**Stock Code: 2006**

# TUNG HO STEEL ENTERPRISE CORPORATION

## Annual Report
## 2019

Publication Date: March 23, 2020

Annual Report Website:

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

The Company Website: www.tunghosteel.com

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

Spokesperson: Shu-Mei Kuo

Title: Manager; Telephone: (02) 2551-1100 ext568

Email: ksm@tunghosteel.com

Deputy Spokesperson: Ju-Yu Ho

Title: Associate Manager; Telephone: (02) 2551-1100 ext611

Email: juyu@tunghosteel.com

Deputy Spokesperson: Chun-LiangChen

Title: Vice Manager; Telephone: (02) 2551-1100 ext588

Email: i00kcc@tunghosteel.com

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Website: www. yuanta.com

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

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

Name of 2019 auditing CPA: Accountant Tzu-Hui Li and Xin-Yi Kuo

CPA Firm: KPMG Taiwan

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

Website: www.kpmg.com.tw

Telephone: (02)8101-6666

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

GDR Listed Trading Place: Luxembourg Stock Exchange

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

**6. The Company website:** www. tunghosteel.com

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# 1. Letter to Shareholders

**Tung Ho Steel Enterprise Corporation**
**Business Report**

In 2019, global economy continues taking slow recovery pace towards stable prosperity since all central banks of countries in the world had loosened the currency policies and held on to the low interest environment over the past years. Only the US maintained stable growth in its economic status. Others had ups and downs in their performances due to the following negative factors: 1. The US ruled by Trump administration had America First and anti-globalization trade protection policies, single sided dismiss the regional trade agreement, enhance technology trade war with China and adopt measures to levy high custom duties on China. These measures directly or indirectly block the international trade and investment operation, causing shock in international economy, delaying enterprise investment plans and weakening global economic momentum. 2. Brexit issues were not resolved. England cannot reach an agreement on its relationship with the EU after Brexit, causing uncertainties and dragging on the economic recovery in Europe. 3. China was facing the dilemma of not able to maintain the rapid economic growth. Issues such as over investment, insufficient consumption, debt crisis, worsening environment emerged one by one. In addition, the threats of custom duty sanctions from the US even enhanced its economic decelerating. The resulted expansion effects also influenced the global economy. Hence, the strength to recover prosperity is relatively weak and global economic recovery cannot be formed.

In the domestic economy aspect, high custom duty barriers from trade protectionism implemented by the US and the trade war between US and China were unfavorable to Taiwan's economy with high dependency on trades without doubts. However, the suppressing on China by US accidentally brought order transfer effects and the investment trend from Taiwanese business in mainland China. Accompanied with the forward-looking infrastructure plans promoting continuously, there is a vigorous development in the business opportunities of domestic investment on new factories and building construction this year. Moreover, major domestic semi-conductor and electric industries had a nice business performance under the situations such as hot sales of Apple's smart phones and the promotion of emerging industries, AI, IoT and electric vehicles. These factors made the performance of Taiwan's economy stroke out with the growth rate of GDP achieved 2.71%, superior than the major industrial countries.

The business performance of steel industry this year was diversified. Subject to weak recovery of global economy, the demands in steel board products were reduced. Affected by the protective custom duties implemented in US, export business to US was largely reduced, causing hard operation situation. As for steel bars, benefiting from the promotion of public investments by the government, the recovery of prosperity in electric industries, investment from Taiwanese businessman and active promotion on construction projects, demands on mass amount of steel materials increased. The business in the steel industry is generally prosperous with enhanced profits.

Benefiting from the recovery of prosperity in steel industry, the Company has stable growth in its steel business. Besides, the expansion of new rolling steel production line in Taoyuan factory was just completed, the Company enhanced its production capability in steel making and the production and sales volume of reinforcing steel in time and raised cost efficiency, resulting huge growth in its profits. In addition, the order volume in the steel business of the subsidiaries has increased along with the increase in electric factory projects and construction promotion projects. There is a huge growth in the revenue and profit, comparing to last year. However, the business performance of our subsidiary in Vietnam was a fly in the ointment. Influenced by poor prosperity of the Vietnam steel market, the performance had not improved significantly, causing larger loss and dragging on the overall profit performance of the Company.

