason Metal Industry Co., Ltd.	24,500,000	49%	500,000	1%	25,000,000	50%
Hsin Cheng Logistics Development Co., Ltd.	200,000	100%	—	—	200,000	100%
Hsin Hua Steel Industry Co., Ltd.	—	—	1,000,000	100%	1,000,000	100%

Note: Long-term investment calculated by equity method.

IV. Fundraising Conditions

i. Capital and shares

(i) Source of capital

As of Tuesday, March 31, 2020

Year and Month	Issuance Price	Authorized Capital		Paid-in capital		Note		
		Number of shares	Amount (NT$)	Number of shares	Amount (NT$)	Source of capital	Subscriptions paid with property other than cash	Date of approval and document number
April 2017	10	360,000,000	3,600,000,000	310,687,699	3,106,876,990	Corporate bonds turned common shares of NT$44,939,600	No	Implemented in accordance with the official document Jin-Guan-Zheng-Fa No. 1060038847 dated October 19, 2017.

(ii) Capital and shares

As of Monday, April 13, 2020

Type of Shares	Authorized Capital					Convertible bonds converted to ordinary stocks
	Current issued shares			Un-issued shares	Total	
	Issued	Not issued	Total			
Registered common stocks	310,687,699	—	310,687,699	49,312,301	360,000,000	13,490,797

(iii) Shareholder structure

As of Monday, April 13, 2020

Shareholder structure / Amount	Government-run Agencies	Financial Institutions	Other Institutions	Individual investors	Foreign institutions and foreigners	Total
Headcount	1	—	140	42,684	115	42,940
Number of shares held	1,946,580	—	781,002,080	1,991,179,810	332,748,520	3,106,876,990
Shareholding ratio	0.06%	—	25.14%	64.09%	10.71%	100.00%

(iv) Shareholding Distribution Status

NT$10 per share Monday, April 13, 2020

Shareholding classification	Number of shareholders	Number of shares held	Shareholding ratio
1 to 999	22,642	1,230,355	0.40%
1,000 ~ 5,000	14,718	31,810,598	10.24%
5,001 ~ 10,000	2,707	21,439,593	6.90%
10,001 ~ 15,000	915	11,543,014	3.72%
15,001 ~ 20,000	541	10,138,089	3.26%
20,001 ~ 30,000	517	13,181,098	4.24%
30,001 ~ 50,000	388	15563623	5.01%
50,001 ~ 100,000	295	20967910	6.75%
100,001 ~ 200,000	101	14404117	4.64%
200,001 ~ 400,000	52	14177739	4.56%
400,001 ~ 600,000	18	9312895	3.00%
600,001 ~ 800,000	15	10591823	3.41%
800,001 ~ 1,000,000	5	4723068	1.52%
Over 1,000,001	26	131603777	42.36%
Total	42,940	310,687,699	100.00%

(v) List of Primary Shareholders

1. List of Primary Shareholders

April 13, 2020

Shares / Name of major shareholder	Number of shares held	Shareholding ratio
HAN DE INVESTMENT CO., LTD.	21,055,276	6.78%
Alexander M.T.Su	16,530,719	5.32%
TRICKLE CO., LTD.	14,662,469	4.72%
Hui Jung Investment Co., Ltd.	12,000,916	3.86%
Cheng Yu Investment Co., Ltd.	8,610,873	2.77%
Johnathon Y.J.Su	7,704,930	2.48%
Pictet Bank's investment account under the trust of HSBC	6,681,000	2.15%
Alexander M.T.Su's dedicated trust account in First Commercial Bank	6,000,000	1.93%
Tian-Cheng, Chang	5,228,283	1.68%
Vanguard Star Vanguard Total International Stock Index Fund under the custody of JP Morgan Chase	3,988,403	1.28%

2.Information Disclosing the Relationship between any of the Top Ten Shareholders

April 13, 2020

Name (note 1)	Personal shareholding		Shares held by spouse and underage children		Total shareholding by nominee arrangement		Titles, names, and relationships applicable to the top 10 shareholders with relationships specified by SFAS no. 6, spouse and kinship within the second degree. (note 3)		Note
	No. of Shares	Shareholding ratio	No. of Shares	Shareholding ratio	No. of Shares	Shareholding ratio	Name	Relationship	
Han De Investment Co., Ltd. Representative : Alexander M.T.Su	21,055,276	6.78%	17,646,487	5.68%	—	—	Alexander M.T.Su	The Chairman	
Alexander M.T.Su	16,530,719	5.32%	1,115,768	0.36%	—	—	Johnathon Y.J.Su Han De Investment Co., Ltd.	Father-son representative	
Trickle Co., Ltd. Representative : Tian-Cheng, Chang	14,662,469	4.72%	5,228,283	1.69%	—	—	Tian-Chen g, Chang	Representative of Corporate Director	
Hui Jung Investment Co., Ltd. Representative : Alexander M.T.Su	12,000,916	3.86%	17,646,487	5.68%	—	—	Alexander M.T.Su	The Chairman	
Cheng Yu Investment Co., Ltd. Representative : Johnathon Y.J.Su	8,610,873	2.77%	7,837,930	2.52%	—	—	Johnathon Y.J.Su	The Chairman	
Johnathon Y.J.Su	7,704,930	2.48%	133,000	0.04%	—	—	Alexander M.T.Su Cheng Yu Investment Co., Ltd.	Father-son representative	
Pictet Bank's investment account under the trust of HSBC	6,681,000	1.93%	—	—	—	—			
Alexander M.T.Su's dedicated trust account in First Commercial Bank	6,000,000	1.93%	17,646,487	5.68%	—	—	Alexander M.T.Su	The Chairman	

Name (note 1)	Personal shareholding		Shares held by spouse and underage children		Total shareholding by nominee arrangement		Titles, names, and relationships applicable to the top 10 shareholders with relationships specified by SFAS no. 6, spouse and kinship within the second degree. (note 3)		Note
	No. of Shares	Shareholding ratio	No. of Shares	Shareholding ratio	No. of Shares	Shareholding ratio	Name	Relationship	
Tian-Cheng, Chang	5,228,283	1.68%	—	—	—	—	Trickle Co., Ltd.	Corporate Director	
Vanguard FTSE Emerging Markets Stock ETF Account under the trust of Standard Chartered Bank	3,988,403	1.28%	—	—	—	—			

Note 1: The names of the top ten shareholders shall be disclosed and the names and representatives of corporate shareholders shall be listed separately,

Note 2: The calculation of the shareholding ratio refers to the ratio of shares held by the individual, the spouse, underage children, or through nominee arrangements.

Note 3: Relationships between the shareholders described above, including institutions and natural persons, shall be disclosed according to the "Regulations Governing the Preparation of Financial Reports by Securities Issuers."

3. Market price per share, net worth, earnings, dividends, and the related information for the last 2 years

Item	Year	2018 (Distributed in 2019)	2019 (Distributed in 2020)	Current year up to Tuesday, March 31, 2020 (Note 5)
Stock price (Note 1)	Maximum	52.50	34.60	33.10
	Minimum	28.10	26.00	17.10
	Average	35.94	30.17	26.78
Net Value Per Share	Before distribution	21.60	20.23	23.57
	After distribution	20.10	19.43	23.57
Earnings per share	Weighted Average Shares	309,163,634	310,687,699	310,687,699
	Diluted earnings per share	3.06	0.39	-0.35
Dividend per share	Cash dividends	1.50	0.80	–
	Accumulated Unpaid Dividend	–	–	–
Investment Return Analysis	PE ratio (Note 2)	11.75	77.36	–
	Price-dividend ratio (Note 3)	23.97	37.31	–
	Cash dividend yield (Note 4)	4.17%	2.65%	–

Note 1: Source of information is the TWSE website.
Note 2: Price earnings ratio = average closing price per share for the year/earnings per share.
Note 3: Price dividend ratio = average closing price per share for the year/cash dividend.
Note 4: Cash dividend yield = cash dividends / average closing price per share for the year.
Note 5: The net value per share and earnings per share shall include information audited (reviewed) by the CPA in the most recent quarter up to the publication date of the Annual Report; the other fields shall include information from the current year up to the publication date of the Annual Report.

(vi) Dividend Policy and Implementation Status

1.Company Dividend Policy

The Company has adopted a balanced dividend policy to protect shareholder interest and the goal of sustainable development.

The Company shall not distribute dividends in shares or interests in the absence of retained earnings in the current year. The Company has distributed cash dividends to shareholders every year since 2000. The Company will continue to follow a consistent and sustainable dividend policy. Capital budget planning for the next year will be based on actual profits and financial, sales, and management performance in the current year, and the most appropriate cash dividend distribution proposal will be determined accordingly. On March 17, 2020, the Board of Directors of the Company proposed that the 2019 earnings be distributed as a cash dividend of NT$0.80 per share as shown in the table below. The Company will proceed to carry out the proposal after it is approved at the general shareholders meeting on June 11, 2020.

2.Dividend Distribution to be Proposed to the Shareholders Meeting

		Amount Distributed Per Share (NT$)	Source
Cash dividends		NT$0.80	Undistributed earnings
Cash dividends		NT$--	Capital reserve
Total	Cash dividends	NT$0.80	Undistributed earnings
	Total	NT$0.80	

(vii) The effects of the stock dividends on the Company's business performances, earnings per share, and shareholder ROI: Not applicable

(viii) Employee Bonus and Director and Supervisor Remuneration

(1) According to the Company's Articles of Incorporation, if the Company has profit for the year, 3% or less shall be set aside as remuneration for Directors and Supervisors and no less than 3% shall be set aside as remuneration to employees.

(2) Distribution of remuneration to Directors, Supervisors, and employees for 2019:

1.The Company's 2019 Earnings Distribution Statement was approved in the 19th meeting of the Company's 14th Board of Directors on March 17, 2020. After the Statement is passed in the general shareholders meeting on June 11, 2020, and approved by the governing authorities, the Board of Directors shall establish a stock (dividend) distribution date to implement the Statement.

2.Distribution of earnings in the current year as employee remuneration and Director/Supervisor remuneration:

Unit: NT$

Item	2019
Director's remuneration	4,198,719
Remuneration for employees (distributed in cash)	4,198,719

Note: 1. The amount of the aforementioned remuneration for Directors and cash bonus is consistent with the resolution by the Board of Directors on Tuesday, March 17, 2020. The aforementioned employee cash bonus was distributed after resolution in the 2019 general shareholders meeting.

2. The amount is consistent with the resolution by the Board of Directors.

3.The ratio of proposed employee stock bonus allocation compared to the individual financial report net profit after tax for the quarter and the total employee bonuses: Not applicable.

(3) Use of 2018 earnings for distribution of employee remuneration and Director/Supervisor remuneration:

Unit: NT$

Item	Resolution of the Meeting of the Board of Directors	Actual appropriated amount (Note):
Director's remuneration	35,145,923	35,145,923
Remuneration for employees (distributed in cash)	35,145,923	35,145,923

Note: The amount of the aforementioned remuneration for Directors and cash bonus is consistent with the resolution by the Board of Directors on March 19, 2019. The aforementioned employee cash bonus was distributed after resolution in the 2019 general shareholders meeting. The amount is consistent with the resolution by the Board of Directors.

(ix) Buyback of Treasury Stock: (Still in progress)

April 30, 2020

Times of buyback	9th time
Purpose	Uphold company reputation and shareholders' interests
Type of bought-back shares	Ordinary shares
Maximum amount of bought-back shares	NT$2,851,769 thousand
Planned buyback period	March 20, 2020 to May 18, 2020
Planned buyback amount	7,000,000 shares
Buyback price range	NT$12.01 to NT$41.76
Type and volume of bought-back shares	1,942,000 shares (Note1)
Amount spent on buyback	NTD$43,843 thousand
Ratio of shares bought-back to the planned buyback amount (%)	0.625%

Note1：7,000 thousand shares are scheduled to be repurchased and 1,942 thousand shares will be repurchased as of April 30, 2020

ii. Corporate bond issuance status:

(1) Corporate bond issuance status

<table>
<tr><th colspan="2">Corporate bond type
(Note 2)</th><th>Fifth issuance of unsecured convertible corporate bond
(Note 5)</th></tr>
<tr><td colspan="2">Issuance (processing) date</td><td>November 9, 2017</td></tr>
<tr><td colspan="2">Face value</td><td>NT$100,000</td></tr>
<tr><td colspan="2">Place of issue and trading (Note 3)</td><td>Republic of China</td></tr>
<tr><td colspan="2">Issue price</td><td>NT$100.2 (Issued at a 100.2% par value)</td></tr>
<tr><td colspan="2">Total face value of bonds issued</td><td>NT$600,000,000</td></tr>
<tr><td colspan="2">Interest rate</td><td>0%</td></tr>
<tr><td colspan="2">Term</td><td>5 years; date of expiration: Wednesday, November 9, 2022</td></tr>
<tr><td colspan="2">Guarantor</td><td>No</td></tr>
<tr><td colspan="2">Trustee</td><td>Trust Department, Hua Nan Commercial Bank Co., Ltd.</td></tr>
<tr><td colspan="2">Underwriter</td><td>Taishin Securities Co., Ltd.</td></tr>
<tr><td colspan="2">Certifying lawyer</td><td>Yi-Cheng Peng, Handsome Attorneys-at-Law</td></tr>
<tr><td colspan="2">Certifying CPA</td><td>Deloitte & Touche
CPAs Chao-Ling Chen, Chiang-Pao Liu</td></tr>
<tr><td colspan="2">Payback method</td><td>The principle is repaid in lump sum by wire transfer or check, except where the bonds are converted into the Company's common shares in accordance with Article 10 of the Regulations on the Issuance and Conversion of Corporate Bonds for the Company's fifth issuance of unsecured corporate bonds or called prematurely by the Company in accordance with Article 17 of the same regulations.</td></tr>
<tr><td colspan="2">Outstanding principal</td><td>NT$439,800,000 (2020/4/30)</td></tr>
<tr><td colspan="2">Terms and conditions for redemption or early repayment</td><td>From the day after convertible corporate bonds have been issued for 3 months (February 10, 2018) to forty days before the bonds reach maturity date (September 30, 2022), if the Company's common stock closes at more than 30% higher than the convertible price at the time for thirty consecutive business days, and the outstanding balance of the convertible corporate bond is below 10% of the total issue, the Company may buy back the bonds at par value and proceed with its fifth issuance of unsecured corporate bonds in accordance with Article 17 of the Regulations on the Issuance and Conversion of Corporate Bonds.</td></tr>
<tr><td colspan="2">Restrictions (Note 4)</td><td>No</td></tr>
<tr><td colspan="2">Name of credit rating institution, rating date, and outcome of corporate bond rating</td><td>No</td></tr>
<tr><td rowspan="2">Other rights attached</td><td>Converted to ordinary (exchange or subscription) shares, global depository receipts, or other marketable securities as of the date of this annual report</td><td>NT$160,200,000 (2020/4/30)</td></tr>
<tr><td>Issuance and conversion (exchange or subscription) method</td><td>Please refer to the Regulations pertaining to issuance and conversion.</td></tr>
<tr><td colspan="2">Issuance and conversion, exchange or subscription methods, and the condition of issuance that may dilute share equity and affect equity rights for the existing shareholders</td><td>Please refer to the Regulations pertaining to issuance and conversion.</td></tr>
<tr><td colspan="2">Name of custodian for the exchange bid</td><td>No</td></tr>
</table>

Note 1: Administration of corporate bonds can be divided into public offering and private placement. Public offering of corporate bonds refers to those approved (authorized) by the FSC; private placement of corporate bonds refers to those approved/authorized by the Board of Directors.

Note 2: Please use additional rows as needed.

Note 3: To be filled if bonds are issued by foreign companies.

Note 4: If cash dividend distribution or overseas investments are restricted, or if a certain percentage of assets is required to be maintained, etc.

Note 5: Private placement shall be specified clearly.

Note 6: The conversion of corporate bonds, exchange of corporate bonds, a summary report of issued corporate bonds or bonds with a warrant shall be listed in accordance with their properties before disclosing information on conversion corporate bonds, exchange of corporate bonds, and a summary report of issued corporate bonds or bonds with a warrant.

(2) Convertible bond data

Corporate bond type (Note 1)		Fifth issuance of domestic unsecured convertible corporate bond		
Item / Year		2018	2019	Current year up to April 30, 2020 (Note 4)
Market price of convertible corporate bonds (Note 2)	Maximum	144.00	111.50	114.95
	Minimum	102.50	104.55	101.50
	Average	118.12	108.30	104.13
Conversion price		NT$32.60		
Issue (processing) date and conversion price at issuance		Issuance date: Thursday, November 9, 2017 Conversion price at issuance: NT$36.00		
Methods of fulfilling conversion obligations (Note 3)		Issuance of new shares		

Note 1: Please use additional rows as needed.

Note 2: If there are multiple transaction locations for issuance of overseas corporate bonds, they shall be indicated in accordance with the location of issuance.

Note 3: Number of shares delivered or new shares issued.

Note 4: Information on the current year up to the publication date of the annual report.

(3) Information on the exchange of corporate bonds: None.

(4) Information for shelf registration: None.

(5) Information on corporate bonds with a warrant: None.

iii. Issuance of preferred stocks: None

iv. Issuance of global depositary receipts (GDR): None

v. Exercise of employee stock option plan (ESOP): None

vi. Restricted stock awards: None

vii. Mergers (including mergers, acquisitions, and demergers): None

(1) Mergers, acquisitions or issuance of new shares due to acquisition of shares of other companies that have been completed in the past year and up to the date of report:

1. Evaluative opinions submitted by the lead underwriter for mergers, acquisitions or issuance of new shares for the acquisition of shares of other companies in the most recent quarter: None
2. If the implementation status in the most recent quarter fails to reach expected objectives in terms of progress or performance, the impact to shareholder equities and improvement plans shall be described in detail: None

(2) Resolutions adopted by the Board of Directors in the past year and up to the date of report approving a merger, acquisition, or issuance of new shares due to acquisition of shares of other companies: None

viii. Capital utilization plan:

The Financial Supervisory Commission has authorized the Company's 5th issuance of domestic unsecured convertible corporate bonds to raise a total of NT$601.2 million according to the official document Jin-Guan-Zheng-Fa No.1060038847 dated October 19, 2017. The offering was completed on November 7, 2017. The funds raised in this round were used to complete land compaction on building sites, expand plants, and purchase machinery and equipment.

(1)Plan

Unit: NT$1,000

Item	Expected completion date	Total amount of capital required	Planned timeline for fund utilization					
			2018				2019	
			Q1	Q2	Q3	Q4	Q1	Q2
Land compaction in building sites	2019 Q1	80,000	-	20,000	20,000	20,000	20,000	-
Expansion of plants	2019 Q2	498,000	-	48,000	100,000	100,000	100,000	150,000
Purchase of machinery and equipment	2019 Q2	25,000	-	-	-	5,000	10,000	10,000
Total		603,000	-	68,000	120,000	125,000	130,000	160,000
Expected benefits		The offering of the fifth issuance of domestic unsecured convertible corporate bonds was completed in the fourth quarter of 2017 and raised NT$601.2 million. The fund is intended to pay for the purchase of equipment to complete land compaction in building sites, expansion of plants, and purchase of machinery and equipment. The building site compaction project, expansion of plants, and purchase of machinery and equipment are aimed to expand the range of equipment at hand and modify the production lines to improve production efficiency and make the Company more competitive, which in turn will facilitate future plans and reduce operational risks.						

(2)Implementation status:

Unit: NT$1,000

<table>
<tr><th>Item</th><th colspan="2">Status</th><th>2020 Q1</th><th>As of 2020 Q1</th><th>Reasons for deviating from schedule and plans for improvement</th></tr>
<tr><td rowspan="4">Land compaction in building sites</td><td rowspan="2">Expenditures</td><td>Planned</td><td>—</td><td>80,000</td><td rowspan="16">The building site compaction project and expansion of plants were scheduled to begin in the second quarter of 2018, but the plan was set back due to building permit application delays. Now that the building permit has been approved, the Company is constructing a new modernized automated storage and logistics park in the Guanyin District. There are no changes to the projects or funding, therefore no change is involved at present.</td></tr>
<tr><td>Actual</td><td>25</td><td>4,030</td></tr>
<tr><td rowspan="2">Progress</td><td>Planned</td><td>—</td><td>100.00%</td></tr>
<tr><td>Actual</td><td>0.03%</td><td>5.04%</td></tr>
<tr><td rowspan="4">Expansion of plants</td><td rowspan="2">Expenditures</td><td>Planned</td><td>—</td><td>498,000</td></tr>
<tr><td>Actual</td><td>132,361</td><td>196,313</td></tr>
<tr><td rowspan="2">Progress</td><td>Planned</td><td>—</td><td>100.00%</td></tr>
<tr><td>Actual</td><td>26.58%</td><td>39.42%</td></tr>
<tr><td rowspan="4">Purchase of machinery and equipment</td><td rowspan="2">Expenditures</td><td>Planned</td><td>—</td><td>25,000</td></tr>
<tr><td>Actual</td><td>7,167</td><td>25,000</td></tr>
<tr><td rowspan="2">Progress</td><td>Planned</td><td>—</td><td>100.00%</td></tr>
<tr><td>Actual</td><td>28.67%</td><td>100.00%</td></tr>
<tr><td rowspan="4">Total</td><td rowspan="2">Expenditures</td><td>Planned</td><td>—</td><td>603,000</td></tr>
<tr><td>Actual</td><td>139,553</td><td>225,343</td></tr>
<tr><td rowspan="2">Progress</td><td>Planned</td><td>—</td><td>100.00%</td></tr>
<tr><td>Actual</td><td>23.14%</td><td>37.37%</td></tr>
</table>

The Company made its fifth issuance of domestic unsecured convertible corporate bonds to raise funds for the building site compaction project, expansion of plants, and purchase of machinery and equipment. The building permit is still pending, and the contractor continues to make the appropriate applications and preparations. No expenses have been claimed, and therefore there is no material deviation.

This project required a total of NT$603 million in funding. As of the 1st quarter of 2020, NT$225.343 million of the NT$603 million obtained through the fifth issuance of domestic unsecured convertible corporate bonds were used according to the actual construction plan and contract progress. The remaining NT$377.657 million is deposited as cash in banks. The statements were verified to be consistent with the balance of deposits in banks. Therefore, the usage of the Company's unused funds is found to be reasonable.

As of the first quarter of 2020, the Company has received the building permit from governing authorities and began construction. There are no changes to the projects or funding, therefore no change is involved at present.

V. Business Overview

i.Business activities

(i)Scope of business

The Company's consolidated business operations include: (1). Leveling of steel coils, cutting and stamping of various steel sections, alloy steel, and special steels. (2). Wholesale and retail of various steel and iron plates, iron tubes, hardware, and machinery equipment. (3). Processing and manufacture of steel frames, steel tubes, and steel hardware; (4). Contracting vendors to build public housing and commercial buildings for sale and lease. (5). Import and export of the aforementioned products and agency for quotation and tenders. (6). Investment in various production businesses, securities investment companies, banks, and insurance companies. (7). Wholesale and retail of various metal construction materials. (8). Production, purchasing, and sales of various metal products (vibration isolation systems for buildings and vibration isolation dampers for bridges). (9). Real estate rental and leasing. (10). Business dealings not prohibited or restricted by law, except those subject to special approval.

(ii)Revenue distribution

Of the Company's consolidated business operation in 2019, the percentage of revenue from main products out of the total sales revenue were as follows: 41.39% from steel plates, 2.90% from special steel plates, 11.94% from hot-rolled steel plates, 12.64% from stainless steel, 16.69% from steel sections, 13.76% from galvanized steel plates, and 0.68% from others. The ratios of domestic sales and exports are 99% and 1%.

(iii)Industry Overview

According to the "2019 Taiwan Steel & Iron" published by the Taiwan Steel & Iron Industries Association, the government's plans to strengthen offshore wind power, domestic production of domestic military vessels, and construction of social residences will promote investments in public construction and increase demand for steel materials. With regard to supply, as the domestic market has long been saturated, steel manufacturers have mainly focused on refining equipment and upgrading production lines, with very few cases of expansion.

Current products and services:

A.Current products and materials for sales and purchase: Steel plates, special steels, patterned and hot-rolled steel plates, stainless steel, steel sections, galvanized steel plates, steel structure components (including vibration isolation systems for buildings and vibration isolation dampers for bridges).

B.Cutting and processing of completed products:

(A)Cutting steel plates, special steels, galvanized steel plates, and patterned and hot-rolled steel plates to designated lengths.

(B)Processing steel plates, special steel plates, galvanized steel plates, and patterned and hot-rolled steel plates into special shapes and sizes.

(C)Cutting and processing stainless steel materials into special shapes and sizes.

(D)Polishing and precision processing of stainless steel materials.

(E)Agency service for importing steel materials of special specifications and material.

(F)Production and processing of steel structure components, box-columns, steel section columns, and span columns.

(G)Production and processing of patterned worker's boards.

(iv)Overview of Technology and R&D

(1)New products under development

A.Pickled steel plates and pickled steel coils.

B.Joint subcontracting in material supply and cutting services.

C.Cooperation with solar power support manufacturers to provide products for solar panel sheets.

(2)Production management

A.Management consulting courses: Improve onsite management standards and assist in the establishment of management concepts.

B.Strengthen the 5S management system.

C.Increase opportunities for training and internships to shorten the amount of time required for new recruits to operate on the production line.

(v)Long- and Short-Term Business Development Plans

(1)Short-Term Business Plan

A.Adopt a collaborative strategy and supply chain cooperation strategy while expanding production capabilities, expanding the market, and maintaining the market share in steel cutting and logistics through more investments.

B.With sophisticated existing steel cutting technology, develop new customers, reconnect with old customers, and develop new applications to maintain Hsin Kuang Steel's market share in the global steel materials industry.

C.Establish a brand image and promote Hsin Kuang Steel's business and services in emerging and developing markets.

(2)Long-Term Business Development Plans

A.Provide satisfactory pre-sales and after-sales services with the Company’s exceedingly stable foundations that include over 2,000 long-term domestic and foreign customers, intensive partnerships with upstream domestic and foreign steel mills, integrated domestic logistics networks, availability of storage space and land in the plants, sophisticated cutting equipment, automated transportation equipment and fleets, and young talents that are full of potential.

B.In response to the demands for underwater foundation piles for offshore wind power and the solar photovoltaic green energy supply chain, the Company has been improving its cutting and manufacturing technologies, strengthening its services for the photovoltaic green energy industry value chain, and developing offshore wind farm maintenance projects to satisfy the needs of world-class wind farm developers while extending the scope of services and length of service periods.

C.Further develop innovative business models to increase the contribution of business applications related to reasonably profitable business transformation models uncovered from customer-satisfactory value chains. Provide more integrated services that include integrated strategies for steel products, further enhancement of cutting technologies, and optimal strategic plans to provide customers with better value.

ii.Market, production, and sales

(i)Production & Marketing Profile

The Company’s consolidated operating revenue in 2019 was NT$8,48 billion while operating net loss was NT$97,9 million Compared to 2018, operating revenue decreased by 2.49% while operating profit decreased by 122.84%. In 2019, due to the continued US-China trade disputes, increasing uncertainty in international political and economic events, and US-China trade and trade protection policies impacting international steel demand, the Company opened its production capacity to the fullest. Thanks to smooth procurement, production, and sales operations as well as the concerted effort of all employees, the Company was able to produce and sell 340 thousand metric tons of steel products out of its 2019 goal of 370 thousand metric tons, resulting in an achievement rate of 91.9%.

In order to establish long-term advantages, the Company has implemented the following business strategy guidelines in 2019 to achieve the optimal results: Procurement: strengthen supplier relationships and management and make acquisitions when prices are low; Business operation: Adopt complex management styles and sell multiple types of steel; Public and private construction: Adopt concerted cooperation and accept new purchase orders. Strategic integration and mid to long-term plans: Implement supply chain integration, work with joint ventures and world-class steel plants, supply and manufacture steel parts for underwater foundations for offshore wind power projects, develop solar photovoltaic materials, and expand overseas investments; Customer relations management: Focus on the value curve and develop new customers. The Company has always relied on its expertise in steel material services as it continues to integrate corporate resources, enhance the overall core capabilities, and implement more efficient digitized corporate operating procedures in order to provide customers with the most comprehensive one-stop services. As a result, the Company ensures its outstanding performance in the intensely competitive industry through the management and operation of corporate resources, diverse and comprehensive customer services, and fast logistics distribution and sales services.

(ii)Market Analysis

2. Sales of main products and services and available regions :

   The Company's main products and services include the cutting, processing, and sales of various steel plates and steel sections. It mainly supplies the domestic market, with sales channels nationwide and over 2000 customers.

   The distribution of the Company's domestic sales in 2019 are as follows: 56% for the Northern Region, 24% for the Central Region, and 20% for the Southern Region. Domestic sales accounted for 99% of sales while exports accounted for 1% of sales.

3. Market share and future supply and demand status:

   (1)Market Share:

   The Company plays a key role in connecting upstream and downstream industries in the secondary processing and cutting process between the steel refinery products and the terminal industrial products in the steel industry. The Company has established the professional "Steel Materials Logistics Center", "Building Steel Cutting Center", "Steel Structure Components Production Center", and an island-wide distribution network to integrate related upstream and downstream industries, fully exerting the functions of the Hsin Kuang Steel and its network of affiliate operations for the benefit of the Company's production and marketing plans.

   To increase market competitiveness and become the material supply center with the most comprehensive cutting equipment in Taiwan, the Company has over the years purchased fully-automated cutting equipment with high cutting quality and efficiency. The Company shall also increase its market share through the "Steel Materials Logistics Center" marketing strategy and its island-wide distribution network.

Through strategic alliances and vertical industry integration, the Company took part in public construction tenders and major private construction projects to advance the sale of steel materials and cutting services to supply materials for joint subcontracting projects. The Company's way of providing customers with comprehensive services and achieving win-win outcomes through various functions and activities in the value chain has become a competitive advantage difficult for competitors to imitate and surpass.

According to statistics compiled by CommonWealth Magazine, the Company’s consolidated revenue of NT$8.48 billion ranked 337th among the top 2000 manufacturers in 2019 and 17th in the metal resources industry.

The Company is the only medium and thick steel plate cutting center qualified and registered by the Industrial Development Bureau, Ministry of Economic Affairs. The Company is equipped with a full range of equipment and provides excellent quality and fast delivery. It is the top supplier in terms of the scale of cutting operations and provides comprehensive transportation services. These factors have won the Company recognition and trust in the industry.

(2)Future market supply and demand:

Demand for steel materials soars as the government continues to push solar power, offshore wind power, and forward-looking infrastructure while implementing major public construction projects and policies to expand the domestic market, and overseas Taiwanese businesses return operations to the island, thereby increasing private investments and the number of plants and office buildings, contributing to the prosperity of the steel industry. The Company plays a key role in connecting the upstream and downstream enterprises in the steel industry as it fulfills the functions of the "Steel Product Logistics Center", "Building Steel Cutting Center", and "Steel Structure Components Production Center", which grows each year with the growth of the industry.

A.Steel Plates

Large-scale domestic public construction projects include: The Airport High-Speed Rail, industrial and commercial integrated complexes, financial-center skyscrapers, military community renewal projects, the Sixth Power Transmission and Construction Project, MRT systems for metropolitan areas, the Danjiang Bridge Project, and the Taoyuan Airport Terminal 3 “Apron, Taxiway and Apron Facility Project”. According to the "Demand Forecast of Steel Products in Taiwan from 2019 to 2024" compiled by Taiwan Steel & Iron Industries Association, government focus on forward-looking infrastructure will drive extended demand, implementation of urban renewal projects, and increase the construction area and production volume in building license applications in the long run. The shipbuilding industry will recover from its economic slump, and with increased utilization rates, steel structure, pipe manufacturing, and machinery industries will benefit from the stable growth of the economy and construction industry. The average rate of growth in the demand for steel plates between 2019 and 2014 is projected to be 1.44%. The demand in 2020 is estimated to be 1.186 million tons, a demand growth rate of 2.50%. The steel plates that the Company purchased from China Steel account for approximately 15% of China Steel's thick steel plate sales. The Company is also a cutting center for medium to thick steel plates registered with the Industrial Development Bureau, Ministry of Economic Affairs. The Company's comprehensive cutting capabilities, professional cutting technologies, and the island-wide distribution network of its logistics center can provide customers with convenient one-stop service and sustain the continued growth of this business.

B.Special Steel Plates

Special steel is widely used and the main material for many key components. It has relatively high-quality requirements, and its projected annual growth rate for domestic sales is approximately 1.5%. The special steel plates cut by the Company are mainly medium-carbon steel plates and alloy steel plates used for molds. The Company's new equipment ensures accuracy and stable quality, while its extensive island-wide sales channels ensure stable growth each year.

C.Hot-Rolled/Cold-Rolled Steel Plates

According to the "Demand Forecast of Steel Products in Taiwan from 2019 to 2024" compiled by Taiwan Steel & Iron Industries Association, long-term development in the main downstream industries for hot-rolled steel plates such as cold-rolled and galvanized steel plates have limited room for demand to grow in the domestic and export market. Demand from production in the automotive industry remains poor while steel pipes and hot-rolled products gained marginal growth as the economy stabilized. The average growth rate of the demand for hot-rolled steel products from 2019 to 2024 is projected to be -2.06%, and the demand in 2020 is projected to be 4.758 million tons with a growth rate of -2.60%. The Association projected that the average growth rate of the demand for cold-rolled steel products from 2019 to 2024 will be -0.50%. The demand in 2020 is expected to be 1.931 million tons with a growth rate of -0.90%. The Company's Northern Region Steel Coil Cutting Center and the Central Region Steel Coil Cutting Center have eight sets of steel coil leveling and automated cutting machines. The cut hot-rolled steel plates can be used for computer cases, buildings, auto and motorcycle parts, fuse box components, machinery, hardware components, etc. The Company is able to supply the market with 80,000 to 120,000 metric tons of products each year. The supply can be increased in accordance with growing market demand.

According to the "Demand Forecast of Steel Products in Taiwan from 2019 to 2024" compiled by Taiwan Steel & Iron Industries Association, with the driving force of forward-looking infrastructure projects, mild growth in the number of government construction projects, and low baseline levels over the long term, the demand for hot-rolled galvanized steel products is expected to grow by an average of -1.37% from 2019 to 2024. The Association predicted that the national demand for hot-rolled galvanized steel products in 2020 will be 1.522 million metric tons with a demand growth rate of -3.00%.

According to the "Demand Forecast of Steel Products in Taiwan from 2019 to 2024" compiled by Taiwan Steel & Iron Industries Association, as long-term demand for galvanized steel grows due to the demand for panels, electronic and optical products, the demand for the galvanized steel products will grow by an average of 1.36% per year from 2019 to 2024. The Association predicted that the national demand for galvanized steel products in 2020 will be 89,000 metric tons with a demand growth rate of 3.10%.

The Company is able to supply the market with approximately 3 from the 20,000 metric tons of hot-rolled galvanized and galvanized steel products each year and the supply can be increased in accordance with growing market demand.

D.Stainless Steel

According to the "Demand Forecast of Steel Products in Taiwan from 2019 to 2024" compiled by Taiwan Steel & Iron Industries Association, as the domestic demand for hot-rolled stainless steel products continues to grow due to growths in the petrochemicals and coal products, pipe production, and machinery industry, there will be a sustained high demand for hot-rolled stainless steel products. This demand is expected to grow by an average of 1.71% per year from 2019 to 2024. The Association predicted that the demand for hot-rolled stainless steel products in 2020 will be 1.261 million metric tons with a demand growth rate of 3.20%.

According to the "Demand Forecast of Steel Products in Taiwan from 2019 to 2024" compiled by Taiwan Steel & Iron Industries Association, an increased number of domestic construction projects, growing petrochemicals and coal processing and metal utensils industries, and growing demand for stainless steel pipes, in the long run, will drive domestic demand for cold-rolled stainless steel products by a projected average growth rate of 0.73% from 2019 to 2024. The Association predicted that the demand for cold-rolled stainless steel products in 2020 will be 547,000 metric tons with a demand growth rate of 1.14%.

The Company's Stainless Steel Cutting Center was established in the first quarter of 2001, introducing the latest computer statistics-controlled fully-automated plasma cutting equipment available in Taiwan. In 2004, the Company also purchased more cutting equipment to provide diverse, high quality, and high precision cutting services, creating high value-added profits. The additional stainless steel leveling and cutting machine purchased in 2005 is now in operation. It can provide downstream customers with stainless steel plates in more diverse sizes and help to develop the Company’s stainless steel profit center. The stainless steel production and cutting base, additional stainless steel leveling and cutting machine, and the latest shearing machine from Italy that the Company acquired in 2007 have been operating since early 2008. They provide downstream customers with stainless steel plates cut with higher precision, helping to further the Company's stainless steel profit center. The stainless steel polishing plant established in 2010 has been operating since the first quarter of 2011. It can provide downstream customers with even more stainless steel plates cut with higher precision, helping to further the Company's stainless steel profit center.

E.Steel Section

The Company's Steel Sections Department mainly supplies imported round steel bars in larger sizes, which are mainly processed into machinery components, screws, nuts, hand-operated tools, magnetic components for speakers, etc. According to the "Demand Forecast of Steel Products in Taiwan from 2019 to 2024" compiled by Taiwan Steel & Iron Industries Association, as the stable growth of the global economy drives the demand for hand-operated tools, automobiles, motorcycles, vehicle parts, and screw and nuts in the long run, the demand for the steel sections is expected to grow by an average of 1.00% from 2019 to 2024. The Association predicted that domestic demand for steel sections in 2020 will be 863 thousand metric tons with a demand growth rate of 2.10%.

F.Comprehensive Analysis

With the economy growing, the government promoting solar power, offshore wind power, forward-looking infrastructure, and expansion of the domestic market while encouraging overseas Taiwanese businesses to return operations to Taiwan, and increasing private investment in new industrial plants, offices, and buildings, demand for steel materials is on the rise. The steel and iron industry has shifted its focus to developing higher quality products with higher added-value. The demand for steel materials went from 4.2 million tons in 1982 to a projected 45.85 million tons in 2020, and it is still on the rise. China's rapid economic development led to extensive improvements in all kinds of hardware construction, turning China into one of the world’s biggest consumer for steel and spurred overall demand in the steel industry. As a result, the steel industry will have several years of rapid development in its future. The Company believes that only through equipment innovation, diversified products, increase in product quality, and implementation of corporate resource operations can we survive and prosper in the fiercely competitive market. Therefore, we shall continue to leverage our "Building Steel Cutting Center", "Steel Product Logistics Center", and "Steel Structure Components Production Center" to continue operations and sustain growth in the industry.

(3)Favorable and unfavorable factors in the Company’s operating goals and development:

The Company's main operating policy for 2020 is to generate profits. Adjustments will be made to the ratio of steel cutting services and logistics services for steel products, and there will be increased production of steel structure construction, steel decks, colored steel plates, C-shaped steel sections, and fireproof doors. The Company's operating target for 2020 is 437,000 metric tons of steel products. Analysis of the favorable and unfavorable factors for the Company's long-term growth and strategy are as follows:

A.Favorable factors:

a.Since the steel industry is the basis of national infrastructure and a key industry for economic development, it is closely tied to other industries, serving as the basis of industries like transportation, machinery, shipbuilding, construction, electrical engineering, etc. The steel industry is therefore known as the mother of all industries. Long-term economic developments, a strong capital foundation, and the Taiwanese government’s recent campaigns to support solar power, offshore wind power, forward-looking infrastructure, and expansion of domestic markets while encouraging overseas Taiwanese businesses to return their operations to Taiwan, facilitating a stable and optimistic future for the domestic steel market. Offshore wind power offers opportunities for transformation and upgrades for domestic end-use industries. As a result, the domestic steel industry and other end-use industries are reporting increased domestic capital expenditures, which is immensely beneficial to the steel cutting industry.

b.The Company's full range of cutting equipment and state-of-the-art steel structure component production line, products, and inventory provide more comprehensive services than other firms in the industry and can satisfy the different needs of different customers. The Company also has comprehensive and high-performance distribution services in the form of its "Building Steel Cutting Center", "Steel Product Logistics Center", "Stainless Steel Polishing and Cutting Center", "Surface Galvanized Steel Product Cutting Center", and "Steel Structure Components Production Center".

To meet demands from the supply chain of offshore wind power equipment, the Company created the "Elbow Production Center for Foundations and Underwater Foundations".

To meet demands from the supply chain of solar power infrastructures, the Company created the "Building Steel Cutting Center".

c.The BOT model adopted by public construction projects will increase the demand for steel, particularly for airport high-speed rails, industrial and commercial complexes, financial-center skyscrapers, renewal projects for military communities, the Sixth Power Transmission and Construction Project, MRT systems for metropolitan areas, the Danjiang Bridge Project, and the Taoyuan International Airport Terminal 3 "Apron, Taxiway, and Apron Facility Project". By establishing a network of affiliates with Hsin Kuang Steel at the center and strategic partnerships, the Company is able to advance joint subcontracting in large-scale public and private construction projects, provide professional cutting services and production services for steel structure components, and open up more business opportunities.

d.The expansion in the production and export of steel products has been met by strong demands from Southeast Asia, where rapid economic development is translating into higher demand for steel products. Over the long term, these developments will make Taiwan the supply center for steel products in the Asia Pacific.

B.Unfavorable factors:

a.Steel prices and market demand began to decline in the third quarter of 2011 due to stagnation in the international economy. In the second half of 2019, the US-China trade dispute further caused a decline in both steel price and production volume. As a result, the steel industry faces more intense competition in vertical supply, with new challenges to overcome in business operations and strategies.

b.Insufficient entry-level laborers and the vast increase in wages due to reduced work hours and labor laws affected production costs.

c.Market order remains to be established in the wake of liberalized steel import and export and lower entry threshold for secondary processing operators.

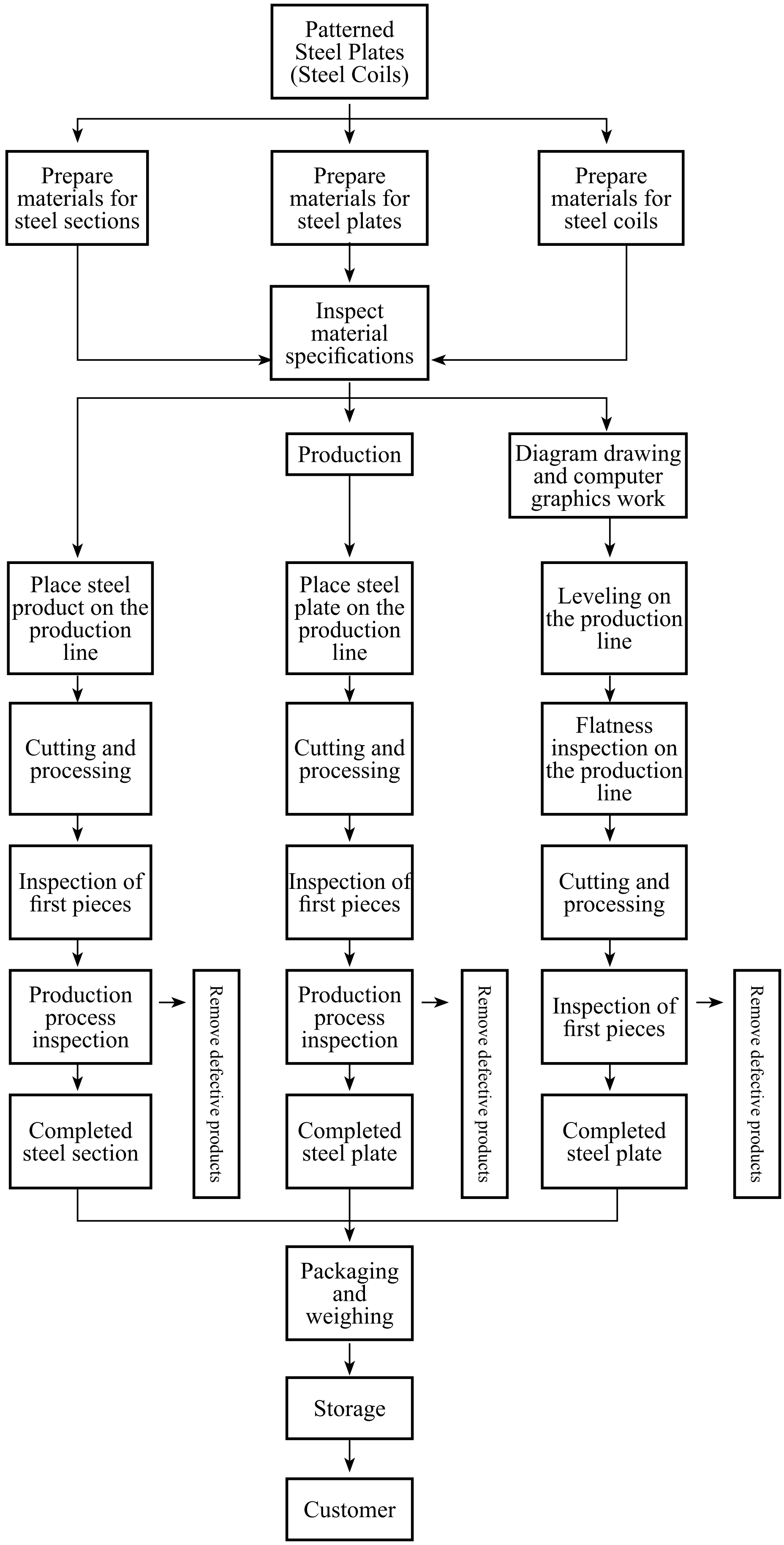
d.The domestic private investment environment has performed poorly in recent years, with numerous industries relocating to China or Southeast Asian countries. Recent international economic development fell short of expectations, and as a result, domestic investment, import/export, and industrial output can no longer maintain the same growth as before.

4. Important Applications and Manufacturing Processes of Main Products

(1)Applications of Main Products:

Name of Main Product		Applications
Steel Plates		Piles for underwater foundations of offshore wind farms, steel frame foundation structures (production and installation of steel frame box-columns and BH steel column components), pot bearing for bridges, vibration isolation bearings for buildings, shipbuilding industry, machinery, steel bridge materials, oil pipes, storage tanks, public construction, Taipower high-voltage steel towers, telecommunication towers, etc.
Special Steel Plates		Mechanical parts, pressure vessel, wear-resistant steel, hot steel mold, cold steel mold, stamping steel mold, automobile and motorcycle parts, base molds, steel for tools, etc.
Hot-Rolled Steel Plates (Steel Coils)	Patterned Steel Plates (Steel Coils)	Anti-skid plates, stair plates, parking lot equipment plates, chemical plant walkways, pedals for large vehicles and machinery, patterned worker's boards, etc.
	Hot-Rolled Steel Plates (Steel Coils)	Automobile and motorcycle parts, hardware parts, computer casing, steel pipes, light steel, accessories for general household electrical appliances, machinery bases, fuse boxes, etc.
	Hot-Rolled Galvanized Steel Plates (Steel Coils)	Internal/external plating and components for automobiles, casing and bases for general household electrical appliances, bases for washing machines, computer hard drive casing, sliding rails, ducts, air ducts, vending machine casing and parts, steel doors, building materials, etc.
Stainless Steel		Construction material, vessels for petrochemicals, automobile and motorcycle parts, hardware parts, aviation structural materials, steel pipes, light steel, accessories for general household electrical appliances, machinery bases, fuse boxes, etc.
Steel Section		Factory steel framing, construction steel framing, mechanical parts, automobile and motorcycle parts, axles, crane materials, materials for basic and arched steel structures, etc.
Metal products (vibration isolation systems for buildings and shock-absorbent dampers for bridges)		The ASBD shock isolation system provides vertical bearing capacity for columns while also isolating and reducing the destructive force of earthquakes. It also uses high-performance energy dissipators to control the movement of the structure while maintaining a certain comfort level for residents. There are no special restrictions of its use in buildings and it is suitable for structures built with reinforcing steel or other special structures such as buildings integrated with public transport systems. Pot bearings for roads, highways, light rails (MRT), high-speed rails, bridges, and other buildings, vibration isolation bearings for bridges, elevated bearings for various bridges, special anti-corrosion bearings, electrically insulated bearings, water-resistant materials for high-speed rails, dampers, bearings for shear devices, steel shear boxes, anti-uplift devices, vibration resistant/isolation devices, expansion joints, and other steel structures and components.

(2)Production Process of Main Products



1. Primary raw material supply status

Primary Material	Main Source	Supply Status
Steel Plates	China Steel, Japan, Korea, India	Good
Special Steels	China Steel, Japan, Korea	Good
Patterned Steel Plates	Japan, Korea	Good
Hot-Rolled Steel Plates	China Steel, Dragon Steel, Japan, Korea	Good
Hot-Rolled Galvanized Steel Plates	China Steel, Japan, China	Good
Stainless Steel Products	Japan, Sweden, Finland, Germany, China, Vietnam	Good
Steel Section	Dragon Steel, Feng Hsin Steel, Japan, Korea, Russia	Good

2. Customers whose purchase accounted for over 10% of the Company's total sales in any given year over the last 2 years

(1)List of main customers over the last 2 years: In 2018 and 2019, no customer made purchases exceeding 10% of the Company's annual revenue.

(2)List of main suppliers over the last 2 years: Company A supplied over 10% of the materials that the Company purchased in 2019. Purchases from Company A also accounted for over 10% of the Company's annual purchases in 2018.

Information on main suppliers in the last two years

Unit: NT$1,000

	2018				2019				2020 as of Q1			
Item	Name	Amount	Total annual net purchase ratio (%)	Relationship with the issuer	Name	Amount	Total annual net purchase ratio (%)	Relationship with the issuer	Name	Amount	Net purchase ratio of the current year up to the previous quarter (%)	Relationship with the issuer
1	A	3,305,522	36.15	No	A	2,975,644	40.48	No	A	790,200	39.05	No
	Others	5,838,994	63.85		Others	4,375,290	59.52		Others	1,233,438	60.95	
	Net purchase	9,144,516	100.00		Net purchase	7,350,934	100.00		Net purchase	2,023,638	100.00	

Note 1: List the names of suppliers that accounted for more than 10% of the Company’s purchases in the last two years and the ratio to total purchases. However, if the name of the supplier cannot be disclosed due to contractual obligations or if the transaction party is an individual and not a related party, the entity may be referenced in code.

Note 2: As of the publication date of this Annual Report, the public listed companies or OTC-listed companies shall disclose financial information audited or reviewed by the CPA in the most recent period if it is available.

Information on main customers and suppliers in the last 2 years

Unit: NT$1,000

	2018				2019				2020 as of Q1			
Item	Name	Amount	Percentage of net sales for the year (%)	Relationship with the issuer	Name	Amount	Proportion of net sales (%)	Relationship with the issuer	Name	Amount	Percentage of net sales for the current year up to the previous quarter (%) (%)	Relationship with the issuer
	Others	8,617,077	100	No	Others	8,331,608	100	No	Others	2,112,593	100	No
	Net sales	8,617,077	100		Net sales	8,331,608	100		Net sales	2,112,593	100	

Note 1: List the names of customers that accounted for more than 10% of the Company's total sales in the last two years and the percentage of total sales. However, if the name of the customer cannot be disclosed due to contractual obligations or if the transaction party is an individual and not a related party, the entity may be referenced in code.

Note 2: As of the publication date of this Annual Report, the public listed companies or OTC-listed companies shall disclose financial information audited or reviewed by the CPA in the most recent period if it is available.

3. Product quality and value of the last 2 years

Unit: Volume: Metric ton; Value: 1,000 NTD

Main products \ Year	2018			2019		
	Production capacity	Production volume	Production value	Production capacity	Production volume	Production value
Steel Plates	12,000	10,630	214,372	12,000	8,202	173,271
Special Steel Plates	19,800	6,491	145,866	19,800	4,396	98,073
Hot-Rolled (Patterned) Steel Plates	86,400	66,591	1,340,576	86,400	71,397	1,535,239
Stainless Steel Plates	5,500	11,371	882,293	5,500	9,863	653,618
Steel Structure Components and Steel Sections	9,000	11,937	328,179	9,000	12,429	353,929
Total	132,700	107,020	2,911,286	132,700	106,288	2,814,130

Note 1: The production of special steel plates is lower because the speed for cutting alloy steel plates is best kept low.

Note 2: Steel plates are custom-cut, so the cutting speed is best kept low for precision.

4. Sales value for the last 2 years

Unit: Volume: Metric ton; Value: 1,000 NTD

Main products \ Year	2018				2019			
	Domestic Sales		Exports		Domestic Sales		Exports	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Steel Plates	8,824	219,593	-	-	8,687	220,347	-	-
Special Steel Plates	5,162	123,302	768	20,063	3,813	89,047	417	11,146
Hot-Rolled (Patterned) Steel Plates	67,242	1,488,395	46	823	70,812	1,533,050	102	1,917
Stainless Steel Plates	11,059	850,268	1,252	24,724	10,669	735,959	770	41,084
Steel Structure Components and Steel Sections	235,641	5,542,394	-	-	243,728	5,682,883	884	16,178
Total	327,928	8,223,952	16,217	393,125	338,709	8,261,286	2,173	70,322

iii.Employee information of the last two years and up to the publication date of this report:

By the end of 2019, the Company had a total of 297 employees, including 24 managers, 22 specialists, 58 assistants, and 197 technicians. The workforce demographics as of the end of April 2020 are as follows:

Year		2018	2019	April 30, 2020
Category	Manager	21	29	36
	Specialist	23	22	22
	Assistant	48	55	62
	Technician	150	191	194
	Total	242	297	314
Education background	PhD	-	-	-
	Master's degree	4.13	3.70	3.50

Year		2018	2019	April 30, 2020
	Bachelor's degree	42.98	46.80	49.05
	Senior high school	35.54	35.69	34.71
	Below senior high school	17.35	13.81	12.74
Average age (years)		38.77	38.82	38.78
Average years of service (years)		7.49	6.34	6.03

In 2019, the employee turnover rate was 23.03%. The Company deems 8% and 12% to be a healthy turnover range. Given that it is still in a stage of growth, expansion of the factory increases the recruitment of new employees and the turnover rate increases, the Company hired 102 new recruits this year, with new recruits accounting for 34.34% of the total employees at the end of the year, suggesting that the workforce is effectively invigorated.

iv.Spending on environmental protection

(1)Cases in which the Company was required by laws and regulations to apply for a permit, submit pollution prevention fees, or set up a dedicated unit/personnel for environmental protection issues: None.

(2)Investment in pollution-preventing equipment, its usage, and possible benefits: None.

(3)Improvement of environmental pollution made by the Company in the past 3 years up to the publication date of this Annual Report:

The Company conducted careful evaluation regarding environmental protection and preventing pollutions when it first established its plant and determined that it would produce products that cause the least pollution. The effects on air quality, production of wastewater, and byproducts from the production process are described below:

①Equipment in the Company's various plants consists of cutting machines. The Company does not carry out smelting or painting procedures, and all waste materials and iron scraps are sold to contracted iron recycling companies for recycling and smelting, causing no air or water pollutions in the production process.

②The Company’s inventory of products consist mainly of steel plates and steel sections that do not produce waste.

③The sound produced in the process of lifting and unloading steel plates have been inspected by agents from the Northern Office of the Occupational Safety and Health Administration and determined to be in line with the Noise Control Act.

④The Company actively implements green landscaping for all plants to provide employees with a good work environment. The Company has carried out rigorous environmental protection and pollution prevention tasks in accordance with government regulations.

(4)Total losses or fines due to environmental pollution in the past two years and up to the publication date of this annual report: None.

(5)Projected major expenditures on environmental protection in the next 2 years: None.

v.Employees-employer relations

The Company treats employees as its most important asset, offering them challenging and meaningful work, a safe workplace, and excellent compensation and benefits. In addition, the Company encourages employees to spend time with families, develop hobbies, get involved in the community, and enjoy their lives.

The Company believes in treating its full-time employees, contract and temporary employees, and interns with respect. In addition to never forcing or threatening employees to do work they are unwilling to do, the Company listens to its employees and maintains an open channel for communication.

The Company values two-way communication and strives to provide open and transparent manager-to-employee and employee-to-employee communication. To give attention to employee opinions and sentiments, the Company conducts employer-employee meetings and provides employees with fair and effective communication mechanisms to state their opinions in order to understand their thoughts and quickly process issues they raise, promoting harmonious employer-employee relations and achieving prosperity for both the Company and its employees.

A range of channels available for internal communication in recent years has contributed to workplace harmony. As a result, while the Company has always respected the right of its employees to organize conventions, no employee has ever made calls to unionize.

In 2019 and up to the publication date of this 2020 annual report, the Company has not incurred any losses from employer-employee disputes.

(1)Remuneration

The Company is dedicated to providing its employees with above-average benefits and compensation. The Company provides diverse and competitive salary systems that satisfy external competitiveness, internal fairness, and legal requirements. It also upholds the ideal of sharing profits with employees by attracting, retaining, cultivating, and encouraging outstanding talents in all sectors. As the Company's performance has been satisfactory since its establishment some 50 years ago, the remuneration we give our employees has always been higher than that of our competitors.

Compensation for employees includes monthly salaries, quarterly performance bonuses in cash, and annual employee bonuses based on the profit margins of that year.

The quarterly cash bonus and annual employee bonus are given to reward employees for their contributions and to inspire dedication. Employees' interest is aligned with shareholders' interest to create win-win situations for the Company, shareholders, and employees. Employee compensation is based on the Company's performance and the industry average. The Remuneration Committee is in charge of proposing the total amount and allocation to the Board of Directors, and employee compensation is distributed promptly after the proposal is approved by the Board of Directors. The amount of bonus granted to employees is determined by their responsibilities, contributions, and performance.

(2)Employee benefits

The Company helps employees adjust to company culture and fulfill goals for personal development from the standpoints of employee orientation, professional growth, and career development, allowing employees to challenge themselves, set records, and grow with the Company in a diverse and innovative environment. Employer-employee relations have therefore been harmonious and the Company has not experienced any employer-employee disputes since its establishment. The Company has been repeatedly praised for its performance in employee welfare, labor education and training, occupational safety and sanitation, and labor conditions. Therefore, the chance of potential losses due to employer-employee disputes in the future is extremely low.

A.Convenient services in plants: Employee cafeterias, travel allowances, and commute allowances are provided in all plants.

B.Health promotion and management programs: Includes health and wellness activities like checkups, blood drives, and seminars to raise awareness of health management.

C.A variety of employee benefits: The Company organizes sports and hiking events, day trips and family days, and provides funds for holidays, wedding/funeral, and emergency allowances.

D.A variety of child benefits for employees: Scholarships, grants, child benefits, and birth allowances are available to employees.

(3)Personnel development:

The continuing growth of the Company and that of its employees are interlinked. Hence, the Company brings together internal and external resources to provide challenging work and a workplace where employees are encouraged to realize their full potential. Job rotation is implemented to help employees explore their limits. The Company has created an environment that facilitates ongoing and diversified learning. The "Employee Training and Education Regulations" was put in place to help employees grow with the Company by setting objectives, disciplines, and plans.

To cultivate talent and create a conducive work environment, the Company designed talent and organization development programs based on the needs of different departments, the job nature of individual employees, performance evaluation results, and career development needs. The aim is to help employees improve performance and make greater contributions to the Company. Meanwhile, a range of learning and development resources (including on-the-job training, course training, work guidance, mentoring, and job rotation) are available. There are also different learning incentives aimed at creating optimal learning conditions to facilitate the growth of both the Company and its employees.

Furthermore, the Company provides a series of general knowledge, professional, and management training courses for employees in different positions. Experts are invited from outside the Company to teach the courses, and a number of lecturers have been trained to provide in-house training and pass on knowledge and skills crucial to the Company.

The training courses provided by the Company include:

- Orientation: Basic training and on-the-job guidance. Managers and a well-established "partner system" also help new employees settle into the Company and their work.
- General training: Includes training in general knowledge on government regulations, company policies, general knowledge of the Company and all its levels. Subjects in the course include industrial safety training, safety and sanitation training, quality-related training, plant emergency response training, and personal

performance management.

- Professional/occupational training: Includes technical and professional training required by various units such as equipment and engineering, manufacturing process training, accounting, information technology, etc.
- Direct employee training: Includes training on the knowledge, technical capabilities, and methods required on the assembly line so that trainees can obtain their licenses to operate machinery. Course content includes direct technical skill training, technician training, and training courses for group leaders in the manufacturing department.
- Customized training: Training programs designed according to the condition of each organization and the focus if their employee training.
- Training for managers: The Company organized management development training activities according to the capabilities and responsibilities of different management tasks. Courses include core curriculum for junior managers, the core curriculum for middle-level managers, the core curriculum for senior managers, and other elective courses.

In addition to in-house learning resources, the Company offers allowances for employees to attend external short-term courses, credit courses, or study for a degree.

In 2019, the Company organized a total of 102 courses, reaching a total of 13,787 training hours and 698 participants. On average, each employee was trained for approximately 146 hours, with total training expenditure amounting to NT$2.09 million.

(4)Employee activities: The Employee Welfare Committee is established for the benefit of employees. The committee meticulously plans out various activities and welfare facilities to create a lively work environment and raise employee morale. In 2019, the Employee Welfare Committee and the Company spent a joint total of NT$6.244 million on employee benefit-related activities. In 2019, the Company organized scholarships for employees' children, birthday celebrations, employee tours, and hiking events.

(5)Retirement

The Company has established a retirement program according to the "Labor Standards Act" and the "Labor Pension Act". Sound financial operations ensure that employees will receive a steady stream of pension payments, which in turn will encourage employees to make long-term career plans in the Company.

The balance of the Company's pension reserve fund at the Bank of Taiwan (as of April 30, 2020) was NT$27.341 million. Due to the adoption of IFRS No.18 “employee benefits” in accordance with regulations with December 31, 2019 as the baseline date, the accrued pension liability of NT$27.048 million has been appropriated into the pension reserve account in 2019. The interest distribution from that special account has reached NT$27.709 million.

Since the establishment of the Labor Retirement Reserve Supervisory Committee and as of December 31, 2019, a total of 23 employees have retired, and NT$40.498 million in pensions have been distributed (NT$2.278 million of which was distributed in 2019). The new labor retirement system requires an appropriation of 6%-10% (including 6% from the employee) to be deposited in the mandatory labor pension account.

(6)Labor-management agreement status

The Company values two-way communication and strives to provide open and transparent manager-to-employee and employee-to-employee communication. To give attention to employee opinions and sentiments, the Company conducts employer-employee meetings and provides employees with fair and effective communication mechanisms to state their opinions in order to understand their thoughts and quickly process issues they raise, promoting harmonious employer-employee relations and achieving prosperity for both the Company and its employees.

A range of channels available for internal communication in recent years has contributed to workplace harmony. As a result, while the Company has always respected the right of its employees to organize conventions, no employee has ever made calls to unionize.

The Company has not incurred any loss arising from employer-employee disputes in 2018 and up to the publication date of the 2019 annual report.

(7)Losses arising as a result of employment disputes in the recent year up until the publishing date of this annual report (quantify estimated losses and potential responses; if potential losses cannot be reasonably estimated, state the reason why): None.

(8)Litigations or employer-employee disputes that require mediation in the past year and up to the publication date of this report: None.

vi.Important contracts: Important supply and sales contracts, technical collaboration contracts, engineering contracts, and long-term loans that are currently effective or expiring in the recent year that may affect the rights and benefits of investors.

Nature of contract	Contracting party	Start and end dates of the contract	Content	Restrictions
Long-term loan contract	Mega International Commercial Bank	2017.1~2032.1	Loan quota of NT$150 million	Provided land as collateral
Syndicated loan agreement	E-Sun Bank	2018.12~2023.12	A syndicated loan of NT$5 billion was made to cover the cost of land, factories, machinery, and equipment for the 5th Phase of the Guanyin Plant project, repay loans from financial institutions, and provide operational funds.	Provided land and factories as collateral

VI. Financial Overview

i.Condensed balance sheet and composite income statement data of last five years

(i)Condensed consolidated balance sheet

Unit: NT$1,000

Item \ Year		Financial information of the last 5 years (Note 1)					Financial information of the current year up to March 31, 2020 (Note 3)
		2015	2016	2017	2018	2019	
Current assets		6,239,268	6,566,789	7,145,458	10,005,819	8,597,616	9,255,760
Property, plant, and equipment (Note 2)		2,834,422	3,033,067	3,835,473	3,498,574	3,887,599	4,117,248
Intangible assets		-	-	-	-	-	-
Other assets (Note 2)		1,616,561	2,321,300	2,837,307	3,778,728	3,602,676	3,266,323
Total assets		10,690,251	11,921,156	13,818,238	17,283,121	16,087,891	16,639,331
Current liabilities	Before distribution	4,996,081	4,715,936	5,836,291	9,452,052	6,264,484	7,215,988
	After distribution	4,996,081	5,267,085	6,448,679	9,918,084	6,513,034	7,464,538
Non-current liabilities		1,533,660	1,632,283	1,503,618	595,940	3,012,621	3,002,617
Total liabilities	Before distribution	6,529,741	6,348,219	7,339,909	10,047,992	9,277,105	10,218,605
	After distribution	6,529,741	6,899,368	7,952,297	10,514,024	9,525,655	10,467,155
Equity attributable to owners of parent company		4,130,338	5,544,693	6,270,938	6,710,422	6,284,080	5,896,904
Capital		2,756,380	2,991,876	3,061,937	3,106,877	3,106,877	3,106,877
Capital reserve	Before distribution	1,045,575	1,016,806	867,686	818,309	817,716	817,716
	After distribution	1,045,575	771,851	714,589	818,309	817,716	817,716
Retained earnings	Before distribution	810,751	1,555,418	2,312,495	2,828,804	2,467,747	2,357,918
	After distribution	810,751	1,249,224	1,853,204	2,362,772	2,219,197	2,109,368
Other equity		(482,368)	(19,407)	28,820	(43,568)	(108,260)	(384,416)

Item \ Year		Financial information of the last 5 years (Note 1)					Financial information of the current year up to March 31, 2020 (Note 3)
		2015	2016	2017	2018	2019	
Treasury stock		-	-	-	-	-	(1,191)
Non-controlling equity		30,172	28,244	207,391	524,707	526,706	523,822
Total equity	Before distribution	4,160,510	5,572,937	6,478,329	7,235,129	6,810,786	6,420,726
	After distribution	4,160,510	5,021,788	5,865,941	6,769,097	6,562,236	6,172,176

Note 1: All years that have not been certified by a CPA shall be indicated.

Note 2: The effective date and value of assets after reappraisal, if any, in the current year shall be disclosed.

Note 3: As of the publication date of the Annual Report, companies that are TWSE-listed have stocks traded at securities dealers shall be included in the analysis if they have produced CPA certified or audited financial statements. Financial information of the current year up to Tuesday, March 31, 2020 has been certified by the CPA.

Note 4: Please fill in the numbers after distribution based on the resolutions of the shareholders meetings in the following year.

Note 5: Financial information that has been required by the competent authority to be corrected or recompiled shall be provided with the corrected or recompiled figures and the status and reasons shall be provided.

(ii)Condensed individual balance sheet

Unit: NT$1,000

Item \ Year		Financial information for the last 5 years (Note 1)					Financial information of the current year up to March 31, 2020 (Note 3) (Exempted from disclosure)
		2015	2016	2017	2018	2019	
Current assets		5,652,653	5,907,450	6,475,198	8,816,525	7,632,887	
Property, plant and equipment (Note 2)		2,818,446	2,807,392	3,595,147	3,165,177	3,276,213	
Intangible assets		-	-	-	-	-	
Other assets (Note 2)		2,074,519	2,672,835	3,542,102	4,960,377	4,796,259	
Total assets		10,545,618	11,387,677	13,612,447	16,942,079	15,705,359	
Current liabilities	Before distribution	4,882,491	4,422,613	5,785,609	9,135,071	6,157,944	
	After distribution	4,882,491	4,973,762	6,397,997	9,601,103	6,406,494	
Non-current liabilities		1,532,789	1,420,371	1,555,900	1,096,586	3,263,335	
Total liabilities	Before distribution	6,415,280	5,842,984	7,341,509	10,231,657	9,421,279	
	After distribution	6,415,280	6,394,133	7,953,897	10,697,689	9,669,829	
Equity attributable to owners of parent company		4,130,338	5,544,693	6,270,938	6,710,422	6,284,080	
Capital		2,756,380	2,991,876	3,061,937	3,106,877	3,106,877	
Capital reserve	Before distribution	1,045,575	1,016,806	867,686	818,309	817,716	
	After distribution	1,045,575	771,851	714,589	818,309	817,716	
Retained earnings	Before distribution	810,751	1,555,418	2,312,495	2,828,804	2,467,747	
	After distribution	810,751	1,249,224	1,853,204	2,362,772	2,219,197	

Item / Year	Financial information for the last 5 years (Note 1)					Financial information of the current year up to March 31, 2020 (Note 3) (Exempted from disclosure)
	2015	2016	2017	2018	2019	
Other equity	(482,368)	(19,407)	28,820	(43,568)	(108,260)	
Treasury stock	-	-	-	-	-	
Total equity — Before distribution	4,130,338	5,544,693	6,270,938	6,710,422	6,284,080	
Total equity — After distribution	4,130,338	4,993,544	5,658,550	6,244,390	6,035,530	

Note 1: All years that have not been certified by a CPA shall be indicated.

Note 2: The effective date and value of assets after reappraisal, if any, in the current year shall be disclosed.

Note 3: As of the publication date of the Annual Report, companies that are TWSE-listed have stocks traded at securities dealers shall be included in the analysis if they have produced CPA certified or audited financial statements. According to the "Regulations Governing the Preparation of Financial Reports by Securities Issuers", the Company is not required to prepare individual financial statements for Tuesday, March 31, 2020.

Note 4: Please fill in the numbers after distribution based on the resolutions of the shareholders meetings in the following year.

Note 5: Financial information that has been required by the competent authority to be corrected or recompiled shall be provided with the corrected or recompiled figures and the status and reasons shall be provided.

(iii)Consolidated and Consolidated Comprehensive Income Statement

Unit: NT$1,000, except for EPS in NTD

Item \ Year	Financial information for the last 5 years (Note 1)					Financial information of the current year up to March 31, 2020 (Note 2)
	2015	2016	2017	2018	2019	
Operating revenue	6,449,699	6,411,686	8,351,912	8,694,163	8,477,785	2,146,812
Gross profit	(568,373)	916,989	1,113,799	728,665	176,779	80,885
Operating profit/loss	(855,123)	752,100	994,525	428,630	(97,900)	16,855
Non-operating income and expenses	433,214	59,180	214,939	713,597	222,357	(133,772)
Net income before tax	(421,909)	811,280	1,209,464	1,142,227	124,457	(116,917)
Profit for the year from continuing operation Net profit of the term	(408,779)	749,784	1,073,532	1,000,012	118,116	(112,714)
Loss from discontinued operations	-	-	-	-	-	-
Current net profit (loss)	(408,779)	749,784	1,073,532	1,000,012	118,116	(112,714)
Other comprehensive income (net income after-tax)	(582,437)	459,814	45,240	(75,503)	(65,330)	(276,155)
Total comprehensive income for the period	(991,216)	1,209,598	1,118,772	924,509	52,786	(388,869)
Profit attributable to owners of the parent	(401,876)	747,774	1,066,226	978,725	120,674	(109,829)
Net profit attributable to non-controlling equity	(6,903)	2,010	7,306	21,287	(2,558)	(2,885)

Item / Year	Financial information for the last 5 years (Note 1)					Financial information of the current year up to March 31, 2020 (Note 2)
	2015	2016	2017	2018	2019	
Comprehensive income (loss) attributable to owners of parent company	(984,176)	1,207,628	1,111,498	903,212	55,351	(385,985)
Comprehensive income (loss) attributable to non-controlling interests	(7,040)	1,970	7,274	21,297	(2,565)	(2,884)
Earnings per share	(1.45)	2.67	3.49	3.17	0.39	(0.35)

Note 1: All years that have not been certified by a CPA shall be indicated.

Note 2: As of the publication date of the Annual Report, companies that are TWSE-listed have stocks traded at securities dealers shall be included in the analysis if they have produced CPA certified or audited financial statements. Financial information of the current year up to Tuesday, March 31, 2020 has been certified by the CPA.

Note 3: The losses of discontinued operations shall be represented by the net value after deducting income tax.

Note 4: Financial information that has been required by the competent authority to be corrected or recompiled shall be provided with the corrected or recompiled figures and the status and reasons shall be provided.

(iv)Condensed Individual Comprehensive Income Statement

Unit: NT$1,000, except for EPS in NTD

Item \ Year	Financial information for the last 5 years (Note 1)					Financial information of the current year up to March 31, 2020 (Note 2) (Exempted from disclosure)
	2015	2016	2017	2018	2019	
Operating revenue	6,373,639	6,262,775	8,167,783	8,648,779	8,413,665	
Gross profit	(551,955)	898,030	1,033,280	712,588	178,646	
Operating profit/loss	(824,579)	740,452	863,492	440,553	(76,184)	
Non-operating income and expenses	408,781	68,238	336,465	660,685	207,744	
Net income before tax	(415,798)	808,690	1,199,957	1,101,238	131,560	
Current period net income from continuing operations	(401,876)	747,774	1,066,226	978,725	120,674	
Loss from discontinued operations	-	-	-	-	-	
Current net profit (loss)	(401,876)	747,774	1,066,226	978,725	120,674	
Other comprehensive income (net income after-tax)	(582,300)	459,854	45,272	(75,513)	(65,323)	
Total comprehensive income for the period	(984,176)	1,207,628	1,111,498	903,212	55,351	
Earnings per share	(1.45)	2.67	3.49	3.17	0.39	

Note 1: All years that have not been certified by a CPA shall be indicated.

Note 2: As of the publication date of the Annual Report, companies that are TWSE-listed have stocks traded at securities dealers shall be included in the analysis if they have produced CPA certified or audited financial statements. According to the "Regulations Governing the Preparation of Financial Reports by Securities Issuers", the Company is not required to prepare individual financial statements for Tuesday, March 31, 2020.

Note 3: The losses of discontinued operations shall be represented by the net value after deducting income tax.

Note 4: Financial information that has been required by the competent authority to be corrected or recompiled shall be provided with the corrected or recompiled figures and the status and reasons shall be provided.

(v)Names of the certification accountants and their audit opinions for the last 5 years

Year	CPA Name	Opinions for the Audit Report
2019	Sheng-Hsiung Yao, Jui-Na Chang	Standard unqualified opinion
2018	Sheng-Hsiung Yao, Jui-Na Chang (Note 1)	Standard unqualified opinion
2017	Chao-Ling Chen, Chiang-Pao Liu	Standard unqualified opinion
2016	Chao-Ling Chen, Chiang-Pao Liu	Standard unqualified opinion
2015	Chao-Ling Chen, Chiang-Pao Liu	Standard unqualified opinion

Note 1: Reason for change of CPAs:

Hsin Kuang Steel Co., Ltd. originally appointed CPAs Chao-Ling Chen, Chiang-Pao Liu of Deloitte for the audit of financial reports. Due to internal structural adjustments of Deloitte, the financial reports starting in the first quarter of 2018 have been audited by CPAs Sheng-Hsiung Yao, Jui-Na Chang.

ii.Financial analysis for the last five years

(i)Consolidated financial analysis

Analysis items (Note 3) / Year (Note 1)		Financial analysis for the last five years					Current year up to March 31, 2020 (Note 2)
		2015	2016	2017	2018	2019	
Financial structure (%)	Liability to assets ratio	61.08	53.25	53.12	58.14	57.67	61.41
	Ratio of long-term capital to real estate properties, plants and equipment	202.70	237.56	208.11	223.84	252.69	228.87
Solvency%	Current ratio	125.39	139.25	122.43	105.86	137.24	128.27
	Quick ratio	79.11	90.32	73.75	61.26	80.05	77.25
	Interest coverage ratio	-2.87	9.62	11.10	9.03	1.74	-2.08
Operation performance	Average collection turnover (times)	2.66	2.89	3.65	3.63	3.36	3.40
	Average collection period	137.00	126.00	100.00	100.55	108.63	107.35
	Average inventory turnover (times)	2.42	2.41	2.88	2.30	2.20	2.36
	Average payables turnover (times)	25.66	18.32	15.67	12.60	14.45	22.17
	Average inventory turnover days	151.00	151.00	127.00	158.70	165.91	154.66
	Average property, plant and equipment turnover (times)	2.30	2.11	2.18	2.53	2.18	2.09
	Total assets turnover (times)	0.6	0.54	0.60	0.51	0.53	0.52
Profitability	Return on assets ratio (%)	-2.70	7.37	9.06	7.16	1.51	-2.01
	Return on equity (%)	-8.48	15.41	17.82	14.58	1.68	-6.81
	Pre-tax profit to paid-in capital ratio (%)	-15.31	27.12	39.50	36.76	4.01	-15.05
	Net profit ratio (%)	-6.34	11.69	12.85	11.32	1.39	-5.25
	Earnings per share (NT$)	-1.45	2.67	3.49	3.17	0.39	-0.35
Cash flow	Cash flow ratio (%)	31.37	12.76	8.89	-	6.56	-
	Cash flow adequacy ratio (%)	96.40	79.86	68.52	33.66	45.51	24.02
	Cash reinvestment ratio (%)	25.19	5.55	-	-	-	-
Leverage	Operating leverage	0.71	1.40	1.34	1.63	-2.37	-7.28
	Financial leverage	0.89	1.14	1.13	1.33	0.37	-0.80

Please explain reasons for changes in financial ratios in the last two years: (Analysis can be omitted for changes less than 20%)

1.Current ratio, quick ratio, and interest coverage ratio Mainly attributed to a decrease in inventory at the end of this period, a decrease in short-term loans, and a decrease in earnings this period.
2.Return on total assets, return on equity, pre-tax income to paid-in capital ratio, net profit ratio, and earnings per share: Attributed mainly to a lower net profit in this period.
3.Cash flow adequacy ratio: Changes attributed mainly to a decrease in inventory and accounts receivable this period causing net cash inflow generated by business activities.
4.Operating leverage and financial leverage: Attributed mainly to a lower net profit in this period.

(ii)Individual financial analysis

Analysis items (Note 3)	Year (Note 1)	2015	2016	2017	2018	2019	Current year up to March 31, 2020 (Exempted from disclosure)
		Financial analysis for the last five years					
Financial structure (%)	Liability to assets ratio	60.83	51.31	53.93	60.39	59.99	
	Ratio of long-term capital to real estate properties, plants and equipment	202.38	248.10	217.71	246.65	291.42	
Solvency%	Current ratio	116.29	133.57	111.92	96.51	123.95	
	Quick ratio	70.10	83.02	63.11	50.84	67.97	
	Interest coverage ratio	-2.88	9.95	12.29	8.93	1.81	
Operation performance	Average collection turnover (times)	2.63	2.88	3.63	3.55	3.35	
	Average collection period	139.00	127.00	101.00	102.82	108.96	
	Average inventory turnover (times)	2.44	2.42	2.89	2.30	2.23	
	Average payables turnover (times)	26.78	17.49	15.17	12.56	14.51	
	Average inventory turnover days	150.00	151.00	126.00	158.70	163.68	
	Average property, plant and equipment turnover (times)	2.28	2.23	2.27	2.72	2.57	
	Total assets turnover (times)	0.60	0.55	0.60	0.51	0.54	
Profitability	Return on assets ratio (%)	-2.69	7.50	9.19	7.13	1.53	
	Return on equity (%)	-8.41	15.46	18.05	15.08	1.86	
	Pre-tax profit to paid-in capital ratio (%)	-15.08	27.03	39.19	35.45	4.23	
	Net profit ratio (%)	-6.31	11.94	13.05	11.36	1.43	
	Earnings per share (NT$)	-1.45	2.67	3.49	3.17	0.39	
Cash flow	Cash flow ratio (%)	32.07	15.08	8.55	-	9.18	
	Cash flow adequacy ratio (%)	102.94	82.65	66.21	32.70	47.22	
	Cash reinvestment ratio (%)	25.27	6.59	-	-	0.96	

Analysis items (Note 3) \ Year (Note 1)		Financial analysis for the last five years					Current year up to March 31, 2020 (Exempted from disclosure)
		2015	2016	2017	2018	2019	
Leverage	Operating leverage	0.73	1.38	1.38	1.84	-3.00	
	Financial leverage	0.89	1.14	1.13	1.52	0.32	

Reasons for changes in financial ratios in the last two years: (Analysis can be omitted for changes less than 20%)

1. Ratio of long-term capital to real estate properties, plants and equipment: Attributed mainly to an increase in long-term bills payable
2. Current ratio, quick ratio, and interest coverage ratio Mainly attributed to a decrease in inventory at the end of this period, a decrease in short-term loans, and a decrease in earnings this period.
3. Current ratio, quick ratio, and interest coverage ratio Mainly attributed to a decrease in inventory at the end of this period, a decrease in short-term loans, and a decrease in earnings this period.
4. Return on total assets, return on equity, pre-tax income to paid-in capital ratio, net profit ratio, and earnings per share: Attributed mainly to a lower net profit in this period.
5. Cash flow adequacy ratio: Changes attributed mainly to a decrease in inventory and accounts receivable this period causing net cash inflow generated by business activities.
6. Operating leverage and financial leverage: Attributed mainly to a lower net profit in this period.

Note 1: Years that have not been certified by a CPA shall be indicated.

Note 2: As of the publication date of the Annual Report, companies that are TWSE-listed have stocks traded at securities dealers shall be included in the analysis if they have produced CPA certified or audited financial statements. Financial information of the current year up to March 31, 2020 has been certified by the CPA.

Note 3: The calculation formula for the items of analysis is stated below:

1.Financial structure

(1)Liability to assets ratio = total liabilities / total assets.

(2)Ratio of long-term capital to real estate properties, plants and equipment = (total equity + non-current liabilities) / net for real estate, plant and equipment.

2.Solvency

(1)Current ratio = current assets / current liabilities.

(2)Quick ratio = (current assets - inventories - prepaid expenses) / current liabilities.

(3)Interest coverage ratio = earnings before interest expense and net income / interest expense.

3.Operation performance

(1)Receivables (including accounts receivable arising from operation notes receivable) turnover ratio = net sales / average receivables (including accounts receivable arising from operation notes receivable) balances.

(2)Average collection period = 365 / receivable turnover.

(3)Inventory turnover ratio = cost of goods sold / average inventory.

(4)Payable (including accounts payable arising from operation notes payable) turnover ratio = cost of goods sold / average payables (including accounts payable arising from operation notes payable) balances.

(5)Average days of sales = 365 / inventory turnover.

(6)Property, plant and equipment turnover ratio = net sales / average net for real estate, plant and equipment.

(7)Total assets turnover ratio = net sales / average total assets.

4.Profitability

(1)Return on assets = [profit and loss after tax + interest expense (1 - tax rate)] / average total assets.

(2)Return on equity = profit and loss after tax / average total equity.

(3)Net profit ratio = profit and loss after tax / net sales.

(4)EPS = (income belonging to owner of the parent company - stock dividend of preferred stocks)/weighted average number of issued shares. (Note 4)

5.Cash flow

(1)Cash flow ratio = net cash flow from operating activities / current liabilities.

(2)Net cash flow adequacy ratio = net cash flow from operating activities for the last 5 years / most recent 5 years (capital expenditure + inventory + cash dividend).

(3)Cash reinvestment ratio = (net cash flow from operating activities - cash dividend) / (gross profit for real estate, plant and equipment + long-term investments + other non-current assets + working capital). (Note 5)

6.Leverage:

(1)Operating leverage = (net operating income - variable operating costs and expenses) / operating profit (Note 6).

(2)Financial leverage = operating profit / (operating income - interest expenses).

Note 4: When the formulas mentioned above are used to calculate the earnings per share, special attention shall be paid to the following matters:

1.The calculations shall be based on the average number of the weighted common shares rather than shares issued at the end of the year.

2.The circulation period shall be considered for cash capital increase or treasury stock traders when calculating the weighted average number of shares.

3.When calculating annual or semi-annual earnings per share for those with capitalization of retained earnings or capital reserves, capital ratio shall be adjusted retrospectively with no need to consider the replenishment period.

4.If the preferred shares are non-convertible cumulative preferred shares, their annual dividends (whether distributed or not) shall be deducted from net income, or the net loss shall be increased. If the preferred shares are not cumulative in nature, the preferred stock dividends shall be deducted from the net income under after-tax net profit conditions. If it is a loss, no adjustment is needed.

Note 5: When weighing cash flow analysis, special attention shall be paid to the following matters:

1.Net cash flow from operating activities refers to the net cash inflow from operating activities listed in the cash flow statement.

2.Capital expenditure refers to the annual capital investment cash outflow.
3.Inventory increase shall only be calculated when the inventory at the end of the period is greater than that at the beginning of the period. If there is a decrease of inventory at the end of the year, it should be calculated as zero.
4.Cash dividends include common stock and preferred stock cash dividends.
5.Gross profit from real estate, plant, and equipment refer to the total value of real estate, plant, and equipment before accumulated depreciation is deducted.

Note 6: The issuer shall divide various operating costs and expenses as either fixed or changeable based on their natures. If the decision comes down to estimation or subjective judgments, the issuer shall maintain rationality and consistency.

Note 7: Paid-in capital ratios before the opening of a foreign company should be calculated as net worth ratio instead.

iii.Audit Committee's Audit Report for Current Year

The Board of Directors has prepared and submitted the 2019 business report, financial statements, and earnings distribution proposal. In particular, the financial statements have been audited by Deloitte & Touch and an audit report has been issued. These have been reviewed by the Audit Committee as correctly portraying the Company's business activities. This report is submitted for shareholders to examine in accordance with the Securities and Exchange Act and the Company Act.

Hsin Kuang Steel Co., Ltd.

Audit Committee Convener

Winston Won

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March 17, 2020

iv.Individual Financial Statements and Audit Reports: Please refer to page 149 to page 223

v.Consolidated Financial Statements of Parent Company and Subsidiaries Certified by CPA: Please refer to page 224 to page 301.

vi.If the Company and its affiliated companies had instances of financial difficulties from the recent year to the publication date of this annual report, the effects of the financial difficulties must be listed in detail:

The Company and affiliates did not encounter financial difficulties as of April 30, 2020.