Overview on the consolidated business and performances of the Company and the major re-investment business in 2019 are the following:

1. Results of Implementing Production and Sales Plan:

Unit:NT$1,000

| | Production | | | Sales | | |
|---|---|---|---|---|---|---|
| | 2019 | 2018 | Growth rate | 2019 | 2018 | Growth rate |
| Billet | 31,870,845 | 32,612,323 | (2.27%) | 1,522,153 | 4,213,094 | (63.87%) |
| Rebar | 18,954,052 | 14,908,853 | 27.13% | 21,568,314 | 17,377,738 | 24.11% |
| H-beam | 9,080,525 | 9,860,169 | (7.91%) | 10,933,327 | 10,940,317 | (0.06%) |
| steel plate (self-made) | 1,813,511 | 1,552,989 | 16.78% | 912,354 | 731,591 | 24.71% |
| steel plate (transaction) | 0 | 0 | 0.00% | 32,327 | 740 | 4268.57% |
| Channel | 708,728 | 1,202,075 | (41.04%) | 778,305 | 1,274,544 | (38.93%) |
| I-beam | 54,759 | 51,135 | 7.09% | 46,989 | 52,556 | (10.59%) |
| Steel structure | 8,157,790 | 4,406,257 | 85.14% | 8,360,839 | 4,641,996 | 80.11% |
| Sale and purchase of steel | 0 | 0 | 0.00% | 0 | 7,098 | (100.00%) |
| Environmental protection processing | 128,983 | 105,969 | 21.72% | 128,914 | 105,969 | 21.65% |
| Steel sheet piles | 12,059 | 50,488 | (76.12%) | 13,949 | 57,552 | (75.76%) |
| Wind Power Generation | 55,146 | 42,120 | 30.92% | 55,146 | 51,232 | 7.64% |
| Construction Revenue | 77,552 | 271,775 | (71.46%) | 77,682 | 113,558 | (31.59%) |
| Others | 519,908 | 375,851 | 38.33% | 433,301 | 201,636 | 114.89% |
| Total | 71,433,858 | 65,440,004 | 9.16% | 44,863,600 | 39,769,621 | 12.81% |

2.Profitability Analysis：

Unit：NT$1,000

| | 2019 | 2018 | Growth rate |
|---|---|---|---|
| Operating revenue | 44,863,600 | 39,769,621 | 12.81% |
| Operating cost | 40,731,834 | 36,444,939 | 11.76% |
| Operating profit | 4,131,766 | 3,324,682 | 24.28% |
| Operating expenses | 2,025,168 | 2,049,329 | (1.18%) |
| Operating margin | 2,106,598 | 1,275,353 | 65.18% |

| | | | |
|---|---|---|---|
| Net profit before tax | 2,122,132 | 1,255,103 | 69.08% |
| Net income after tax | 1,557,798 | 888,939 | 75.24% |

3. Financial Structure and profitability analysis：

| Analysis Item \ Year | | | 2019 | 2018 |
|---|---|---|---|---|
| Financial Structure (%) | Debt-to-assets ratio | | 49.04 | 50.55 |
| | Long-term fund to fixed assets ratio | | 162.97 | 150.13 |
| Profitability | Return on assets (%) | | 3.73 | 2.38 |
| | Return on shareholder's equity (%) | | 6.45 | 3.70 |
| | Paid-in capital ratio (%) | Operating profit | 20.98 | 12.70 |
| | | Pre-tax income | 21.14 | 12.50 |
| | Net profit ratio (%) | | 3.47 | 2.24 |
| | Earnings per share (NT$) | | 1.56 | 0.88 |