VII. Review of Financial Status, Financial Performance and Risk Management

i.Financial Status

(i)Analysis of financial status in the past 2 years

Unit: NT$1,000

Year / Item	2019	2018	Difference	
			Amount	%
Current assets	8,597,616	10,005,819	(1,408,203)	(14.07)
Property, plant, and equipment	3,887,599	3,498,574	389,025	11.12
Intangible assets	-	-	-	-
Other assets	3,602,676	3,778,728	(176,052)	(4.66)
Total assets	**16,087,891**	**17,283,121**	**(1,195,230)**	**(6.92)**
Current liabilities	6,264,484	9,452,052	(3,187,568)	(33.72)
Non-current liabilities	3,012,621	595,940	2,416,681	405.52
Total liabilities	**9,277,105**	**10,047,992**	**(770,887)**	**(7.67)**
Capital	3,106,877	3,106,877	-	-
Capital reserve	817,716	818,309	(593)	(0.07)
Retained earnings	2,467,747	2,828,804	(361,057)	(12.76)
Other equity	(108,260)	(43,568)	(64,692)	48.49
Treasury stock	-	-	-	-
Non-controlling equity	526,706	524,707	1,999	0.38
Total equity	**6,810,786**	**7,235,129**	**(424,343)**	**(5.87)**

1: The Company should describe the main reasons behind any material changes to the Company's assets, liabilities, or shareholders' equity during the past two fiscal years (changes that exceed 20% between periods and a value of NT$10 million), the impact of these changes, and future response plans.

Accounts	2019	2018	Difference		Reason for changes and description of future response plans
			Amount	%	
Cash and cash equivalents	1,099,161	1,558,960	(459,799)	(29.49)	Changes are attributed to a decreased in short-term loans due to net cash outflow from financing activities.
Financial assets measured at amortized cost - current	61,113	206,918	(145,805)	(70.47)	Changes are mainly attributed to reduced time deposits of over 3 months.
Notes receivable - related parties	44,465	56,772	(12,307)	(21.68)	Mainly caused by fewer sales related parties in this period.
Notes receivable - non-related parties	1,044,987	1,263,870	(218,883)	(17.32)	Attributed mainly to lower revenue in this period.
Inventories	3,435,128	4,057,033	(621,905)	(15.33)	Mainly caused by a decrease in purchasing and continued destocking in this period.
Other current assets	47,827	9,181	38,646	420.93	Mainly attributed to the increase of tax receivables and provisional payments receivable in this period.
Deferred income tax assets	47,405	32,256	15,149	46.96	Mainly attributed to the increase in temporary differences due to bad debt losses and loss deductions in this period.
Other non-current assets	226,972	180,603	46,369	25.67	Mainly attributed to the increase of prepaid equipment expenses generated by subsidiaries' plant construction projects in the period.
Financial liabilities at fair value through profit and loss - current	41,855	8,748	33,117	378.45	Mainly attributed to losses due to forward foreign exchange contract evaluation in this period.
Notes payable - non-related parties	263,903	647,129	(383,226)	(59.22)	Mainly attributed to decrease in purchasing for the purpose of destocking, which led to fewer accounts payable.
Accounts payable - related non parties	48,280	177,805	(129,525)	(72.85)	
Other accounts payable	110,636	188,852	(78,216)	(41.42)	Mainly due to decreased profit in this period, which translated to relatively lower remuneration for directors, supervisors, and employees.
Current income tax liabilities	11,182	90,949	(79,767)	(87.71)	Mainly due to a decrease in current pre-tax profit this period, which led to a decrease in income tax payables.
Bonds payable	-	400,337	(400,337)	(100.00)	Attributed mainly to convertible corporate bonds being due within a year.
Total retained earnings	2,467,747	2,828,804	(361,057)	(12.76)	Attributed mainly to a lower net profit in this period.
Other equity	(108,260)	(43,568)	(64,692)	148.49	Attributed mainly to the allocation of unrealized losses in this period.

ii.Financial performance

(i)Analysis of financial performance in the past 2 years

Account \ Year	2019		2018		Amount changed	Percentage of change %
	Subtotal	Total	Subtotal	Total		
Net operating revenue		8,477,785		8,694,163	(216,378)	(2.49)
Operating costs		(8,301,224)		(7,964,598)	(336,626)	4.23
Unrealized gross profit		(682)		(900)	218	(24.22)
Realized gross profit		(900)		-	900	-
Gross profit		176,779		728,665	(551,886)	(75.74)
Operating expenses		(274,679)		(300,035)	25,356	(8.45)
Net value of other revenue and expenses		-		-	-	-
Operating profit		(97,900)		428,630	(526,530)	(122.84)
Non-operating income and expenses						
Other income	81,944		85,819		(3,875)	(4.52)
Other interest and losses	301,719		754,451		(452,732)	(60.01)
Financial costs	(167,484)		(142,185)		(25,299)	17.79
Share of profits on equity method associated companies and joint ventures	6,178		15,512		(9,334)	(60.17)
Total Non-operating income and expenses		222,357		713,597	(491,240)	(68.84)
Pre-tax profit (loss) of continuing operations		124,457		1,142,227	(1,017,770)	(89.10)
Income tax benefits (expenses)		(6,341)		(142,215)	135,874	(95.54)
Current net profit (loss)		118,116		1,000,012	(881,896)	(88.19)
Other comprehensive income						
Actuarial gains and losses on defined benefits plan	(631)		(3,125)		2,494	(79.81)
Unrealized valuation loss on investments in an equity instrument measured at fair value through other comprehensive income	(62,108)		(75,941)		13,833	(18.22)
Translation differences in financial statements from foreign operations	(2,591)		3,563		(6,154)	(172.72)
Other comprehensive income (net income after-tax)		(65,330)		(75,503)	10,173	(13,47)
Total comprehensive income for the period		52,786		924,509	(871,723)	(94.29)

Analysis of changes in proportion: (Changes exceeding 20% and a value of NT$10 million)
1.Gross profit, operating profit: Attributed mainly to the impact that the continued US-China trade dispute, increased uncertainties of international political and economic events, and US-China trade and trade protection policies have on international steel demand in 2019.
2.Other interest and losses: Mainly attributed to the impact of the stock market in this period causing lower valuation interest generated by domestically listed exchange stocks.
3.Income tax expenses: Attributed mainly to lower pre-tax profits in this period.

(ii)Major changes that have occurred or are expected to occur in operating policies, market conditions, or other internal or external factors of the Company in the last 2 years that would cause a material impact on continuing operations:

Analysis of changes in gross profit:

Unit: NT$1,000

	Increase (decrease) amount between periods	Reason for the difference			
		Difference in sales prices	Difference in cost	Difference in product sales combination	Difference in volume
Gross profit	(551,886)	(120,101)	(454,015)	28,828	(6,598)
Description	Attributed mainly to the impact that the continued US-China trade dispute, increased uncertainties of international political and economic events, and US-China trade and trade protection policies have on international steel demand in 2019.				

(iii)Projected sales quantity for the coming year, the basis for said projection, and factors influencing the continued growth or decline of the expected sales quantity: The government is expected to continue driving solar power, offshore wind power, forward-looking infrastructure, and expansion of domestic demand. In particular, the continued trend of overseas Taiwanese businesses returning to Taiwan will allow the domestic steel market to progress with stability and an optimistic outlook, with ample business opportunities in steel structure construction, steel decks, colored steel plates, C-shaped steel, and fire-proof doors. Therefore, the projected total sales volume for 2020 is roughly 437,000 metric tons.

iii.Cash flow review and analysis

Unit: NT$1,000

Balance at the start of the year (December 31, 2018) ①	Net cash flow from operating activities (2019) ②	Net cash flow from investment and financing activities (2019) ③	Cash balance (December 31, 2019) ①+②-③	Plan to improve insufficient liquidity	
				Investment plan	Financial plan
1,558,960	410,153	(869,952)	1,099,161	No	No

1.Analysis of cash flow changes in the current year:

(1)Cash inflow from operating activities amounted to approximately NT$410,153,000: Attributed mainly to a decrease in inventories and accounts receivable in this period.

(2)Cash outflow from investment activities amounted to approximately NT$157,637,000: Mainly due to the cash inflow generated by the sale of investment listed stocks and timed deposits of over 3 months, as well as increased cash outflows from equipment expenditures.

(3)Cash the inflow from financing activities amounted to approximately NT$712,315,000: Mainly due to the Company's repayment of long-term and short-term loans.

2.Plan to improve insufficient liquidity and liquidity analysis: There were no instances of insufficient liquidity.

3.Cash flow analysis for the coming year: N/A.

4.Cash flow analysis for the past two years:

Item \ Year	December 31, 2019	December 31, 2018	Change (%)
Cash flow ratio (%)	6.56	-	100%
Cash flow adequacy ratio(%)	45.51	33.66	35.50%
Cash reinvestment ratio (%)	-	-	-

Analysis of changes in proportion:

The cash flow ratio and cash flow adequacy ratio of this period has increased, mainly due to a decrease in accounts receivable and inventory, which resulted in a net cash inflow from operating activities.

iv.Effects of significant capital expenditures have had on financial operations in the current year: None

v.Reinvestment policy, main reasons for profit/losses, improvement plans, and investment plans for the upcoming year:

The Company's various investment amounts have not exceeded 10% of paid-in capital.

The Company's equity method reinvestments have long-term strategic purposes; The Company's 2019 equity method net profit from reinvestments totaled NT$66,314 million a decreased from the previous year, mainly because international steel demand has been impacted by the continued US-China trade dispute, increased uncertainties of international political and economic events, and impact of US-China trade and trade protection policies on domestic stock index fluctuations. In the future, the Company shall continue to conduct prudent assessments of reinvestment projects based on the principle of long-term strategic goals.

vi.Risk analysis and assessment of the most recent year up to the publication date of this report:

The Board of Directors plays a critical role in identifying and managing economic risks.

The Company and its subsidiaries are committed to adopting cost-effective methods to integrate and manage potential risks in strategies, operations, finances, and other hazardous risks that may impact operations and profits.

The Company is committed to its corporate goals and its responsibility to maintain the long-term sustainability of the industry and society. The Company has established corporate risk management measures to provide appropriate risk management for all stakeholders. The Company's risk management focuses on "strategic risks", "operational risks", "financial risks", "hazardous risks", and "risks associated with climate change and non-compliance with related regulations on environmental protection or climate change or other international laws and agreements".

(i) The effects that interest rates, exchange rate fluctuations, and inflation have on company earnings and losses, as well as future countermeasures:

Ratio of the Company’s interest income/expenses and exchange profit/losses to net operating revenue in 2019

Item	2019 (NT$1,000)
Net interest income (expenses)	(166,476)
Net exchange income (loss)	213,864
Net interest income (expenses) as a ratio of net operating revenue	-1.96%
Ratio of net exchange (loss) profit to net revenue	2.52%

①. Changes in interest rate

The Company's interest rate risks come mainly from liabilities and financial investment produced when supporting business activities. The Company's income and expenses on interests are mainly affected by changes in interest rates in Taiwan and the United States. The Company's net expenses on interests in 2019 were NT$166,476,000 which accounted for 1.96% of the net revenue of the current year. The overall interest expenses will not increase risks for profitability and will only have minimal effects on the Company.

Future countermeasures

The Company shall adapt to the risks of fluctuating interest rates and continue to pay attention to future market interest rate trends and collect information on interest rates from banks to adequately evaluate the interest rate of existing loans and continue to establish a good relationship with banks. The Company shall use its excellent credit to obtain relatively favorable loan interest rates. Where loans are required, the Company shall use its credit history to obtain relatively favorable loan interest rates based on actual needs for funding. When financing is required, the Company shall plan suitable long-term and short-term bank loans to minimize interest rate fluctuations and the risks caused by the cost of capital on the Company's operations. In financial investments, the Company mainly invests in high fluidity short-term fixed income bonds with high ratings to ensure the security of the principal and to maintain liquidity. However, these hedging operations can only lower parts of the risks and cannot fully eliminate the financial impact caused by fluctuations in interest rates.

②. Changes in exchange rate

More than half of the Company's material procurement expenditure is paid in foreign currencies such as USD. In addition, most of the Company's revenue is in TWD. Therefore, any significant changes in international exchange rates may have unfavorable effects on the Company's finances. Domestic stock market increase in 2019 was higher than levels in 2018, causing more frequent exchange rate fluctuations and appreciation of TWD (29.98) The Company adopted forward foreign exchange contracts to hedge risks. The average exchange rate of TWD against USD (30.912) in 2019 decreased by 2.53% from the average exchange rate in 2018 (30.149). The Company generated a net exchange profit of NT$213,864,000 in 2019 which accounted for 2.52% of the net revenue that year. The overall foreign exchange interests will not increase risks for profitability and will therefore not cause a significant impact on the Company. The Company mainly uses forward foreign exchange contracts to lower the exchange rate risks for assets and liabilities.

<u>Future countermeasures</u>

The Company uses derivatives (e.g. Forward foreign exchange contracts), or non-derivatives (e.g. Short-term borrowing of functional currency) as financial tools to hedge foreign exchange positions that have been recognized or generated from highly probable transactions. These hedging measures may negate some of the financial effects caused by foreign exchange fluctuations, but not completely.

The finance unit pays close attention to changes in the foreign exchange rate and maintains close communication with major banks with which the Company does business, keeping abreast of foreign exchange rate trends at all times to allow relevant supervisors to fully control foreign exchange rate trends and make adjustments whenever necessary.

The Company has established "Procedures for the Acquisition or Disposal of Assets" to govern trading, risk management, supervision, and auditing of derivatives to reduce risks in transactions of derivative financial products related to foreign exchange operations.

There has been no substantial increase in the exchange rate of the NTD against USD since the end of 2019. The appreciation of the NTD may provide positive effects on the Company's profits.

③. Inflation, deflation, and overall fluctuations in the market

The company's past profits and losses have yet to suffer major impacts from inflation.

When the market reacts in anticipation of inflation or deflation, the resulting changes often severely impact the global economy. Both high inflation and deflation will decrease market efficiency, interrupt investment decisions, and cause negative macroeconomic and microeconomic effects. For example, the "balance sheet reduction plan" by the US Federal Reserve Board and the potential changes to the US economy, finance, or trade policies have exacerbated the market fluctuations caused by the expectation of inflation. The market fluctuations caused by changes in the economy might have a minor influence on the Company's operating costs, but may also have no major effect on operations. As such, the Company will make no significant changes to its products and services due to expectations of inflation, deflation, or market fluctuations, thinking it might indirectly affect the willingness of countries around the world to invest in national construction capital expenditures.

In 2019, the inflation rate in Taiwan (calculated with the Consumer Price Index of the Directorate-General of Budget, Accounting, and Statistics) was approximately 100.56% (an annual increase of 0.56%); It is projected that in 2020, the inflation rate in Taiwan (calculated using the Consumer Price Index of the Directorate-General of Budget, Accounting and Statistics) will increase by 0.62%. The Company does not believe that inflation or deflation in Taiwan would have a major impact or effect on the results of the Company's operations in 2019. However, the Company cannot guarantee that major changes in the nature, scale, or scope of future inflation or deflation would not negatively impact the results of the Company's operations.

④. Financing risks

The Company purchases the majority of its materials from foreign countries. Planning the required capital, therefore, becomes relatively challenging when major fluctuations appear in bonds, interest rates, exchange rates, and stock markets. In the next few years, the Company shall require medium-sized capital to maintain operations, expand productivity, and expand locations for its logistics network. The Company's capacity for continued financing relies on many uncertain factors, including:

- The Company's future financial status, operating performance, and cash flow
- Status of market financing activities
- Market financing activities of the steel industry
- Social, economic, political, and other conditions in Taiwan and other regions

(ii) Policies for engaging in high-risk, high-leverage investments, lending to others, providing endorsement and guarantee, and derivatives transactions, analysis of resulting profit/losses, and future countermeasures

The Company has not conducted high-risk or high-leverage financial investments in 2019 or 2020 prior to the publication date of this Annual Report.

As of the date of publication of this Annual Report, the Company has set a NT$15 million ceiling for endorsement and guarantee to APEX Wind Power Equipment Manufacturing Co., Ltd., a subsidiary of the Company with 53.51% of shares held by the Company. (Actual endorsement and guarantee amount is 0).

During 2019, all transactions in derivative financial products conducted by the Company are for hedging purposes and not operations for trade or profit. For details on the transactions, please refer to the "Financial Conditions" in the Annual Report (page 111). The fair market value of financial investments for the purpose of transactions and preparation for sales may change due to market conditions, resulting in changed costs that would affect relevant rates of return.

<u>Future countermeasures</u>

To control risks in financial transactions, the Company has established internal management regulations and operating procedures that strengthen financial and operational foundations in accordance with related regulations of the Securities and Futures Bureau of the Financial Supervisory Commission. These regulations include "Procedures for the Acquisition or Disposal of Assets", "Procedures for Extending Loans to Others", and "Endorsement and Guarantee Making Procedure". They serve as the basis for the Company and its subsidiaries' related operations.

As of the publication date of this Annual Report, the Company and its subsidiaries have not conducted high-risk or high-leverage investments or traded high-risk derivative financial products. Based on the principles of maintaining stable and healthy finances, the Company and subsidiaries will not consider engaging in high-risk or high-leverage investments or trading of high-risk derivative financial products. The Company provides loans, endorsements, and guarantees to subsidiaries that require funding for operations. However, the companies' loans, endorsements, or guarantees for external entities are processed in accordance with the Company's "Procedures for Loaning of Funds to Others" and the "Regulations on Making of Endorsements/Guarantees". In the future, the Company shall continue to abide by the "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies" promulgated by the competent authority in Taiwan and the Company's internal control regulations.

(iii) Future R&D projects and estimated R&D expenditure:

To ensure its leading position in product development technology and product performance, the Company will utilize the results of its research in material applications accumulated throughout the years to work with steel plants and develop building steel materials suitable for Taiwan's harsh island environment in offshore sea areas with potentially extreme weather incidents. The Company shall develop various high-grade, weather-proof, eco-friendly, and strong structural steel while actively expanding into the high-grade building materials industry, electric car and scooter molds and components industries, and materials R&D and sales for offshore wind farm tower and underwater tower foundation components.

(iv) Effects of and Response to Changes in Policies and Regulations Relating to Corporate Finance and Sales:

The Company's management keeps a constant eye out for any changes in policies and regulations that might affect the Company business and operations, and has established related risk management procedures. Important changes in regulations regarding the operations of the Company in 2019 and 2020 up to the publication date of the Annual Report are as follows:

Taiwan’s president announced amendments to the “Industrial Innovation Act” in July 2019, which explicitly states that the construction or purchase of specific assets or technologies with undistributed surplus since 2018 may be included as a deduction item when calculating undistributed surplus. When calculating undistributed surplus tax, the Company only deducted the capital expenditure amount that has actually been reinvested. After some assessment, it was determined that the amendments will have no significant impact on the Company.

The Labor Litigation Act was officially enacted on January 1, 2020. In response, the Company has amended relevant internal regulations accordingly, including regulations regarding attendance records, employer-employee interaction, and document management systems. These changes increased the Company’s operating costs.

Changes to environmental protection laws include: (1) In response to climate change and the implementation of the "Greenhouse Gas Reduction and Management Act", sub laws such as the "Regulations for Periodic Regulatory Goals and Approaches of the Greenhouse Gas Emission" were announced in March 2017 outlining Taiwan’s greenhouse gas reduction goal and schedule. The Company has drafted a countermeasure to prevent any impact on future expansion plans; (2) Amendments to the "Stationary Air Pollution Source Control Fee" and "Regulations Governing Emergency Protocol During Severe Air Quality" were announced in May and June of 2017, respectively, adding regulations such as a seasonal air pollution fees and granting local governments the power to implement regional protection plans which will increase the Company’s operating costs; (3) The "Waste Disposal Act" amended in June 2017 and the newly enacted "Principles in Determining Due Care of Enterprise Commissioning Clearance of Waste” specified the obligations companies must fulfill when managing commissioned waste disposal companies. The Company will amend relevant regulations and commissioning contracts such as those relating to vendor section and auditing to ensure compliance with the law. In addition, the legislature is considering amendments to other environmental protection laws (e.g. Environmental Impact Assessment Act and Air Pollution Control Act). Since the contents of the amendments have not been determined, the actual impact upon enforcement is unknown, though they may affect the Company’s expansion plan and increase operating costs.

Future countermeasures

Since part of the Company's revenue comes from sales to major economies in the world (please refer to "Business Overview - Market Position" on page 92 to page 107 of the Annual Report). Changes in the trade policies of major economies (e.g. trade barrier measures) may influence the sales performance of the Company or its clients and subsequently impact the Company’s operating performance. Therefore, the Company pays constant attention to changes in trade policies and measures between major economies and implement countermeasures according to later developments.

In addition to the aforementioned regulations, changes in other related policies and regulations will not cause any major impact on the Company's finances and operations.

(v) Impact of technological and market changes on the Company's finances and business, as well as subsequent countermeasures:

From 2019 to 2020 up to the publication date of this Annual Report, the Company has finished automating cutting equipment and increased production lines for offshore wind power equipment, providing existing technologies for cutting, component production, and pipe production for offshore wind turbine foundation and underwater foundations to supply more customer-oriented products.

The steel product market has always been influenced by economic cycles. Such market characteristics also impact the manufacturing and service industry for steel products. Most customers of the Company are in the public engineering industry, automobile industry, machinery production industry, electrical component industry, components industry for offshore windmill bases, and underwater foundations. Therefore, the Company's revenue and profits are also affected by customers' purchase orders.

Industries with a demand for steel products sometimes face critical and continuous economic decline as well as the overcapacity of steel mills in Mainland China. Since the Company's current and future business all come from these industry customers, the economic decline in these industries and overcapacity will lower the demand for the entire steel manufacturing and service industry, including the Company. If the Company cannot reduce cost or adopt other measures to effectively offset the impact of reduced demand, its revenue, profits, and profitability will be impacted during economic downturns and steel overcapacity.

Future countermeasures

In response to constant changes in industries with a demand for steel products and the technologies they use, the key to the Company's competitive advantage lies in the continued enhancement of precision processing to provide steel products that better fulfill customer demand with diverse service and business models. If the Company cannot foresee changes in technology and quickly develop innovative business models and cutting production technologies, or if competitors unexpectedly obtain more advanced cutting technologies, the Company may lose its competitive edge and ability to obtain purchase orders. Although the Company continues to expend effort on maintaining advantages in R&D of steel product quality and cutting production processes, the Company's competitiveness will be affected if it cannot maintain its lead in technologies or production processes.

Regarding countermeasures for the aforementioned risks, refer to the "Operational Highlights" (page 92 to page 107) in the Annual Report.

(vi) Impact of corporate image change on risk management and response measures:

In 2019, the Company received the Bronze Award in Manufacturing at the TCSA Taiwan Corporate Sustainability Awards awarded by the Taiwan Institute for Sustainable Energy for its achievements in corporate governance, sustainable development, and information disclosure.

The Company is founded on the core values of trust, harmony, innovation, and sharing.

With its outstanding operational performance, comprehensive corporate governance, and fulfillment of social responsibilities, the Company has established an excellent corporate image in Taiwan and across the world. Meanwhile, the Company continues to demonstrate a sustainable capacity for innovation when it comes to the economy, environment, and society and is dedicated to being a good corporate citizen.

The Company has always seen itself as a driver for improving society, with a long-term goal of "creating sustainable development, fairness, and justice to build a beautiful Taiwan". The Company has dedicated departments for brand management, customer service, material management, quality and reliability, risk management, finance, investor relations, operations, environmental protection & safety& sanitation, human resources, internal control, social charity foundation, and public relations. The close cooperation and coordination of resources between each department consolidate the Company to build upon the excellent corporate image. Meanwhile, the Company is well prepared to prevent and control any potential crisis.

Multiple preventative measures are in place to deal with potential crises that could impact the Company image, including accidents like earthquakes, fires, and occupational incidents. The Company has also established crisis command management and internal control protocols, emergency protocols, and an emergency command system. If an aforementioned crisis occurs, each department can initiate emergency measures immediately to prevent or lower the impact that the incident may have on the safety of the Company's personnel, surrounding environment, property, and production process. The spokesperson will also be notified to clearly explain the situation to outsiders, thereby maintaining the Company's image and smooth operations.

Since its founding, the Company has established a good corporate image based on youth, innovation, and integrity. The has never been an incident of major changes to the Company's corporate image that might result in a crisis.

From 2019 to 2020 up to the publication date of this Annual Report, the Company experienced no risks that might affect its normal operations and corporate image.

(vii) Expected benefits and potential risks of mergers and acquisitions:

From 2019 and 2020 up to the publication date of this Annual Report, the Company has neither conducted any mergers nor have any plans for mergers. If the Company discovers a company or group with potentials for a merger, a careful evaluation will be conducted to consider the effectiveness of the merger. The Company shall also consult relevant professionals and reach a timely and rational decision to protect shareholders' interests.

(viii) Expected benefits and possible risks of factory expansions and subsequent countermeasures:

The Company made regular projections of long-term market demands with respect to its products and services to make plans for production capacity. Since the demand projection is constantly adjusted to reflect dynamic changes of the market environment, the Company may temporarily halt production lines or machines of some factories when demand is lower; Whenever demand increases rapidly, the Company may not be able to restore capacity in time to fully satisfy demands during a prospering economy.

Following recent market demand projections, the Company has completed production lines for offshore wind farm foundations and underwater foundations to fulfill market demand for its products and services. Since the expansion of production capacity requires the purchase of equipment, which will add to operating costs, if the Company cannot generate a corresponding increase in profits, the expansion might reflect negatively in the financial statements.

In response to the aforementioned potential risks associated with the expansion of production capacity, the Company will continue to monitor market changes and cooperate closely with customers. If the market demand does not match predictions, the Company will adjust its plan to expand production capacity to reduce the negative impact on the Company's financial performance.

Overall, the Company's production capacity in 2019 was better than the previous year, with an average capacity utilization rate of 80%. As of the publication date of this Annual Report, the Company’s performance in terms of expanding production capacity in 2020 has met expectations.

Future countermeasures

The Company shall continue to negotiate matters relating to the establishment of factories to faithfully abide by contractual obligations and maintain control over financial risks.

(ix) Risks associated with over-concentration in purchase or sale:

The Company has thousands of customers across Taiwan. The total net income from sales to the top ten customers in 2018 and 2019 accounted for approximately 18% and 22% of the Company's net revenue from sales respectively, with sales to the largest customer accounting for 3.5% and 5% respectively, which demonstrates that there is no over-concentration of sales.

The Company needs to obtain raw material such as steel plates, special steel plates, alloy steel plates, hot-rolled steel plates, galvanized steel products, and stainless steel products at appropriate times. There were instances where certain foreign suppliers adjusted prices temporarily or delayed delivery due to economic growth in the steel market. In addition, due to the characteristics of the industry, certain raw materials purchased by the Company are supplied by a single supplier. If alternative sources cannot be found, the Company might run the risk of not being able to keep up with demand. If the Company cannot obtain the necessary raw material or if the prices of raw materials increase substantially and the increased cost cannot be passed to the customer, the Company's revenue and profits will decline. Therefore, the Company tries to purchase raw materials from different suppliers or different regions to ensure a stable supply of raw materials and to lower the risks of concentrated purchases.

Future countermeasures

The Company's operational growth and continued expansion of production capacity also rely on whether it could obtain sufficient equipment and relevant services from a limited number of suppliers. Equipment suppliers often have limited supply and long delivery times. In heavy processing machinery-related industries, the lead time for machinery procurement can be as long as six months. To reduce such risks, the Company provides suppliers with demand forecasts to arrange production schedules for machines. The Company also engages in discussions with suppliers to establish mutually-agreed business models in order to advance the preparation of components that require longer lead times and reduce the lead time for purchasing equipment. If the Company cannot promptly obtain reasonably priced equipment required for production, it would not be able to satisfy customer purchase orders, causing negative financial and operational impact.

(x) The impact and associated risks of large transfer or exchange of equity by directors or major shareholders holding more than 10% interest in the Company:

From 2019 to 2020 up to the publication date of this Annual Report, there have been no cases of the Company's Directors or major shareholders with more than 10% of the Company shares conducting large transfers or exchanges of shares that could affect the normal operations.

(xi) The impact and associated risks that changes in management can have on the Company:

From 2019 to 2020 up to the publication date of this Annual Report, the Company has seen no signs indicating any risks of a change in management.

The Company has strengthened various corporate governance measures, appointed Independent Directors, and established the Audit Committee to enhance the protection of shareholders' interests. The Company depends on professional managers in day-to-day operations. With a capable team of professional managers making immense contributions to the Company's business performance, the Company is sure to garner the continued support of shareholders so that, even if management changes hands, it would not cause any significant negative impact on the Company's advantages in management and operations.

(xii) Any litigious, non-litigious or administrative litigation event as of the publication date of this Annual Report:

The Company has seen no major litigation cases nor major pending litigations from 2019 to 2020 up to the publication date of the Annual Report.

(xiii) Risks in impairment loss and corresponding countermeasures

Following the International Accounting Standards, the Company is required to conduct impairment assessment on its investments, tangible assets, and intangible assets when there are signs of asset impairment When certain conditions are met, the Company is required to recognize an impairment loss. In addition, under the regulation of the Taiwan-IFRS, an annual negative impairment test must be performed. When signs of impairment are present and the book value could not be recovered, impairment tests must be performed with increased frequency.

The impairment loss in parts of the Company's investment in TWSE-listed companies, TPEx-listed companies, or companies not listed on the TWSE or TPEx are disclosed in "Financial Report" of the Annual Report (page 125). Recognition of impairment loss at any point in time is determined mainly by evaluations made regarding potential operating performance in the next several years. Therefore, impairment losses are more likely to occur when the Company's operating performance is already falling.

The Company has established relevant systems to strictly manage asset impairment. However, the Company cannot predict the extent or time of asset impairment in the future and whether it may negatively impact the Company's net post-tax profits.

(xiv) Litigation events involving the Company’s Director, General Manager, de facto Legal Representative, major shareholders holding more than 10% interest, or subsidiaries as of the publication date of this Annual Report:

From 2019 to 2020 up to the publication date of this Annual Report, there have been no major litigation cases nor major pending litigation cases involving the Company's Directors, General Manager, de facto Legal Representative, major shareholders holding more than 10% interest, or subsidiaries.

(xv) Hazardous risks:

The Company is dedicated to maintaining comprehensive risk management for the protection of natural resources and the security of employees and assets. It also develops comprehensive countermeasures and procedures with regard to risk prevention, emergency responses, crisis management, and continuous operations for all conceivable emergencies and natural disasters.

The Company pays attention to emergency responses for various disasters such as typhoons, floods or droughts caused by climate change, earthquakes, pollution, interruptions in the information system, strike, contagious diseases (such as H1N1 influenza), and discontinued supply of materials, water, electricity, and public facilities. The Company has established task forces at all points of operations to respond to the aforementioned incidents to ensure continued operations.

The COVID-19 pandemic might have significant adverse effects on the Company’s business and operating performance on levels including but not limited to the following: (1) Disrupt the global steel supply chain and operation of the Company's suppliers, including Asia and Europe; (2) Downward pressure from a decreased demand from export customers. The Company has taken several measures to combat the epidemic, including routine disinfection, voluntary isolation, efforts to promote hygienic habits, and split operation. However, considering the uncertainties surrounding the COVID-19 epidemic, the Company cannot predict whether the aforementioned measures will limit the spread of the virus in the workplace, or whether operations will be severely impacted by the epidemic. As of the publication date of this Annual Report, the Company has suffered no major impact from the epidemic. However, depending on the trajectory of the epidemic, the Company might still face the aforementioned risks. Because the epidemic is ongoing and has the potential to intensify, there are major uncertainties surrounding its development and possible impact, including the question of whether the current or continued spread of the epidemic will slow down economic growth or cause a global recession. The Company is currently unable to predict the impact that the epidemic may have on its business and operations.

The recent COVID-19 epidemic has prompted the Company to adjust its business operation practices, including but not limited to the health management, production and inventory management, and supply chain risk management of employees, customers, and suppliers. The Company has established an "epidemic task force" to determine, implement, and monitor emergencies caused by the epidemic and the necessary countermeasures. The Company cannot be sure whether these measures or other measures can lessen the risks posed by COVID-10, or whether the Company's ability to operate key functions will suffer significant adverse effects.

There were multiple earthquakes in 2019, but the Company's buildings and production equipment are all earthquake-resistant structures built in accordance with regulations. Therefore, the Company has experienced no relevant risks in 2019 and 2020, up to the publication date of this Annual Report.

(xvi) Information technology security risks and management measures:

The Company has established a comprehensive Internet and computer-related information security protection measures to control or maintain the Company's production, operation, and accounting systems. However, there is no guarantee that the Company's information security control or computer systems that maintain important corporate functions such as company operations and accounting can completely avoid third-party cyber-attacks aiming to crash the system. These cyber-attacks infiltrate the Company's internal network system illegally and cause damage to the Company's operations and reputation. Under severe cyber-attacks, the Company's system may lose important corporate information. Through constant inspection and assessment of its information safety regulations and protocols, the Company can ensure its suitability and efficacy, but cannot guarantee that the Company will not be affected by new risks and attacks born from ever-changing information security threats.

Cyber-attacks may also attempt to steal the Company's trade secrets, other intellectual properties, and confidential information such as exclusive information on customers, information on other stakeholders, or the personal information of employees. Malicious hackers could also inject computer viruses, destructive software, or ransomware into the Company's network system to disrupt the Company's operations, blackmail the Company with control of its computer systems, or obtain confidential information. These attacks could cause delays or interruptions in purchase orders that could lead to losses due to delayed deliveries. The Company may also have to bear extensive costs for remedial and improvement measures that bolster its information security system; Cyber-attacks may also cause the Company to leak information from clients or third parties to whom it owes an obligation of confidentiality. This could lead to litigations or investigations, and the Company may be found legally liable. In addition, the

Company needs to share highly sensitive and confidential information to certain third-party vendors to allow them to provide their services. Although the service contracts signed between the Company and the third-party service providers demand confidentiality and conformance to information security regulations, there is no guarantee that the third-party service providers will fulfill these obligations. The internal network system and/or external cloud computing network (e.g. Servers) maintained by these service providers or their contractors are also at risk of cyber-attacks. If the Company or its service providers cannot solve the difficult technical problems caused by the cyber-attacks promptly, ensure the credibility and availability of the Company's data, or regain control of compromised computer systems, the Company’s credibility with customers and stakeholders may be seriously damaged, causing severe negative impacts on the Company’s operating performance, financial conditions, prospects, and reputation.

In 2019 and 2020 up to the publication of the Annual Report, the Company has not discovered any major cyber-attacks nor incidents that have had or may have a negative impact on the Company business and operations. The Company has also not been involved in any legal cases or investigations relating to such incidents.

(xvii) Other critical risks:

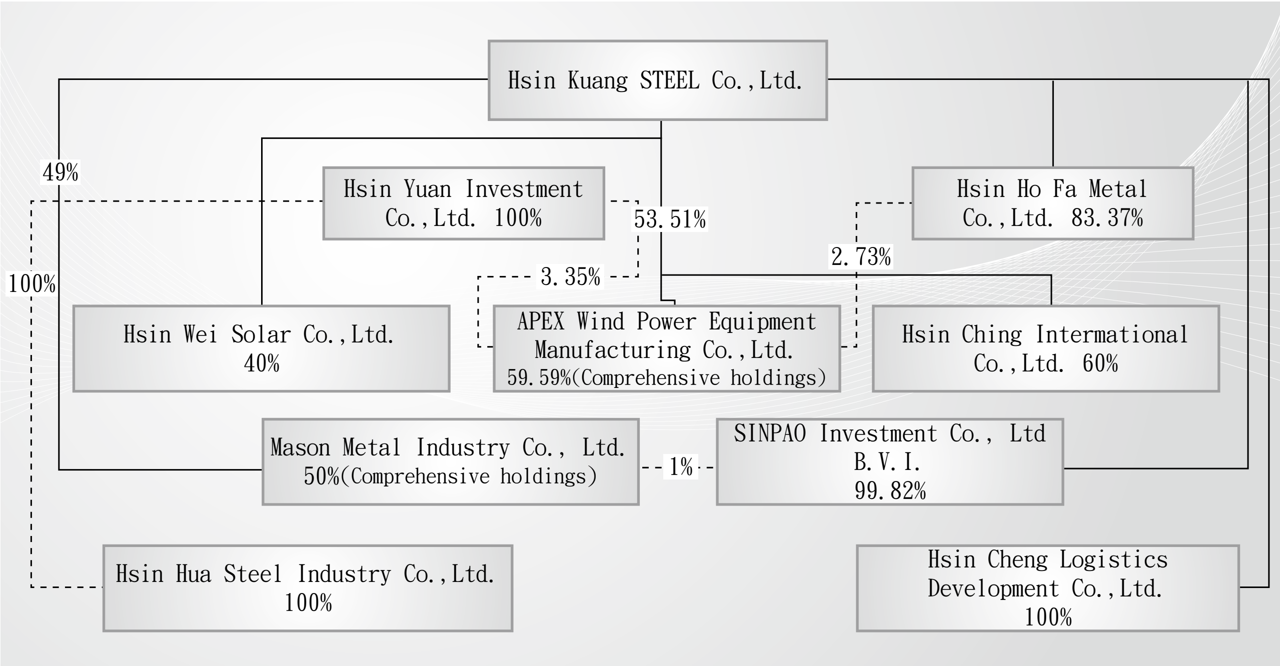
From 2019 and 2020 up to the publication date of this Annual Report, the Company experienced no other critical risks.

vii.Other important matters: None

VIII.Special Disclosures

i. Profiles of Affiliates and Subsidiaries

(i) Affiliate Organization Chart



(ii) Basic Information on Affiliate Enterprises

As of Tuesday, December 31, 2019

Unit: NT$1,000

Company name	Date of establishment	Address	Paid-in capital	Principal business or product
Hsin Yuan Investment Co., Ltd.	1998/09/22	25F-1, No. 97, Section 4, Chongxin Road, Sanchong District, New Taipei City	238,000	Capital investment
Sinpao Investment Co., LTD(B.V.I)	2001/11/13	TrustNet Chambers Road Town Tortola British Virgin Islands	US$4.181 million	Capital investment
Hsin Ho Fa Metal Co., Ltd.	2003/01/28	25F-1, No. 97, Section 4, Chongxin Road, Sanchong District, New Taipei City	180,000	Wholesale of metal construction materials
APEX Wind Power Equipment Manufacturing Co., Ltd.	2009/11/02	25F-1, No. 97, Section 4, Chongxin Road, Sanchong District, New Taipei City	660,000	Manufacturing self-use power generator for renewable energy
Hsin Wei Solar Co., Ltd.	2010/09/28	25F-1, No. 97, Section 4, Chongxin Road, Sanchong District, New Taipei City	136,000	Power generation for non-metallic use
Hsin Ching International Co., Ltd.	2015/12/18	25F-1, No. 97, Section 4, Chongxin Road, Sanchong District, New Taipei City	250,000	Leasing and storage
Mason Metal Industry Co., Ltd.	1990/07/20	No. 6, Gongye 1st Road, Pingzhen District, Taoyuan City	500,000	Automotive steel plate

				cutting and processing
Hsin Cheng Logistics Development Co., Ltd.	2019/08/19	25F-1, No. 97, Section 4, Chongxin Road, Sanchong District, New Taipei City	200	Leasing and storage
Hsin Hua Steel Industry Co., Ltd.	2019/07/25	25F-1, No. 97, Section 4, Chongxin Road, Sanchong District, New Taipei City	10,000	Secondary metal processing and manufacturing

(iii) Information on common shareholders who are presumed to have a relationship of control or subordination

As of December 31, 2019, the Company had no such instances.

(iv) Businesses covered by the affiliated enterprises

Businesses covered by affiliated enterprises include mainly "cutting and logistical distribution services in the steel industry", "manufacturing self-use power generators for renewable energy", and "manufacturing metal architectural components". The business scope of other affiliated enterprises includes "capital investment", "power generation for non-metallic use", "leasing and storage", and "automotive steel plate cutting and processing".

(v) Information on the Directors, Supervisors, and General Managers of enterprises affiliated to Hsin Kuang Steel Co., Ltd.

As of December 31, 2019

Unit: shares: %

Company name	Title	Name of representative	Shareholding	
			No. of Shares	Shareholding ratio
Hsin Yuan Investment Co., Ltd.	Chairman & General Manager	Representative of Hsin Kuang Steel Co., Ltd.: Alexander M.T.Su	23,784,292	99.93%
	Director	Representative of Hsin Kuang Steel Co., Ltd.: Xiao-Ru Su		
	Director	Representative of Hsin Kuang Steel Co., Ltd.: Daniel Z.L. Xu		
	Director	Representative of Hsin Kuang Steel Co., Ltd.: Jessica P.H. Liu		
	Director	Representative of Hsin Kuang Steel Co., Ltd.: Lisa H.C. Chien		
	Supervisor	Yung-Yu Chiu	—	—
SINPAO INVESTMENT CO., LTD(B.V.I)	Chairman of the Board	Representative of Hsin Kuang Steel Co., Ltd.: Alexander M.T.Su	US$4,181,091	99.82%
Hsin Ho Fa Metal Co., Ltd.	Chairman & General Manager	Representative of Hsin Kuang Steel Co., Ltd.: Alexander M.T.Su	15,007,140	83.37%
	Director	Representative of Hsin Kuang Steel Co., Ltd.: Teng-Kui Kao		

Company name	Title	Name of representative	Shareholding	
			No. of Shares	Shareholding ratio
	Director	Representative of Hsin Kuang Steel Co., Ltd.: Fisher C.H.Yu		
	Director	Representative of Hsin Kuang Steel Co., Ltd.: Daniel Z.L. Xu		
	Director	Representative of Top East Steel & Iron Company Ltd.: Chih-Yuan Huang	427,770	2.38%
	Supervisor	Tai-Tou Chang	855,540	4.75%
APEX Wind Power Equipment Manufacturing Co., Ltd.	Chairman of the Board	Representative of Hsin Kuang Steel Co., Ltd.: Alexander M.T.Su	35,314,000	53.51%
	Director	Representative of Hsin Kuang Steel Co., Ltd.: Ming-shan, Jheng		
	Director	Representative of Hsin Kuang Steel Co., Ltd.: Teng-Kui Kao		
	Director	Representative of Hsin Kuang Steel Co., Ltd.: Frank C.C. Huang		
	Director	Representative of Century Iron and Steel Industrial Co., Ltd.: Wen-Hsiang Lai	8,716,600	13.21%
	Director	Representative of Century Offshore Wind Power: I-Hui Chu	8,716,600	13.21%
	Supervisor	Representative of Hsin Yuan Investment Co., Ltd.: Johnathon Y.J. Su	2,212,840	3.35%
	Supervisor	Representative of Hsin Ho Fa Metal Co., Ltd.: Jessica P.H. Liu	1,800,000	2.73%
	Supervisor	Tsung-Cheng Peng	100,000	0.15%
Hsin Wei Solar Co., Ltd.	Chairman of the Board	Representative of Wei Sheng Investment & Development Co., Ltd.: Kui-Kuang Chen	6,120,000	45.00%
	Director	Representative of Wei Sheng Investment & Development Co., Ltd.: Chin-Hui Chen		
	Director	Representative of Hsin Kuang Steel Co., Ltd.: Alexander M.T.Su	5,440,000	40.00%
	Supervisor	Jessica P.H. Liu	—	—
Hsin Ching International Co., Ltd.	Chairman of the Board	Representative of Hsin Kuang Steel Co., Ltd.: Alexander M.T.Su	15,000,000	60.00%

Company name	Title	Name of representative	Shareholding	
			No. of Shares	Shareholding ratio
	Director	Representative of Hsin Kuang Steel Co., Ltd.: Ming-shan, Jheng		
	Director	Representative of Hsin Kuang Steel Co., Ltd.: Jessica P.H. Liu		
	Director & General Manager	Representative of Li Hsin Investment Co., Ltd.: Ho-Chou Huang	7,500,000	30.00%
	Director	Representative of Chuan Da Investment Co., Ltd.: Ho-Tung Huang	1,750,000	7.00%
	Supervisor	Lisa H.C. Chien	—	—
	Supervisor	Representative of Honova Resources Ltd.: Hsiao-Yu Chang	750,000	3.00%
Mason Metal Industry Co., Ltd.	Chairman of the Board	Representative of the Sumitomo Corporation of Japan: Koji Motoi	25,000,000	50.00%
	Director	Representative of the Sumitomo Corporation of Japan: Daisuke Mori		
	Director	Representative of the Sumitomo Corporation of Japan: Shu-Hsien Huang		
	Director	Hsin Kuang Steel Co., Ltd. Representative: Alexander M.T.Su	25,000,000	50.00%
	Director	Hsin Kuang Steel Co., Ltd. Representative: Johnathon Y.J. Su		
	Director	Hsin Kuang Steel Co., Ltd. Representative: Wen-Chieh Lo		
	Supervisor	Yu Okano	—	—
	Supervisor	Jessica P.H. Liu	—	—
Hsin Cheng Logistics Development Co., Ltd.	Chairman of the Board	Representative of Hsin Kuang Steel Co., Ltd.: Alexander M.T.Su	20,000	100.00%
Hsin Hua Steel Industry Co., Ltd.	Chairman of the Board	Representative of Hsin Yuan Investment Co., Ltd.: Ming-shan, Jheng	1,000,000	100.00%

Business overview of affiliate enterprises

As of December 31, 2019

Unit: NT$1,000, unless otherwise specified/US$1,000

Company name	Capital	Total assets	Total liabilities	Net value	Operating revenue	Operating profit (loss)	Current net profit (loss)	Earnings (loss) per share (NT$)
Hsin Yuan Investment Co., Ltd.	238,000	442,308	6,299	436,009	58,684	44,557	45,414	1.91
SINPAO INVESTMENT CO., LTD (B.V.I)	US$4,181	US$4,427	US$21	US$4,406	US$4	(US$7)	(US$7)	Not applicable
Hsin Ho Fa Metal Co., Ltd.	180,000	619,843	309,797	310,046	19,736	(16,865)	9,795	0.54
APEX Wind Power Equipment Manufacturing Co. Ltd.	660,000	683,583	59,484	624,099	23,887	(35,428)	(34,419)	(0.52)
Hsin Wei Solar Co., Ltd.	136,000	473,641	324,788	148,853	55,232	20,069	10,723	0.79
Hsin Ching International Co., Ltd.	250,000	1,177,944	621,251	556,693	78,492	29,320	23,448	0.94
Mason Metal Industry Co., Ltd.	500,000	1,422,529	756,534	665,995	1,814,044	14,960	12,761	0.26
Hsin Cheng Logistics Development Co., Ltd.	20,000	942	41	901	-	(99)	(99)	(0.05)
Hsin Hua Steel Industry Co., Ltd.	10,000	61,548	59,148	2,400	25,128	(7,604)	(7,600)	(7.60)

(vi) Consolidated financial statements of affiliates

Affiliated enterprises that should be included in the consolidated financial statements of 2019 according to the "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises" are the same as what should be included in the consolidated financial statements of parent and subsidiary companies according to IFRS No. 10. Also, the relevant information that should be disclosed in the consolidated financial statements of affiliates has been disclosed in the consolidated financial statements of the parent company and its subsidiaries. As such, the Company shall not be required to prepare separate consolidated financial statements for affiliates.

(vii)Report of Affiliates: None

ii. Private solicitation of marketable securities handling in the recent year up to the publication date of this annual report: None.

iii. Holding or disposal of this Company's shares by a subsidiary company in the last year, up to the publication date of this report: None

iv. Other supplemental information: None

v. Corporate events with material impact on shareholders' equity or stock prices outlined in Subparagraph 2, Paragraph 2, Article 36 of Securities and Exchange Act in the past year and up to the publication date of this report: None

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Hsin Kuang Steel Company Limited

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, 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 audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2019. These matters were addressed in the context of our audit of the 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 identified in the Company's financial statements for the year ended December 31, 2019 are as follows:

<u>Write-down of Inventories</u>

As of December 31, 2019, inventories in the Company's financial statements amounted to NT$3,337,743 thousand, representing 21% of total assets. The Company mainly engages in the sale, cutting, slitting, steel structure processing and logistics of various steel products. Under this business model, the Company must reserve various steel products to respond to market and customer demands. Because steel industry is highly affected by fluctuations of international steel prices, changes in the value of inventory can affect the calculation of net realizable value of inventories. The amount of inventories is significant to the financial statements as a whole and the valuation of net realizable value of inventory involves management's judgment; in particular, management based its estimation of the net realizable value of inventory on past selling prices and actual transactions. Therefore, we identified write-down of inventories as a key audit matter.

Refer to Notes 4, 5 and 11 to the financial statements for the accounting policies and related disclosures on the write-down of inventories.

We performed the following audit procedures in respect of write-down of inventories:

1. We understood and tested the design and operating effectiveness of key controls over the estimation of inventory write-downs.

2. We took into consideration the steel price charts of China Steel Corporation and the market price trend of nickel metal, which was the main material of stainless steel, in assessing the reasonableness of management's estimate for the inventory write-downs.

3. We obtained the data used by management in calculating the allowance for inventory write-downs and recalculated the sales price used for estimation. We evaluated the reasonableness of management's estimation by selecting samples with their relating invoices to verify the authenticity of the data.

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

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

In preparing the 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 overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the 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 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 financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Company to express an opinion on the 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 financial statements for the year ended December 31, 2019 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Sheng-Hsiung Yao and Jui-Na Chang.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 17, 2020

<u>*Notice to Readers*</u>

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

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

HSIN KUANG STEEL COMPANY LIMITED

BALANCE SHEETS
DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)

	2019		2018	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Note 6)	$ 906,531	6	$ 978,699	6
Financial assets at fair value through profit or loss - current (Notes 4 and 7)	728,466	5	889,644	5
Financial assets at fair value through other comprehensive income - current (Notes 4 and 8)	-	-	80,115	1
Financial assets at amortized cost - current (Notes 9 and 30)	55,684	-	116,677	1
Notes receivable from related parties (Notes 4, 5, 10 and 29)	44,465	-	56,772	-
Notes receivable from unrelated parties (Notes 4, 5, 10 and 30)	1,040,374	7	1,252,277	7
Trade receivables from related parties (Notes 4, 5, 10 and 29)	54,753	-	39,488	-
Trade receivables from unrelated parties (Notes 4, 5 and 10)	1,313,690	9	1,228,738	7
Inventories (Notes 4, 5 and 11)	3,337,743	21	4,027,175	24
Prepayments	109,809	1	144,639	1
Other current assets (Note 15)	41,372	-	2,301	-
Total current assets	7,632,887	49	8,816,525	52
NON-CURRENT ASSETS				
Financial assets at fair value through other comprehensive income - non-current (Notes 4, 8 and 30)	1,677,957	11	1,898,224	11
Investments accounted for using the equity method (Notes 4 and 12)	2,073,493	13	2,024,422	12
Property, plant and equipment (Notes 4, 13, 29 and 30)	3,276,213	21	3,165,177	19
Investment properties (Notes 4, 14 and 30)	947,208	6	958,879	6
Deferred tax assets (Notes 4 and 24)	41,571	-	32,240	-
Other non-current assets (Notes 10 and 15)	56,030	-	46,612	-
Total non-current assets	8,072,472	51	8,125,554	48
TOTAL	$ 15,705,359	100	$ 16,942,079	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Notes 4 and 16)	$ 4,688,264	30	$ 6,875,405	41
Short-term bills payable (Notes 4 and 16)	469,737	3	429,734	2
Financial liabilities at fair value through profit or loss - current (Notes 4 and 7)	41,755	-	8,659	-
Contract liabilities - current (Note 22)	141,910	1	143,030	1
Notes payable to unrelated parties (Notes 4 and 18)	254,763	2	647,007	4
Notes payable to related parties (Notes 4, 18 and 29)	608	-	3,156	-
Trade payables to unrelated parties (Notes 4 and 18)	45,499	-	177,687	1
Trade payables to related parties (Notes 4, 18 and 29)	1,299	-	1,482	-
Other payables (Notes 19 and 29)	91,511	-	165,288	1
Current tax liabilities (Notes 4 and 24)	-	-	71,573	-
Current portion of long - term borrowings and bonds payable (Notes 4, 16 and 17)	420,532	3	610,526	4
Other current liabilities	2,066	-	1,524	-
Total current liabilities	6,157,944	39	9,135,071	54
NON-CURRENT LIABILITIES				
Bonds payable (Note 17)	-	-	400,337	2
Long-term borrowings (Notes 4 and 16)	807,603	5	128,948	1
Long-term bills payable (Note 16)	1,898,531	12	-	-
Provisions - non-current (Notes 4 and 12)	3,570	-	3,570	-
Deferred tax liabilities (Notes 4 and 24)	12,201	-	21,605	-
Net defined benefit liabilities - non-current (Notes 4 and 20)	27,048	-	27,744	-
Other non-current liabilities	514,382	4	514,382	3
Total non-current liabilities	3,263,335	21	1,096,586	6
Total liabilities	9,421,279	60	10,231,657	60
EQUITY (Notes 4 and 21)				
Share capital	3,106,877	20	3,106,877	18
Capital surplus	817,716	5	818,309	5
Retained earnings				
Legal reserve	858,883	6	761,010	5
Special reserve	43,567	-	-	-
Unappropriated earnings	1,565,297	10	2,067,794	12
Total retained earnings	2,467,747	16	2,828,804	17
Other equity	(108,260)	(1)	(43,568)	-
Total equity	6,284,080	40	6,710,422	40
TOTAL	$ 15,705,359	100	$ 16,942,079	100

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

HSIN KUANG STEEL COMPANY LIMITED

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUE (Notes 4, 22 and 29)				
Sales	$ 8,335,222	99	$ 8,591,658	99
Other operating revenue	78,443	1	57,121	1
Total operating revenue	8,413,665	100	8,648,779	100
OPERATING COSTS				
Cost of goods sold (Notes 11, 23 and 29)	(8,210,795)	(98)	(7,925,662)	(92)
Other operating costs	(27,340)	-	(6,731)	-
Total operating costs	(8,238,135)	(98)	(7,932,393)	(92)
GROSS PROFIT	175,530	2	716,386	8
UNREALIZED GAIN ON TRANSACTIONS WITH ASSOCIATES AND JOINT VENTURES	(682)	-	(3,803)	-
REALIZED GAIN ON TRANSACTIONS WITH ASSOCIATES AND JOINT VENTURES	3,798	-	5	-
REALIZED GROSS PROFIT	178,646	2	712,588	8
OPERATING EXPENSES				
Selling and marketing expenses (Note 23)	(151,295)	(2)	(168,585)	(2)
General and administrative expenses (Notes 23 and 29)	(68,506)	(1)	(114,273)	(1)
Expected credit (loss) gain	(35,029)	-	10,823	-
Total operating expenses	(254,830)	(3)	(272,035)	(3)
(LOSS) PROFIT FROM OPERATIONS	(76,184)	(1)	440,553	5
NON-OPERATING INCOME AND EXPENSES (Notes 23 and 29)				
Other income	74,648	1	75,366	1
Other gains	228,335	3	487,604	6
Finance costs	(161,553)	(2)	(138,896)	(2)
Share of profit of associates and joint ventures	66,314	1	236,611	3
Total non-operating income and expenses	207,744	3	660,685	8

(Continued)

HSIN KUANG STEEL COMPANY LIMITED

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018	
	Amount	**%**	**Amount**	**%**
PROFIT BEFORE INCOME TAX	$ 131,560	2	$ 1,101,238	13
INCOME TAX EXPENSE (Notes 4 and 24)	(10,886)	-	(122,513)	(2)
NET PROFIT FOR THE YEAR	120,674	2	978,725	11
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified to profit or loss:				
Remeasurement of defined benefit plans	(631)	-	(3,125)	-
Unrealized loss on investments in equity instruments at fair value through other comprehensive income	(62,108)	(1)	(75,941)	(1)
	(62,739)	(1)	(79,066)	(1)
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating the financial statements of foreign operations	(2,584)	-	3,553	-
Other comprehensive loss for the year, net of income tax	(65,323)	(1)	(75,513)	(1)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 55,351	1	$ 903,212	10
EARNINGS PER SHARE (Note 25)				
From continuing operations				
Basic	$ 0.39		$ 3.17	
Diluted	$ 0.39		$ 3.06	

The accompanying notes are an integral part of the financial statements. (Concluded)

HSIN KUANG STEEL COMPANY LIMITED

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)

	Share Capital			Retained Earnings			Other Equity			
	Number of Shares (In Thousands)	Amount	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating the Financial Statements of Foreign Operations	Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Total Equity
BALANCE AT JANUARY 1, 2018	306,194	$ 3,061,937	$ 867,686	$ 654,386	$ 19,407	$ 1,638,702	$ (1,339)	$ -	$ 30,159	$ 6,270,938
Effect of retrospective application and retrospective restatement	-	-	-	-	-	-	-	30,159	(30,159)	-
BALANCE AT JANUARY 1, 2018 AS RESTATED	306,194	3,061,937	867,686	654,386	19,407	1,638,702	(1,339)	30,159	-	6,270,938
Special reserve reversed under Rule No. 1010012865 issued by the FSC	-	-	-	-	(19,407)	19,407	-	-	-	-
Appropriation of 2017 earnings										
Legal reserve	-	-	-	106,624	-	(106,624)	-	-	-	-
Cash dividends distributed by the Company	-	-	-	-	-	(459,291)	-	-	-	(459,291)
Other changes in capital surplus										
Changes in capital surplus from investments in subsidiaries, associates, and joint ventures accounted for using the equity method	-	-	66	-	-	-	-	-	-	66
Cash dividends distributed from capital surplus	-	-	(153,097)	-	-	-	-	-	-	(153,097)
Convertible bonds converted to ordinary shares	4,494	44,940	103,654	-	-	-	-	-	-	148,594
Net profit for the year ended December 31, 2018	-	-	-	-	-	978,725	-	-	-	978,725
Other comprehensive income (loss) for the year ended December 31, 2018, net of income tax	-	-	-	-	-	(3,125)	3,553	(75,941)	-	(75,513)
Total comprehensive income (loss) for the year ended December 31, 2018	-	-	-	-	-	975,600	3,553	(75,941)	-	903,212
BALANCE AT DECEMBER 31, 2018	310,688	3,106,877	818,309	761,010	-	2,067,794	2,214	(45,782)	-	6,710,422
Appropriation of 2018 earnings										
Legal reserve	-	-	-	97,873	-	(97,873)	-	-	-	-
Special reserve	-	-	-	-	43,567	(43,567)	-	-	-	-
Cash dividends distributed by the Company	-	-	-	-	-	(466,032)	-	-	-	(466,032)
Changes in percentage of ownership interests in subsidiaries	-	-	(593)	-	-	(1,302)	-	-	-	(1,895)
Disposal of investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	-	(13,766)	-	-	-	(13,766)
Net profit for the year ended December 31, 2019	-	-	-	-	-	120,674	-	-	-	120,674
Other comprehensive loss for the year ended December 31, 2019, net of income tax	-	-	-	-	-	(631)	(2,584)	(62,108)	-	(65,323)
Total comprehensive income (loss) for the year ended December 31, 2019	-	-	-	-	-	120,043	(2,584)	(62,108)	-	55,351
BALANCE AT DECEMBER 31, 2019	310,688	$ 3,106,877	$ 817,716	$ 858,883	$ 43,567	$ 1,565,297	$ (370)	$ (107,890)	$ -	$ 6,284,080

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

HSIN KUANG STEEL COMPANY LIMITED

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 131,560	$ 1,101,238
Adjustments for:		
Depreciation expenses	83,354	81,071
Amortization expenses	1,826	1,387
Expected credit loss recognized (reversed) on trade receivables	35,029	(10,823)
Net gain on fair value changes of financial assets at fair value through profit or loss	(151,126)	(467,995)
Net loss (gain) on fair value changes of financial liabilities at fair value through profit or loss	136,294	(24,521)
Finance costs	161,553	138,896
Interest income	(798)	(1,071)
Dividend income	(70,688)	(68,281)
Loss on disposal of property, plant and equipment	518	708
Share of profit of associates	(66,314)	(236,611)
(Reversal of) write-downs of inventories	(12,056)	108,793
Unrealized gain on transactions with associates	682	3,803
Realized gain on transactions with associates	(3,798)	(5)
Net gain on foreign currency exchange	(66,420)	(39,113)
Net defined benefit liabilities	(1,486)	(3,161)
Changes in operating assets and liabilities		
Decrease in financial assets mandatorily classified as at fair value through profit or loss	209,106	87,175
Decrease (increase) in notes receivable	224,211	(281,490)
Increase in trade receivables	(132,346)	(21,474)
Decrease (increase) in inventories	701,488	(1,392,680)
Decrease (increase) in prepayments	34,830	(63,743)
Increase in other current assets	(28,171)	(1,593)
(Decrease) increase in notes payable	(394,791)	225,892
(Decrease) increase in trade payables	(133,680)	174,771
Decrease in other payables	(53,188)	(3,428)
(Decrease) increase in contract liabilities	(1,120)	24,398
Increase in other current liabilities	542	15,831
Cash generated from (used in) operations	605,011	(652,026)
Interest received	798	1,071
Dividends received	70,688	68,281
Income tax paid	(111,291)	(185,226)
Net cash generated from (used in) operating activities	565,206	(767,900)

(Continued)

HSIN KUANG STEEL COMPANY LIMITED

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)

	2019	2018
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at fair value through other comprehensive income	$ (12,000)	$ (129,451)
Proceeds from sale of financial assets at fair value through other comprehensive income	228,386	-
Proceeds from capital reduction and return of shares from financial assets at fair value through other comprehensive income	8,121	2,222
Proceeds from disposal (purchase) of financial assets at amortized cost	60,992	(28,971)
Acquisition of associates and joint ventures	(17,675)	(441,152)
Payments for property, plant and equipment	(171,098)	(314,068)
Proceeds from disposal of property, plant and equipment	7,043	6,024
Acquisition of investment properties	(3,000)	-
Proceeds from disposal of investment properties	1,400	-
Increase in other non-current assets	(1,837)	(5,006)
Increase in prepayments for equipment	(17,212)	(17,254)
Dividends received from subsidiaries and associates	32,908	5,248
(Increase) decrease in refundable deposits	(11,858)	73
Net cash generated from (used in) investing activities	104,170	(922,335)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	14,842,199	13,228,755
Repayments of short-term borrowings	(16,962,430)	(10,565,104)
Increase (decrease) in short-term bills payable	40,000	(40,000)
Proceeds from long-term borrowings	689,182	-
Repayments of long-term borrowings	(610,526)	(210,527)
Proceeds from long-term bills payable	1,900,000	-
Proceeds from guarantee deposits received	-	264,082
Interest paid	(173,937)	(103,579)
Dividends paid	(466,032)	(612,388)
Net cash (used in) generated from financing activities	(741,544)	1,961,239
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(72,168)	271,004
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	978,699	707,695
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 906,531	$ 978,699

The accompanying notes are an integral part of the financial statements. (Concluded)

1. GENERAL INFORMATION

Hsin Kuang Steel Company Limited (the “Company”) was incorporated in January 1967. The original paid-in-capital was NT$200 thousand, and ordinary shares were issued subsequently for promoting business expansion and a sound financial structure. The Company’s share was approved to be listed on the Taipei Exchange in April 1997 and was approved to transfer to the Taiwan Stock Exchange (“TWSE”) in August 2000. The Company’s shares have been listed on the TWSE since September 2000 under the approval of the Financial Supervisory Commission (FSC) of the Republic of China.

The Company mainly engages in the cutting, stamping and sale of various steel products, including steel coils, steel plates, round steel bar, stainless steel, alloy steel, special steel and SuperDyma.

The financial statements are presented in the Company’s functional currency, the New Taiwan dollar.

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Company’s board of directors on March 17, 2020.

3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS

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

   Except for the following, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC did not have material impact on the Company’s accounting policies:

   1) IFRS 16 “Leases”

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

      Definition of a lease

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

The Company as lessee

The Company did not have lease contracts to which IFRS 16 was applied retrospectively, except for those for which the underlying asset is of low-value and short-term leases which are recognized as expenses on a straight-line basis. Consequently, there was no significant effect on the Company's assets, liabilities and equity as of January 1, 2019.

The Company as lessor

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

2) Annual Improvements to IFRSs 2015-2017 Cycle

Several standards, including IFRS 3 "Business Combinations", IFRS 11 "Joint Arrangements", IAS 12 "Income Taxes" and IAS 23 "Borrowing Costs", were amended in this annual improvement. IAS 23 was amended to clarify that, if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, the related borrowing costs shall be included in the calculation of the capitalization rate on general borrowings. Upon initial application of the above amendment, the related borrowing costs are included in the calculation starting from 2019.

3) Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"

The amendments stipulate that, if a plan amendment, curtailment or settlement occurs, the current service cost and the net interest for the remainder of the annual reporting period are determined using the actuarial assumptions used for the remeasurement of the net defined benefit liabilities (assets). In addition, the amendments clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. The Company applied the above amendments prospectively.

b. The IFRSs endorsed by the Financial Supervisory Commission (FSC) for application starting from 2020

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

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

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

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

1) Amendments to IFRS 3 “Definition of a Business”

The amendments clarify that, to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process applied to the input that together significantly contribute to the ability to create outputs. The amendments narrow the definitions of outputs by focusing on goods and services provided to customers, and the reference to an ability to reduce costs is removed. Moreover, the amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. In addition, the amendments introduce an optional concentration test that permits a simplified assessment of whether or not an acquired set of activities and assets is a business.

2) Amendments to IFRS 9, IAS 39 and IFRS 7 “Interest Rate Benchmark Reform”

The amendments deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark (such as the London Interbank Offered Rate or LIBOR) with an alternative interest rate, and provide temporary exceptions to all hedging relationships that are directly affected by the interest rate benchmark reform. The Company would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform. The amendments also require additional disclosures about the extent to which the entity’s hedging relationships are affected by the amendments.

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

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

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

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

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

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

1) Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”

The amendments stipulate that, when the Company sells or contributes assets that constitute a business (as defined in IFRS 3) to an associate or joint venture, the gain or loss resulting from the transaction is recognized in full. Also, when the Company loses control of a subsidiary that contains a business but retains significant influence or joint control, the gain or loss resulting from the transaction is recognized in full.

Conversely, when the Company sells or contributes assets that do not constitute a business to an associate or joint venture, the gain or loss resulting from the transaction is recognized only to the extent of the Company's interest as an unrelated investor in the associate or joint venture, i.e., the Company's share of the gain or loss is eliminated. Also, when the Company loses control of a subsidiary that does not contain a business but retains significant influence or joint control over an associate or a joint venture, the gain or loss resulting from the transaction is recognized only to the extent of the Company's interest as an unrelated investor in the associate or joint venture, i.e., the Company's share of the gain or loss is eliminated.

2) Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"

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

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

Except for the above impact, as of the date the financial statements were authorized for issue, the Company is continuously assessing the possible impact that the application of other standards and interpretations will have on the Company's financial position and financial performance and will disclose the relevant impact when the assessment is completed.

d. Reclassification

To increase the utilization of its properties and manage them efficiently, the Company established property management department in 2019. Consequently, the classification of rental income was changed from non-operating income to operating revenue, and the presentation of the statement of comprehensive income was revised since 2019. Comparative information for the year ended December 31, 2018 was reclassified to conform to the current year's presentation.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

The parent company only financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

b. Basis of preparation

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

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

1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;

2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

3) Level 3 inputs are unobservable inputs for an asset or liability.

When preparing these parent company only financial statements, the Company used equity method to account for its investments in subsidiaries, associates and joint ventures. In order for the amounts of the net profit for the year, other comprehensive income for the year and total equity in the parent company only financial statements to be the same with the amounts attributable to the owners of the Company in its consolidated financial statements, adjustments arising from the differences in accounting treatments between the parent company only basis and the consolidated basis were made to investments accounted for using the equity method, the share of profit or loss of subsidiaries, associates and joint ventures, the share of other comprehensive income of subsidiaries, associates and joint ventures and the related equity items, as appropriate, in these parent company only financial statements.

c. Classification of current and non-current assets and liabilities

Current assets include:

1) Assets held primarily for the purpose of trading;

2) Assets expected to be realized within 12 months after the reporting period; and

3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

1) Liabilities held primarily for the purpose of trading;

2) Liabilities due to be settled within 12 months after the reporting period, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the financial statements are authorized for issue; and

3) Liabilities for which the Company does not have an unconditional right to defer settlement for at least 12 months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Assets and liabilities that are not classified as current are classified as non-current.

d. Foreign currencies

In preparing the Company’s financial statements, transactions in currencies other than the Company’s functional currency (i.e., foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise except for exchange differences on:

1) Foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

2) Transactions entered into in order to hedge certain foreign currency risks; and

3) Monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investments.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising from the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which cases, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

For the purpose of presenting financial statements, the functional currencies of foreign operations (including subsidiaries, associates, joint ventures and branches in other countries that use currencies which are different from the currency of the Company) are translated into the presentation currency, the New Taiwan dollar, as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; and income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income.

On the disposal of a foreign operation (i.e., a disposal of the Company's entire interest in a foreign operation, or a disposal involving the loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation are reclassified to profit or loss.

In relation to a partial disposal of a subsidiary that does not result in the Company losing control over the subsidiary, the proportionate share of accumulated exchange differences is included in the calculation of equity transactions but is not recognized in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences recognized in other comprehensive income is reclassified to profit or loss.

e. Inventories

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

f. Investments in subsidiaries

The Company uses the equity method to account for its investments in subsidiaries.

A subsidiary is an entity (including a structured entity) that is controlled by the Company.

Under the equity method, an investment in a subsidiary is initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the subsidiary. The Company also recognizes the changes in the Company's share of equity of subsidiaries.

Changes in the Company's ownership interest in a subsidiary that do not result in the Company losing control of the subsidiary are equity transactions. The Company recognizes directly in equity any difference between the carrying amount of the investment and the fair value of the consideration paid or received.

When the Company's share of losses of a subsidiary exceeds its interest in that subsidiary (which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Company's net investment in the subsidiary), the Company continues recognizing its share of further losses.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognized immediately in profit or loss.

The Company assesses its investment for any impairment by comparing the carrying amount with the estimated recoverable amount as assessed based on the entire financial statements of the invested company. Impairment loss is recognized when the carrying amount exceeds the recoverable amount. If the recoverable amount of the investment subsequently increases, the Company recognizes the reversal of the impairment loss; the adjusted post-reversal carrying amount should not exceed the carrying amount that would have been recognized (net of amortization or depreciation) had no impairment loss been recognized in prior years. An impairment loss recognized on goodwill cannot be reversed in a subsequent period.

When the Company loses control of a subsidiary, it recognizes the investment retained in the former subsidiary at its fair value at the date when control is lost. The difference between the fair value of the retained investment plus any consideration received and the carrying amount of the previous investment at the date when control is lost is recognized as a gain or loss in profit or loss. Besides, the Company accounts for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Company had directly disposed of the related assets or liabilities.

Profits or losses resulting from downstream transactions are eliminated in full only in the parent company's financial statements. Profits and losses resulting from upstream transactions and transactions between subsidiaries are recognized only in the parent company's financial statements only to the extent of interests in the subsidiaries that are not related to the Company.

g. Investments in associates and joint ventures

An associate is an entity over which the Company has significant influence and which is neither a subsidiary nor an interest in a joint venture. A joint venture is a joint arrangement whereby the Company and other parties that have joint control of the arrangement have rights to the net assets of the arrangement.

The Company uses the equity method to account for its investments in associates and joint ventures.

Under the equity method, investments in an associate and a joint venture are initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the associate and joint venture. The Company also recognizes the changes in the Company's share of the equity of associates and joint ventures.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets and liabilities of an associate or a joint venture at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

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

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

The entire carrying amount of an investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Company discontinues the use of the equity method from the date on which its investment ceases to be an associate and a joint venture. Any retained investment is measured at fair value at that date, and the fair value is regarded as the investment's fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate and the joint venture attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate and the joint venture. The Company accounts for all amounts previously recognized in other comprehensive income in relation to that associate and joint venture on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the Company continues to apply the equity method and does not remeasure the retained interest.

When the Company transacts with its associate and joint venture, profits and losses resulting from the transactions with the associate and joint venture are recognized in the Company's financial statements only to the extent that interests in the associate and the joint venture are not related to the Company.

h. Property, plant and equipment

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

Property, plant and equipment in the course of construction are measured at cost less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Such assets are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for their intended use.

Except for freehold land which is not depreciated, the depreciation of property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effects of any changes in estimates accounted for on a prospective basis.

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

i. Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

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

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

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

j. Impairment of tangible assets

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

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

Before the Company recognizes an impairment loss from assets related to contract costs, any impairment loss on inventories and property, plant and equipment related to the contract applicable under IFRS 15 shall be recognized in accordance with applicable standards. Then, impairment loss from the assets related to the contract costs is recognized to the extent that the carrying amount of the assets exceeds the remaining amount of consideration that the Company expects to receive in exchange for related goods or services less the costs which relate directly to providing those goods or services and which have not been recognized as expenses. The assets related to the contract costs are then included in the carrying amount of the cash-generating unit to which they belong for the purpose of evaluating impairment of that cash-generating unit.

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

k. Financial instruments

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

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

1) Financial assets

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

a) Measurement categories

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

i. Financial assets at FVTPL

Financial assets are classified as at FVTPL when such a financial asset is mandatorily classified or designated as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at FVTOCI and debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria.

Financial assets at FVTPL are subsequently measured at fair value, and any dividends or interest earned on such a financial assets are recognized in other income; any remeasurement gains or losses on such financial assets are recognized in other gains or losses. Fair value is determined in the manner described in Note 28: Financial Instruments.

ii. Financial assets at amortized cost

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

i) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents, trade receivables at amortized cost, other receivables and other financial assets, are measured at amortized cost, which equals the gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

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

i) Purchased or originated credit-impaired financial assets, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of such financial assets; and

ii) Financial assets that are not credit-impaired on purchase or origination but have subsequently become credit-impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of such financial assets in subsequent reporting periods.

Financial assets are credit impaired when one or more of the following events have occurred: issuers and borrowers are in severe financial difficulty, breach of contract, or it becoming probable that the borrower will enter bankruptcy or undergo a financial restructuring, or the disappearance of an active market for that financial asset because of financial difficulties.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

iii. Investments in equity instruments at FVTOCI

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

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

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

b) Impairment of financial assets

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

The Company always recognizes lifetime expected credit losses (ECLs) for trade receivables. For all other financial instruments, the Company recognizes lifetime ECLs when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on a financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECLs.

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

For internal credit risk management purposes, the Company determines that the following situations indicate that a financial asset is in default (without taking into account any collateral held by the Company):

i. Internal or external information show that the debtor is unlikely to pay its creditors.

ii. When a financial asset is more than 90 days past due, unless the Company has reasonable and corroborative information to support a more lagged default criterion.

The impairment loss of all financial assets is recognized in profit or loss by a reduction in their carrying amounts through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and the carrying amounts of such financial assets are not reduced.

c) Derecognition of financial assets

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

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

2) Equity instruments

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

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

The repurchase of the Company's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issuance or cancellation of the Company's own equity instruments.

3) Financial liabilities

a) Subsequent measurement

Except the following situation, all financial liabilities are measured at amortized cost using the effective interest method:

- Financial liabilities at FVTPL

  Financial liabilities are classified as at FVTPL when such financial liabilities are either held for trading or is designated as at FVTPL.

  Financial liabilities held for trading are stated at fair value, with any remeasurement gains or losses on such financial liabilities are recognized in other gains or losses. Fair value is determined in the manner described in Note 28.

b) Derecognition of financial liabilities

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

4) Convertible bonds

The component parts of compound instruments (i.e., convertible bonds) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

On initial recognition, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or the instrument's maturity date. Any embedded derivative liability is measured at fair value.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to capital surplus - share premiums. When the conversion option remains unexercised at maturity, the balance recognized in equity will be transferred to capital surplus - share premiums.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component.

5) Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risks, including foreign exchange forward contracts.

Derivatives are initially recognized at fair value at the date on which the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedging relationship. When the fair value of a derivative financial instrument is positive, the derivative is recognized as a financial asset; when the fair value of a derivative financial instrument is negative, the derivative is recognized as a financial liability.

Derivatives embedded in hybrid contracts that contain financial asset hosts that is within the scope of IFRS 9 are not separated; instead, the classification is determined in accordance with the entire hybrid contract. Derivatives embedded in non-derivative host contracts that are not financial assets that is within the scope of IFRS 9 (e.g., financial liabilities) are treated as separate derivatives when they meet the definition of a derivative; their risks and characteristics are not closely related to those of the host contracts; and the host contracts are not measured at FVTPL.

l. Provisions

Provisions are measured at the best estimate of the discounted cash flows of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

<u>Contingent liabilities acquired in investments in associates and joint ventures</u>

Contingent liabilities acquired in investments in associates and joint ventures are initially measured at fair value at the acquisition date, when the fair value of the present obligation resulting from past events can be reliably measured. At the end of subsequent reporting periods, such contingent liabilities are measured at their amortized amount. However, if the present obligation amount is assessed to have a probable outflow of resources, the contingent liabilities shall be measured at the higher of the present obligation amount and the amortized amount.

m. Revenue recognition

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

For contracts entered into with the same customer (or related parties of the customer) at or near the same time, those contracts are accounted for as a single contract if the goods or services promised in the contracts are a single performance obligation.

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

1) Revenue from the sale of goods

Revenue from the sale of goods comes from the process of cutting and stamping with wholesale and retail of various steel products. Sales of goods are recognized as revenue when the goods are delivered to the customer's designated location, the customer has the right to set the price and use of the goods and has the primary responsibility for resale. Advance receipts for pre-determined sales price contracts are recognized as contract liabilities before the products have been delivered to the customer.

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

2) Revenue from the rendering of services

   Revenue from the rendering of services comes from the cutting process of steel. Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract.

n. Leasing

   2019

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

   1) The Company as lessor

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

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

   2) The Company as lessee

      Lease payments are recognized as expenses on a straight-line basis over the lease terms for short-term leases and low-value asset leases accounted for applying the recognition exemption.

   2018

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

   1) The Company as lessor

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

   2) The Company as lessee

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

o. Borrowing costs

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

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

   Other than that which is stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

p. Employee benefits

1) Short-term employee benefits

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

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as expenses when employees have rendered services entitling them to the contributions.

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

Net defined benefit liabilities (assets) represent the actual deficit (surplus) in the Company's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

q. Taxation

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

1) Current tax

According to the Income Tax Law, an additional tax on unappropriated earnings is provided for in the year the shareholders approve to retain earnings.

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

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences and unused loss carry forward to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

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

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

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liabilities are settled or the assets are realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3) Current and deferred taxes for the year

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

a. Estimated impairment of financial assets

The provision for impairment of trade receivables and investments in debt instruments is based on assumptions about risk of default and expected loss rates. The Company uses judgment in making these assumptions and in selecting the inputs to the impairment calculation, based on the Company’s historical experience, existing market conditions as well as forward looking estimates as of the end of each reporting period. For details of the key assumptions and inputs used, see Note 28. Where the actual future cash inflows are less than expected, a material impairment loss may arise.

As of December 31, 2019 and 2018, the total amount of notes receivable, trade receivables and overdue receivables were NT$2,456,282 thousand and NT$2,582,356 thousand, respectively, which were the net amount after deducting the allowance for impairment loss of NT$76,688 thousand and NT$43,310 thousand, respectively.

b. Write-down of inventories

The net realizable value of inventory is the estimated selling price in the ordinary course of business less the estimated costs of completion and disposal. The estimation of net realizable value is based on current market conditions and historical experience with product sales of a similar nature. Changes in market conditions may have a material impact on the estimation of the net realizable value.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2019	2018
Cash on hand	$ 720	$ 759
Checking accounts and demand deposits	905,811	977,940
	$ 906,531	$ 978,699

The market rate intervals of cash in the bank at the end of the reporting period were as follows:

	December 31	
	2019	2018
Bank balance	0.001%-0.33%	0.001%-0.48%

As of December 31, 2019 and 2018, time deposits with original maturities of more than 3 months to 1 year and restricted demand deposits were NT$55,684 thousand and NT$116,677 thousand, respectively, which were classified as financial assets at amortized cost (refer to Note 9).

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2019	2018
Financial assets at FVTPL - current		
Financial assets mandatorily classified as at FVTPL		
Non-derivative financial assets		
Domestic listed shares	$ 723,406	$ 781,996
Mutual funds	5,060	4,450
Derivative financial assets (not under hedge accounting)		
Foreign exchange forward contracts (a)	-	103,198
	$ 728,466	$ 889,644
Financial liabilities at FVTPL - current		
Financial liabilities held for trading		
Derivative financial liabilities (not under hedge accounting)		
Foreign exchange forward contracts (a)	$ 34,114	$ -
Convertible options (Note 17)	7,641	8,659
	$ 41,755	$ 8,659

At the end of the year, outstanding foreign exchange forward contracts not under hedge accounting were as follows:

	Currency	Maturity Date	Notional Amounts (In Thousands)
December 31, 2019			
Buy	NTD/USD	2020.01-2020.12	NT$2,015,329/US$66,530
December 31, 2018			
Buy	NTD/USD	2019.01-2019.12	NT$3,614,920/US$122,290

The Company entered into foreign exchange forward contracts to manage exposures to exchange rate fluctuations of foreign currency denominated assets and liabilities. However, those contracts did not meet the criteria of hedge effectiveness and therefore were not accounted for using hedge accounting.

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	December 31	
	2019	2018
Current		
Investments in equity instruments	$ -	$ 80,115
Non-current		
Investments in equity instruments	$ 1,677,957	$ 1,898,224

Investments in equity instruments at FVTOCI

	December 31	
	2019	2018
Current		
Domestic investments		
Listed shares and emerging market shares		
Ordinary shares - China Steel Corporation	$ -	$ 80,115
Non-current		
Domestic investments		
Listed shares and emerging market shares		
Ordinary shares - China Steel Corporation	$ 1,216,531	$ 1,379,823
Unlisted shares		
Ordinary shares - Century Wind Power Co., Ltd.	174,000	174,000
Ordinary shares - Envirolink Corporation	17,500	17,500
Ordinary shares - Duo Yuan Solar Corporation	9,000	-

(Continued)

	December 31	
	2019	2018
Ordinary shares - Dah Chung Bills Finance Corporation	$ 5,506	$ 5,506
Ordinary shares - Linkou Entertainment Corporation	4,600	4,600
Ordinary shares - Shin Ji Technology Corporation	3,450	450
Ordinary shares -Shang Yang Technology Corporation	2,822	3,528
Ordinary shares - Yuan Jing Corporation	1,519	8,934
Ordinary shares - Hua Mian Corporation	1,500	1,500
	1,436,428	1,595,841
Foreign investments		
Unlisted shares		
Ordinary shares - China Steel and Nippon Steel Vietnam Stock Company	241,529	302,383
	$ 1,677,957	$ 1,898,224

(Concluded)

These investments in equity instruments are held for medium to long-term strategic purposes. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Company's strategy of holding these investments for long-term purposes.

9. FINANCIAL ASSETS AT AMORTIZED COST

	December 31	
	2019	2018
Current		
Domestic investments		
Time deposits with original maturities of more than 3 months (a)	$ 55,684	$ 116,677

a. The ranges of interest rates for time deposits with original maturities of more than 3 months were approximately 0.25%-0.75% and 0.13%-0.77% per annum as of December 31, 2019 and 2018, respectively.

b. Refer to Note 30 for information relating to investments in financial assets at amortized cost pledged as security.

10. NOTES RECEIVABLE, TRADE RECEIVABLES AND OVERDUE RECEIVABLES

	December 31	
	2019	2018
Notes receivable		
Operating - unrelated parties	$ 1,042,152	$ 1,254,055
Operating - related parties	44,465	56,772
Less: Allowance for impairment loss	(1,778)	(1,778)
	$ 1,084,839	$ 1,309,049
Trade receivables		
At amortized cost - unrelated parties	$ 1,315,229	$ 1,232,380
At amortized cost - related parties	54,753	39,488
Less: Allowance for impairment loss	(1,539)	(3,642)
	$ 1,368,443	$ 1,268,226
Overdue receivables (presented under other non-current assets)		
Overdue receivables	$ 76,371	$ 42,971
Less: Allowance for impairment loss	(73,371)	(37,890)
	$ 3,000	$ 5,081

a. Notes receivable and trade receivables

The average credit period of sales of goods was 90-150 days. No interest was charged on trade receivables. The Company adopted a policy of only dealing with entities that are rated the equivalent of investment grade or higher and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. Credit rating information is obtained from independent rating agencies where available or, if not available, the Company uses other publicly available financial information or its own trading records to rate its major customers. The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

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

The Company writes off receivables when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g., when the debtor has been placed under liquidation. For trade receivables that have been written off, the Company continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

The following table details the loss allowance of notes receivable and trade receivables based on the Company's provision matrix.

December 31, 2019

	Not Past Due	Less than 30 Days	31 Days to 1 Year	1 to 2 Years	Over 2 Years	Total
Expected credit loss rate	0.11%	85.27%	0.00%	0.00%	0.00%	
Gross carrying amount	$ 2,455,927	$ 672	$ -	$ -	$ -	$ 2,456,599
Loss allowance (Lifetime ECL)	(2,744)	(573)	-	-	-	(3,317)
Amortized cost	$ 2,453,183	$ 99	$ -	$ -	$ -	$ 2,453,282

December 31, 2018

	Not Past Due	Less than 30 Days	31 Days to 1 Year	1 to 2 Years	Over 2 Years	Total
Expected credit loss rate	0.21%	0.00%	0.00%	0.00%	50.00%	
Gross carrying amount	$ 2,557,269	$ 11,680	$ 12,902	$ 660	$ 184	$ 2,582,695
Loss allowance (Lifetime ECL)	(5,328)	-	-	-	(92)	(5,420)
Amortized cost	$ 2,551,941	$ 11,680	$ 12,902	$ 660	$ 92	$ 2,577,275

The movements of the loss allowance of notes receivable and trade receivables were as follows:

	For the Year Ended December 31	
	2019	2018
Balance at January 1	$ 5,420	$ 5,233
Add: Net remeasurement of loss allowance	18,565	1,267
Less: Transferred to overdue receivables	(19,017)	(1,080)
Less: Amounts recovered	(1,651)	-
Balance at December 31	$ 3,317	$ 5,420

Compared to January 1, 2019 and 2018, the increase in loss allowance of $18,565 thousand and $1,267 thousand at December 31, 2019 and 2018, respectively, resulted from the changes in the gross carrying amounts of notes receivables and trade receivables, which increased by $123,993 thousand and increased by $307,476 thousand, respectively.

Refer to Note 30 for information relating to notes receivable pledged as security.

b. Overdue receivables

Overdue receivable balances that were past due but for which no allowance for impairment loss was recognized were NT$3,000 thousand and NT$5,081 thousand as of December 31, 2019 and 2018, respectively, which are disclosed in the aging analysis below. The Company did not recognize an allowance for impairment loss, because there was no significant change in the credit quality and the amounts were still considered recoverable. The Company holds collateral or other credit enhancements for these balances. In addition, the Company did not have the legal right to off-set the overdue receivables with trade payables from the same counterparty.

The aging of overdue receivables that were past due but not impaired was as follows:

	December 31	
	2019	2018
Up to 90 days	$ -	$ -
90-365 days	-	2,081
Over 365 days	3,000	3,000
	$ 3,000	$ 5,081

The above aging schedule was based on the number of past due days from the invoice date.