4.Overview of Technology and R&D

The company's research and development expenditure for the year 2019 was NT$39,525,438, accounting for 0.09% of consolidated revenue. Major R&D achievements in steelmaking include the development of high purity and high stiffness billet steel, development of low alloy super-high strength steel board, development of high-strength reinforcing steel and splicer, development of high-grade marine steel, high-strength steel and hearthstone recycle technology. Major R&D achievements in rolling steel include development of super-high strength anti-shock reinforcing steel with new technology on low energy consumption direct rolling production process to enhance the strength over 1.6 multiple, development of billet steel welding technology and the plan to apply direct rolling technology to continuously breaking rolling to produce reinforcing steel, development of special rolling technology on new multi-size H-shaped steel with the same roller-opening development B value equal to 300mm, development of heat-rolling integrally formed angle pole of U-shaped steel board, development of new rolling technology on H-shaped steel UE (Universal Edger), development of circular material rolling technology with serial back and forth movement by universal rolling machine and development of co-H/V rolling (horizontal/vertical rolling) on angle steel and flat steel. The main research and development plans for the year of 2020 will be: Project research on electric stove off-gas detection and the dynamic control of furnace burner and carbon spraying room, research on ORC power generation technology by recycling the excess heat from the waste air of electric stove, development of low-carbon green production process technology of electric stove.

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

Looking at the economy in 2020, the trade war between US and China have become a long-term fight and continued to influence global economy. In addition, climate change caused more frequent occurrence of natural disaster incidents, which also posed threats to economic growth. The biggest black swan event this year is the recent outbreak of coronavirus disease in China and the worsening status of spreading to all places around the world. It had an impact on the economic activities, consumption, investment, trade and travel. If the epidemic cannot be resolved within a few months, this could hit hard on the weak global economy. Originally, the economic status was looking good this year since Taiwan may continue its good domestic and foreign status last year to acquire business opportunities in emerging mainstream industries, such as new smart phones, IoT, electric vehicles, AI and 5G mobile communication equipment; and moreover, vendors from mainland china, Taiwan and foreign companies distributed business bases to increase investment momentum in Taiwan. Due to the spread of coronavirus diseases, the Company may need to adjust its direction slightly to take on conservative measures. That being said, domestic steel industry was not affected by the diseases as severe as other industries. Investment on new factories was still being promoted and the demand on the steels for architecture and construction projects were still increasing. Hence, we can still expect the market prosperity and face the issue with a more optimistic attitude. All colleagues of the Company shall hold self-discipline, intelligence, optimistic Tung Kung spirit to strengthen our competitiveness, reduce costs, improve management, make efforts in developing new markets and new products, and enhance performances to achieve largest values for the shareholders.

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

Chairman Henry C.T. Ho

# II. Company Profile

## 1. Date of Incorporation

May 30, 1962

## 2. Company History

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

| | | |
|---|---|---|
| May | 1962 | Founded by Mr. Chin-Dui in Chiayi County Taiwan. Paid-in capital was NT$4,500,000. It was engaged in ship disintegration, buying and selling old ships, metal iron and mechanical materials. |
| May | 1965 | Purchased reclaimed land in Kaohsiung Harbor and built Qianzhen Rolled Steel Works. |
| Sep | 1974 | Purchased industrial land in Linhai Industrial Park Xiaogang District Kaohsiung, constructed the office building and steel making works. |
| Jan | 1975 | The Board of Directors elected Mr. Cheng-Ting Ho as the Chairman, Mr. Earle J. S. Ho as the General Manager. |
| Sep | 1977 | Set up the first continuous casting machine at Kaohsiung works in Taiwan. |
| Jun | 1986 | Purchased Bade works in Taoyuan which has two 5—ton electric arc furnaces, and the business of ship disintegration stopped in the same year. |
| Jul | 1988 | The arc furnace of Taoyuan Bade Works started production, and the Company's stock was listed in Category I. |
| Apr | 1990 | The Board of Directors elected Mr. Earle J. S. Ho as the Chairman as well as the general manager. Mr. Cheng-Ting Ho as the Honorary Chairman. |
| Jan | 1991 | Set up Miaoli Works which was approved by Department of Reconstruction Taiwan Government. |
| Nov | 1993 | Held the H-Beam Products Presentation. |
| Jan | 1996 | Honored as the 3rd Atomic Safety Special Award for Groups by the Atomic Energy Council of Executive Yuan. |
| May | 1996 | Expansion project for Kaohsiung Steel Works officially began. |
| Mar | 2007 | Kaohsiung Works received OHSAS 18001 by Bureau of Standards, Metrology and Inspection, Ministry of Economic Affairs and TOSHMS (Taiwan Occupational Safe and Health Management System), approval of the registration. |
| Jul | 2009 | Miaoli Works received OHSAS 18001 by Bureau of Standards, |

Metrology and Inspection, Ministry of Economic Affairs and TOSHMS (Taiwan Occupational Safe and Health Management System), approval of the registration.