The movements of the loss allowance of overdue receivables were as follows:

	For the Year Ended December 31	
	2019	2018
Balance at January 1	$ 37,890	$ 48,900
Add: Impairment losses transferred from trade receivables	19,017	1,080
Add: Net remeasurement of loss allowance	16,464	337
Less: Net remeasurement of loss allowance	-	(12,427)
Balance at December 31	$ 73,371	$ 37,890

The Company recognized an impairment loss on overdue receivables amounting to $73,371 thousand and NT$37,890 thousand as of December 31, 2019 and 2018, respectively. These amounts mainly related to customers that the Company were pursuing legal claims. Impairment losses recognized is the difference between the carrying amount of overdue receivables and its recoverable amount. The Company held chattel pledged as collateral over these balances.

11. INVENTORIES

	December 31	
	2019	2018
Raw materials	$ 2,913,109	$ 3,407,939
Finished goods	397,833	604,109
Raw materials in transit	26,801	15,127
	$ 3,337,743	$ 4,027,175

As of December 31, 2019 and 2018, the allowance for inventory write-down was NT$99,163 thousand and NT$111,219 thousand, respectively.

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2019 and 2018 was NT$8,210,795 thousand and NT$7,925,662 thousand, respectively. The cost of goods sold for the years ended December 31, 2019 and 2018 included inventory write-downs of NT$12,056 thousand and NT$108,793 thousand, respectively, which resulted from the fluctuation in the market price of the steel market.

12. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31	
	2019	2018
Investments in subsidiaries	$ 1,508,353	$ 1,462,465
Investments in associates	59,480	58,395
Investments in joint ventures	505,660	503,562
	$ 2,073,493	$ 2,024,422

a. Investments in subsidiaries

	December 31	
	2019	2018
Hsin Ching International Co., Ltd.	$ 345,824	$ 344,298
Hsin Yuan Investment Co., Ltd.	436,009	390,059
Sinpao Investment Co., Ltd.	131,851	135,299
Hsin Ho Fa Metal Co., Ltd.	258,485	256,760
APEX Wind Power Equipment Co., Ltd.	335,282	336,049
Hsin Cheng Logistics Development Co., Ltd.	902	-
	$ 1,508,353	$ 1,462,465

	Proportion of Ownership and Voting Rights	
	December 31	
Name of Subsidiary	2019	2018
Hsin Ching International Co., Ltd.	60.00%	60.00%
Hsin Yuan Investment Co., Ltd.	100.00%	100.00%
Sinpao Investment Co., Ltd.	99.82%	99.82%
Hsin Ho Fa Metal Co., Ltd.	83.37%	83.37%
APEX Wind Power Equipment Co., Ltd.*	53.51%	51.31%
Hsin Cheng Logistics Development Co., Ltd.	100.00%	-

* Hsin Kuang Alga Engineering Co., Ltd. changed its name to APEX Wind Power Equipment Company Limited on June 11, 2018.

b. Investments in associates

	December 31	
	2019	2018
Associates that are not individually material	$ 59,480	$ 58,395

		Proportion of Ownership and Voting Rights	
		December 31	
Name of Associate	Nature of Activities	2019	2018
Hsin Wei Solar Co., Ltd.	Non-metallic power generation	40.00%	40.00%

Aggregate information of associates that are not individually material is as follows:

	For the Year Ended December 31	
	2019	2018
The Company's share of:		
Profit from continuing operations	$ 10,680	$ 3,793
Other comprehensive income	-	-
Total comprehensive income	$ 10,680	$ 3,793

Investments were accounted for using the equity method and the share of profit or loss and other comprehensive income of those investment were calculated based on financial statements which have been audited.

c. Investments in joint ventures

	December 31	
	2019	2018
Material joint ventures	$ 505,660	$ 503,562

In order to promote upstream and downstream strategic alliance, strengthen sales and increase the added value of its products, the Company purchased 25,000 thousand shares of ordinary shares of Mason Metal Industry Co., Ltd. at a price of NT$11.4 per share, resulting in a total of 50% of shareholder rights. The total purchase price was NT$285,077 thousand. The transaction was completed on October 6, 2017. Under the joint venture agreement, the Company can assign three out of six members of the board of directors of Mason Metal Industry Co., Ltd. Therefore, the Company has a significant influence, and joint control with the other company, over Mason Metal Industry Co., Ltd.

Refer to Table 5 "Information on Investees" for the nature of activities, principal places of business and countries of incorporation of the joint ventures. The above joint ventures are accounted for using the equity method.

The summarized financial information below represents the amount shown in the joint ventures' financial statements prepared in accordance with IFRSs adjusted by the Company for equity accounting purposes.

Mason Metal Industry Co., Ltd.

	December 31	
	2019	2018
Cash and cash equivalents	$ 230,287	$ 210,917
Current assets	$ 1,1209,898	$ 1,129,049
Non-current assets	312,631	314,988
Current liabilities	(504,860)	(448,207)
Non-current liabilities	(251,674)	(345,607)
Equity	$ 665,995	$ 650,223
Proportion of the Company's ownership	49%	49%

(Continued)

	December 31	
	2019	2018
Equity attributable to the Company	$ 326,338	$ 318,609
Provisions	3,570	3,570
Gain from bargain purchase	206,762	206,762
Other adjustments	(31,010)	(25,379)
Carrying amount	$ 505,660	$ 503,562

(Concluded)

	For the Year Ended December 31	
	2019	2018
Operating revenue	$ 1,814,044	$ 1,757,584
Depreciation and amortization expense	$ 7,524	$ 3,968
Interest income	$ 128	$ 122
Interest expense	$ 5,720	$ 7,008
Income tax (expense) benefit	$ (3,382)	$ 205
Net profit	$ 12,761	$ 33,606
Other comprehensive income	3,982	971
Total comprehensive income	$ 16,743	$ 34,577

13. PROPERTY, PLANT AND EQUIPMENT

	December 31, 2019
Assets used by the Company	$ 3,276,213

a. Assets used by the Company - 2019

	Freehold Land	Buildings	Equipment	Transportation Equipment	Miscellaneous Equipment	Property under Construction and Devices Awaiting Inspection	Total
Cost							
Balance at January 1, 2019	$ 2,136,062	$ 932,997	$ 604,531	$ 134,131	$ 19,873	$ 97,843	$ 3,925,437
Additions	220	6,658	8,729	11,187	8,486	153,399	188,679
Disposals	-	(2,165)	(25,088)	(1,456)	(7,270)	-	(35,979)
Reclassified	149,968	61,850	-	-	-	(211,818)	-
Balance at December 31, 2019	$ 2,286,250	$ 999,340	$ 588,172	$ 143,862	$ 21,089	$ 39,424	$ 4,078,137
Accumulated depreciation and impairment							
Balance at January 1, 2019	$ -	$ 244,422	$ 407,930	$ 94,917	$ 12,991	$ -	$ 760,260
Depreciation expenses	-	25,472	33,301	9,467	1,793	-	70,033
Disposals	-	(2,166)	(18,956)	(980)	(6,267)	-	(28,369)
Balance at December 31, 2019	$ -	$ 267,728	$ 422,275	$ 103,404	$ 8,517	$ -	$ 801,924
Carrying amounts at December 31, 2019	$ 2,286,250	$ 731,612	$ 165,897	$ 40,458	$ 12,572	$ 39,424	$ 3,276,213

No impairment assessment was performed for the year ended December 31, 2019 as there was no indication of impairment.

The above items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

Buildings	
Main buildings	40-55 years
Building construction	3-20 years
Equipment	
Main equipment	5-20 years
Equipment maintenance	3-8 years
Transportation equipment	
Truck and automotive	5-8 years
Stacker	5-9 years
Automotive accessories	3-5 years
Miscellaneous equipment	
Computer equipment	3-10 years
Office equipment and construction	3-10 years

The Company purchased 39,327.92 square meters of land located in Guanyin for operation use from 2005 to 2019. As of December 31, 2019, the carrying amount was NT$262,100 thousand. As the law stipulates, an entity may not have ownership of land registered for agricultural purposes. However, the Company holds the land through the signing of the real estate trust contract with an individual.

Property, plant and equipment pledged as collateral for bank borrowings is set out in Note 30

b. 2018

	Freehold Land	Buildings	Equipment	Transportation Equipment	Miscellaneous Equipment	Property under Construction and Devices Awaiting Inspection	Total
Cost							
Balance at January 1, 2018	$ 2,155,039	$ 899,699	$ 579,989	$ 138,325	$ 19,707	$ 515,139	$ 4,307,898
Additions	3,326	1,416	11,367	2,873	166	294,920	314,068
Disposals	-	(1,028)	(15,099)	(8,487)	-	-	(24,614)
Transferred to investment properties	(158,401)	(17,686)	-	-	-	(529,626)	(705,713)
Others (transferred from prepaid equipment)	-	4,104	28,274	1,420	-	-	33,798
Reclassified	136,098	46,492	-	-	-	(182,590)	-
Balance at December 31, 2018	$ 2,136,062	$ 932,997	$ 604,531	$ 134,131	$ 19,873	$ 97,843	$ 3,925,437
Accumulated depreciation and impairment							
Balance at January 1, 2018	$ -	$ 228,893	$ 379,617	$ 92,258	$ 11,983	$ -	$ 712,751
Depreciation expenses	-	23,778	38,178	10,584	1,008	-	73,548
Disposals	-	(92)	(9,865)	(7,925)	-	-	(17,882)
Transferred to investment properties	-	(8,157)	-	-	-	-	(8,157)
Balance at December 31, 2018	$ -	$ 244,422	$ 407,930	$ 94,917	$ 12,991	$ -	$ 760,260
Carrying amounts at December 31, 2018	$ 2,136,062	$ 688,575	$ 196,601	$ 39,214	$ 6,882	$ 97,843	$ 3,165,177

The above items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

Buildings	
Main buildings	40-55 years
Building construction	3-20 years
Equipment	
Main equipment	5-20 years
Equipment maintenance	3-5 years
Transportation equipment	
Truck and automotive	5-8 years
Stacker	5-9 years
Automotive accessories	3-5 years
Miscellaneous equipment	
Computer equipment	3-10 years
Office equipment and construction	5-10 years

14. INVESTMENT PROPERTIES

	Investment Properties - Land	Investment Properties - Buildings	Investment Properties - Machinery and Equipment	Total
Cost				
Balance at January 1, 2018	$ 213,682	$ 49,238	$ 9,525	$ 272,445
Transferred from property, plant and equipment	158,401	547,312	-	705,713
Balance at December 31, 2018	$ 372,083	$ 596,550	$ 9,525	$ 978,158
Accumulated depreciation and impairment				
Balance at January 1, 2018	$ -	$ 2,300	$ 1,299	$ 3,599
Depreciation expenses	-	6,657	866	7,523
Transferred from property, plant and equipment	-	8,157	-	8,157
Balance at December 31, 2018	$ -	$ 17,114	$ 2,165	$ 19,279
Carrying amounts at December 31, 2018	$ 372,083	$ 579,436	$ 7,360	$ 958,879
Cost				
Balance at January 1, 2019	$ 372,083	$ 596,550	$ 9,525	$ 978,158
Additions	-	-	3,000	3,000
Disposals	-	-	(1,400)	(1,400)
Balance at December 31, 2019	$ 372,083	$ 596,550	$ 11,125	$ 979,758

(Continued)

	Investment Properties - Land	Investment Properties - Buildings	Investment Properties - Machinery and Equipment	Total
Accumulated depreciation and impairment				
Balance at January 1, 2019	$ -	$ 17,114	$ 2,165	$ 19,279
Depreciation expenses	-	12,290	1,031	13,321
Disposals	-	-	(50)	(50)
Balance at December 31, 2019	$ -	$ 29,404	$ 3,146	$ 32,550
Carrying amounts at December 31, 2019	$ 372,083	$ 567,146	$ 7,979	$ 947,208

(Concluded)

The investment properties were leased out for 2 to 10 years, without an option to extend. The lease contracts contain market review clauses in the event that the lessees exercise their options to extend. The lessees do not have bargain purchase options to acquire the investment properties at the expiry of the lease periods.

In addition to the fixed lease payments, the lease contracts also indicates that the lease payments should be adjusted every 2 or 3 years on the basis of the increase in Price Index.

The maturity analysis of lease payments receivable under operating leases of investment properties as of December 31, 2019 was as follows:

	December 31, 2019
Year 1	$ 43,253
Year 2	45,660
Year 3	46,455
Year 4	36,886
Year 5	28,045
Year 6 onwards	703,666
	$ 903,965

The future minimum lease payments of non-cancellable operating lease commitments as of December 31, 2018 are as follows:

	December 31, 2018
Not later than 1 year	$ 33,664
Later than 1 year and not later than 5 years	138,208
Later than 5 years	699,438
	$ 871,310

The investment properties are depreciated using the straight-line method over their estimated useful lives as follows:

Main buildings	25-55 years
Building engineering	6 years
Crane equipment	10 years

The determination of fair value was performed by independent qualified professional appraisers on December 31, 2019. Evaluation was based on different standards using cost approach, market comparison approach, and direct capitalization method and discounted cash flow method under the income approach, depending on different properties. The management of the Company used the valuation model that market participants would use in determining the fair value, and the fair value was measured by using Level 3 inputs. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

	December 31	
	2019	**2018**
Fair value	$ 1,868,011	$ 1,908,943

The investment properties pledged as collateral for bank borrowings are set out in Note 30.

15. OTHER ASSETS

	December 31	
	2019	**2018**
Current		
Other receivables	$ 15,292	$ 2,114
Temporary payments	26,080	-
Others	-	187
	$ 41,372	$ 2,301
Non-current		
Prepayments for equipment	$ 14,189	$ 14,560
Refundable deposits	34,342	22,484
Overdue receivables	3,000	5,081
Others	4,499	4,487
	$ 56,030	$ 46,612

16. BORROWINGS

a. Short-term borrowings

	December 31	
	2019	2018
Secured borrowings (Notes 28 and 30)		
Bank loans	$ 1,220,000	$ 1,760,000
Issuance credit payable	778,249	1,053,540
	1,998,249	2,813,540
Unsecured borrowings		
Line of credit borrowings (Note 28)	300,000	350,000
Issuance credit payable	2,390,015	3,711,865
	2,690,015	4,061,865
	$ 4,688,264	$ 6,875,405

The range of weighted average effective interest rates on bank loans was 1.05%-3.44% and 1.06%-4.06% per annum as of December 31, 2019 and 2018, respectively.

b. Short-term bills payable

	December 31	
	2019	2018
Commercial paper (Note 28)	$ 470,000	$ 430,000
Less: Unamortized discount on bills payable	(263)	(266)
	$ 469,737	$ 429,734

Outstanding short-term bills payable were as follows:

December 31, 2019

Promissory Institution	Nominal Amount	Discount Amount	Carrying Amount	Interest Rate	Collateral	Carrying Amount of Collateral
Commercial paper						
A bank	$ 50,000	$ 4	$ 49,996	1.2%	Check	$ 38,789
B bank	290,000	211	289,789	1.1%	-	-
C bank	100.000	35	99,965	1.2%	Head office	$ 17,780
C bank	30,000	13	29,987	1.2%	Head office	$ 17,780
	$ 470,000	$ 263	$ 469,737			

December 31, 2018

Promissory Institution	Nominal Amount	Discount Amount	Carrying Amount	Interest Rate	Collateral	Carrying Amount of Collateral
Commercial paper						
A bank	$ 200,000	$ 79	$ 199,921	1.2%	-	-
B bank	100,000	67	99,933	1.1%	-	-
C bank	80.000	91	79,909	1.1%	Head office	$ 13,543
D bank	50,000	29	49,971	1.2%	-	-
	$ 430,000	$ 266	$ 429,734			

c. Long-term borrowings

	December 31	
	2019	2018
Secured borrowings (Notes 28 and 30)		
Syndicated bank loans - Yushan Bank (1)	$ 700,000	$ 1,400,000
Syndicated bank loans - Land Bank of Taiwan (2)	-	
Bank loans - Banking Division of Mega Bank (3)	128,947	139,474
	828,947	1,539,474
Less: Current portions	(10,526)	(610,526)
Listed as short-term borrowings	-	(800,000)
Syndicated loan fees	(10,818)	-
Long-term borrowings	$ 807,603	$ 128,948

1) On December 13, 2018, the Company signed a joint credit line contract with Yushan Bank, and such syndicated loan was collateralized by the Company's freehold land and plant. The credit line of loan item A is NT$2,300,000 thousand, and the total credit line of loan items B and C is not more than NT$2,700,000 thousand. The credit line of loan item A is not allowed to be used as a revolving credit. It shall be used in installments within 24 months from the date of first use, and the overdue credit will be cancelled and may not be used again. The outstanding principal balance that has been used at the expiration date has to be repaid in three installments. The first period is 36 months after the date of first use by repaying 10% of the balance, the second period is 12 months after the first period by repaying 20% of the balance, and the third period is 12 months after the second period by repaying 70% of the balance. For each time of reduction, the amount which exceeded the credit line has to be paid off once.

   Loan item B is a revolving credit line with a 5-year period from the date of first use. Loan item C is a revolving credit line with a 5-year period from the date of first use of the commercial promissory notes (included in Long-term bills payable) issued by the Company. The revolving credit line of loan items B and C would be reduced at the end of each period, for a total of 3 periods. The first period is 36 months after the date of first use, and then every 12 months thereafter per period. The revolving credit line will be reduced by 10% at the first period, reduced by 20% at the second period, and reduced by 70% at the third period. Each time the credit line is reduced, the amount exceeding the remaining credit line shall be repaid at once.

During the loan period, the current ratio, debt ratio and times interest earned ratio, which shall be calculated based on the annual financial audit report, shall meet the criteria as stipulated in the agreement. If the financial ratios do not meet the criteria, the Company shall remedy within nine months after the end of the fiscal year in order not to be considered as a breach of the agreement. The weighted average effective interest rates was 1.79% per annum as of December 31, 2019.

2) In August 2014 and October and December 2017, the Company acquired syndicated bank loans from Land Bank of Taiwan secured by the Company's freehold land and buildings (refer to Note 30) in the amount of NT$1,000,000 thousand for loan item A, NT$500,000 thousand and NT$300,000 thousand for loan item B, respectively, and all will be repayable in August 2019. The grace period of the loan item A acquired in 2014 was 2.5 years. From the date of expiry of the grace period, the repayment of principal and interest is divided into six installments every six months. The first to the fifth installments are 10% of the outstanding balance of the loan, and the sixth installment shall be all of the remaining outstanding principal and the interest balance.

   The loan item B acquired in 2017 had a revolving credit line. Interest shall be paid by month, and on the expiry date the loan shall be extended or settled. After 3 years of the first use of the loans, the credit line shall be reduced to 80% of the original credit line and to 60% after 4 years. The outstanding principal and interest shall be settled on the credit line adjustment day, and all of the remaining outstanding principal and interest shall be fully settled at the maturity date of this credit. Currently, the days of the loans are 90 days.

   Under the agreements, the Company's current ratio, net-debt ratio and times interest earned ratio should meet some criteria which were based on the financial statements of the Company. If the Company breaches the financial ratios specified in the agreements, the Company shall amend the status of its financial ratios to meet the agreed upon ratios within five months from April 1 of the following auditing year, and this will not be considered as breach of the agreement. The Company was in compliance with the syndicated credit facility agreements based on the financial statements of the Company for the year ended December 31, 2017. The weighted average effective interest rates was 1.7% per annum as of December 31, 2018. The loan was repaid in advance in January 2019.

3) In January 2017, the Company acquired syndicated bank loans from Banking Division of Mega Bank secured by the Company's freehold land and buildings (refer to Note 30) in the amount of NT$150,000 thousand, and will be expired in January 2032. Starting from the January of 2018, the repayment of principal is divided into 57 installments every 3 months, with the amount of NT$2,632 thousand per installment. The weighted average effective interest rate were both 1.7% per annum as of December 31, 2019 and 2018.

d. Long-term bills payable

	December 31 2019
Commercial paper issued under syndicated bank loans - Yushan Bank (weighted average effective interest rates: 1348%-1,356% per annum as of December 31, 2019)	$ 1,900,000
Less: Unamortized discount	(1,469)
	$ 1,898,531

The Company issued commercial paper under syndicated bank loans - Yushan Bank within terms of 5 years. Refer to c. Long-term borrowings item 1 for more information.

17. UNSECURED DOMESTIC CONVERTIBLE BONDS

On November 9, 2017, the Company issued 6 thousand units of 0% NT-denominated unsecured convertible bonds with a 5-year period in Taiwan, for an aggregate principal amount of $601,200 thousand, which was issued at 100.2% of the nominal amount of $600,000 thousand.

Each bond entitles the holder to convert it into ordinary shares of the Company at a conversion price of NT$36. If the Company increases its ordinary shares after the bond issuance, the conversion price will be adjusted by Article 11 of the Regulation Governing the Company's 5th Unsecured Convertible Bond Issuance and Conversion. Conversion may occur at any time between February 10, 2018 and November 9, 2022. The holder can notify the Company 30 days before the expiry of 3 years and 4 years from issuance to request the Company the accrued interest based on the bond's denomination value (the 3-year interest compensation is 3.03%, 4-year interest compensation is 4.06%) and redeem the bonds by cash.

The convertible bonds contained two components: The host liability instrument and the conversion option derivative instrument. The effective interest rate of the host liability on initial recognition was 2.61% per annum, and the conversion option derivative instruments were measured at FVTPL.

Movements of the host liability instruments were as follows:

	Host Liability Instruments
Proceeds from issuance	$ 601,200
Equity component	(54,892)
Conversion option derivative instrument	(15,551)
The host liability instrument on the issue date	530,757
Interest charged at the effective interest rate	13,343
Convertible bonds converted into ordinary shares	(143,763)
The host liability instrument at end of the year	400,337
Less: Current portions	-
Balance at December 31, 2018	$ 400,337
Balance at January 1, 2019	$ 400,337
Interest charged at the effective interest rate	9,669
Corporate bonds payable converted into ordinary shares	-
The host liability instrument at end of the year	410,006
Less: Current portions	(410,006)
Balance at December 31, 2019	$ -

Movements of the conversion option derivative instrument were as follows:

	Conversion Option Derivative Instrument
Balance at January 1, 2018	$ 18,096
Gain from the change of fair value	(4,606)
Converted into ordinary shares	(4,831)
Balance at December 31, 2018	$ 8,659

(Continued)

	Conversion Option Derivative Instrument
Balance at January 1, 2019	$ 8,659
Gain from the change of fair value	(1,018)
Balance at December 31, 2019	$ 7,641

(Concluded)

18. NOTES PAYABLE AND TRADE PAYABLES

	December 31	
	2019	2018
Notes payable		
Operating - unrelated parties	$ 254,763	$ 647,007
Operating - related parties	$ 608	$ 3,156
Trade payables		
Operating - unrelated parties	$ 45,499	$ 177,687
Operating - related parties	$ 1,299	$ 1,482

19. OTHER PAYABLES

	December 31	
	2019	2018
Payables for salaries and bonuses	$ 45,525	$ 106,986
Interest payable	13,357	33,945
Other accrued expenses	32,629	24,357
	$ 91,511	$ 165,288

20. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Company adopted a pension plan under the Labor Pension Act (LPA), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

b. Defined benefit plans

The defined benefit plans adopted by the Company in accordance with the Labor Standards Law is operated by the government of the ROC. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the 6 months before retirement. The Company contributes amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Company assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (the "Bureau"); the Company has no right to influence the investment policy and strategy.

The amounts included in the balance sheets in respect of the Company's defined benefit plans were as follows:

	December 31	
	2019	**2018**
Present value of defined benefit obligation	$ 54,757	$ 54,583
Fair value of plan assets	(27,709)	(26,839)
Net defined benefit liabilities	$ 27,048	$ 27,744

Movements in net defined benefit liabilities were as follows:

	Present Value of the Defined Benefit Obligation	**Fair Value of the Plan Assets**	**Net Defined Benefit Liabilities**
Balance at January 1, 2018	$ 48,730	$ (20,950)	$ 27,780
Service cost			
Current service cost	286	-	286
Net interest expense (income)	487	(234)	253
Recognized in profit or loss	773	(234)	539
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(612)	(612)
Actuarial loss - changes in demographic assumptions	810	-	810
Actuarial loss - changes in financial assumptions	530	-	530
Actuarial loss - experience adjustments	3,740	-	3,740
Recognized in other comprehensive income	5,080	(612)	4,468
Contributions from the employer	-	(5,043)	(5,043)
Balance at December 31, 2018	54,583	(26,839)	27,744
Service cost			
Current service cost	286	-	286
Net interest expense (income)	478	(257)	221
Recognized in profit or loss	764	(257)	507

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	$ -	$ (898)	$ (898)
Actuarial loss - changes in demographic assumptions	1,177	-	1,177
Actuarial loss - changes in financial assumptions	1,078	-	1,078
Actuarial loss - experience adjustments	(567)	-	(567)
Recognized in other comprehensive income	1,688	(898)	790
Contributions from the employer	-	(1,993)	(1,993)
Benefits paid	(2,278)	2,278	-
Balance at December 31, 2019	$ 54,757	$ (27,709)	$ 27,048

(Concluded)

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

	For the Year Ended December 31	
	2019	2018
Operating costs	$ 172	$ 178
Selling and marketing expenses	$ 260	$ 274
General and administrative expenses	$ 75	$ 87

Through the defined benefit plan under the Labor Standards Law, the Company is exposed to the following risks:

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

2) Interest risk: A decrease in the corporate bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plans' debt investments.

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

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

	December 31	
	2019	2018
Discount rates	0.63%	0.88%
Expected rates of salary increase	1.50%	1.50%

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

	December 31	
	2019	2018
Discount rates		
0.25% increase	$ (1,108)	$ (1,083)
0.25% decrease	$ 1,147	$ 1,120
Expected rates of salary increase		
0.25% increase	$ 1,188	$ 1,094
0.25% decrease	$ (1,085)	$ (1,062)

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

	December 31	
	2019	2018
Expected contributions to the plans for the next year	$ 1,970	$ 5,055
The average duration of the defined benefit obligation	8.2 years	8 years

21. EQUITY

a. Share capital

Ordinary shares

	December 31	
	2019	2018
Number of shares authorized (in thousands)	360,000	360,000
Shares authorized	$ 3,600,000	$ 3,600,000
Number of shares issued and fully paid (in thousands)	310,688	310,688
Shares issued	$ 3,106,877	$ 3,106,877

The share issued had a par value of NT$10. Each share entitles the rights to dividends and to vote.

b. Capital surplus

	December 31	
	2019	2018
May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (1)		
Issuance of ordinary shares	$ 733,079	$ 733,079
Treasury share transactions	7,754	7,754

(Continued)

	December 31	
	2019	2018
May be used to offset a deficit only (2)		
Changes in percentage of ownership interest in subsidiaries	$ -	$ 593
May not be used for any purpose (3)		
Employee share options	36,647	36,647
Share warrants	40,236	40,236
	$ 817,716	$ 818,309

(Concluded)

1) Such capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Company's capital surplus and to once a year).

2) Such capital surplus arises from the effects of changes in ownership interests in subsidiaries resulting from equity transactions other than actual disposals or acquisitions, or from changes in capital surplus of subsidiaries accounted for using the equity method.

3) Such capital surplus may not be used for any purpose.

c. Retained earnings and dividends policy

Under the dividends policy as set forth in the Company's Articles, where the Company made a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as a legal reserve of 10% of the remaining profit until the legal reserve equals the Company's paid-in capital, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders. For the policies on the distribution of employees' compensation and remuneration of directors and supervisors, refer to employees' compensation and remuneration of directors and supervisors in Note 23-f.

To ensure the interests of shareholders and the Company's sustainable development, the Company adopts a balanced dividends policy. The dividends payment principle shall be determined on the basis of the current and forthcoming development plan, considering the investing environment, demanding for funds, domestic and foreign competition, and shareholders' interests. The Company shall, in accordance with the capital budget plan for the following year, determine the most appropriate dividend policy. After the board of directors resolve the distribution plan, such plan will be subject to the resolutions in the shareholders' meeting.

The issuance of dividends may be distributed in cash or share dividends. Among the dividends payment, no less than 30% shall be paid in cash.

The legal reserve may be used to offset deficits. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

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

The appropriations of earnings for 2018 and 2017 approved in the shareholders' meetings on June 11, 2019 and June 19, 2018, respectively, were as follows:

	Appropriation of Earnings For the Year Ended December 31	
	2018	2017
Legal reserve	$ 97,873	$ 106,624
Special reserve	$ 43,567	$ -
Cash dividends	$ 466,032	$ 612,388
Cash dividends per share (NT$)	$ 1.5	$ 2

The appropriation of earnings for 2019 was proposed by the Company's board of directors on March 17, 2020. The appropriation and dividends per share were as follows:

	For the Year Ended December 31, 2019
Legal reserve	$ 10,497
Special reserve	$ 64,692
Cash dividends	$ 248,550
Cash dividends per share (NT$)	$ 0.8

The appropriation of earnings for 2019 is subject to the resolution in the shareholders' meeting to be held on June 11, 2020.

d. Special reserves

	For the Year Ended December 31	
	2019	2018
Balance at January 1	$ -	$ 19,407
Appropriations in respect of		
Debit to other equity items	43,567	-
Reversals		
Reversal of the debit to other equity items	-	(19,407)
Balance at December 31	$ 43,567	$ -

e. Others equity items

1) Exchange differences on translating the financial statements of foreign operations

	For the Year Ended December 31	
	2019	2018
Balance at January 1	$ 2,214	$ (1,339)
Effect of change in tax rate	-	49
Exchange differences on translating the financial statements of foreign operations	(2,584)	3,504
Balance at December 31	$ (370)	$ 2,214

2) Unrealized valuation gain (loss) on financial assets at FVTOCI

	For the Year Ended December 31	
	2019	2018
Balance at January 1	$ (45,782)	$ 30,159
Recognized for the year		
Unrealized loss - equity instruments	(62,108)	(75,941)
Balance at December 31	$ (107,890)	$ (45,782)

22. REVENUE

	For the Year Ended December 31	
	2019	2018
Revenue from contracts with customers		
Revenue from sales of goods	$ 8,335,222	$ 8,591,658
Other operating revenue		
Rental income	$ 43,012	$ 34,217
Revenue from processing	35,431	22,904
	78,443	57,121
	$ 8,413,665	$ 8,648,779

Contract Balances

	December 31	
	2019	2018
Trade receivables (including related parties) (Note 10)	$ 1,368,443	$ 1,268,226
Contract liabilities		
Sales of goods	$ 141,910	$ 143,030

23. NET PROFIT AND OTHER COMPREHENSIVE INCOME FROM CONTINUING OPERATIONS

Net Profit from Continuing Operations:

a. Other income

	For the Year Ended December 31	
	2019	2018
Interest income - bank deposits	$ 798	$ 1,071
Dividends		
Financial assets at FVTPL	16,877	14,859
Investments in equity instruments classified at FVTOCI	53,811	53,422
Others	3,162	6,014
	$ 74,648	$ 75,366

b. Other gains and losses

	For the Year Ended December 31	
	2019	2018
Net loss on disposal of property, plant and equipment	$ (518)	$ (708)
Fair value changes of financial assets and financial liabilities		
Financial assets mandatorily classified as at FVTPL	14,832	492,516
Net foreign exchange gains (losses)	214,021	(4,204)
	$ 228,335	$ 487,604

c. Finance costs

	For the Year Ended December 31	
	2019	2018
Interest on bank loans	$ 152,657	$ 133,961
Interest on convertible bonds	9,669	11,952
Less: Amounts included in the cost of qualifying assets	(773)	(7,017)
	$ 161,553	$ 138,896

Information about capitalized interest was as follows:

	For the Year Ended December 31	
	2019	2018
Capitalized interest	$ 773	$ 7,017
Capitalization rate	2.5%	2.5%

d. Depreciation and amortization

	For the Year Ended December 31	
	2019	2018
Property, plant and equipment	$ 70,033	$ 73,548
Investment properties	13,321	7,523
Long-term prepayments	1,826	1,387
	$ 85,180	$ 82,458
An analysis of depreciation by function		
Operating costs	$ 71,218	$ 62,092
Operating expenses	12,136	18,979
	$ 83,354	$ 81,071
An analysis of amortization by function		
Operating costs	$ 308	$ 561
Operating expenses	1,518	826
	$ 1,826	$ 1,387

e. Employee benefits expense

	For the Year Ended December 31	
	2019	2018
Short-term benefits	$ 187,555	$ 239,945
Post-employment benefits (Note 20)		
Defined contribution plans	5,228	4,707
Defined benefit plans	507	539
	$ 193,290	$ 245,191
An analysis of employee benefits expense by function		
Operating costs	$ 99,133	$ 100,512
Operating expenses	94,157	144,679
	$ 193,290	$ 245,191

f. Employees' compensation and remuneration of directors and supervisors

The Company accrued employees' compensation and remuneration of directors and supervisors at rates of no less than 3% and no higher than 3%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors. The employees' compensation and remuneration of directors and supervisors for the years ended December 31, 2019 and 2018 which have been approved by the Company's board of directors on March 17, 2020 and March 19, 2019, respectively, were as follows:

Accrual rate

	For the Year Ended December 31	
	2019	2018
Employees' compensation	3%	3%
Remuneration of directors and supervisors	3%	3%

Amount

	For the Year Ended December 31	
	2019	2018
	Cash	Cash
Employees' compensation	$ 4,199	$ 35,146
Remuneration of directors and supervisors	$ 4,199	$ 35,146

If there is a change in the amounts after the parent only financial statements were authorized for issuance, the differences are recorded as a change in the accounting estimate.

Information on employees' compensation and remuneration of directors and supervisors resolved by the Company's board of directors in 2019 and 2018 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

g. Gains or losses on foreign currency exchange

	For the Year Ended December 31	
	2019	2018
Foreign exchange gains	$ 296,520	$ 180,062
Foreign exchange losses	(82,499)	(184,266)
	$ (214,021)	$ (4,204)

24. INCOME TAXES

a. Major components of tax expense recognized in profit or loss

	For the Year Ended December 31	
	2019	2018
Current tax		
In respect of the current year	$ 7,239	$ 72,720
Income tax on unappropriated earnings	18,406	49,736
Adjustments for prior years	3,171	1,297
	28,816	123,753
Deferred tax		
In respect of the current year	(17,930)	(143)
Adjustments to deferred tax attributable to changes in tax rates and laws	-	(1,097)
	(17,930)	(1,240)
Income tax expense recognized in profit or loss	$ (10,886)	$ 122,513

A reconciliation of accounting profit and income tax expenses is as follows:

	For the Year Ended December 31	
	2019	2018
Profit before tax from continuing operations	$ 131,560	$ 1,101,238
Income tax expense calculated at the statutory rate	$ 26,312	$ 220,248
Non-deductible expenses and non-taxable income	(30,147)	(136,718)
Tax-exempt income	(14,138)	(13,656)
Income tax on unappropriated earnings	18,406	49,736
Additional income tax under the Alternative Minimum Tax Act	7,239	-
Unrecognized loss carryforwards and deductible temporary differences	43	2,703
Effect of tax rate changes	-	(1,097)
Adjustments for prior years' tax	3,171	1,297
Income tax expense recognized in profit or loss	$ 10,886	$ 122,513

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

As the status of the 2020 appropriation of earnings is uncertain, the potential income tax consequences of the 2019 unappropriated earnings are not reliably determinable.

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2019	2018
Deferred tax		
Effect of tax rate changes	$ -	$ 475
In respect of the current year:		
Translation of foreign operations	(647)	(876)
Remeasurement on defined benefit plan	(158)	888
Total income tax recognized in other comprehensive income	$ (805)	$ 487

c. Current tax assets and liabilities

	December 31	
	2019	2018
Current tax assets		
Tax refund receivable	$ 10,995	$ -
Current tax liabilities		
Income tax payable	$ -	$ 71,573

d. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities were as follows:

For the year ended December 31, 2019

Deferred tax assets	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre-hensive Income	Closing Balance
Temporary differences				
Reversal of write-downs of inventories	$ 22,244	$ (2,412)	$ -	$ 19,832
FVTPL financial assets	-	6,823	-	6,823
Gains or losses on foreign currency exchange	1,707	(1,707)	-	-
Unrealized gross profit	759	(624)	-	135
Defined benefit obligation	4,393	(297)	158	4,254
Allowance for impairment loss on receivables	3,137	7,135	-	10,272
Property, plant and equipment	-	162	-	162
Exchange differences on translating the financial statements of foreign operations	-	-	93	93
	$ 32,240	$ 9,080	$ 251	$ 41,571

(Continued)

Deferred tax liabilities	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre-hensive Income	Closing Balance
Temporary differences				
FVTPL financial assets	$ 20,639	$ (20,639)	$ -	$ -
Convertible bonds	412	204	-	616
Gains or losses on foreign currency exchange	-	11,585	-	11,585
Exchange differences on translating the financial statements of foreign operations	554	-	(554)	-
	$ 21,605	$ (8,850)	$ (554)	$ 12,201

(Concluded)

For the year ended December 31, 2018

Deferred tax assets	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre-hensive Income	Closing Balance
Temporary differences				
Reversal of write-downs of inventories	$ 413	$ 21,831	$ -	$ 22,244
FVTPL financial assets	3,386	(3,386)	-	-
Convertible bonds	432	(432)	-	-
Gains or losses on foreign currency exchange	-	1,707	-	1,707
Unrealized gross profit	-	759	-	759
Defined benefit obligation	3,746	(668)	1,315	4,393
Allowance for impairment loss on receivables	5,247	(2,110)	-	3,137
Exchange differences on translating the financial statements of foreign operations	274	-	(274)	-
	$ 13,498	$ 17,701	$ 1,041	$ 32,240
Deferred tax liabilities				
Temporary differences				
FVTPL financial assets	$ -	$ 20,639	$ -	$ 20,639
Convertible bonds	-	412	-	412
Gains or losses on foreign currency exchange	4,590	(4,590)	-	-
Exchange differences on translating the financial statements of foreign operations	-	-	554	554
	$ 4,590	$ 16,461	$ 554	$ 21,605

e. Deductible temporary differences and unused loss carryforwards for which no deferred tax assets have been recognized in the balance sheets:

	December 31	
	2019	2018
Deductible temporary differences		
Unrealized profit or loss of foreign subsidiaries using equity method	$ 338	$ 295
Impairment loss on FVTOCI financial assets	27,488	27,488
	$ 27,826	$ 27,783

f. Income tax assessments

The tax returns through 2017 and income tax on unappropriated earnings through 2016 have been assessed by the tax authorities.

25. EARNINGS PER SHARE

	For the Year Ended December 31	
	2019	2018
Basic earnings per share		
From continuing operations	$ 0.39	$ 3.17
Diluted earnings per share		
From continuing operations	$ 0.39	$ 3.06

The earnings and weighted average number of ordinary shares outstanding used in the computation of earnings per share from continuing operations are as follows:

Net profit for the year

	For the Year Ended December 31	
	2019	2018
Profit for the period attributable to owners of the Company	$ 120,674	$ 978,725
Effect of potentially dilutive ordinary shares:		
Interest on convertible bonds (after tax)	-	9,561
Earnings used in the computation of diluted earnings per share	$ 120,674	$ 988,286

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

	For the Year Ended December 31	
	2019	2018
Weighted average number of ordinary shares in the computation of basic earnings per share	310,688	309,164
Effect of potentially dilutive ordinary shares:		
Convertible bonds	-	12,860
Employees' compensation	133	1,126
Weighted average number of ordinary shares used in the computation of diluted earnings per share	310,821	323,150

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

26. PARTLY ACQUISITION OR DISPOSAL OF SUBSIDIARIES - NO IMPACT ON CONTROL

In 2018, the Company subscribed for additional new shares of APEX Wind Power Equipment Manufacturing Co., by cash at a percentage different from its existing ownership percentage, decreasing its interests from 68.16% to 51.31%. In addition, in September 2019, the Company acquired additional shares of the subsidiary, increasing its interests from 51.31% to 53.51%.

The above transactions were accounted for as equity transactions, since the Company did not cease to have control over the subsidiary.

27. CAPITAL MANAGEMENT

The Company manages its capital to ensure that the Company will be able to continue as going concerns while maximizing the return to shareholders through the optimization of the debt and equity balance. The Company's overall strategy remains unchanged over the past 5 years.

The capital structure of the Company consists of net debt (borrowings offset by cash and cash equivalents) and equity of the Company (comprising issued capital, reserves, retained earnings, and other equity)/Ownership equity of the Company (comprising issued capital, reserves and retained earnings).

The Company is not subject to any externally imposed capital requirements.

Key management personnel of the Company review the capital structure on a quarterly basis. As part of this review, the key management personnel consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the key management personnel, in order to balance the overall capital structure, the Company may adjust the amount of dividends paid to shareholders, the number of new shares issued or repurchased, and/or the amount of new debt issued or existing debt redeemed.

28. FINANCIAL INSTRUMENTS

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

The management believes that the carrying amounts of financial assets and liabilities that are not measured at fair value approximate their fair values:

December 31, 2019

	Carrying Amount	Fair Value
Financial assets		
Financial assets measured at amortized cost:		
Time deposits with original maturities of more than 3 months	$ 55,684	$ 55,684
Notes receivable (including related parties)	1,084,839	1,084,839
Trade receivables (including related parties)	1,368,443	1,368,443
Overdue receivables	3,000	3,000
Cash and cash equivalents	906,531	906,531
Refundable deposits	34,342	34,342
Financial liabilities		
Financial liabilities measured at amortized cost:		
Bank borrowings	5,506,393	5,506,393
Short-term bills payable	469,737	469,737
Notes payable, trade payables and other payables (including related parties)	393,680	393,680
Convertible bonds	410,006	410,006
Long-term bills payable	1,898,531	1,898,531

December 31, 2018

	Carrying Amount	Fair Value
Financial assets		
Financial assets measured at amortized cost:		
Time deposits with original maturities of more than 3 months	$ 116,677	$ 116,677
Notes receivable (including related parties)	1,309,049	1,309,049
Trade receivables (including related parties)	1,268,226	1,268,226
Overdue receivables	5,081	5,081
Cash and cash equivalents	978,699	978,699
Refundable deposits	22,484	22,484
Financial liabilities		
Financial liabilities measured at amortized cost:		
Bank borrowings	7,614,879	7,614,879
Short-term bills payable	429,734	429,734
Notes payable, trade payables and other payables (including related parties)	994,620	994,620
Convertible bonds	400,337	400,337

The methods and assumptions used by the Company for estimating financial instruments not measured at fair value are as follows:

1) The fair value of financial instruments, including cash and cash equivalents, trade receivables, overdue receivables, trade payables, time deposits with an original maturity date of more than 3 months, other financial assets, short-term borrowings, short-term bills payable, and long-term bills payable, is estimated as the carrying amount at the end of the reporting period because the maturity date is close to the reporting date or the payment amount is close to its carrying amount.

2) The fair value of long-term bank borrowings is determined using the discounted cash flow approach. Future cash flows are discounted at a long-term borrowing rate of the Company. The Company estimated the carrying amount of the long-term loans at the end of the reporting period as their fair values.