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

Company’s Certification Statement”

Jan 2016 Invested and acquired Vietnam Fuco Steel Company and established the rolling mill expansion committee

Aug 2016 Tung Kang Wind Power Corp. received the 25-year business electrical license by Bureau of Energy, Ministry of Economic Affairs and began to wholesale the electricity force.

Sep 2016 The H-Beam products and steel products were certificated by KS (Korean Industrial Standards.)

Sep 2016 Vietnam Fuco Steel Company was renamed as Tung Ho Steel Vietnam Corporation Limited, THSVC.

Oct 2016 Was honored the 17th National Standardization Award “CNS Mark” of the Standards Inspection Bureau of the Ministry of Economic Affairs.

Nov 2016 Was honored “2016 TCSA, Taiwan Corporation Sustainable Award, Corporate Sustainability Report (Traditional Manufacture Industry) Silver Award.

Jul 2017 The steel and steel products of Miaoli Works have been verified by BV and received the “Water Footprint Certification Statement”.

Sep 2017 The second-line expansion product of the Taoyuan rolling mill was completed and was put into production.

Nov 2017 Taoyuan Works is certified by the ISO 50001 Energy Resource Management System.

Nov 2017 Was honored 2017 TCSA, Taiwan Corporation Sustainable Award, Corporate Sustainability Report (Traditional Manufacture Industry) Sliver Award.

Jan 2018 Miaoli Worksis certified with “Resource Regeneration Green Product Certificate” for the electric furnace carbon billet steel.

Jan 2018 The Company became formal member of WSA (World Steel Association).

Jul 2018 Taoyuan Works is certified with Korean National Standard Certification (KS)with the rebar products

Sep 2018 The Company participate in the promotion outcome presentation of enterprise energy saving service groupheld by Bureau of Energy, Ministry of Economic Affairsand got awarded with “Excellent Performance” Award for 2015-2017 energy saving implementation outcome.

Nov 2018 Was honored 2018 TCSA, Taiwan Corporation Sustainable

Award,Corporate Sustainability Report (Traditional Manufacture Industry) Gold Award.

Mar 2019 The production line of rolled steel inTHSVC has been completed and activated for production with its new product presentationheld on March 19.

Oct 2019 Taoyuan Works assisted Water Resources Agencyon the 2019 Central Area Large Water Consumption Household Counselling for Water-Saving Work Planand was granted for thank you award for “Water-Saving Performance Excellent Unit On-Site Observation and Learning Activities”.

Oct 2019 Taoyuan Works is obtained with Verified Certificate for Material Flow Cost Accounting (MFCA)and granted with the award “Model Vendor for Material FlowCostAnalysis” from Industrial Development Bureau, Ministry of Economic Affairs.

Nov 2019 Taoyuan Works is certified with “Carbon Footprint Verification Statement” for the products.

Nov 2019 Was honored 2019 TCSA, Taiwan Corporation Sustainable Award, Corporate Sustainability Report (Traditional Manufacture Industry) Gold Award.