3) The fair value of the liability component of convertible bonds is measured at amortized cost using the effective interest method, and the conversion options component of the convertible bonds is measured at fair value. The fair value of the liability component of the convertible bonds is estimated at the carrying amount at the end of the reporting period.

b. Financial instruments measured at fair value on a recurring basis

1) Fair value hierarchy

December 31, 2019

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Domestic listed shares and emerging market shares	$ 723,406	$ -	$ -	$ 723,406
Mutual funds	5,060	-	-	5,060
Derivatives	-	-	-	-
	$ 728,466	$ -	$ -	$ 728,466
Financial assets at FVTOCI				
Investments in equity instruments				
Domestic listed shares and emerging market securities	$ 1,216,531	$ -	$ -	$ 1,216,531
Domestic unlisted shares and emerging market securities	-	-	219,897	219,897
Foreign unlisted shares and emerging market securities	-	-	241,529	241,529
	$ 1,216,531	$ -	$ 461,426	$ 1,677,957
Financial liabilities at FVTPL				
Derivatives	$ -	$ 41,755	$ -	$ 41,755

December 31, 2018

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Domestic listed shares and emerging market shares	$ 781,996	$ -	$ -	$ 781,996
Mutual funds	4,450	-	-	4,450
Derivatives	-	103,198	-	103,198
	$ 786,446	$ 103,198	$ -	$ 889,644
Financial assets at FVTOCI				
Investments in equity instruments				
Domestic listed shares and emerging market securities	$ 1,459,938	$ -	$ -	$ 1,459,938
Domestic unlisted shares and emerging market securities	-	-	216,018	216,018
Foreign unlisted shares and emerging market securities	-	-	302,383	302,383
	$ 1,459,938	$ -	$ 518,401	$ 1,978,339
Financial liabilities at FVTPL				
Derivatives	$ -	$ 8,659	$ -	$ 8,659

There were no transfers between Levels 1 and 2 in the current and prior periods.

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

	Financial Assets at FVTOCI	
	Equity Instruments	
	For the Year Ended December 31	
	2019	2018
Balance at January 1	$ 518,401	$ 442,497
Recognized in other comprehensive income (included in unrealized gain (loss) on financial assets at FVTOCI)	(60,854)	(45,839)
Purchases	12,000	129,450
Shares return of investments	(8,121)	(2,222)
Transfers out of Level 3	-	(5,485)
Balance at December 31	$ 461,426	$ 518,401

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

Financial Instruments	Valuation Techniques and Inputs
Derivatives - foreign currency forward contracts	Discounted cash flow: Future cash flows are estimated based on observable forward exchange rates at the end of the reporting period and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.
Derivatives - conversion option component of convertible bonds	The value of the bonds payable and redemption and put options is estimated based on the binomial CB pricing model and historical volatility, risk-free interest rate, discount rate and liquidity risk at the end of the reporting period.

4) Valuation techniques and inputs applied for Level 3 fair value measurement

The fair values of domestic unlisted equity instruments were determined using the market approach. In this approach, the fair value is appraised based on the market selling price of similar items, such as assets, liabilities, or the Group of assets and liabilities. The significant unobservable factors used are described below, an increase in long-term revenue growth rates, long-term pre-tax operating margin, a decrease in the weighted average cost of capital, or the discount for lack of marketability used in isolation would result in increases in the fair values.

c. Categories of financial instruments

	December 31	
	2019	**2018**
Financial assets		
Financial assets at FVTPL		
Mandatorily classified as at FVTPL	$ 728,466	$ 889,644
Financial assets at amortized cost (1)	3,452,839	3,700,216
Financial assets at FVTOCI	1,677,957	1,978,339
Financial liabilities		
Financial liabilities at FVTPL		
Held for trading	41,755	8,659
Financial liabilities at amortized cost (2)	8,678,347	9,439,570

1) The balances include financial assets at amortized cost, which comprise cash and cash equivalents, notes receivable, trade receivables, overdue receivables, refundable deposits and time deposits with original maturities of more than 3 months.

2) The balances include financial liabilities at amortized cost, which comprise short-term and long-term loans, short-term and long-term bills payable, notes payable, trade payables, other payables, and bonds issued.

d. Financial risk management objectives and policies

The Company's major financial instruments include equity investments, derivative financial instruments, notes receivable, trade receivables, overdue receivables, short-term bills payable, notes payables, trade payable, other payables, bonds payables and borrowings. The Company's Corporate Treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Company through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

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

1) Market risk

The Company's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates (see "a. foreign currency risk" below) and interest rates (see "b. interest rate risk" below). The Company entered into a variety of derivative financial instruments to manage its exposure to foreign currency risk and interest rate risk, including:

a) Foreign exchange forward contracts to hedge the exchange rate risk arising on the import and export of steel plates;

b) Interest rate swaps to mitigate the risk of rising interest rates.

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

a) Foreign currency risk

The Company had foreign currency sales and purchases, which exposed the Company to foreign currency risk. Exchange rate exposures were managed within approved policy parameters utilizing foreign exchange forward contracts.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period were as follows:

	December 31	
	2019	**2018**
Assets		
USD	$ 18,434	$ 152,745
JPY	579	567
EUR	965	1,253
Liabilities		
USD	1,967,435	3,217,176

Sensitivity analysis

The Company was mainly exposed to USD, JPY and EUR.

The following table details the Company's sensitivity to a 1% increase and decrease in the New Taiwan dollar (i.e., the functional currency) against the relevant foreign currencies. The sensitivity rate used when reporting foreign currency risk internally to key management personnel and representing management's assessment of the reasonably possible change in foreign exchange rates is 1%. The sensitivity analysis included only outstanding foreign currency denominated monetary items and foreign exchange forward contracts designated as cash flow hedges, and adjusts their translation at the end of the reporting period for a 1% change in foreign currency rates. A positive number below indicates an increase in pre-tax profit. For a 1% weakening of the New Taiwan dollar against the relevant currency, there would be an equal and opposite impact on pre-tax profit below would be negative.

	USD Impact	
	For the Year Ended December 31	
	2019	2018
Profit or loss	$ 19,492 (i)	$ 30,630 (i)

	JPY Impact	
	For the Year Ended December 31	
	2019	2018
Profit or loss	$ 6 (ii)	$ 6 (ii)

	EUR Impact	
	For the Year Ended December 31	
	2019	2018
Profit or loss	$ 10 (iii)	$ 13 (iii)

i. This was mainly attributable to the exposure on outstanding USD letters of credit, trade payables, bank deposits and other account payable which were not hedged at the end of the reporting period.

ii. This was mainly attributable to the exposure on outstanding JPY bank deposits, which were not hedged at the end of the reporting period.

iii. This was mainly attributable to the exposure on outstanding EUR bank deposits, which were not hedged at the end of the reporting period.

The Company's sensitivity to foreign currency increased during the current year mainly due to the increase in purchases which resulted in an increase in USD letters of credit.

In management's opinion, sensitivity analysis was unrepresentative of the inherent foreign exchange risk because the exposure at the end of the reporting period did not reflect the exposure during the period.

b) Interest rate risk

The Company was exposed to interest rate risk because entities of the Company borrowed funds at both fixed and floating interest rates. The risk is managed by the Company by maintaining an appropriate mix of fixed and floating rate borrowings and using interest rate swap contracts and forward interest rate contracts. Hedging activities are evaluated regularly to align with interest rate views and the defined risk appetite, ensuring that the most cost-effective hedging strategies are applied.

The carrying amount of the Company's financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows:

	December 31	
	2019	**2018**
Cash flow interest rate risk		
Financial assets	$ 779,433	$ 922,708
Financial liabilities	7,874,661	8,027,681

Sensitivity analysis

The sensitivity analysis below was determined based on the Company's exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 1% increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 1% higher/lower and all other variables were held constant, the Company's pre-tax profit for the year ended December 31, 2019 and 2018 would have decreased/increased by NT$71,956 thousand and NT$59,631 thousand, respectively, which was mainly a result of the changes in the variable interest rate bank deposits and loans.

c) Other price risk

The Company was exposed to equity price risk through its investments in listed equity securities. The Company has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis

The sensitivity analysis below was determined based on the exposure to equity price risks at the end of the reporting period.

If equity prices had been 1% higher/lower, pre-tax profit for years ended December 31, 2019 and 2018 would have increased/decreased by NT$7,282 thousand and NT$7,868 thousand, respectively, as a result of the changes in the fair value of financial assets at FVTPL, and the pre-tax other comprehensive income for the year ended December 31, 2019 and 2018 would have increased/decreased by NT$12,216 thousand and NT$14,449 thousand, respectively, as a result of the changes in the fair value of financial assets at FVTOCI.

The Company's sensitivity to available-for-sale investments and held-for-trading investments has not changed significantly from the prior year.

2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Company. As at the end of the reporting period, the Company's maximum exposure to credit risk, which would cause a financial loss to the Company due to the failure of counterparties to discharge an obligation could arise from the carrying amount of the respective recognized financial assets as stated in the balance sheets which were mainly trade receivables from operating activities.

In order to minimize credit risk, management of the Company has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Company reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowances are made for irrecoverable amounts. In this regard, management believes the Company's credit risk was significantly reduced.

The Company's trade receivables are from a large number customers. Ongoing credit evaluation is performed on the financial condition of trade receivables and, where appropriate, credit guarantee insurance cover is purchased.

The Company did not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Company defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk to any other counterparty did not exceed 10% of the gross monetary assets at any time during 2019 and 2018.

The Company's concentration of credit risk by geographical locations was mainly in Taiwan, which accounted for 100% and 95% of the total trade receivables as of December 31, 2019 and 2018, respectively.

The credit risk on derivatives was limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

3) Liquidity risk

The Company manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Company's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the Company's short-, medium- and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, and continuously monitoring forecasted and actual cash flows as well as matching the maturity profiles of financial assets and liabilities. As of December 31, 2019 and 2018, the Company had available unutilized short-term bank loan facilities of NT$3,350,020 thousand and NT$6,158,192 thousand, respectively.

a) Liquidity and interest risk rate tables

The following table details the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Company can be required to pay. The table included both interest and principal cash flows.

To the extent that interest cash flows are at floating rates, the undiscounted amount was derived from the interest rate curve at the end of the reporting period.

December 31, 2019

	Weighted-Average Effective Interest Rate (%)	On Demand or Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	5+ Years
Non-derivative financial liabilities						
Non-interest bearing		$ 223,447	$ 134,267	$ 30,844	$ 4,138	$ 7
Variable interest rate liabilities	2.05	1,004,719	3,672,411	2,379,401	699,708	118,421
		$ 1,228,166	$ 3,806,678	$ 2,410,245	$ 703,846	$ 118,428

December 31, 2018

	Weighted-Average Effective Interest Rate (%)	On Demand or Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	5+ Years
Non-derivative financial liabilities						
Non-interest bearing		$ 128,686	$ 271,936	$ 596,043	$ 1,739	$ 18
Variable interest rate liabilities	1.75	1,775,776	2,788,588	3,234,371	42,105	-
		$ 1,904,462	$ 3,060,524	$ 3,830,414	$ 43,844	$ 18

The following table details the Company's expected maturity for some of its non-derivative financial assets. The table below has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The inclusion of information on non-derivative financial assets is necessary in order to understand the Company's liquidity risk management as the liquidity is managed on a net asset and liability basis.

December 31, 2019

	Weighted-Average Effective Interest Rate (%)	On Demand or Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	5+ Years
Non-derivative financial assets						
Non-interest bearing		$ 1,396,039	$ 1,174,711	$ 76,130	$ 30,080	$ 3,000
Variable interest rate assets	0.10	726,773	48,133	4,527	-	-
		$ 2,122,812	$ 1,222,844	$ 80,657	$ 30,080	$ 3,000

December 31, 2018

	Weighted-Average Effective Interest Rate (%)	On Demand or Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	5+ Years
Non-derivative financial assets						
Non-interest bearing		$ 1,684,988	$ 826,832	$ 67,566	$ 19,877	$ 3,000
Variable interest rate assets	0.12	819,043	66,103	37,562	-	-
		$ 2,504,031	$ 892,935	$ 105,128	$ 19,877	$ 3,000

The amount included above for variable interest rate instruments for both non-derivative financial assets and liabilities was subject to change if changes in variable interest rates differ from those estimates of interest rates determined at the end of the reporting period.

b) Financing facilities

	December 31 2019	December 31 2018
Bank loan facilities expiring in 2019 which may be extended upon mutual agreement:		
Amount used	$ 9,056,833	$ 7,927,682
Amount unused	6,884,277	9,458,188
	$ 15,941,110	$ 17,385,870

29. TRANSACTIONS WITH RELATED PARTIES

Besides information disclosed elsewhere in the other notes, details of transactions between the Company and other related parties are disclosed below.

a. Related parties and their relationship with the Company:

Related Party	Relationship with the Company
Hsin Ching International Co., Ltd.	Subsidiary
Hsin Yuan Investment Co., Ltd.	Subsidiary
Sinpao Investment Co., Ltd.	Subsidiary
Hsin Ho Fa Metal Co., Ltd.	Subsidiary
APEX Wind Power Equipment Manufacturing Company., Ltd. (formerly Hsin Kuang Alga Engineering Co., Ltd.)	Subsidiary
Hsin Hua Steel Industry Co., Ltd.	Sub-subsidiary
Mason Metal Industry Co., Ltd.	Joint venture
Hsin Kuang Steel Tian-Cheng Charity Foundation	The Foundation's Chairman is the same person as the representative of a corporate director of the Company

b. Operating revenue

Line Item	Related Party Category/Name	For the Year Ended December 31 2019	2018
Sale of goods	Subsidiaries		
	APEX Wind Power Equipment Manufacturing Company., Ltd.	$ 6,276	$ 15,926
	Hsin Ching International Co., Ltd.	90	838
	Hsin Ho Fa Metal Co., Ltd.	-	4,192
	Sub-subsidiaries		
	Hsin Hua Steel Industry Co., Ltd.	36,691	-
	Joint ventures		
	Mason Metal Industry Co., Ltd.	104,907	119,534
		$ 147,964	$ 140,490
Rental income	Subsidiaries		
	Hsin Ching International Co., Ltd.	$ 22,046	$ 23,969
	APEX Wind Power Equipment Manufacturing Company., Ltd.	8,405	-
	Sub-subsidiaries		
	Hsin Hua Steel Industry Co., Ltd.	2,478	-
		$ 32,929	$ 23,969

The Company entered into a contractual agreement to rent out its logistic center to its subsidiary, Hsin Ching International Co., Ltd., in 2018. The contractual period for land and buildings are 31 years and 30 years, respectively. The monthly rental payable is NT$1,921 thousand, and adjustments to the monthly payable amount for land and buildings will be made at the end of the second year and third year, respectively.

In accordance with the provisions of the contract, the subsidiary, Hsin Ching International Co., Ltd., paid a guarantee deposit of NT$514,083 thousand as a collateral for performance obligation upon signing the contract.

c. Purchases of goods and operating costs

Related Party Category/Name	For the Year Ended December 31 2019	2018
Subsidiaries		
APEX Wind Power Equipment Manufacturing Company., Ltd.	$ 2,347	$ -
Joint ventures		
Mason Metal Industry Co., Ltd.	9,800	7,742
Sub-subsidiaries		
Hsin Hua Steel Industry Co., Ltd.	8,987	-
	$ 21,134	$ 7,742

The Company's purchase and payment terms with related parties were comparable to those with unrelated parties.

d. Other revenue

Related Party Category/Name	For the Year Ended December 31 2019	2018
Joint ventures		
Mason Metal Industry Co., Ltd.	$ 1,200	$ 1,200

e. Receivables from related parties (excluding loans to related parties)

Related Party Category/Name	December 31 2019	2018
Subsidiaries		
APEX Wind Power Equipment Manufacturing Company., Ltd.	$ 2,286	$ 16,722
Hsin Ho Fa Metal Co., Ltd.	-	391
Hsin Ching International Co., Ltd.	95	-
Sub-subsidiaries		
Hsin Hua Steel Industry Co., Ltd.	38,525	-
Joint ventures		
Mason Metal Industry Co., Ltd.	58,312	79,147
	$ 99,218	$ 96,260

The outstanding trade receivables from related parties are unsecured. As of December 31, 2019 and 2018, no impairment loss was recognized for trade receivables from the related parties.

f. Payables to related parties

Related Party Category/Name	December 31 2019	December 31 2018
Subsidiaries		
APEX Wind Power Equipment Manufacturing Company., Ltd.	$ -	$ 22
Sub-subsidiaries		
Hsin Hua Steel Industry Co., Ltd.	3,999	-
Joint ventures		
Mason Metal Industry Co., Ltd.	608	2,505
	$ 4,607	$ 2,527

The outstanding trade payables to related parties (including notes payable, and trade payables and other payables) are unsecured and will be paid in cash.

g. Disposals of property, plant and equipment

	Proceeds		Gain (Loss) on Disposal	
	For the Year Ended December 31		For the Year Ended December 31	
Related Party Category/Name	2019	2018	2019	2018
Subsidiaries				
Hsin Ho Fa Metal Co., Ltd.	$ 2,000	$ -	$ 219	$ -
APEX Wind Power Equipment Manufacturing Company., Ltd.	290	-	24	-
Sub-subsidiaries				
Hsin Hua Steel Industry Co., Ltd.	1,400	-	51	-
	$ 3,690	$ -	$ 294	$ -

h. Loans to related parties

Related Party Category/Name	December 31 2019	December 31 2018
Subsidiaries		
Hsin Ho Fa Metal Co., Ltd.	$ -	$ -

Interest income

Related Party Category/Name	For the Year Ended December 31 2019	2018
Subsidiaries		
Hsin Ho Fa Metal Co., Ltd.	$ 77	$ -

The Company provided several of its key management personnel with unsecured short-term loans at rates comparable to market interest rates.

i. Endorsements and guarantees

Related Party Category/Name	December 31 2019	2018
Subsidiaries		
APEX Wind Power Equipment Manufacturing Company., Ltd.		
Amount endorsed	$ -	$ 7,400
Amount utilized	-	(7,400)
	$ -	$ -

j. Other transactions with related parties

Line Item	Related Party Category/Name	For the Year Ended December 31 2019	2018
Donations	Hsin Kuang Steel Tian-Cheng Charity Foundation	$ 2,000	$ -

k. Compensation of key management personnel

The amount of the remuneration of directors and key management personnel were as follows:

	For the Year Ended December 31 2019	2018
Short-term employee benefits	$ 22,118	$ 57,593

The remuneration of directors and key executives was determined by the remuneration committee based on the performance of individuals and market trends.

30. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for bank borrowings, collateral for engineering service contract, and lease guarantee deposits:

	December 31	
	2019	**2018**
Notes receivable	$ 205,173	$ 347,618
Pledged deposits (classified as financial assets at amortized cost)	55,684	116,677
Investments in equity instruments at FVTOCI	227,050	230,375
Freehold land	859,185	552,590
Buildings, net	514,207	317,803
Investment properties - land	350,861	350,861
Investment properties - buildings	550,161	562,077
	$ 2,762,321	$ 2,478,001

31. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Company as of December 31, 2019 and 2018 were as follows:

Significant Commitments

a. As of December 31, 2019 and 2018, unused letters of credit for purchases of raw materials and machinery and equipment were as follows:

	December 31	
	2019	**2018**
NTD	$ 402,526	$ 258,033
USD	18,890	24,711
JPY	-	13,912
EUR	834	-

b. Unrecognized commitments were as follows:

	December 31	
	2019	**2018**
Acquisition of property, plant and equipment	$ 86,920	$ 35,755

32. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Company's significant financial assets and liabilities denominated in foreign currencies aggregated by the foreign currencies other than functional currencies and the related exchange rates between foreign currencies and respective functional currencies were as follows:

December 31, 2019

	Foreign Currencies	Exchange Rate		Carrying Amount
Financial assets				
Monetary items				
USD	$ 608	29.98	(USD:NTD)	$ 18,434
EUR	28	33.59	(EUR:NTD)	965
JPY	2,090	0.276	(JPY:NTD)	579
Non-monetary items				
USD	4,174	29.98	(USD:NTD)	131,851
				$ 151,829
Financial liabilities				
Monetary items				
USD	65,625	29.98	(USD:NTD)	$ 1,967,435

December 31, 2018

	Foreign Currencies	Exchange Rate		Carrying Amount
Financial assets				
Monetary items				
USD	$ 4,973	30.715	(USD:NTD)	$ 152,745
EUR	36	35.2	(EUR:NTD)	1,253
Non-monetary items				
USD	4,174	30.715	(USD:NTD)	128,190
Financial liabilities				$ 282,188
Monetary items				
USD	104,743	30.715	(USD:NTD)	$ 3,217,176

33. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and b. investees:

1) Financing provided to others (Table 1)

2) Endorsements/guarantees provided (Table 2)

3) Marketable securities held (Table 3)

4) Marketable securities acquired and disposed of at costs or prices of at least NT$300 million or 20% of the paid-in capital (N/A)

5) Acquisition of individual real estate at costs of at least NT$300 million or 20% of the paid-in capital (N/A)

6) Disposal of individual real estate at prices of at least NT$300 million or 20% of the paid-in capital (N/A)

7) Total purchases from or sales to related parties amounting to at least NT$100 million or 20% of the paid-in capital (Table 4)

8) Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital (N/A)

9) Trading in derivative instruments (Note 7)

10) Information on investees (Table 5)

b. Information on investments in mainland China

1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area (N/A)

2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses (N/A)

34. SEGMENT INFORMATION

The segment information for 2019 and 2018 is disclosed in the Company's consolidated financial statements.

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Hsin Kuang Steel Company Limited

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

Key audit matters identified in the consolidated financial statements of the Group for the year ended December 31, 2019 are as follows:

Write-down of Inventories

As of December 31, 2019, inventories in the Group's consolidated financial statements amounted to NT$3,435,128 thousand, representing 21% of total assets. The Group mainly engages in the sale, cutting, slitting, steel structure processing and logistics of various steel products. Under this business model, the Group must reserve various steel products to respond to market and customer demands. Because steel industry is highly affected by fluctuations of international steel prices, changes in the value of inventory can affect the calculation of net realizable value of inventories. The amount of inventories is significant to the consolidated financial statements as a whole and the valuation of net realizable value of inventory involves management's judgment; in particular, management based its estimation of net realizable value of inventory on past selling prices and actual transactions. Therefore, we identified write-down of inventories as a key audit matter.

Refer to Notes 4, 5 and 11 to the consolidated financial statements for the accounting policies and related disclosures on the write-down of inventories.

We performed the following audit procedures in respect of write-down of inventories:

1. We understood and tested the design and operating effectiveness of key controls over the estimation of inventory write-downs.

2. We took into consideration the steel price charts of China Steel Corporation and the market price trend of nickel metal, which was the main material of stainless steel, in assessing the reasonableness of management's estimate for the inventory write-downs.

3. We obtained the data used by management in calculating the allowance for inventory write-downs and recalculated the sales price used for estimation. We evaluated the reasonableness of management's estimation, by selecting samples with their relating invoices to verify the authenticity of the data.

Other Matters

We have also audited the parent company only financial statements of Hsin Kuang Steel Company Limited as of and for the years ended December 31, 2019 and 2018, on which we have issued an unmodified opinion.

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 IFRS, IAS, IFRIC, and SIC endorsed and issued into effect 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 Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Sheng-Hsiung Yao and Jui-Na Chang.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 17, 2020

<u>*Notice to Readers*</u>

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

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

HSIN KUANG STEEL COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)

	2019		2018	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Note 6)	$ 1,099,161	7	$ 1,558,960	9
Financial assets at fair value through profit or loss - current (Notes 4 and 7)	1,349,571	8	1,349,097	8
Financial assets at fair value through other comprehensive income - current (Notes 4 and 8)	-	-	80,115	1
Financial assets at amortized cost - current (Notes 9 and 31)	61,113	-	206,918	1
Notes receivable from related parties (Notes 4, 5, 10 and 30)	44,465	-	56,772	-
Notes receivable from unrelated parties (Notes 4, 5, 10 and 31)	1,044,987	7	1,263,870	7
Trade receivables from related parties (Notes 4, 5, 10 and 30)	13,847	-	22,375	-
Trade receivables from unrelated parties (Notes 4, 5 and 10)	1,353,763	9	1,243,271	7
Inventories (Notes 4, 5 and 11)	3,435,128	21	4,057,033	24
Prepayments	147,754	1	158,227	1
Other current assets (Note 16)	47,827	-	9,181	-
Total current assets	8,597,616	53	10,005,819	58
NON-CURRENT ASSETS				
Financial assets at fair value through other comprehensive income - non-current (Notes 4, 8 and 31)	1,767,897	11	1,990,369	12
Investments accounted for using the equity method (Notes 4 and 13)	575,743	4	572,812	3
Property, plant and equipment (Notes 4, 14 and 31)	3,887,599	24	3,498,574	20
Investment properties (Notes 4, 15 and 31)	984,659	6	1,002,688	6
Deferred tax assets (Notes 4 and 25)	47,405	-	32,256	-
Other non-current assets (Notes 5, 10 and 16)	226,972	2	180,603	1
Total non-current assets	7,490,275	47	7,277,302	42
TOTAL	$ 16,087,891	100	$ 17,283,121	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Notes 4 and 17)	$ 4,743,264	29	$ 6,961,865	40
Short-term bills payable (Notes 4 and 17)	469,737	3	429,734	2
Financial liabilities at fair value through profit or loss - current (Notes 4 and 7)	41,855	-	8,748	-
Contract liabilities - current (Note 23)	149,488	1	143,030	1
Notes payable to unrelated parties (Notes 4 and 19)	263,903	2	647,129	4
Notes payable to related parties (Notes 4, 19 and 30)	608	-	3,134	-
Trade payables to unrelated parties (Notes 4 and 19)	48,280	-	177,805	1
Trade payables to related parties (Notes 4, 19 and 30)	-	-	1,482	-
Other payables (Notes 20 and 31)	110,636	1	188,852	1
Current tax liabilities (Notes 4 and 25)	11,182	-	90,949	1
Current portion of long - term borrowings and bonds payable (Notes 4 and 17)	420,532	3	796,026	5
Other current liabilities	4,999	-	3,298	-
Total current liabilities	6,264,484	39	9,452,052	55
NON-CURRENT LIABILITIES				
Bonds payable (Note 18)	-	-	400,337	2
Long-term borrowings (Notes 4 and 17)	1,057,603	7	128,948	1
Long-term bills payable (Note 17)	1,898,531	12	-	-
Provisions - non-current (Notes 4 and 13)	3,570	-	3,570	-
Deferred tax liabilities (Notes 4 and 25)	12,201	-	21,673	-
Net defined benefit liabilities - non-current (Notes 4 and 21)	27,048	-	27,744	-
Other non-current liabilities	13,668	-	13,668	-
Total non-current liabilities	3,012,621	19	595,940	3
Total liabilities	9,277,105	58	10,047,992	58
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 4 and 22)				
Share capital	3,106,877	19	3,106,877	18
Capital surplus	817,716	5	818,309	5
Retained earnings				
Legal reserve	858,883	6	761,010	4
Special reserve	43,567	-	-	-
Unappropriated earnings	1,565,297	10	2,067,794	12
Total retained earnings	2,467,747	16	2,828,804	16
Other equity	(108,260)	(1)	(43,568)	-
Total equity attributable to owners of the Company	6,284,080	39	6,710,422	39
NON-CONTROLLING INTERESTS	526,706	3	524,707	3
Total equity	6,810,786	42	7,235,129	42
TOTAL	$ 16,087,891	100	$ 17,283,121	100

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

HSIN KUANG STEEL COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUE (Notes 4, 23 and 30)				
Sales	$ 8,331,608	101	$ 8,617,077	108
Other operating revenue	146,177	2	77,086	1
Total operating revenue	8,477,785	103	8,694,163	109
OPERATING COSTS				
Cost of goods sold (Notes 11, 24 and 30)	(8,253,950)	(100)	(7,955,101)	(100)
Other operating costs	(47,274)	(1)	(9,497)	-
Total operating costs	(8,301,224)	(101)	(7,964,598)	(100)
GROSS PROFIT	176,561	2	729,565	9
UNREALIZED GAIN ON TRANSACTIONS WITH ASSOCIATES AND JOINT VENTURES	(682)	-	(900)	-
REALIZED GAIN ON TRANSACTIONS WITH ASSOCIATES AND JOINT VENTURES	900	-	-	-
REALIZED GROSS PROFIT	176,779	2	728,665	9
OPERATING EXPENSES (Notes 4 and 30)				
Selling and marketing expenses	(159,341)	(2)	(178,446)	(2)
General and administrative expenses	(80,309)	(1)	(132,412)	(1)
Expected credit (loss) gain	(35,029)	-	10,823	-
Total operating expenses	(274,679)	(3)	(300,035)	(3)
(LOSS) PROFIT FROM OPERATIONS	(97,900)	(1)	428,630	6
NON-OPERATING INCOME AND EXPENSES (Notes 24 and 30)				
Other income	81,944	1	85,819	1
Other gains	301,719	4	754,451	10
Finance costs	(167,484)	(2)	(142,185)	(2)
Share of profit of associates and joint ventures	6,178	-	15,512	-
Total non-operating income and expenses	222,357	3	713,597	9

(Continued)

HSIN KUANG STEEL COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018	
	Amount	**%**	**Amount**	**%**
PROFIT BEFORE INCOME TAX	$ 124,457	2	$ 1,142,227	15
INCOME TAX EXPENSE (Notes 4 and 25)	(6,341)	-	(142,215)	(2)
NET PROFIT FOR THE YEAR	118,116	2	1,000,012	13
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified to profit or loss:				
Remeasurement of defined benefit plans	(631)	-	(3,125)	-
Unrealized loss on investments in equity instruments at fair value through other comprehensive income	(62,108)	(1)	(75,941)	(1)
	(62,739)	(1)	(79,066)	(1)
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating the financial statements of foreign operations	(2,591)	-	3,563	-
Other comprehensive loss for the year, net of income tax	(65,330)	(1)	(75,503)	(1)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 52,786	1	$ 924,509	12
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Company	$ 120,674	1	$ 978,725	13
Non-controlling interests	(2,558)	-	21,287	-
	$ 118,116	1	$ 1,000,012	13
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Company	$ 55,351	1	$ 903,212	12
Non-controlling interests	(2,565)	-	21,297	-
	$ 52,786	1	$ 924,509	12

(Continued)

HSIN KUANG STEEL COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018	
	Amount	**%**	**Amount**	**%**
EARNINGS PER SHARE (Note 26)				
From continuing operations				
Basic	$ 0.39		$ 3.17	
Diluted	$ 0.39		$ 3.06	

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

HSIN KUANG STEEL COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Company											
	Share Capital			Retained Earnings			Other Equity					
	Number of Shares (In Thousands)	Amount	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating the Financial Statements of Foreign Operations	Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Total	Non-controlling Interests	Total Equity
BALANCE AT JANUARY 1, 2018	306,194	$ 3,061,937	$ 867,689	$ 654,386	$ 19,407	$ 1,638,702	$ (1,339)	$ -	$ 30,159	$ 6,270,941	$ 207,391	$ 6,478,332
Effect of retrospective application and retrospective restatement	-	-	-	-	-	-	-	30,159	(30,159)	-	-	-
BALANCE AT JANUARY 1, 2018 AS RESTATED	306,194	3,061,937	867,689	654,386	19,407	1,638,702	(1,339)	30,159	-	6,270,941	207,391	6,478,332
Special reserve reversed under Rule No. 1010012865 issued by the FSC	-	-	-	-	(19,407)	19,407	-	-	-	-	-	-
Appropriation of 2017 earnings												
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	-	-	(888)	(888)
Cash dividends distributed by the Company	-	-	-	-	-	(459,291)	-	-	-	(459,291)	-	(459,291)
Legal reserve	-	-	-	106,624	-	(106,624)	-	-	-	-	-	-
Other changes in capital surplus:												
Changes in capital surplus from investments in subsidiaries, associates and joint ventures accounted for using the equity method	-	-	66	-	-	-	-	-	-	66	(66)	-
Cash dividends distributed from capital surplus	-	-	(153,097)	-	-	-	-	-	-	(153,097)	-	(153,097)
Convertible bonds converted to ordinary shares	4,494	44,940	103,654	-	-	-	-	-	-	148,594	-	148,594
Net profit for the year ended December 31, 2018	-	-	-	-	-	978,725	-	-	-	978,725	21,287	1,000,012
Other comprehensive income (loss) for the year ended December 31, 2018, net of income tax	-	-	-	-	-	(3,125)	3,553	(75,941)	-	(75,513)	10	(75,503)
Total comprehensive income (loss) for the year ended December 31, 2018	-	-	-	-	-	975,600	3,553	(75,941)	-	903,212	21,297	924,509
Changes of non-controlling interests	-	-	-	-	-	-	-	-	-	-	296,973	296,973
BALANCE AT DECEMBER 31, 2018	310,688	3,106,877	818,312	761,010	-	2,067,794	2,214	(45,782)	-	6,710,425	524,707	7,235,132
Appropriation of 2018 earnings												
Legal reserve	-	-	-	97,873	-	(97,873)	-	-	-	-	-	-
Special reserve	-	-	-	-	43,567	(43,567)	-	-	-	-	-	-
Cash dividends distributed by the Company	-	-	-	-	-	(466,032)	-	-	-	(466,032)	-	(466,032)
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	-	-	(16,296)	(16,296)
Changes in percentage of ownership interests in subsidiaries	-	-	(593)	-	-	(1,302)	-	-	-	(1,895)	1,895	-
Disposal of investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	-	(13,766)	-	-	-	(13,766)	-	(13,766)
Net profit (loss) for the year ended December 31, 2019	-	-	-	-	-	120,674	-	-	-	120,674	(2,558)	118,116
Other comprehensive loss for the year ended December 31, 2019, net of income tax	-	-	-	-	-	(631)	(2,584)	(62,108)	-	(65,323)	(7)	(65,330)
Total comprehensive income (loss) for the year ended December 31, 2019	-	-	-	-	-	120,043	(2,584)	(62,108)	-	55,351	(2,565)	52,786
Changes of non-controlling interests	-	-	-	-	-	-	-	-	-	-	18,965	18,965
BALANCE AT DECEMBER 31, 2019	310,688	$ 3,106,877	$ 817,719	$ 858,883	$ 43,567	$ 1,565,297	$ (370)	$ (107,890)	$ -	$ 6,284,083	$ 526,706	$ 6,810,789

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

HSIN KUANG STEEL COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 124,457	$ 1,142,227
Adjustments for:		
Depreciation expenses	108,256	84,761
Amortization expenses	2,931	1,469
Expected credit loss recognized (reversed) on trade receivables	35,029	(10,823)
Net gain on fair value changes of financial assets at fair value through profit or loss	(224,960)	(747,018)
Net loss (gain) on fair value changes of financial liabilities at fair value through profit or loss	136,294	(24,432)
Finance costs	167,484	142,185
Interest income	(1,008)	(1,290)
Dividend income	(78,136)	(78,545)
Loss on disposal of property, plant and equipment	811	708
Share of profit of associates	(6,178)	(15,512)
(Reversal of) write-downs of inventories	(14,415)	108,793
Unrealized gain on transactions with associates	682	900
Realized gain on transactions with associates	(900)	-
Net gain on foreign currency exchange	(66,025)	(39,506)
Net defined benefit liabilities	(1,486)	(3,161)
Changes in operating assets and liabilities		
Decrease in financial assets mandatorily classified as at fair value through profit or loss	121,299	441,562
Decrease (increase) in notes receivable	231,191	(302,332)
Increase in trade receivables	(134,093)	(3,049)
Decrease (increase) in inventories	636,321	(1,416,883)
Decrease (increase) in prepayments	10,473	(63,618)
(Increase) decrease in other current assets	(27,743)	8,557
(Decrease) increase in notes payable	(385,751)	225,659
(Decrease) increase in trade payables	(132,316)	179,406
(Decrease) increase in other payables	(57,475)	8,089
Increase in other current liabilities	1,701	17,571
Increase in contract liabilities	6,457	24,398
Cash generated from (used in) operations	452,900	(319,884)
Interest received	1,008	1,290
Dividends received	78,136	78,545
Income tax paid	(120,826)	(187,157)
Net cash generated from (used in) operating activities	411,218	(427,206)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at fair value through other comprehensive income	(12,000)	(129,450)

(Continued)

HSIN KUANG STEEL COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)

	2019	2018
Proceeds from sale of financial assets at fair value through other comprehensive income	$ 228,386	$ -
Proceeds from capital reduction and return of shares from financial assets at fair value through other comprehensive income	8,121	2,222
Purchase of financial assets at amortized cost	-	(116,672)
Proceeds from sale of financial assets at amortized cost	145,805	-
Acquisition of associates and joint ventures	-	(25,600)
Payments for property, plant and equipment	(206,400)	(454,638)
Proceeds from disposal of property, plant and equipment	7,043	6,024
Payments for investment properties	(3,513)	-
Proceeds from disposal of investment properties	1,400	-
Increase in other non-current assets	(6,769)	(6,192)
Increase in prepayments for equipment	(334,784)	(126,065)
Dividends received from associates	3,204	798
Decrease in refundable deposits	11,870	117
Net cash used in investing activities	(157,637)	(849,456)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	15,039,975	13,353,678
Repayments of short-term borrowings	(17,192,060)	(10,650,104)
Increase (decrease) in short-term bills payable	40,000	(40,000)
Proceeds from long-term borrowings	936,243	-
Repayments of long-term borrowings	(796,026)	(229,726)
Proceeds from long-term bills payable	1,900,000	-
Proceeds from guarantee deposits received	-	13,368
Interest paid	(177,084)	(106,719)
Dividends paid to owners of the Company	(466,032)	(612,388)
Dividends paid to non-controlling interests	(16,296)	(888)
Increase in non-controlling interests	18,965	296,973
Net cash (used in) generated from financing activities	(712,315)	2,024,194
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	(1,065)	1,250
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(459,799)	748,782
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	1,558,960	810,178
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 1,099,161	$ 1,558,960

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

HSIN KUANG STEEL COMPANY LIMITED AND SUBSIDIARIES

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

1. GENERAL INFORMATION

Hsin Kuang Steel Company Limited (the "Company") was incorporated in January 1967. The original paid-in-capital was NT$200 thousand, and ordinary shares were issued subsequently for promoting business expansion and a sound financial structure. The Company's share was approved to be listed on the Taipei Exchange in April 1997 and was approved to transfer to the Taiwan Stock Exchange (TWSE) in August 2000. The Company's shares have been listed on the TWSE since September 2000 under the approval of the Financial Supervisory Commission (FSC) of the Republic of China.

The Company and its subsidiaries (collectively referred to as the "Group ") mainly engages in the cutting, stamping and sale of various steel products, including steel coils, steel plates, round steel bar, stainless steel, alloy steel, special steel and SuperDyma.

The consolidated entities were as follows:

Hsin Yuan Investment Co., Ltd. was incorporated on September 22, 1998. The entity mainly engages in investment in various kinds of businesses including manufacturing, securities investment, banking and insurance, etc.

Hsin Ho Fa Metal Co., Ltd. was incorporated on January 28, 2003. The entity engages in the sale of metal products for architecture.

Sinpao Investment Co., Ltd. was incorporated in British Virgin Island (B.V.I) in 2001. The entity is a holding company of overseas investments.

Hsin Kuang Alga Engineering Co., Ltd., was incorporated on November 10, 2009 and was renamed APEX Wind Power Equipment Manufacturing Company Limited on June 11, 2018. The entity mainly engages in the manufacture and sale of metal products and energy related equipment.

Hsin Ching International Co., Ltd. was incorporated on December 18, 2015. The entity mainly engages in leasing and warehousing.

Hsin Hua Steel Industry Co., Ltd. was incorporated on July 25, 2019. The entity mainly engages in processing and manufacturing of metal structures, architectural components and steel products.

Hsin Cheng Logistics Development Co., Ltd. was incorporated on August 19, 2019. The entity mainly engages in leasing and warehousing.

The consolidated financial statements are presented in the Group's functional currency, the New Taiwan dollar.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company's board of directors on March 17, 2020.

3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS

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

   Except for the following, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC did not have material impact on the Group's accounting policies:

   1) IFRS 16 "Leases"

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

      Definition of a lease

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

      The Group as lessee

      The Group did not have lease contracts to which IFRS 16 was applied retrospectively, except for those for which the underlying asset is of low-value and short-term leases, which are recognized as expenses on a straight-line basis. Consequently, there was no significant effect on the Group's assets, liabilities and equity as of January 1, 2019.

      The Group as lessor

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

   2) Annual Improvements to IFRSs 2015-2017 Cycle

      Several standards, including IFRS 3 "Business Combinations", IFRS 11 "Joint Arrangements", IAS 12 "Income Taxes" and IAS 23 "Borrowing Costs", were amended in this annual improvement. IAS 23 was amended to clarify that, if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, the related borrowing costs shall be included in the calculation of the capitalization rate on general borrowings. Upon initial application of the above amendment, the related borrowing costs are included in the calculation starting from 2019.

   3) Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"

      The amendments stipulate that, if a plan amendment, curtailment or settlement occurs, the current service cost and the net interest for the remainder of the annual reporting period are determined using the actuarial assumptions used for the remeasurement of the net defined benefit liabilities (assets). In addition, the amendments clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. The Group applied the above amendments prospectively.

b. The IFRSs endorsed by the Financial Supervisory Commission (FSC) for application starting from 2020

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

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

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

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

1) Amendments to IFRS 3 "Definition of a Business"

The amendments clarify that, to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process applied to the input that together significantly contribute to the ability to create outputs. The amendments narrow the definitions of outputs by focusing on goods and services provided to customers, and the reference to an ability to reduce costs is removed. Moreover, the amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. In addition, the amendments introduce an optional concentration test that permits a simplified assessment of whether or not an acquired set of activities and assets is a business.

2) Amendments to IFRS 9, IAS 39 and IFRS 7 "Interest Rate Benchmark Reform"

The amendments deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark (such as the London Interbank Offered Rate or LIBOR) with an alternative interest rate, and provide temporary exceptions to all hedging relationships that are directly affected by the interest rate benchmark reform. The Group would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform. The amendments also require additional disclosures about the extent to which the entity's hedging relationships are affected by the amendments.

3) Amendments to IAS 1 and IAS 8 "Definition of material"

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

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

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

New IFRSs	Effective Date Announced by IASB (Note 1)
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"	January 1, 2022

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

1) Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"

The amendments stipulate that, when the Group sells or contributes assets that constitute a business (as defined in IFRS 3) to an associate or joint venture, the gain or loss resulting from the transaction is recognized in full. Also, when the Group loses control of a subsidiary that contains a business but retains significant influence or joint control, the gain or loss resulting from the transaction is recognized in full.

Conversely, when the Group sells or contributes assets that do not constitute a business to an associate or joint venture, the gain or loss resulting from the transaction is recognized only to the extent of the Group's interest as an unrelated investor in the associate or joint venture, i.e., the Group's share of the gain or loss is eliminated. Also, when the Group loses control of a subsidiary that does not contain a business but retains significant influence or joint control over an associate or a joint venture, the gain or loss resulting from the transaction is recognized only to the extent of the Group's interest as an unrelated investor in the associate or joint venture, i.e., the Group's share of the gain or loss is eliminated.

2) Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"

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

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

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

d. Reclassification

The management of the Group believes that operating revenue shall represent revenue from the main business and, therefore, starting from January 1, 2019, presentation of security investment income was adjusted from operating revenue to non-operating income and expenses. Furthermore, to increase the utilization of its properties and manage them efficiently, the Group established property management department in 2019. Consequently, the classification of rental income was changed from non-operating income to operating revenue, and the presentation of the statement of comprehensive income was revised since 2019. Comparative information for the year ended December 31, 2018 was reclassified to conform to the current year's presentation.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

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

b. Basis of preparation

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

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

1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;

2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

3) Level 3 inputs are unobservable inputs for an asset or liability.

c. Classification of current and non-current assets and liabilities

Current assets include:

1) Assets held primarily for the purpose of trading;

2) Assets expected to be realized within 12 months after the reporting period; and

3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

1) Liabilities held primarily for the purpose of trading;

2) Liabilities due to be settled within 12 months after the reporting period, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the consolidated financial statements are authorized for issue; and

3) Liabilities for which the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Assets and liabilities that are not classified as current are classified as non-current.

d. Basis of consolidation

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

Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of profit or loss and other comprehensive income from the effective dates of acquisitions up to the effective dates of disposals, as appropriate.