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

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

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

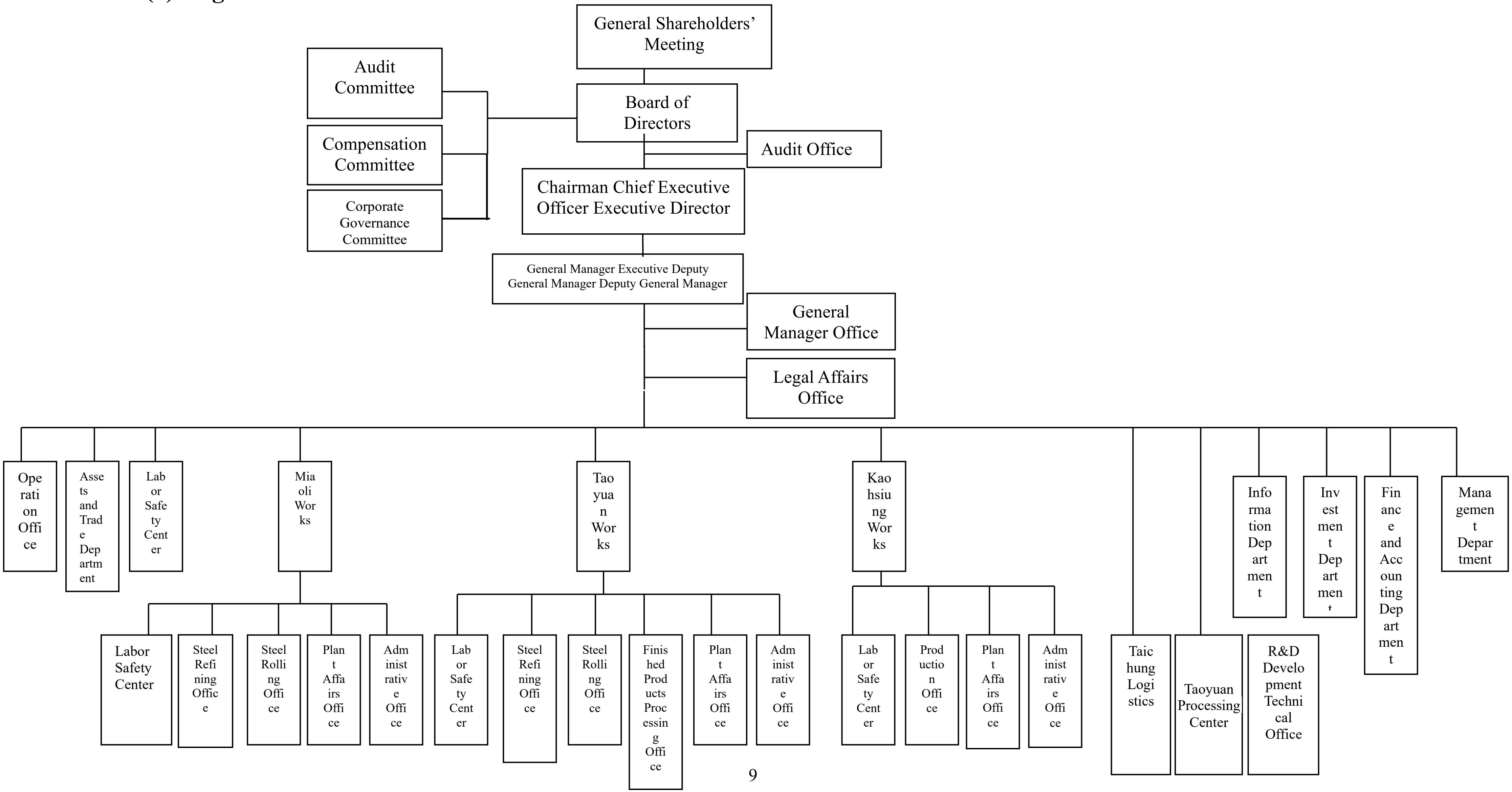
**(5) Significant changes in the operating methods or business contents in the most recent year and up to the date of publication of the annual report: None.**

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

# III. Corporate Governance Report

## 1. Organization System

### (1) Organization chart



**(2) Business carried out by major departments**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Date: March20, 2020