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

All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the interests of the Group and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Company.

See Note 13 and Table 7 for detailed information on subsidiaries (including percentages of ownership and main businesses).

e. Foreign currencies

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

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise except for exchange differences on:

1) Foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

2) Transactions entered into in order to hedge certain foreign currency risks; and

3) Monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investments.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising from the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which cases, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction (i.e., not retranslated)

For the purpose of presenting consolidated financial statements, the functional currencies of foreign operations (including subsidiaries, associates, joint ventures and branches in other countries that use currencies which are different from the currency of the Company) are translated into the presentation currency, the New Taiwan dollar, as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; and income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income (attributed to the owners of the Company and non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e., a disposal of the Group's entire interest in a foreign operation, or a disposal involving the loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Group are reclassified to profit or loss.

In relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences is included in the calculation of equity transactions but is not recognized in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences recognized in other comprehensive income is reclassified to profit or loss.

f. Inventories

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

g. Investment in associates and joint ventures

An associate is an entity over which the Group has significant influence and which is neither a subsidiary nor an interest in a joint venture. A joint venture is a joint arrangement whereby the Group and other parties that have joint control of the arrangement have rights to the net assets of the arrangement.

The Group uses the equity method to account for its investments in associates and joint ventures.

Under the equity method, investments in an associate and a joint venture are initially recognized at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate and joint venture. The Group also recognizes the changes in the Group's share of the equity of associates and joint ventures.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of an associate or a joint venture at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

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

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

The entire carrying amount of an investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date on which its investment ceases to be an associate and a joint venture. Any retained investment is measured at fair value at that date, and the fair value is regarded as the investment's fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate and the joint venture attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate and the joint venture. The Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate and joint venture on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the Group continues to apply the equity method and does not remeasure the retained interest.

When the Group transacts with its associate and joint venture, profits and losses resulting from the transactions with the associate and joint venture are recognized in the Group's consolidated financial statements only to the extent that interests in the associate and the joint venture are not related to the Group.

h. Property, plant and equipment

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

Property, plant and equipment in the course of construction are measured at cost less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Such assets are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for their intended use.

Except for freehold land which is not depreciated, the depreciation of property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effects of any changes in the estimates accounted for on a prospective basis.

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

i. Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

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

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

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

j. Impairment of tangible assets

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

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

Before the Group recognizes an impairment loss from assets related to contract costs, any impairment loss on inventories and property, plant and equipment related to the contract shall be recognized in accordance with applicable standards. Then, impairment loss from the assets related to the contract costs is recognized to the extent that the carrying amount of the assets exceeds the remaining amount of consideration that the Group expects to receive in exchange for related goods or services less the costs which relate directly to providing those goods or services and which have not been recognized as expenses. The assets related to the contract costs are then included in the carrying amount of the cash-generating unit to which they belong for the purpose of evaluating impairment of that cash-generating unit.

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

k. Financial instruments

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

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

1) Financial assets

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

a) Measurement categories

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

i. Financial assets at FVTPL

Financial assets are classified as at FVTPL when such a financial asset is mandatorily classified or designated as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at FVTOCI and debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria.

Financial assets at FVTPL are subsequently measured at fair value, and any dividends or interest earned on such a financial assets are recognized in other income; any remeasurement gains or losses on such financial assets are recognized in other gains or losses. Fair value is determined in the manner described in Note 29.

ii. Financial assets at amortized cost

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

i) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents, trade receivables at amortized cost, other receivables and other financial assets, are measured at amortized cost, which equals the gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

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

i) Purchased or originated credit-impaired financial assets, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of such financial assets; and

ii) Financial assets that are not credit-impaired on purchase or origination but have subsequently become credit-impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of such financial assets in subsequent reporting periods.

Financial assets are credit impaired when one or more of the following events have occurred: issuers and borrowers are in severe financial difficulty, breach of contract, or it becoming probable that the borrower will enter bankruptcy or undergo a financial restructuring, or the disappearance of an active market for that financial asset because of financial difficulties.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

iii. Investments in equity instruments at FVTOCI

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

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

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

b) Impairment of financial assets

The Group recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including trade receivables), as well as operating lease receivables.

The Group always recognizes lifetime expected credit losses (ECLs) for trade receivables and operating lease receivables. For all other financial instruments, the Group recognizes lifetime ECLs when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on a financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECLs.

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

For internal credit risk management purposes, the Group determines that the following situations indicate that a financial asset is in default (without taking into account any collateral held by the Group):

i. Internal or external information show that the debtor is unlikely to pay its creditors.

ii. When a financial asset is more than 90 days past due, unless the Group has reasonable and corroborative information to support a more lagged default criterion.

The impairment loss of all financial assets is recognized in profit or loss by reduction in their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and the carrying amounts of such financial assets are not reduced.

c) Derecognition of financial assets

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

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

2) Equity instruments

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

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

The repurchase of the Group's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issuance or cancellation of the Group's own equity instruments.

3) Financial liabilities

a) Subsequent measurement

Except the following situations, all financial liabilities are measured at amortized cost using the effective interest method:

- Financial liabilities at FVTPL

  Financial liabilities are classified as at FVTPL when such financial liabilities are either held for trading or is designated as at FVTPL.

  Financial liabilities held for trading are stated at fair value, with any remeasurement gains or losses on such financial liabilities are recognized in other gains or losses. Fair value is determined in the manner described in Note 29.

b) Derecognition of financial liabilities

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

4) Convertible bonds

The component parts of compound instruments (i.e., convertible bonds) issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

On initial recognition, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or the instrument's maturity date. Any embedded derivative liability is measured at fair value.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to capital surplus - share premiums. When the conversion option remains unexercised at maturity, the balance recognized in equity will be transferred to capital surplus - share premiums.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component.

5) Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risks, including foreign exchange forward contracts.

Derivatives are initially recognized at fair value at the date on which the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedging relationship. When the fair value of a derivative financial instrument is positive, the derivative is recognized as a financial asset; when the fair value of a derivative financial instrument is negative, the derivative is recognized as a financial liability.

Derivatives embedded in hybrid contracts that contain financial asset hosts that is within the scope of IFRS 9 are not separated; instead, the classification is determined in accordance with the entire hybrid contract. Derivatives embedded in non-derivative host contracts that are not financial assets that is within the scope of IFRS 9 (e.g., financial liabilities) are treated as separate derivatives when they meet the definition of a derivative; their risks and characteristics are not closely related to those of the host contracts; and the host contracts are not measured at FVTPL.

l. Provisions

Provisions are measured at the best estimate of the discounted cash flows of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Contingent liabilities acquired in investments in associates and joint ventures

Contingent liabilities acquired in investments in associates and joint ventures are initially measured at fair value at the acquisition date, when the fair value of the present obligation resulting from past events can be reliably measured. At the end of subsequent reporting periods, such contingent liabilities are measured at their amortized amount. However, if the present obligation amount is assessed to have a probable outflow of resources, the contingent liabilities shall be measured at the higher of the present obligation amount and the amortized amount.

m. Revenue recognition

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

For contracts entered into with the same customer (or related parties of the customer) at or near the same time, those contracts are accounted for as a single contract if the goods or services promised in the contracts are a single performance obligation.

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

1) Revenue from the sale of goods

Revenue from the sale of goods comes from the process of cutting and stamping with wholesale and retail of various steel products. Sales of goods are recognized as revenue when the goods are delivered to the customer's designated location, the customer has the right to set the price and use of the goods and has the primary responsibility for resale. Advance receipts for pre-determined sales price contracts are recognized as contract liabilities before the products have been delivered to the customer.

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

2) Revenue from the rendering of services

Revenue from the rendering of services comes from the cutting process of steel products. Revenue from a contract to provide services is recognized when services are rendered.

n. Leasing

<u>2019</u>

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

1) The Group as lessor

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

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

2) The Group as lessee

Lease payments are recognized as expenses on a straight-line basis over the lease terms for short-term leases and low-value asset leases accounted for applying the recognition exemption.

<u>2018</u>

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

1) The Group as lessor

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

2) The Group as lessee

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

o. Borrowing costs

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

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

Other than that which is stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

p. Employee benefits

1) Short-term employee benefits

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

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as expenses when employees have rendered services entitling them to the contributions.

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

Net defined benefit liabilities (assets) represent the actual deficit (surplus) in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

q. Taxation

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

1) Current tax

According to the Income Tax Law, an additional tax on unappropriated earnings is provided for in the year the shareholders approve to retain earnings.

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

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences and unused loss carry forward to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

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

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

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

3) Current and deferred taxes for the year

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

Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the investments in the associate or joint venture.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

a. Estimated impairment of financial assets

The provision for impairment of trade receivables and investments in debt instruments is based on assumptions about risk of default and expected loss rates. The Group uses judgment in making these assumptions and in selecting the inputs to the impairment calculation, based on the Group's historical experience, existing market conditions as well as forward looking estimates as of the end of each reporting period. For details of the key assumptions and inputs used, see Note 29. Where the actual future cash inflows are less than expected, a material impairment loss may arise.

As of December 31, 2019 and 2018, the total amount of notes receivable, trade receivables and overdue receivables was NT$2,460,062 thousand and NT$2,591,369 thousand, respectively. (The net amount after deducting the allowance for impairment loss of NT$76,688 thousand and NT$43,310 thousand, respectively.)

b. Write-down of inventories

The net realizable value of inventory is the estimated selling price in the ordinary course of business less the estimated costs of completion and disposal. The estimation of net realizable value is based on current market conditions and historical experience with product sales of a similar nature. Changes in market conditions may have a material impact on the estimation of the net realizable value.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2019	2018
Cash on hand	$ 1,165	$ 855
Checking accounts and demand deposits	1,097,996	1,558,105
	$ 1,099,161	$ 1,558,960

The market rate intervals of cash in the bank at the end of the reporting period were as follows:

	December 31	
	2019	2018
Bank balance	0.001%-0.38%	0.001%-0.48%

As of December 31, 2019 and 2018, time deposits with original maturities of more than 3 months to 1 year and restricted demand deposits were NT$61,113 thousand and NT$206,918 thousand, respectively, and were classified as financial assets at amortized cost (see Note 9).

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2019	2018
Financial assets at FVTPL - current		
Financial assets mandatorily classified as at FVTPL		
Non-derivative financial assets		
Domestic listed shares	$ 1,198,487	$ 1,241,449
Mutual funds	151,084	4,450
Derivative financial assets (not under hedge accounting)		
Foreign exchange forward contracts (a)	-	103,198
	$ 1,349,571	$ 1,349,097
Financial liabilities at FVTPL - current		
Financial liabilities held for trading		
Derivative financial liabilities (not under hedge accounting)		
Foreign exchange forward contracts (a)	$ 34,214	$ 89
Convertible options (Note 18)	7,641	8,659
	$ 41,855	$ 8,748

a. At the end of the year, outstanding foreign exchange forward contracts not under hedge accounting were as follows:

	Currency	Maturity Date	Notional Amounts (In Thousands)
December 31, 2019			
Buy	NTD/USD	2020.01-2020.12	NT$2,045,395/US$67,530
December 31, 2018			
Buy	NTD/USD	2019.01-2019.12	NT$3,661,075/US$123,803

The Group entered into foreign exchange forward contracts to manage exposures to exchange rate fluctuations of foreign currency denominated assets and liabilities. However, those contracts did not meet the criteria of the hedge effectiveness and therefore were not accounted for using hedge accounting.

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	December 31	
	2019	2018
Current		
Investments in equity instruments at FVTOCI	$ -	$ 80,115
Non-current		
Investments in equity instruments at FVTOCI	$ 1,767,897	$ 1,990,369

Investments in equity instruments at FVTOCI

	December 31	
	2019	2018
Current		
Domestic investments		
Listed shares and emerging market shares		
Ordinary shares - China Steel Corporation	$ -	$ 80,115
Non-current		
Domestic investments		
Listed shares and emerging market shares		
Ordinary shares - China Steel Corporation	$ 1,216,531	$ 1,379,823
Unlisted shares		
Ordinary shares - Century Wind Power Co., Ltd.	174,000	174,000
Ordinary shares - Envirolink Corporation	17,500	17,500
Ordinary shares - Yuan Jing Corporation	1,519	8,934

(Continued)

	December 31	
	2019	2018
Ordinary shares - Dah Chung Bills Finance Corporation	$ 5,506	$ 5,506
Ordinary shares - Linkou Entertainment Corporation	4,600	4,600
Ordinary shares - Shang Yang Technology Corporation	2,822	3,528
Ordinary shares - Duo Yuan Corporation	9,000	-
Ordinary shares - Hua Mian Corporation	1,500	1,500
Ordinary shares - Shin Ji Technology Corporation	3,450	450
	1,436,428	1,595,841
Foreign investments		
Unlisted shares		
Ordinary shares - China Steel and Nippon Steel Vietnam Joint Stock Company	241,529	302,383
Ordinary shares - Century International Co., Ltd.	89,940	92,145
	331,469	394,528
	$ 1,767,897	$ 1,990,369

(Concluded)

These investments in equity instruments are held for medium to long-term strategic purposes. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Company's strategy of holding these investments for long-term purposes.

Refer to Note 31 for information relating to financial assets at FVTOCI pledged as security.

9. FINANCIAL ASSETS AT AMORTIZED COST

	December 31	
	2019	2018
Current		
Domestic investments		
Time deposits with original maturities of more than 3 months (a)	$ 61,113	$ 206,918

a. The ranges of interest rates for time deposits with original maturities of more than 3 months were approximately 0.25%-0.77% and 0.13%-1.045% per annum as of December 31, 2019 and 2018, respectively.

b. Refer to Note 31 for information relating to investments in financial assets at amortized cost pledged as security.

10. NOTES RECEIVABLE, TRADE RECEIVABLES AND OVERDUE RECEIVABLES

	December 31	
	2019	2018
Notes receivable		
Operating - unrelated parties	$ 1,046,765	$ 1,265,648
Operating - related parties	44,465	56,772
Less: Allowance for impairment loss	(1,778)	(1,778)
	$ 1,089,452	$ 1,320,642
Trade receivables		
At amortized cost - unrelated parties	$ 1,355,302	$ 1,246,913
At amortized cost - related parties	13,847	22,375
Less: Allowance for impairment loss	(1,539)	(3,642)
	$ 1,367,610	$ 1,265,646
Overdue receivables (presented under other non-current assets)		
Overdue receivables	$ 76,371	$ 42,971
Less: Allowance for impairment loss	(73,371)	(37,890)
	$ 3,000	$ 5,081

a. Notes receivable and trade receivables

The average credit period of sales of goods was 90-150 days. No interest was charged on trade receivables. The Group adopted a policy of only dealing with entities that are rated the equivalent of investment grade or higher and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. Credit rating information is obtained from independent rating agencies where available or, if not available, the Group uses other publicly available financial information or its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

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

The Group writes off receivables when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g., when the debtor has been placed under liquidation. For trade receivables that have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

The following table details the loss allowance of notes receivable and trade receivables based on the Group's provision matrix.

December 31, 2019

	Not Past Due	Less than 30 Days	31 Days to 1 Year	1 to 2 Years	Over 2 Years	Total
Expected credit loss rate	0.11%	85.27%	0.00%	0.00%	0.00%	
Gross carrying amount	$ 2,459,707	$ 672	$ -	$ -	$ -	$ 2,460,379
Loss allowance (Lifetime ECL)	(2,744)	(573)	-	-	-	(3,317)
Amortized cost	$ 2,465,963	$ 99	$ -	$ -	$ -	$ 2,457,062

December 31, 2018

	Not Past Due	Less than 30 Days	31 Days to 1 Year	1 to 2 Years	Over 2 Years	Total
Expected credit loss rate	0.21%	0.00%	0.00%	0.00%	50.00%	
Gross carrying amount	$ 2,564,758	$ 11,860	$ 12,902	$ 2,004	$ 184	$ 2,591,708
Loss allowance (Lifetime ECL)	(5,328)	-	-	-	(92)	(5,420)
Amortized cost	$ 2,559,430	$ 11,860	$ 12,902	$ 2,004	$ 92	$ 2,586,288

The movements of the loss allowance of notes receivable and trade receivables were as follows:

	For the Year Ended December 31	
	2019	2018
Balance at January 1	$ 5,420	$ 5,233
Add: Net remeasurement of loss allowance	18,565	1,267
Less: Transferred to overdue receivables	(19,017)	(1,080)
Less: Amounts written off	(1,651)	-
Balance at December 31	$ 3,317	$ 5,420

Compared to January 1, 2019 and 2018, the increase in loss allowance of NT$18,565 thousand and NT$1,267 thousand at December 31, 2019 and 2018, respectively, resulted from the changes in the gross carrying amounts of notes receivables and trade receivables, which increased by NT$129,226 thousand and increased by NT$309,894 thousand, respectively.

Refer to Note 31 for information relating to notes receivable pledged as security.

b. Overdue receivables

Overdue receivable balances that were past due but for which no allowance for impairment loss was recognized were NT$3,000 thousand and NT$5,081 thousand as of December 31, 2019 and 2018, respectively, which are disclosed in the aging analysis below. The Group did not recognize an allowance for impairment loss, because there was no significant change in the credit quality and the amounts were still considered recoverable. The Group holds collateral or other credit enhancements for these balances. In addition, the Group did not have the legal right to off-set the overdue receivables with trade payables from the same counterparty.

The aging of overdue receivables that were past due but not impaired was as follows:

	December 31	
	2019	2018
Up to 90 days	$ -	$ -
90-365 days	-	2,081
Over 365 days	3,000	3,000
	$ 3,000	$ 5,081

The above aging schedule was based on the number of past due days from the invoice date.

The movements of the loss allowance of overdue receivables were as follows:

	For the Year Ended December 31	
	2019	2018
Balance at January 1	$ 37,890	$ 48,900
Add: Impairment losses transferred from trade receivables	19,017	1,080
Add: Net remeasurement of loss allowance	16,464	337
Less: Net remeasurement of loss allowance	-	(12,427)
Balance at December 31	$ 73,371	$ 37,890

The Group recognized an impairment loss on overdue receivables amounting to NT$73,371 thousand and NT$37,890 thousand as of December 31, 2019 and 2018, respectively. These amounts mainly related to customers that the Group was pursuing legal claims. Impairment losses recognized is the difference between the carrying amount of overdue receivables and its recoverable amount. The Group held chattel pledged as collateral over these balances.

11. INVENTORIES

	December 31	
	2019	2018
Finished goods	$ 401,801	$ 604,811
Raw materials	3,006,525	3,437,095
Raw materials in transit	26,802	15,127
	$ 3,435,128	$ 4,057,033

As of December 31, 2019 and 2018, the allowance for inventory write-down was NT$104,525 thousand and NT$118,940 thousand, respectively.

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2019 and 2018 was NT$8,253,950 thousand and NT$7,955,101 thousand, respectively. The cost of goods sold for the years ended December 31, 2019 and 2018 included inventory write-downs of NT$14,415 thousand and NT$108,793 thousand, respectively, which resulted from the fluctuation in the market price of the steel market.

12. SUBSIDIARIES

Subsidiaries Included in the Consolidated Financial Statements

Investor	Investee	Nature of Activities	Proportion of Ownership (%) December 31 2019	2018
Hsin Kuang Steel Corporation	Hsin Yuan Investment Co., Ltd.	Securities investment	100.00	100.00
Hsin Kuang Steel Corporation	Hsin Ho Fa Metal Co., Ltd.	Sale of metal products for architecture	83.37	83.37
Hsin Kuang Steel Corporation	Sinpao Investment Co., Ltd.	Investment	99.82	99.82
Hsin Kuang Steel Corporation	APEX Wind Power Equipment Manufacturing Company Limited*	Manufacture of metal structures, architectural components and energy related equipment	53.51	51.31
Hsin Kuang Steel Corporation	Hsin Ching International Co., Ltd.	Leasing and warehousing	60.00	60.00
Hsin Kuang Steel Corporation	Hsin Cheng Logistics Development Co., Ltd.	Leasing and warehousing	100.00	-
Hsin Yuan Investment Co., Ltd.	APEX Wind Power Equipment Manufacturing Company Limited*	Manufacture of metal structures, architectural components and energy related equipment	3.35	8.77
Hsin Yuan Investment Co., Ltd.	Hsin Hua Steel Industry Co., Ltd.	Process and manufacture of metal structures, architectural components and steel products	100.00	-
Hsin Ho Fa Metal Co., Ltd.	APEX Wind Power Equipment Manufacturing Company Limited*	Manufacture of metal structures, architectural components and energy related equipment	2.73	2.73

* Hsin Kuang Alga Engineering Co., Ltd. changed its name to APEX Wind Power Equipment Manufacturing Company Limited on June 11, 2018.

13. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31 2019	2018
Investments in associates	$ 59,480	$ 58,395
Investments in joint ventures	516,263	514,417
	$ 575,743	$ 572,812

a. Investments in associates

	December 31 2019	2018
Associates that are not individually material	$ 59,480	$ 58,395

Name of Subsidiary	Principal Place of Business	Proportion of Ownership and Voting Rights December 31 2019	2018
Hsin Wei Solar Co., Ltd.	Non-metallic power generation	40.00%	40.00%

Aggregate information of associates that are not individually material is as follows:

	For the Year Ended December 31	
	2019	2018
The Group's share of:		
Profit from continuing operations	$ 10,680	$ 3,793
Other comprehensive income	-	-
Total comprehensive income for the year	$ 10,680	$ 3,793

Investments were accounted for using the equity method and the share of profit or loss and other comprehensive income of those investments were calculated based on financial statements which have been audited.

b. Investments in joint ventures

	December 31	
	2019	2018
Material joint ventures		
Mason Metal Industry Co., Ltd.	$ 516,263	$ 514,417

In order to promote upstream and downstream strategic alliance, strengthen sales and increase the added value of its products, the Group purchased 25,000 thousand ordinary shares of Mason Metal Industry Co., Ltd. at a price of NT$11.4 per share resulting in a total of 50% of shareholder rights. The total purchase price was NT$285,077 thousand. The transaction was completed on October 6, 2017. Under the joint venture agreement, the Group can assign three out of six members of the board of directors of Mason Metal Industry Co., Ltd. Therefore, the Group has a significant influence, and joint control with the other company, over Mason Metal Industry Co., Ltd.

Refer to Table 7 "Information on Investees" for the nature of activities, principal places of business and countries of incorporation of the joint ventures. All the joint ventures are accounted for using the equity method.

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

Mason Metal Industry Co., Ltd.

	December 31	
	2019	2018
Cash and cash equivalents	$ 230,287	$ 210,917
Current assets	$ 1,109,898	$ 1,129,049
Non-current assets	312,631	314,988
Current liabilities	(504,860)	(448,207)
Non-current liabilities	(251,674)	(345,607)
Equity	$ 665,995	$ 650,223
Proportion of the Group's ownership	50%	50%

(Continued)

	December 31	
	2019	2018
Equity attributable to the Group	$ 332,998	$ 325,112
Provisions	3,570	3,570
Gain from bargain purchase	211,110	211,110
Other adjustments	(31,415)	(25,375)
Carrying amount	$ 516,263	$ 514,417

(Concluded)

Mason Metal Industry Co., Ltd.

	For the Year Ended December 31	
	2019	2018
Operating revenue	$ 1,814,044	$ 1,757,584
Depreciation and amortization expense	$ 7,524	$ 3,968
Interest income	$ 128	$ 122
Interest expense	$ 5,720	$ 7,008
Income tax benefit (expense)	$ (3,382)	$ 205
Net profit for the year	$ 12,761	$ 33,606
Other comprehensive income	3,982	971
Total comprehensive income for the year	$ 16,743	$ 34,577

14. PROPERTY, PLANT AND EQUIPMENT

	December 31, 2019
Assets used by the Group	$ 3,887,599

a. Assets used by the Group - 2019

	Freehold Land	Buildings	Equipment	Transportation Equipment	Miscellaneous Equipment	Leased Assets	Property under Construction and Devices Awaiting Inspection	Total
Cost								
Balance at January 1, 2019	$ 2,361,477	$ 1,038,408	$ 605,048	$ 134,131	$ 22,557	$ -	$ 97,843	$ 4,259,464
Additions	2,483	13,427	15,177	12,788	9,126	-	153,399	206,400
Disposals		(1,097)	(25,088)	(1,456)	(7,270)	-	-	(34,911)
Others (transferred from prepayments for equipment)	-	-	254,446	-	476	22,316	-	277,238
Reclassified	149,968	61,580	-	-	-		(211,818)	-
Balance at December 31, 2019	$ 2,513,928	$ 1,112,588	$ 849,583	$ 145,463	$ 24,889	$ 22,316	$ 39,424	$ 4,708,191
Accumulated depreciation and impairment								
Balance at January 1, 2019	$ -	$ 244,938	$ 407,952	$ 94,918	$ 13,082	$ -	$ -	$ 760,890
Depreciation expenses	-	27,668	47,363	9,578	2,215	1,240	-	88,064
Disposals	-	(2,160)	(18,956)	(979)	(6,267)	-	-	(28,362)
Balance at December 31, 2019	$ -	$ 270,446	$ 436,359	$ 103,517	$ 9,030	$ 1,240	$ -	$ 820,592
Carrying amounts at December 31, 2019	$ 2,513,928	$ 842,142	$ 413,224	$ 41,946	$ 15,859	$ 21,076	$ 39,424	$ 3,887,599

The above items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives as follows:

Buildings	
Main buildings	10-55 years
Building construction	3-20 years
Equipment	
Main equipment	5-20 years
Equipment maintenance	3-8 years
Transportation equipment	
Truck and automotive	5-8 years
Stacker	5-9 years
Automotive accessories	3-5 years
Miscellaneous equipment	
Computer equipment	3-10 years
Office and engineering equipment	3-10 years

The Group purchased 39,327.92 square meters of land in Guanyin for operation use from 2005 to 2019. As of December 31, 2019, the carrying amount was NT$262,100 thousand. As the law stipulates, an entity may not have ownership of land registered for agricultural purposes. However, the Group holds the land through signing the real estate trust contract with an individual.

Property, plant and equipment pledged as collateral for bank borrowings is set out in Note 31.

b. 2018

	Freehold Land	Buildings	Equipment	Transportation Equipment	Miscellaneous Equipment	Leased Assets	Property under Construction and Devices Awaiting Inspection	Total
Cost								
Balance at January 1, 2018	$ 2,380,454	$ 899,699	$ 579,989	$ 138,325	$ 19,707	$ -	$ 530,050	$ 4,548,224
Additions	3,326	106,827	11,884	2,873	2,850	46,869	280,009	454,638
Disposals	-	(1,028)	(15,099)	(8,487)	-	-	-	(24,614)
Transferred to investment properties	(158,401)	(17,686)	-	-	-	(46,869)	(529,626)	(752,582)
Others (transferred from prepayments for equipment)	-	4,104	28,274	1,420	-	-	-	33,798
Reclassified	136,098	46,492	-	-	-	-	(182,590)	-
Balance at December 31, 2018	$ 2,361,477	$ 1,038,408	$ 605,048	$ 134,131	$ 22,557	$ -	$ 97,843	$ 4,259,464
Accumulated depreciation and impairment								
Balance at January 1, 2018	$ -	$ 228,893	$ 379,617	$ 92,258	$ 11,983	$ -	$ -	$ 712,751
Depreciation expenses	-	24,294	38,200	10,585	1,099	3,059	-	77,237
Disposals	-	(92)	(9,865)	(7,925)	-	-	-	(17,882)
Transferred to investment properties	-	(8,157)	-	-	-	(3,059)	-	(11,216)
Balance at December 31, 2018	$ -	$ 244,938	$ 407,952	$ 94,918	$ 13,082	$ -	$ -	$ 760,890
Carrying amounts at December 31, 2018	$ 2,361,477	$ 793,470	$ 197,096	$ 39,213	$ 9,475	$ -	$ 97,843	$ 3,498,574

The above items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives as follows:

Buildings	
Main buildings	40-55 years
Building construction	3-20 years
Equipment	
Main equipment	5-20 years
Equipment maintenance	3-5 years
Transportation equipment	
Truck and automotive	5-8 years
Stacker	5-9 years
Automotive accessories	3 years
Miscellaneous equipment	
Computer equipment	5 years
Office and engineering equipment	3-10 years

15. INVESTMENT PROPERTIES

	Investment Properties - Land	Investment Properties - Buildings	Investment Properties - Machinery and Equipment	Total
Cost				
Balance at January 1, 2018	$ 213,682	$ 49,238	$ 9,525	$ 272,445
Transferred from property, plant and equipment	158,401	594,181	-	752,582
Balance at December 31, 2018	$ 372,083	$ 643,419	$ 9,525	$ 1,025,027
Accumulated depreciation and impairment				
Balance at January 1, 2018	$ -	$ 2,300	$ 1,299	$ 3,599
Depreciation expenses	-	6,658	866	7,524
Transferred from property, plant and equipment	-	11,216	-	11,216
Balance at December 31, 2018	$ -	$ 20,174	$ 2,165	$ 22,339
Carrying amounts at December 31, 2018	$ 372,083	$ 623,245	$ 7,360	$ 1,002,688
Cost				
Balance at January 1, 2019	$ 372,083	$ 643,419	$ 9,525	$ 1,025,027
Additions	-	513	3,000	3,513
Disposals	-	-	(1,400)	(1,400)
Balance at December 31, 2019	$ 372,083	$ 643,932	$ 11,125	$ 1,027,140

(Continued)

	Investment Properties - Land	Investment Properties - Buildings	Investment Properties - Machinery and Equipment	Total
Accumulated depreciation and impairment				
Balance at January 1, 2019	$ -	$ 20,174	$ 2,165	$ 22,339
Depreciation expenses	-	19,161	1,031	20,192
Disposals	-	-	(50)	(50)
Balance at December 31, 2019	$ -	$ 39,335	$ 3,146	$ 42,481
Carrying amounts at December 31, 2019	$ 372,083	$ 604,597	$ 7,979	$ 984,659

(Concluded)

The increase in investment properties was from leasing the factory in Guanyin District of Taoyuan City for the purpose of earning income. Therefore, the relevant factory was transferred to investment properties. Except for the addition of investment properties mentioned above, the changes in the rest of investment properties in the year of 2018 and 2019 were due to depreciation and there are no significant disposals or impairment.

The investment properties were leased out for 2 to 10 years, without an option to extend. The lease contracts contain market review clauses in the event that the lessees exercise their options to extend. The lessees do not have bargain purchase options to acquire the investment properties at the expiry of the lease periods.

In addition to the fixed lease payments, the lease contracts also indicates that the lease payments should be adjusted every 2 or 3 years on the basis of the increase in Price Index.

The maturity analysis of lease payments receivable under operating leases of investment properties as of December 31, 2019 was as follows:

	December 31, 2019
Year 1	$ 63,773
Year 2	58,758
Year 3	58,157
Year 4	58,438
Year 5	47,496
Year 6 onwards	113,649
	$ 400,271

The future minimum lease payments of non-cancellable operating lease commitments as of December 31, 2018 are as follows:

	December 31, 2018
Not later than 1 year	$ 66,543
Later than 1 year and not later than 5 years	154,403
Later than 5 years	-
	$ 220,946

The investment properties are depreciated using the straight-line method over their estimated useful lives as follows:

Main buildings	25-55 years
Building engineering	6-15 years
Crane equipment	10 years

The determination of fair value was performed by independent qualified appraisers on March 31, 2019. Evaluation was based on different standards using cost approach, market comparison approach, and direct capitalization method and discounted cash flow method under the income approach, depending on different properties. The management of the Company used the valuation model that market participants would use in determining the fair value, and the fair value was measured by using Level 3 inputs. The valuation was arrived at by reference to market evidence of transaction prices for similar properties. Compared with March 31, 2019, the fair value had no significant changes as of December 31, 2019.

	December 31	
	2019	2018
Fair value	$ 1,868,011	$ 1,908,943

The investment properties pledged as collateral for bank borrowings are set out in Note 31.

16. OTHER ASSETS

	December 31	
	2019	2018
Current		
Other receivables	$ 5,436	$ 2,888
Tax refund receivable	10,999	-
Temporary payments	31,368	5,272
Others	24	1,021
	$ 47,827	$ 9,181
Non-current		
Refundable deposits	$ 34,376	$ 46,246
Prepayments for equipment	179,846	123,363
Overdue receivables	3,000	5,081
Others	9,750	5,913
	$ 226,972	$ 180,603

17. BORROWINGS

a. Short-term borrowings

	December 31	
	2019	2018
Secured borrowings (Notes 29 and 31)		
Bank loans	$ 1,235,000	$ 1,806,460
Issuance credit payable	778,249	1,053,540
	2,013,249	2,860,000
Unsecured borrowings		
Line of credit borrowings (Note 29)	340,000	390,000
Issuance credit payable	2,390,015	3,711,865
	2,730,015	4,101,865
	$ 4,743,264	$ 6,961,865

The range of weighted average effective interest rates on bank loans was 1.05%-3.44% and 1.06%-4.06% per annum as of December 31, 2019 and 2018, respectively.

b. Short-term bills payable

	December 31	
	2019	2018
Commercial paper (Note 29)	$ 470,000	$ 430,000
Less: Unamortized discount on bills payable	(263)	(266)
	$ 469,737	$ 429,734

Outstanding short-term bills payable were as follows:

December 31, 2019

Promissory Institution	Nominal Amount	Discount Amount	Carrying Amount	Interest Rate	Collateral	Carrying Amount of Collateral
Commercial paper						
A bank	$ 50,000	$ 4	$ 49,996	1.2%	Check	$ 38,789
B bank	290,000	211	289,789	1.1%	-	-
C bank	100,000	35	99,965	1.2%	Head office	17,780
D bank	30,000	13	29,987	1.2%	Head office	17,780
	$ 470,000	$ 263	$ 469,737			

December 31, 2018

Promissory Institution	Nominal Amount	Discount Amount	Carrying Amount	Interest Rate	Collateral	Carrying Amount of Collateral
Commercial paper						
A bank	$ 200,000	$ 79	$ 199,921	1.2%	-	$ -
B bank	100,000	67	99,933	1.1%	-	-
C bank	80.000	91	79,909	1.1%	Head office	13,543
D bank	50,000	29	49,971	1.2%	-	-
	$ 430,000	$ 266	$ 429,734			

c. Long-term borrowings

	December 31	
	2019	2018
Secured borrowings (Notes 29 and 31)		
Syndicated bank loans - Yushan Bank (1)	$ 700,000	$ -
Syndicated bank loans - Land Bank of Taiwan (2)	-	1,400,000
Bank loans - Chang Hwa Bank Sanchungpu Branch (3)	250,000	185,500
Bank loans - Banking Division of Mega Bank (4)	128,947	139,474
	1,078,947	1,724,974
Less: Current portions	(10,526)	(796,026)
Listed as short-term borrowings	-	(800,000)
Syndicated loan fees	(10,818)	-
	(21,344)	(1,596,026)
Long-term borrowings	$ 1,057,603	$ 128,948

1) On December 13, 2018, the Group signed a joint credit line contract with Yushan Bank, and such syndicated loan was collateralized by the Group's freehold land and plant. The credit line of loan item A is NT$2,300,000 thousand, and the total credit line of loan items B and C is not more than NT$2,700,000 thousand. The credit line of loan item A is not allowed to be used as a revolving credit. It shall be used in installments within 24 months from the date of first use, and the overdue credit will be cancelled and may not be used again. The outstanding principal balance that has been used at the expiration date has to be repaid in three installments. The first period is 36 months after the date of first use by repaying 10% of the balance, the second period is 12 months after the first period by repaying 20% of the balance, and the third period is 12 months after the second period by repaying 70% of the balance. For each time of reduction, the amount which exceeded the credit line has to be paid off once.

   Loan item B is a revolving credit line with a 5-year period from the date of first use. Loan item C is a revolving credit line with a 5-year period from the date of first use of the commercial promissory notes (included in Long-term bills payable) issued by the Group. The revolving credit line of loan items B and C would be reduced at the end of each period, for a total of 3 periods. The first period is 36 months after the date of first use, and then every 12 months thereafter per period. The revolving credit line will be reduced by 10% at the first period, reduced by 20% at the second period, and reduced by 70% at the third period. Each time the credit line is reduced, the amount exceeding the remaining credit line shall be repaid at once.

During the loan period, the current ratio, debt ratio and times interest earned ratio, which shall be calculated based on the annual financial audit report, shall meet the criteria as stipulated in the agreement. If the financial ratios do not meet the criteria, the Group shall remedy within nine months after the end of the fiscal year in order not to be considered as a breach of the agreement. The weighted average effective interest rates was 1.79% per annum as of December 31, 2019.

2) In August 2014 and October and December 2017, the Group acquired syndicated bank loans from Land Bank of Taiwan secured by the Group's freehold land and buildings (refer to Note 30) in the amount of NT$1,000,000 thousand for loan item A, NT$500,000 thousand and NT$300,000 thousand for loan item B, respectively, and all will be repayable in August 2019. The grace period of the loan item A acquired in 2014 was 2.5 years. From the date of expiry of the grace period, the repayment of principal and interest is divided into six installments every six months. The first to the fifth installments are 10% of the outstanding balance of the loan, and the sixth installment shall be all of the remaining outstanding principal and the interest balance.

   Loan item B acquired in 2017 had a revolving credit line. Interest shall be paid by month, and on the expiry date the loan shall be extended or settled. After 3 years of the first use of the loans, the credit line shall be reduced to 80% of the original credit line and to 60% after 4 years. The outstanding principal and interest shall be settled on the credit line adjustment day, and all of the remaining outstanding principal and interest shall be fully settled at the maturity date of this credit. Currently, the days of the loans are 90 days.

   Under the agreements, the Group's current ratio, net-debt ratio and times interest earned ratio should meet some criteria which were based on the financial statements of the Group. If the Group breaches the financial ratios specified in the agreements, the Group shall amend the status of its financial ratios to meet the agreed upon ratios within five months from April 1 of the following auditing year, and this will not be considered as breach of the agreement. The Group was in compliance with the syndicated credit facility agreements based on the financial statements of the Group for the year ended December 31, 2017. The weighted average effective interest rates was 1.7% per annum as of December 31, 2018. The loan was repaid in advance in January 2019.

3) In April 2019 and July 2016, the Group acquired bank loans secured by the Group's freehold land (refer to Note 31) in the amount of NT$250,000 thousand and NT$185,500 thousand, respectively, which will mature in April 2034 and July 2019, respectively. The grace period of NT$250,000 thousand was 3 years, the interest shall be paid by 26th of each month from April 26, 2022, the repayment of principal is divided into 48 installments every 3 months, and each repayment principal shall be paid by last 26th of each installment, the interest shall be paid by 26th of each month. The credit period of NT$185,500 thousand was 3 years, the interest shall be paid by month and the principal shall be fully settled at the maturity date of this credit. The loan was advance payment in April 2019. The weighted average effective interest rates was 1.36% and 1.6% per annual as of December 31, 2019 and 2018, respectively.

4) In January 2017, the Group acquired syndicated bank loans from Banking Division of Mega Bank secured by the Group's freehold land and buildings (refer to Note 31) in the amount of NT$150,000 thousand, and will be expired in January 2032. Starting from the January of 2018, the repayment of principal is divided into 57 installments every 3 months, with the amount of NT$2,632 thousand per installment. The weighted average effective interest rate were both 1.7% per annum as of December 31, 2019 and 2018.

d. Long-term bills payable

	December 31, 2019
Commercial paper issued under syndicated bank loans - Yushan Bank (weighted average effective interest rates: 1.348%-1,356% per annum as of December 31, 2019)	$ 1,900,000
Less: Unamortized discount	(1,469)
	$ 1,898,531

The Group issued commercial paper under syndicated bank loans - Yushan Bank with terms of 5 years. Refer to c. Long-term borrowings item 1 for more information.

18. UNSECURED DOMESTIC CONVERTIBLE BONDS

On November 9, 2017, the Group issued 6 thousand units of 0% NT-denominated unsecured convertible bonds with a 5-year period in Taiwan, for an aggregate principal amount of NT$601,200 thousand, which was issued at 100.2% of the nominal amount of NT$600,000 thousand.

Each bond entitles the holder to convert it into ordinary shares of the Group at a conversion price of NT$36. If the Group increases its ordinary shares after the bond issuance, the conversion price will be adjusted by Article 11 of the Regulation Governing the Company's 5th Unsecured Convertible Bond Issuance and Conversion. Conversion may occur at any time between February 10, 2018 and November 9, 2022. The holder can notify the Group 30 days before the expiry of 3 years and 4 years from issuance to request the Group the accrued interest based on the bond's denomination value (the 3-year interest compensation is 3.03%, 4-year interest compensation is 4.06%) and redeem the bonds by cash.

The convertible bonds contained two components: The host liability instrument and the conversion option derivative instrument. The effective interest rate of the host liability on initial recognition was 2.61% per annum, and the conversion option derivative instruments were measured at FVTPL.

Movements of the host liability instruments were as follows:

	Host Liability Instruments
Proceeds from issuance	$ 601,200
Equity component	(54,892)
Conversion option derivative instrument	(15,551)
The host liability instrument on the issue date	530,757
Interest charged at the effective interest rate	13,343
Corporate bonds payable converted into ordinary shares	(143,763)
The host liability instrument at end of the year	400,337
Less: Current portions	-
Balance at December 31, 2018	$ 400,337
Balance at January 1, 2019	$ 400,337
Interest charged at the effective interest rate	9,669
Corporate bonds payable converted into ordinary shares	-
The host liability instrument at end of the year	410,006
Less: Current portions	(410,006)
Balance at December 31, 2019	$ -

Movements of the conversion option derivative instrument were as follows:

	Conversion Option Derivative Instrument
Balance at January 1, 2018	$ 18,096
Gain from the change of fair value	(4,606)
Converted into ordinary shares	(4,831)
Balance at December 31, 2018	$ 8,659
Balance at January 1, 2019	$ 8,659
Gain from the change of fair value	(1,018)
Balance at December 31, 2019	$ 7,641

19. NOTES PAYABLE AND TRADE PAYABLES

	December 31	
	2019	2018
Notes payable		
Operating - unrelated parties	$ 263,903	$ 647,129
Operating - related parties	$ 608	$ 3,134
Trade payables		
Operating - unrelated parties	$ 48,280	$ 177,805
Operating - related parties	$ -	$ 1,482

20. OTHER PAYABLES

	December 31	
	2019	2018
Payables for salaries and bonuses	$ 51,841	$ 116,276
Interest payable	13,357	34,097
Other accrued expenses	37,564	28,908
Other payables	7,874	9,571
	$ 110,636	$ 188,852

21. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

Among the Group, the Company, Hsin Yuan Investment Co., Ltd., Hsin Ho Fa Metal Co., Ltd., APEX Wind Power Equipment Manufacturing Company Limited, Hsin Ching International Co., Ltd. and Hsin Hua Steel Industry Co., Ltd. adopted a pension plan under the Labor Pension Act (LPA), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

b. Defined benefit plan

The defined benefit plans adopted by the Company within the Group in accordance with the Labor Standards Law is operated by the government of the ROC. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the 6 months before retirement. The Group contributes amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Group assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Group is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (the "Bureau"); the Group has no right to influence the investment policy and strategy.