| Title | Nationality or Place of Registration | Name | Gender | Date Elected | Term | Date First Elected | Shareholding when Elected | | Current Shareholding | | Spouse & Minor Current Shareholding | | Current Shareholding in the Name of Others | | Experience (Education) | Current Position at the Company and Other Companies | Spouse or Second-degree Relative Holding a Position as a Manager, Director or Supervisor | | | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Share | % | Share | % | Share | % | Share | % | | | Title | Name | Relations | |
| Institutional Director | Taiwan | Mao Sheng Investment Co., Ltd. | N/A | 2017.06.16 | 3 years | 2014.06.18 | 51,888,877 | 5.20% | 60,407,877 | 6.02% | N/A | N/A | 0 | 0% | N/A | N/A | N/A | N/A | N/A | None |
| Chairman | Taiwan | Mao Shen Investment Co., Ltd Representative: Henry C. T. Ho | Male | 2017.06.16 | 3 years | 2002.06.27 | 142,426 | 0.01% | 142,426 | 0.01% | 113,000 | 0.01% | 0 | 0% | Department of Economics at Harvard University USA | Chairman of Tung Kang Steel Structure Co., Ltd. Chairman of Tung Kang Wid Power Corp. Chairman of Far East Steel Enterprise Co., Ltd. Chairman of ShenYuan Investment Co., Ltd. Chairman of Wan Nian Department Store Co., Ltd. Chairman of He Zhao Investment Co., Ltd. Chairman of Mao Shen Investment Co., Ltd. Director of Shang Fu Industrial Inc. Director of Katec Creative Resources Corp. Director of Katec R&D | Director | George Y. S. Ho | Mother/Son Brothers | The chairman of the Company worked concurrently as the general manager to unify the business operations and maintain business performance and efficiency. It is necessary to temporarily maintain this mode. Moreover, to achieve supervision purposes, there are over half of the directors in the board who did not concurrently work as employees or managers. However, considering long-term improvement on the needs for corporate governance, the Company is currently actively cultivating apprentices for general manager and will recruit general manager in an appropriate time depends on the actual needs. |

| Title | Nationality or Place of Registration | Name | Gender | Date Elected | Term | Date First Elected | Shareholding when Elected | | Current Shareholding | | Spouse & Minor Current Shareholding | | Current Shareholding in the Name of Others | | Experience (Education) | Current Position at the Company and Other Companies | Spouse or Second-degree Relative Holding a Position as a Manager, Director or Supervisor | | | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Share | % | Share | % | Share | % | Share | % | | | Title | Name | Relations | |
| | | | | | | | | | | | | | | | | Corp.<br>Director of Tung Kang Engineering & Construction Co., Ltd.<br>Director of Fata Xingye Co., Ltd.<br>Director of Tung Ho Steel Vietnam Corp. Ltd.<br>Director of Goldham Development Ltd.<br>Director of 3 Oceans International Inc.<br>Director of Tung Yuan International Corp.<br>Director of Best-Steel Trade Corp.<br>Director of Fujian Sino-Japan Metal Corp.<br>Chairman of Tung Tang Energy Co., Ltd.<br>Director of Mingtai Entertainment Co., Ltd.<br>Director of Tung Ho Steel Foundation<br>Chairman of THS Foundation | | | | |

| Title | Nationality or Place of Registration | Name | Gender | Date Elected | Term | Date First Elected | Shareholding when Elected | | Current Shareholding | | Spouse & Minor Current Shareholding | | Current Shareholding in the Name of Others | | Experience (Education) | Current Position at the Company and Other Companies | Spouse or Second-degree Relative Holding a Position as a Manager, Director or Supervisor | | | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Share | % | Share | % | Share | % | Share | % | | | Title | Name | Relations | |
| Director | Taiwan | Mao Sheng Investment o., Ltd. Representative: George Y. S. Ho | Male | 2017.06.16 | 3 years | 1996.05.23 | 100,000 | 0.01% | 10,000 | 0% | 0 | 0% | 0 | 0% | Department of Environment and Visual Art at Harvard University, USA | Supervisor of ShenYuan Investment Co., Ltd. Director of He Zhao Investment Co., Ltd. Director of He Xing Investment Co., Ltd. Chairman of Spring Foundation | Chairman | Henry C. T. Ho | Brothers | None |
| Institutional Director | Taiwan | Shen Yuan Investment Co., Ltd. (Note) | N/A | 2017.06.16 | 3 years | 1988.08.18 | 120,199,779 | 12.04% | 139,505,779 | 13.89% | N/A | N/A | 0 | 0% | N/A | N/A | N/A | N/A | N/A | None |
| Director | Taiwan | Shen Yuan Investment Co., Ltd. Representative: Hui-Ming Wu | Male | 2017.06.16 | 3 years | 2014.06.18 | 128,432 | 0.01% | 128,432 | 0.01% | 0 | 0% | 0 | 0% | Department of Mining and Metallurgical Engineering at Taipei Engineering Professional School | None | None | None | None | None |
| Institutional Director | Taiwan | Episil Holding Incorporation | N/A | 2017.06.16 | 3 years | 2014.06.18 | 5,055,649 | 0.51% | 5,055,649 | 0.50% | N/A | N/A | 0 | 0% | N/A | N/A | N/A | N/A | N/A | None |
| Director | Taiwan | Episil Holding Incorporation Representative: Chih-Ming | Male | 2017.06.16 | 3 years | 1988.08.18 | 4,591,397 | 0.46% | 484,337 | 0.05% | 0 | 0% | 0 | 0% | MBA from California State University | Director of Episil Holding Incorporation Supervisor of Far East Steel Enterprise Co., Ltd. | None | None | None | None |

| Title | Nationality or Place of Registration | Name | Gender | Date Elected | Term | Date First Elected | Shareholding when Elected | | Current Shareholding | | Spouse & Minor Current Shareholding | | Current Shareholding in the Name of Others | | Experience (Education) | Current Position at the Company and Other Companies | Spouse or Second-degree Relative Holding a Position as a Manager, Director or Supervisor | | | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Share | % | Share | % | Share | % | Share | % | | | Title | Name | Relations | |
| | | Huang | | | | | | | | | | | | | | Yu Tai Investment Co., Ltd. | | | | |
| Institutional Director | Taiwan | Liang Cheng Investment Co., Ltd. | N/A | 2017.06.16 | 3 years | 2014.06.18 | 11,185,973 | 1.12% | 11,185,973 | 1.11% | N/A | N/A | 0 | 0% | N/A | N/A | N/A | N/A | N/A | None |
| Director | Taiwan | Liang Cheng Investment Co., Ltd. Representative: Pao-He Chen | Male | 2017.06.16 | 3 years | 1988.08.18 | 4,533,205 | 0.45% | 1,073,205 | 0.11% | 5,106 | 0% | 0 | 0% | MBA from Canada Royal University | Chairman of He Cheng Investment Co., Ltd. Chairman of Chi Cheng Investment Co., Ltd. Chairman of Jian Qing Investment Co., Ltd. Chairman of Liang Cheng Investment Co., Ltd. Chairman of Ching Beauty Biology Co., Ltd. Chairman of Meng Cheng Technology Co., Ltd. Chairman of Shui Tzu Yuan Biotech Co., Ltd. | None | None | None | None |
| Director | Taiwan | Yen-Liang Ho | Male | 2017.06.16 | 3 years | 1999.05.23 | 361,670 | 0.04% | 361,670 | 0.04% | 0 | 0% | 0 | 0% | EMBA, Aalto University, Finland | Chairman of Enzen GS Chemical Co., Ltd. Chairman of Hao Han Investment Co., Ltd. | None | None | None | None |
| Institutional Director | Taiwan | Taiwan Zhi Di Co., Ltd. | N/A | 2017.06.16 | 3 years | 2014.06.18 | 65,000 | 0.01% | 65,000 | 0.01% | N/A | N/A | 0 | 0% | N/A | N/A | N/A | N/A | N/A | None |