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

	December 31	
	2019	**2018**
Present value of defined benefit obligation	$ 54,757	$ 54,583
Fair value of plan assets	(27,709)	(26,839)
Net defined benefit liabilities	$ 27,048	$ 27,744

Movements in net defined benefit liabilities were as follows:

	Present Value of the Defined Benefit Obligation	**Fair Value of the Plan Assets**	**Net Defined Benefit Liabilities**
Balance at January 1, 2018	$ 48,730	$ (20,950)	$ 27,780
Service cost			
Current service cost	286	-	286
Net interest expense (income)	487	(234)	253
Recognized in profit or loss	773	(234)	539
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(612)	(612)
Actuarial loss - changes in demographic assumptions	810	-	810

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities
Actuarial loss - changes in financial assumptions	$ 530	$ -	$ 530
Actuarial loss - experience adjustments	3,740	-	3,740
Recognized in other comprehensive income	5,080	(612)	4,468
Contributions from the employer	-	(5,043)	(5,043)
Balance at December 31, 2018	54,583	(26,839)	27,744
Service cost			
Current service cost	286	-	286
Net interest expense (income)	478	(257)	221
Recognized in profit or loss	764	(257)	507
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(898)	(898)
Actuarial loss - changes in demographic assumptions	1,177	-	1,177
Actuarial loss - changes in financial assumptions	1,078	-	1,078
Actuarial loss - experience adjustments	(567)	-	(567)
Recognized in other comprehensive income	1,688	(898)	790
Contributions from the employer	-	(1,993)	(1,993)
Benefits paid	(2,278)	2,278	-
Balance at December 31, 2019	$ 54,757	$ (27,709)	$ 27,048

(Concluded)

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

	For the Year Ended December 31	
	2019	2018
Operating costs	$ 172	$ 178
Selling and marketing expenses	$ 260	$ 274
General and administrative expenses	$ 75	$ 87

Through the defined benefit plan under the Labor Standards Law, the Group is exposed to the following risks:

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

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

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

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

	December 31	
	2019	**2018**
Discount rates	0.63%	0.88%
Expected rates of salary increase	1.50%	1.50%

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

	December 31	
	2019	**2018**
Discount rates		
0.25% increase	$ (1,108)	$ (1,083)
0.25% decrease	$ 1,147	$ 1,120
Expected rates of salary increase		
0.25% increase	$ 1,118	$ 1,094
0.25% decrease	$ (1,085)	$ (1,062)

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

	December 31	
	2019	**2018**
Expected contributions to the plans for the next year	$ 1,970	$ 5,055
The average duration of the defined benefit obligation	8.2 years	8 years

22. EQUITY

a. Share capital

Ordinary shares

	December 31	
	2019	**2018**
Number of shares authorized (in thousands)	360,000	360,000
Shares authorized	$ 3,600,000	$ 3,600,000
Number of shares issued and fully paid (in thousands)	310,688	310,688
Shares issued	$ 3,106,877	$ 3,106,877

The shares issued had a par value of NT$10. Each share entitles the rights to dividends and to vote.

b. Capital surplus

	December 31	
	2019	**2018**
May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (1)		
Share premiums	$ 733,079	$ 733,079
Treasury share transactions	7,754	7,754
May be used to offset a deficit only (2)		
Changes in percentage of ownership interest in subsidiaries	-	593
May not be used for any purpose (3)		
Employee share options	36,647	36,647
Share warrants	40,236	40,236
	$ 817,716	$ 818,309

1) Such capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Company's capital surplus and to once a year).

2) Such capital surplus arises from the effects of changes in ownership interests in subsidiaries resulting from equity transactions other than actual disposals or acquisitions, or from changes in capital surplus of subsidiaries accounted for using the equity method.

3) Such capital surplus may not be used for any purpose.

c. Retained earnings and dividends policy

Under the dividends policy as set forth in the Company's Articles of Incorporation, where the Company made a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as a legal reserve of 10% of the remaining profit until the legal reserve equals the Company's paid-in capital, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders. For the policies on the distribution of employees' compensation and remuneration of directors and supervisors, refer to employees' compensation and remuneration of directors and supervisors in Note 24-f.

To ensure the interests of shareholders and the Company's sustainable development, the Company adopts a balanced dividends policy. The dividends payment principle shall be determined on the basis of the current and forthcoming development plan, considering the investing environment, demanding for funds, domestic and foreign competition, and shareholders' interests. The Company shall, in accordance with the capital budget plan for the following year, determine the most appropriate dividend policy. After the board of directors resolve the distribution plan, such plan will be subject to the resolution in the shareholders' meeting.

The issuance of dividends may be distributed in cash or share dividends. Among the dividends payment, no less than 30% shall be paid in cash.

The legal reserve may be used to offset deficits. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

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

The appropriations of earnings for 2018 and 2017 approved in the shareholders' meetings on June 11, 2019 and June 19, 2018, respectively, were as follows:

	Appropriation of Earnings For the Year Ended December 31	
	2018	**2017**
Legal reserve	$ 97,873	$ 106,624
Special reserve	$ 43,567	$ -
Cash dividends	$ 466,032	$ 612,388
Cash dividends per share (NT$)	$ 1.5	$ 2

The appropriation of earnings for 2019 was proposed by the Company's board of directors on March 17, 2020. The appropriations and dividends per share were as follows:

	For the Year Ended December 31, 2019
Legal reserve	$ 10,497
Special reserve	$ 64,692
Cash dividends	$ 248,550
Cash dividends per share (NT$)	$ 0.8

The appropriation of earnings for 2019 is subject to the resolution in the shareholders' meeting to be held on June 11, 2020.

d. Special reserve

	For the Year Ended December 31	
	2019	**2018**
Balance at January 1	$ -	$ 19,407
Appropriations in respect of		
Debits to other equity items	43,567	-
Reversals:		
Reversal of the debits to other equity items	-	(19,407)
Balance at December 31	$ 43,567	$ -

e. Others equity items

1) Exchange differences on translating the financial statements of foreign operations

	For the Year Ended December 31	
	2019	**2018**
Balance at January 1	$ 2,214	$ (1,339)
Effect of change in tax rate	-	49
Exchange differences on translating the financial statements of foreign operations	(2,584)	3,504
Balance at December 31	$ (370)	$ 2,214

2) Unrealized valuation gain (loss) on financial assets at FVTOCI

	For the Year Ended December 31	
	2019	**2018**
Balance at January 1	$ (45,782)	$ 30,159
Recognized for the year		
Unrealized loss - equity instruments	(62,108)	(75,941)
Balance at December 31	$ (107,890)	$ (45,782)

f. Non-controlling interests

	For the Year Ended December 31	
	2019	**2018**
Balance at January 1	$ 524,707	$ 207,391
Attributable to non-controlling interests:		
Share of profit for the year	(2,558)	21,287
Exchange difference on translating the financial statements of foreign entities	(7)	10
Dividends distributed by subsidiaries	(16,296)	(888)
Acquisition of non-controlling interests in subsidiaries	1,895	-
Adjustment relating to changes in capital surplus of associates accounted for using the equity method	-	(66)
Changes of non-controlling interests	18,965	296,973
Balance at December 31	$ 526,706	$ 524,707

23. REVENUE

	For the Year Ended December 31	
	2019	2018
Revenue from contracts with customers		
Revenue from sales of goods	$ 8,331,608	$ 8,617,077
Other operating revenue		
Rental income	89,509	54,182
Revenue from processing	56,668	22,904
	146,177	77,086
	$ 8,477,785	$ 8,694,163

a. Contract balances

	December 31	
	2019	2018
Trade receivables (Note 10)	$ 1,367,610	$ 1,265,646
Contract liabilities		
Sales of goods	$ 149,488	$ 143,030

b. Refer to Note 35 for details of revenue.

24. NET PROFIT AND OTHER COMPREHENSIVE INCOME FROM CONTINUING OPERATIONS

Net Profit from Continuing Operations

a. Other income

	For the Year Ended December 31	
	2019	2018
Interest income - bank deposits	$ 1,008	$ 1,307
Dividend income		
Financial assets at FVTPL	24,325	25,123
Financial assets at FVTOCI	53,811	53,422
Others	2,800	5,967
	$ 81,944	$ 85,819

b. Other gains and losses

	For the Year Ended December 31	
	2019	2018
Net loss on disposal of property, plant and equipment	$ (811)	$ (708)
Fair value changes of financial assets and financial liabilities		
Financial assets mandatorily classified as at FVTPL	88,666	771,451
Loss on disposal of associates	-	(10,919)
Net foreign exchange gains (losses)	213,864	(5,372)
	$ 301,719	$ 754,451

c. Finance costs

	For the Year Ended December 31	
	2019	2018
Interest on bank loans	$ 158,675	$ 137,198
Interest on bonds payable	9,669	11,952
Others (interest on guarantee deposits)	-	52
Less: Amounts included in the cost of qualifying assets	(860)	(7,017)
	$ 167,484	$ 142,185

Information about capitalized interest was as follows:

	For the Year Ended December 31	
	2019	2018
Capitalized interest	$ 860	$ 7,017
Capitalization rate	2.5%	2.5%

d. Depreciation and amortization

	For the Year Ended December 31	
	2019	2018
Property, plant and equipment	$ 88,064	$ 77,237
Investment properties	20,192	7,524
Long-term prepayments	2,931	1,469
	$ 111,187	$ 86,230
An analysis of depreciation by function		
Operating costs	$ 96,120	$ 65,782
Operating expenses	12,136	18,979
	$ 108,256	$ 84,761
An analysis of amortization by function		
Operating costs	$ 1,267	$ 606
Operating expenses	1,664	863
	$ 2,931	$ 1,469

e. Employee benefits expense

	For the Year Ended December 31	
	2019	2018
Short-term benefits	$ 207,127	$ 259,120
Post-employment benefits (Note 21)		
Defined contribution plans	6,016	4,707
Defined benefit plans	507	539
	$ 213,650	$ 264,366
An analysis of employee benefits expense by function		
Operating costs	$ 114,606	$ 101,358
Operating expenses	99,044	163,008
	$ 213,650	$ 264,366

f. Employees' compensation and remuneration of directors and supervisors

The Group accrued employees' compensation and remuneration of directors and supervisors at the rates of no less than 3% and no higher than 3%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors. The employees' compensation and remuneration of directors and supervisors for the years ended December 31, 2019 and 2018 which have been approved by the Company's board of directors on March 17, 2020 and March 19, 2019, respectively, were as follows:

Accrual rate

	For the Year Ended December 31	
	2019	2018
Employees' compensation	3%	3%
Remuneration of directors and supervisors	3%	3%

Amount

	For the Year Ended December 31	
	2019	2018
	Cash	Cash
Employees' compensation	$ 4,199	$ 35,146
Remuneration of directors and supervisors	$ 4,199	$ 35,146

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

Information on employees' compensation and remuneration of directors and supervisors resolved by the Company's board of directors in 2020 and 2019 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

g. Gains or losses on foreign currency exchange

	For the Year Ended December 31	
	2019	2018
Foreign exchange gains	$ 304,072	$ 180,668
Foreign exchange losses	(90,208)	(186,040)
	$ 213,864	$ (5,372)

25. INCOME TAXES

a. Major components of tax expense recognized in profit or loss

	For the Year Ended December 31	
	2019	2018
Current tax		
In respect of the current year	$ 13,424	$ 92,489
Income tax on unappropriated earnings	24,623	49,736
Adjustments for prior years	(7,890)	1,188
Others	(107)	(10)
	30,050	143,403
Deferred tax		
In respect of the current year	(23,709)	(91)
Adjustments to deferred tax attributable to changes in tax rates and laws	-	(1,097)
	(23,709)	(1,188)
Income tax expense recognized in profit or loss	$ 6,341	$ 142,215

A reconciliation of accounting profit and income tax expenses is as follows:

	For the Year Ended December 31	
	2019	2018
Profit before income tax	$ 124,457	$ 1,142,227
Income tax expense calculated at the statutory rate	$ 24,891	$ 228,445
Non-deductible expenses and non-taxable income	(33,927)	(146,256)
Tax-exempt income	(15,627)	(15,675)
Income tax on unappropriated earnings	24,623	49,736
Additional income tax under the Alternative Minimum Tax Act	7,600	20,163
Unrecognized loss carryforwards	8,001	297
Loss carryforwards used	(1,791)	-
Unrecognized deductible temporary differences	43	2,703
Effect of tax rate changes	-	(1,097)
Effects of different tax rates of the Group entities operating in other jurisdictions	44	2,721
Adjustments for prior years' tax	(7,890)	1,188
Others	374	(10)
Income tax expense recognized in profit or loss	$ 6,341	$ 142,215

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

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2019	2018
Deferred tax		
Effect of tax rate changes	$ -	$ 475
In respect of the current year:		
Translation of foreign operations	(647)	(876)
Remeasurement on defined benefit plans	(158)	888
Total income tax recognized in other comprehensive income	$ (805)	$ 487

c. Current tax assets and liabilities

	December 31	
	2019	2018
Current tax assets		
Tax refund receivable	$ 10,999	$ -
Current tax liabilities		
Income tax payable	$ 11,182	$ 90,949

d. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities were as follows:

For the year ended December 31, 2019

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Deferred tax assets				
Temporary differences				
Write-downs of inventories	$ 22,244	$ (2,412)	$ -	$ 19,832
FVTPL financial assets	16	6,828	-	6,844
Gains or losses on foreign currency exchange	1,707	(1,707)	-	-
Unrealized gross profit	759	(624)	-	135
Defined benefit obligation	4,393	(297)	158	4,254
Allowance for impairment loss on receivables	3,137	7,135	-	10,272
Unused loss carryforwards	-	162	-	162
Exchange differences on translating the financial statements of foreign operations	-	-	93	93
Loss carryforwards	-	5,813	-	5,813
	$ 32,256	$ 14,893	$ 251	$ 47,405

(Continued)

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre-hensive Income	Closing Balance
Deferred tax liabilities				
Temporary differences				
FVTPL financial assets	$ 20,639	$ (20,639)	$ -	$ -
Convertible bonds	412	204	-	616
Gains or losses on foreign currency exchange	68	11,517	-	11,586
Exchange differences on translating the financial statements of foreign operations	554	-	(554)	-
	$ 21,673	$ (8,918)	$ (554)	$ 12,201

(Concluded)

For the year ended December 31, 2018

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre-hensive Income	Closing Balance
Deferred tax assets				
Temporary differences				
Write-downs of inventories	$ 413	$ 21,831	$ -	$ 22,244
FVTPL financial assets	3,386	(3,370)	-	16
Convertible bonds	432	(432)	-	-
Gains or losses on foreign currency exchange	-	1,707	-	1,707
Unrealized gross profit	-	759	-	759
Defined benefit obligation	3,746	(668)	1,315	4,393
Allowance for impairment loss on receivables	5,247	(2,110)	-	3,137
Exchange differences on translating the financial statements of foreign operations	274	-	(274)	-
	$ 13,498	$ 17,717	$ 1,041	$ 32,256
Deferred tax liabilities				
Temporary differences				
FVTPL financial assets	$ -	$ 20,639	$ -	$ 20,639
Convertible bonds	-	412	-	412
Gains or losses on foreign currency exchange	4,590	(4,522)	-	68
Exchange differences on translating the financial statements of foreign operations	-	-	554	554
	$ 4,590	$ 16,529	$ 554	$ 21,673

e. Deductible temporary differences and unused loss carryforwards for which no deferred tax assets have been recognized in the balance sheets

	December 31	
	2019	2018
Loss carryforwards		
Expire in 2020	$ 2,558	$ 2,558
Expire in 2021	4,873	4,873
Expire in 2022	2,579	2,579
Expire in 2024	6,100	6,100
Expire in 2025	3,955	3,955
Expire in 2026	914	914
Expire in 2027	1,184	1,184
Expire in 2028	353	353
Expire in 2029	7,511	-
	$ 30,027	$ 22,516
Deductible temporary differences		
Unrealized profit or loss of foreign subsidiaries using equity method	$ 338	$ 295
Impairment of financial assets measured at FVTOCI	27,488	27,488
Write-downs of inventories	1,072	1,544
Net loss on foreign currency exchange	77	27
	$ 28,975	$ 29,354

f. Information about unused loss carryforwards and tax exemptions

Loss carryforwards as of December 31, 2019 comprised:

Name of Associate	Year of Loss	Unused Amount	Expiry Year
APEX Wind Power Equipment Manufacturing Co., Ltd.	2010	$ 12,791	2020
	2011	24,367	2021
	2012	12,896	2022
	2014	30,498	2024
	2015	19,777	2025
	2016	4,568	2026
	2017	5,921	2027
	2018	1,419	2028
	2019	37,554	2029
		$ 150,136	

g. Income tax assessments

The income tax returns through 2017 and income tax on unappropriated earnings through 2016 of the Company and subsidiaries have been assessed by the tax authorities.

26. EARNINGS PER SHARE

	For the Year Ended December 31	
	2019	2018
Basic earnings per share		
From continuing operations	$ 0.39	$ 3.17
Diluted earnings per share		
From continuing operations	$ 0.39	$ 3.06

The earnings and weighted average number of ordinary shares outstanding used in the computation of earnings per share from continuing operations are as follows:

Net Profit for the Year

	For the Year Ended December 31	
	2019	2018
Earnings used in the computation of basic earnings per share	$ 120,674	$ 978,725
Effect of potentially dilutive ordinary shares:		
Interest on convertible bonds (after tax)	-	9,561
Earnings used in the computation of diluted earnings per share	$ 120,674	$ 988,286

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

	For the Year Ended December 31	
	2019	2018
Weighted average number of ordinary shares in the computation of basic earnings per share	310,688	309,164
Effect of potentially dilutive ordinary shares:		
Convertible bonds	-	12,860
Employees' share options	133	1,126
Weighted average number of ordinary shares used in the computation of diluted earnings per share	310,821	323,150

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

27. EQUITY TRANSACTIONS WITH NON-CONTROLLING INTERESTS

In 2018, the Group subscribed for additional new shares of APEX Wind Power Equipment Manufacturing Co., Ltd., formerly called Hsin Kuang Alga Engineering Co., Ltd., by cash at a percentage different from its existing ownership percentage, decreasing its interests from 68.16% to 51.31%. In addition, during the period from September through December 2019, the Company acquired additional shares of the subsidiary, increasing its interests from 51.31% to 59.59%.

The above transactions were accounted for as equity transactions since the Group did not cease to have control over the subsidiary.

28. CAPITAL MANAGEMENT

The Group manages its capital to ensure that the Group will be able to continue as going concerns while maximizing the return to shareholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged over the past 5 years.

The capital structure of the Group consists of net debt (borrowings offset by cash and cash equivalents) and equity of the Group (comprising issued capital, reserves, retained earnings, other equity and non-controlling interests).

The Group is not subject to any externally imposed capital requirements.

The key management personnel of the Group review the Group's capital structure on a quarterly basis. As part of this review, the key management personnel consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the key management personnel, in order to balance the overall capital structure, the Group may adjust the amount of dividends paid to shareholders, the number of new shares issued or repurchased, and/or the amount of new debt issued or existing debt redeemed.

29. FINANCIAL INSTRUMENTS

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

The management believes that the carrying amounts of financial assets and liabilities that are not measured at fair value approximate their fair values:

December 31, 2019

	Carrying Amount	Fair Value
Financial assets		
Financial assets measured at amortized cost:		
Time deposits with original maturities of more than 3 months	$ 61,113	$ 61,113
Notes receivable (including related parties)	1,089,452	1,089,452
Trade receivables (including related parties)	1,367,610	1,367,610
Overdue receivables	3,000	3,000
Cash and cash equivalents	1,099,161	1,099,161
Refundable deposits	34,376	34,376
Financial liabilities		
Financial liabilities measured at amortized cost:		
Bank borrowings	5,811,393	5,811,393
Short-term bills payable	469,737	469,737
Notes payable, trade payables and other payables (including related parties)	423,427	423,427
Convertible bonds	410,006	410,006
Long-term bills payable	1,898,531	1,898,531

December 31, 2018

	Carrying Amount	Fair Value
Financial assets		
Financial assets measured at amortized cost:		
Time deposits with original maturities of more than 3 months	$ 206,918	$ 206,918
Notes receivable (including related parties)	1,320,642	1,320,642
Trade receivables (including related parties)	1,265,646	1,265,646
Overdue receivables	5,081	5,081
Cash and cash equivalents	1,558,960	1,558,960
Refundable deposits	46,246	46,246
Financial liabilities		
Financial liabilities measured at amortized cost:		
Bank borrowings	7,886,839	7,886,839
Short-term bills payable	429,734	429,734
Notes payable, trade payables and other payables (including related parties)	1,018,402	1,018,402
Financial assets		
Convertible bonds	400,337	400,337

The methods and assumptions used by the Group for estimating financial instruments not measured at fair value are as follows:

1) The fair value of financial instruments, including cash and cash equivalents, trade receivables, overdue receivables, trade payables, time deposits with an original maturity date of more than 3 months, other financial assets, short-term borrowings, short-term bills payable and long-term bills payable, is estimated as the carrying amount at the end of the reporting period, because the maturity date is close or the payment amount is close to its carrying amount.

2) The fair value of long-term bank borrowings is determined using the discounted cash flow approach. Future cash flows are discounted at a long-term borrowing rate of the Group. The Group estimated the carrying amount of the long-term loans at the end of the reporting period as their fair values.

3) The fair value of the liability component of convertible bonds is measured at amortized cost using the effective interest method, and the conversion options component of the convertible bonds is measured at fair value. The fair value of the liability component of the convertible bonds is estimated at the carrying amount at the end of the reporting period.

b. Financial instruments measured at fair value on a recurring basis

1) Fair value hierarchy

December 31, 2019

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Domestic listed shares and emerging market shares	$ 1,198,487	$ -	$ -	$ 1,198,487
Mutual funds	151,084	-	-	151,084
	$ 1,349,571	$ -	$ -	$ 1,349,571
Financial assets at FVTOCI				
Investments in equity instruments				
Domestic listed securities	$ 1,216,531	$ -	$ -	$ 1,216,531
Domestic unlisted securities	-	-	219,897	219,897
Foreign unlisted securities	-	-	331,469	331,469
	$ 1,216,531	$ -	$ 551,366	$ 1,767,897
Financial liabilities at FVTPL				
Derivatives	$ -	$ 41,855	$ -	$ 41,855

December 31, 2018

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Domestic listed shares and emerging market shares	$ 1,241,449	$ -	$ -	$ 1,241,449
Mutual funds	4,450	-	-	4,450
Derivatives	-	103,198	-	103,198
	$ 1,245,899	$ 103,198	$ -	$ 1,349,097
Financial assets at FVTOCI				
Investments in equity instruments				
Domestic listed securities	$ 1,459,938	$ -	$ -	$ 1,459,938
Domestic unlisted securities	-	-	216,018	216,018
Foreign unlisted securities	-	-	394,528	394,528
	$ 1,459,938	$ -	$ 610,546	$ 2,070,484
Financial liabilities at FVTPL				
Derivatives	$ -	$ 8,748	$ -	$ 8,748

There were no transfers between Levels 1 and 2 in the current and prior periods.

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

	Financial Assets at FVTOCI Equity Instruments	
	2019	**2018**
Balance at January 1	$ 610,546	$ 531,777
Recognized in other comprehensive income (included in unrealized gain (loss) on financial assets at FVTOCI)	(60,854)	(45,839)
Recognized in other comprehensive income (exchange differences on translating the financial statements of foreign operations)	(2,205)	2,865
Purchases	12,000	129,450
Shares return of investments	(8,121)	(2,222)
Transfers out of Level 3	-	(5,485)
Balance at December 31	$ 551,366	$ 610,546

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

Financial Instruments	Valuation Techniques and Inputs
Derivatives - foreign currency forward contracts	Discounted cash flow: Future cash flows are estimated based on observable forward exchange rates at the end of the reporting period and contract forward rates discounted at a rate that reflects the credit risk of various counterparties.
Derivatives - conversion option component of convertible bonds	The value of the bonds payable and redemption and put options is estimated based on the binomial CB pricing model and historical volatility, risk-free interest rate, discount rate and liquidity risk at the end of the reporting period.

4) Valuation techniques and inputs applied for Level 3 fair value measurement

The fair values of domestic unlisted equity instruments were determined using the market approach. In this approach, the fair value is appraised based on the market selling price of similar items, such as assets, liabilities, or the groups of assets and liabilities. The significant unobservable factors used are described below, an increase in long-term revenue growth rates, long-term pre-tax operating margin, a decrease in the weighted average cost of capital, or the discount for lack of marketability used in isolation would result in increases in the fair values.

c. Categories of financial instruments

	December 31	
	2019	**2018**
<u>Financial assets</u>		
Financial assets at FVTPL		
Mandatorily classified as at FVTPL	$ 1,349,571	$ 1,349,097
Financial assets at amortized cost (1)	3,654,712	4,403,493
Financial assets at FVTOCI		
Equity instruments	1,767,897	2,070,484
<u>Financial liabilities</u>		
Financial liabilities at FVTPL		
Held for trading	41,855	8,748
Financial liabilities at amortized cost (2)	9,013,094	9,735,312

1) The balances include financial assets at amortized cost, which comprise cash and cash equivalents, notes receivable, trade receivables, overdue receivables, refundable deposits and time deposits with original maturities of more than 3 months.

2) The balances include financial liabilities at amortized cost, which comprise short-term and long-term loans, short-term bills payable, notes payable, trade and other payables, bonds issued and long-term bills payable.

d. Financial risk management objectives and policies

The Group's major financial instruments include equity investments, derivative financial instruments, notes receivable, trade receivables, overdue receivables, short-term bills payable, notes payable, trade payables, other payables, bonds payable and borrowings. The Group's Corporate Treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

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

1) Market risk

The Group's activities exposed them primarily to the financial risks of changes in foreign currency exchange rates (see "a. foreign currency risk" below) and interest rates (see "b. interest rate risk" below). The Group entered into a variety of derivative financial instruments to manage their exposure to foreign currency risk and interest rate risk, including:

a) Foreign exchange forward contracts to hedge the exchange rate risk arising on the import and export of steel plates;

b) Interest rate swaps to mitigate the risk of rising interest rates.

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

a) Foreign currency risk

Several subsidiaries of the Group had foreign currency sales and purchases, which exposed the Group to foreign currency risk. Exchange rate exposures were managed within approved policy parameters utilizing foreign exchange forward contracts.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities (including those eliminated on consolidation) were as follows:

	December 31	
	2019	**2018**
Assets		
USD	$ 19,321	$ 152,747
JPY	579	567
EUR	7,590	1,253
RMB	27,331	27,969
Liabilities		
USD	1,967,435	3,263,789
RMB	-	12,164

Sensitivity analysis

The Group was mainly exposed to USD, JPY, RMB, and EUR.

The following table details the Group's sensitivity to a 1% increase and decrease in the New Taiwan dollar (i.e., the functional currency) against the relevant foreign currencies. The sensitivity rate used when reporting foreign currency risk internally to key management personnel and representing management's assessment of the reasonably possible change in foreign exchange rates is 1%. The sensitivity analysis included only outstanding foreign currency denominated monetary items and foreign exchange forward contracts designated as cash flow hedges, and adjusts their translation at the end of the reporting period for a 1% change in foreign currency rates. A positive number below indicates an increase in pre-tax profit. For a 1% weakening of the New Taiwan dollar against the relevant currency, there would be an equal and opposite impact on pre-tax profit below would be negative.

	USD Impact	
	For the Year Ended December 31	
	2019	**2018**
Profit or loss	$ 19,483 (i)	$ 31,096 (i)

	JPY Impact	
	For the Year Ended December 31	
	2019	**2018**
Profit or loss	$ 6 (ii)	$ 6 (ii)

	EUR Impact					
	For the Year Ended December 31					
	2019			2018		
Profit or loss	$	76	(iii)	$	12	(iii)

	RMB Impact					
	For the Year Ended December 31					
	2019			2018		
Profit or loss	$	271	(iv)	$	160	(iv)

i. This was mainly attributable to the exposure on outstanding USD letters of credit, trade payables, other payables and bank deposits which were not hedged at the end of the reporting period.

ii. This was mainly attributable to the exposure on outstanding JPY bank deposits, which were not hedged at the end of the reporting period.

iii. This was mainly attributable to the exposure on outstanding EUR bank deposits, which were not hedged at the end of the reporting period.

iv. This was mainly attributable to the exposure outstanding on RMB bank deposits, which were not hedged at the end of the reporting period.

The Group's sensitivity to foreign currency increased during the current year mainly due to the increase in purchases which resulted in an increase in USD letters of credit.

In management's opinion, sensitivity analysis was unrepresentative of the inherent foreign exchange risk because the exposure at the end of the reporting period did not reflect the exposure during the period.

b) Interest rate risk

The Group was exposed to interest rate risk because entities of the Group borrowed funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix of fixed and floating rate borrowings and using interest rate swap contracts and forward interest rate contracts. Hedging activities are evaluated regularly to align with interest rate views and the defined risk appetite, ensuring that the most cost-effective hedging strategies are applied.

The carrying amount of the Group's financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows:

	December 31	
	2019	2018
Cash flow interest rate risk		
Financial assets	$ 967,940	$ 1,522,972
Financial liabilities	8,179,661	8,299,643

Sensitivity analysis

The sensitivity analysis below was determined based on the Group's exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 1% increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 1% higher/lower and all other variables were held constant, the Group's pre-tax profit for the years ended December 31, 2019 and 2018 would decrease/increase by NT$75,482 thousand and NT$59,273 thousand, respectively, which was mainly a result of the changes in the variable interest rate bank deposits and loans.

c) Other price risk

The Group was exposed to equity price risk through their investments in listed equity securities. The Group have appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis

The sensitivity analysis below was determined based on the exposure to equity price risks at the end of the reporting period.

If equity prices had been 1% higher/lower, pre-tax profit for years ended December 31, 2019 and 2018 would have increased/decreased by NT$13,451 thousand and NT$12,463 thousand, respectively, as a result of the changes in the fair value of held-for-trading investments, and the pre-tax other comprehensive income for the years ended December 31, 2019 and 2018 would increase/decrease by NT$12,216 thousand and NT$14,449 thousand, respectively, as a result of the changes in the fair value of available-for-sale shares.

The Group's sensitivity to available-for-sale investments and held-for-trading investments has not changed significantly from the prior year.

2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. As at the end of the reporting period, the Group's maximum exposure to credit risk, which would cause a financial loss to the Group due to the failure of counterparties to discharge an obligation could arise from the carrying amount of the respective recognized financial assets as stated in the balance sheets which were mainly trade receivables from operating activities.

In order to minimize credit risk, management of the Group have delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group review the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowances are made for irrecoverable amounts. In this regard, management believes the Group's credit risk was significantly reduced.

The Group's trade receivables are from a large number customers. Ongoing credit evaluation is performed on the financial condition of trade receivables and, where appropriate, credit guarantee insurance cover is purchased.

The Group did not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. The concentration of credit risk to any other counterparty did not exceed 10% of the gross monetary assets of the Group at any time during 2019 and 2018.

The Group's concentration of credit risk by geographical locations was mainly in Taiwan, which accounted for 100% and 90.6% of the total trade receivables as of December 31, 2019 and 2018, respectively.

The credit risk on derivatives was limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

3) Liquidity risk

The Group manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the Group's short, medium and long-term funding and liquidity management requirements. The Group manage liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, and continuously monitoring forecasted and actual cash flows as well as matching the maturity profiles of financial assets and liabilities. As of December 31, 2019 and 2018, the Group had available unutilized short-term bank loan facilities of NT$3,513,020 thousand and NT$7,018,081 thousand, respectively.

a) Liquidity and interest risk rate tables

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed upon repayment periods. The tables has been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Group can be required to pay. The tables included both interest and principal cash flows.

To the extent that interest flows are at floating rates, the undiscounted amount was derived from the interest rate curve at the end of the reporting period.

December 31, 2019

	Weighted-Average Effective Interest Rate (%)	On Demand or Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	5+ Years
Non-derivative financial liabilities						
Non-interest bearing		$ 245,974	$ 139,036	$ 36,232	$ 4,374	$ 9,642
Variable interest rate liabilities	2.05%	1,014,719	3,682,411	2,414,401	949,708	118,421
		$ 1,260,693	$ 3,821,447	$ 2,450,633	$ 954,082	$ 128,063

December 31, 2018

	Weighted-Average Effective Interest Rate (%)	On Demand or Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	5+ Years
Non-derivative financial liabilities						
Non-interest bearing	-	$ 113,969	$ 272,627	$ 616,951	$ 14,837	$ 18
Variable interest rate liabilities	1.68	1,822,707	2,398,588	3,966,331	42,105	86,842
		$ 1,936,676	$ 2,671,215	$ 4,583,282	$ 56,942	$ 86,860

The following table details the Group's expected maturity for some of its non-derivative financial assets. The table below has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The inclusion of information on non-derivative financial assets is necessary in order to understand the Group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

December 31, 2019

	Weighted-Average Effective Interest Rate (%)	On Demand or Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	5+ Years
Non-derivative financial assets						
Non-interest bearing		$ 1,408,089	$ 1,173,941	$ 78,761	$ 31,024	$ 3,000
Variable interest rate assets	0.10	912,280	48,133	7,527	-	-
		$ 2,320,369	$ 1,222,074	$ 86,288	$ 31,024	$ 3,000

December 31, 2018

	Weighted-Average Effective Interest Rate (%)	On Demand or Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	5+ Years
Non-derivative financial assets						
Non-interest bearing	-	$ 1,664,664	$ 840,626	$ 67,746	$ 18,222	$ 3,002
Variable interest rate assets	0.08	1,419,307	66,103	37,562	-	-
		$ 3,083,971	$ 906,729	$ 105,308	$ 18,222	$ 3,002

The amount included above for variable interest rate instruments for both non-derivative financial assets and liabilities was subject to change if changes in variable interest rates differ from those estimates of interest rates determined at the end of the reporting period.

b) Financing facilities

	December 31	
	2019	2018
Bank loan facilities expiring in 2019 which may be extended upon mutual agreement:		
Amount used	$ 9,361,833	$ 8,316,573
Amount unused	8,031,797	10,232,037
	$ 17,393,630	$ 18,548,610

30. TRANSACTIONS WITH RELATED PARTIES

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Besides information disclosed elsewhere in the other notes, details of transactions between the Group and other related parties are disclosed below.

a. Related parties and their relationship with the Company:

Related Party	Relationship with the Company
APEX Wind Power Equipment Manufacturing Company., Ltd. (formerly Hsin Kuang Alga Engineering Co., Ltd.)	Subsidiary
Mason Metal Industry Co., Ltd.	Joint venture
Hsin Kuang Steel Tian-Cheng Charity Foundation	The Foundation's Chairman is the same person as the representative of a corporate director of the Company

b. Operating revenue

	For the Year Ended December 31	
Related Party Category/Name	2019	2018
Sale of goods		
Joint ventures		
Mason Metal Industry Co., Ltd.	$ 104,907	$ 119,534

c. Purchases and manufacturing expenses

	For the Year Ended December 31	
Related Party Category/Name	2019	2018
Joint ventures		
Mason Metal Industry Co., Ltd.	$ 9,800	$ 7,742

The Group's purchase and payment terms with related parties were comparable to those with unrelated parties.

d. Other revenue

Related Party Category/Name	For the Year Ended December 31	
	2019	2018
Joint ventures		
Mason Metal Industry Co., Ltd.	$ 1,200	$ 1,200

e. Receivables from related parties

Related Party Category/Name	December 31	
	2019	2018
Joint ventures		
Mason Metal Industry Co., Ltd.	$ 58,312	$ 79,147

The outstanding trade receivables from related parties are unsecured. As of December 31, 2019 and 2018, no impairment loss was recognized for trade receivables from the related parties.

f Payables to related parties

Related Party Category/Name	December 31	
	2019	2018
Joint ventures		
Mason Metal Industry Co., Ltd.	$ 608	$ 2,505
Associates		
Hsin Wei Solar Co., Ltd.	-	2,467
	$ 608	$ 4,972

The outstanding trade payables to related parties (including notes payable, trade payables and other payables) are unsecured and will be paid in cash.

g Endorsements and guarantees

Related Party Category/Name	December 31	
	2019	2018
Subsidiary		
APEX Wind Power Equipment Manufacturing Company., Ltd.		
Amount endorsed	$ -	$ 7,400
Amount utilized	-	(7,400)
	$ -	$ -

h Other transactions with related parties

Line Item	Related Party Category/Name	For the Year Ended December 31 2019	2018
Donations	Hsin Kuang Steel Tian-Cheng Charity Foundation	$ 2,000	$ -

i Compensation of key management personnel

The amount of the remuneration of directors and key management personnel were as follows:

	For the Year Ended December 31 2019	2018
Short-term employee benefits	$ 23,939	$ 72,851

The remuneration of directors and key executives was determined by the remuneration committee based on the performance of individuals and market trends.

31. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for bank borrowings, collateral for engineering service contract, and lease guarantee deposits:

	December 31 2019	2018
Notes receivable	$ 205,173	$ 347,618
Pledged deposit certificate (classified as financial assets at amortized cost)	58,797	116,904
Restricted demand deposits (classified as other financial assets - current)	2,316	-
Investments in equity instruments at FVTOCI	227,050	230,375
Freehold land	1,086,863	552,590
Buildings, net	624,735	317,803
Investment properties - land	350,861	350,861
Investment properties - buildings	550,161	562,077
	$ 3,105,956	$ 2,478,228

32. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Group as of December 31, 2019 and 2018 were as follows:

Significant Commitments

a. As of December 31, 2019 and 2018, unused letters of credit for purchases of raw materials and machinery and equipment were as follows:

	December 31	
	2019	**2018**
NTD	$ 402,526	$ 273,082
USD	21,410	30,122
EUR	1,100	5,121

b. Unrecognized commitments were as follows:

	December 31	
	2019	**2018**
Acquisition of property, plant and equipment	$ 117,700	$ 326,957

33. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Group's significant financial assets and liabilities denominated in foreign currencies aggregated by the foreign currencies other than functional currencies of the entities in the Group and the related exchange rates between foreign currencies and respective functional currencies were as follows:

December 31, 2019

	Foreign Currencies	**Exchange Rate**	**Carrying Amount**
Financial assets			
Monetary items			
USD	$ 637	29.98 (USD:NTD)	$ 19,321
EUR	226	33.59 (EUR:NTD)	7,590
RMB	6,283	4.305 (RMB:NTD)	27,331
JPY	2,090	0.276 (JPY:NTD)	579
			$ 54,821
Financial liabilities			
Monetary items			
USD	65,854	29.98 (USD:NTD)	$ 1,967,435

December 31, 2018

	Foreign Currencies	Exchange Rate	Carrying Amount
Financial assets			
Monetary items			
USD	$ 4,973	30.715 (USD:NTD)	$ 152,747
EUR	35	35.20 (EUR:NTD)	1,253
RMB	6,254	4.472 (RMB:NTD)	27,969
			$ 181,969
Financial liabilities			
Monetary items			
USD	106,260	30.715 (USD:NTD)	$ 3,263,789
RMB	2,720	4.472 (RMB:NTD)	12,164
			$ 3,275,953

34. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and b. investees:

1) Financing provided to others: (Table 1)

2) Endorsements/guarantees provided: (Table 2)

3) Marketable securities held: (Table 3)

4) Marketable securities acquired and disposed of at costs or prices of at least NT$300 million or 20% of the paid-in capital: (Table 4)

5) Acquisition of individual real estate at costs of at least NT$300 million or 20% of the paid-in capital: (N/A)

6) Disposal of individual real estate at prices of at least NT$300 million or 20% of the paid-in capital: (N/A)

7) Total purchases from or sales to related parties amounting to at least NT$100 million or 20% of the paid-in capital: (Table 5)

8) Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital: (N/A)

9) Trading in derivative instruments: (Note 7)

10) Other: Intercompany relationships and significant intercompany transactions (Table 6)

11) Information on investees: (Table 7)

b. Information on investments in mainland China

1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area: (N/A)

2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses: (N/A)

35. SEGMENT INFORMATION

Information reported to the chief operating decision-maker for the purpose of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. Specifically, the Group's reportable segments were as follows:

- Steel:
  - Direct sales
  - Manufacturing sales
- Rental revenue

a. Segments revenue and results

The following was an analysis of the Group's revenue and results from continuing operations by reportable segments.

	Steel - Direct Sales	**Steel - Manufacturing Sales**	**Leases**	**Total**
For the year ended December 31, 2019				
Revenue from external customers	$ 5,261,907	$ 3,126,369	$ 89,509	$ 8,477,785
Inter-segment revenue	45,417	5,709	32,929	84,055
Segment revenue	5,307,324	3,132,078	122,438	8,561,840
Eliminations	(45,417)	(5,709)	(32,929)	(84,055)
Consolidated revenue	$ 5,261,907	$ 3,126,369	$ 89,509	$ 8,477,785
Segment income	$ 14,390	$ 107,272	$ 55,117	$ 176,779
Share of profits of associates accounted for using the equity method				6,178
Interest income				1,008
Other income				2,800
Gain (loss) on disposal of property, plant and equipment				(811)
Net foreign exchange gains (losses)				213,864
Gain (loss) on evaluation of financial assets				88,666
Allocation of central administration costs and directors' salaries				(274,679)
Finance costs				(167,484)
Dividends				78,136
Profit before tax				$ 124,457

(Continued)

	Steel - Direct Sales	Steel - Manufacturing Sales	Leases	Total
For the year ended December 31, 2018				
Revenue from external customers	$ 5,533,134	$ 3,106,847	$ 54,182	$ 8,694,163
Inter-segment revenue	20,956	-	-	20,956
Segment revenue	5,554,090	3,106,847	54,182	8,715,119
Eliminations	(20,956)	-	-	(20,956)
Consolidated revenue	$ 5,533,134	$ 3,106,847	$ 54,182	$ 8,694,163
Segment income	$ 297,485	$ 379,764	$ 51,462	$ 728,665
Share of profits of associates accounted for using the equity method				15,512
Interest income				1,307
Other income				5,967
Gain (loss) on disposal of property, plant and equipment				(708)
Gain (loss) on disposal of associates				(10,919)
Net foreign exchange gains (losses)				(5,372)
Gain (loss) on evaluation of financial assets				771,450
Allocation of central administration costs and directors' salaries				(300,035)
Finance costs				(142,185)
Dividends				78,545
Profit before tax				$ 1,142,227

(Concluded)

The segments revenue reported above is generated from transactions with external customer.

b. Segment total assets and liabilities

	December 31 2019	December 31 2018
Segment assets		
From continuing operations		
Steel - direct sales	$ 8,160,466	$ 9,612,931
Steel - manufacturing sales	1,776,318	1,782,651
Leases	1,134,743	1,035,429
Total segment assets	11,071,527	12,431,011
Unallocated	5,016,364	4,852,110
Consolidated total assets	$ 16,087,891	$ 17,283,121
Segment liabilities		
From continuing operations		
Steel - direct sales	$ 4,724,097	$ 5,748,402
Steel - manufacturing sales	950,354	1,014,346
Leases	621,292	-
Total segment liabilities	6,295,743	6,762,748
Unallocated	2,981,362	3,285,244
Consolidated total liabilities	$ 9,277,105	$ 10,047,992

For the purpose of monitoring segment performance and allocating resources between segments:

1) All assets were allocated to reportable segments other than interests in associates accounted for using the equity method, other financial assets, and current and deferred tax assets. Assets used jointly by reportable segments were allocated on the basis of the revenue earned by individual reportable segments; and

2) All liabilities were allocated to reportable segments other than borrowings, other financial liabilities, and current and deferred tax liabilities. Liabilities for which reportable segments are jointly liable were allocated in proportion to segment assets.

MEMO

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