| Title | Nationality or Place of Registration | Name | Gender | Date Elected | Term | Date First Elected | Shareholding when Elected | | Current Shareholding | | Spouse & Minor Current Shareholding | | Current Shareholding in the Name of Others | | Experience (Education) | Current Position at the Company and Other Companies | Spouse or Second-degree Relative Holding a Position as a Manager, Director or Supervisor | | | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Share | % | Share | % | Share | % | Share | % | | | Title | Name | Relations | |
| Director | Taiwan | Taiwan Zhi Di Co., Ltd. Representative: Chao-He Lin | Male | 2017.06.16 | 3 years | 2011.06.24 | 318,887 | 0.03% | 318,887 | 0.03% | 0 | 0% | 0 | 0% | Department of Economics from Soochow University | Chairman of Rui Nian Management & Consulting Co., Ltd. | None | None | None | None |
| Independent Director | Taiwan | Yi-Chi Liu | Male | 2017.06.16 | 3 years | 2014.06.18 | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% | Mater Degree on Department of Accounting at National Chengchi University | Supervisor of Tah Tong Textile Co., Ltd. Independent Director of MiTwell Co., Ltd. | None | None | None | None |
| Independent Director | Taiwan | Chung-Hsi Chang | Male | 2017.06.16 | 3 years | 2014.06.18 | 6,685 | 0% | 6,685 | 0% | 6,685 | 0% | 0 | 0% | PhD in Law and Political Science from the Pantheon-Assas University | None | None | None | None | None |
| Independent Director | Taiwan | De-Ming Liu | Male | 2017.06.16 | 3 years | 2017.06.16 | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% | PhD in Economics Ohio State University | Independent Director of Lasertek Co., Ltd. Independent Director of CSBC Co., Taiwan | None | None | None | None |

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

Table 1: Major shareholders of the institutional shareholders

Date: Feb. 29, 2020

| Name of Institutional Shareholder (Note 1) | Major Shareholders of Institutional Shareholders (Note 2) |
|---|---|
| Mao Sheng Investment Co., Ltd | Shu-Chau Wang Ho 41.78%, Henry C. T. Ho11.73% |
| Shen Yuan Investment Co., Ltd. | Shu-Chau Wang Ho 78.92% |
| Epsil Holding Incorporation | Yun Hsuan Huang 41.67%, Yu Hsuan Huang 41.67%、Chih-Ming Huang 8.33%, Mei-Chu Cheng 8.33% |
| Liang Cheng Investment Co., Ltd. | British Virgin Islands JUSTIN Investment Management 100% |
| Taiwan Zhi Di Co., Ltd. | Sheng-Yu Chen 52%, Shu-Zhen Ho46% |

Note 1: If the institutional shareholder is a representative for a director, the institutional shareholder's name shall be stated.
Note 2: Fill in the name of the main shareholder of the institutional shareholder (its shareholding ratio is in the top ten) and its shareholding ratio. If the major shareholders are institutional shareholders, Table 2 shall be filled.

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

Date: Feb. 29, 2020

| Name of Institutional Shareholders | Major shareholders |
|---|---|
| N/A | None |

## Information on the Company's directors-2

December 31, 2019

| Criteria / Name | Meet one of the Following Professional Qualification Requirements, Together with at least Five Years Work Experience | | | Independence Attribute (Note) | | | | | | | | | | | | Number of Holding Concurrent Independent Director Position in Other Public Companies |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University | A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or other Professional or Technical Specialist who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company | Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | |
| Mao Sheng Investment Co., Ltd Representative : Henry C. T. Ho | | | ✓ | | | ✓ | ✓ | | ✓ | | | ✓ | | ✓ | | 0 |

| Criteria / Name | Meet one of the Following Professional Qualification Requirements, Together with at least Five Years Work Experience | | | Independence Attribute (Note) | | | | | | | | | | | | Number of Holding Concurrent Independent Director Position in Other Public Companies |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University | A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or other Professional or Technical Specialist who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company | Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | |
| Mao Sheng Investment Co., Ltd Representative: George Y. S. Ho | | | | ✓ | ✓ | ✓ | | | ✓ | ✓ | | ✓ | | ✓ | | 0 |

| Criteria / Name | Meet one of the Following Professional Qualification Requirements, Together with at least Five Years Work Experience | | | Independence Attribute (Note) | | | | | | | | | | | | Number of Holding Concurrent Independent Director Position in Other Public Companies |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University | A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or other Professional or Technical Specialist who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company | Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | |
| Shen Yuan Investment Co., Ltd. Representative: Hui-Ming Wu | | | ✓ | ✓ | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | 0 |

| Criteria / Name | Meet one of the Following Professional Qualification Requirements, Together with at least Five Years Work Experience | | | Independence Attribute (Note) | | | | | | | | | | | | Number of Holding Concurrent Independent Director Position in Other Public Companies |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University | A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or other Professional or Technical Specialist who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company | Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | |
| Epsil Holding Incorporation Representative: Chih-Ming Huang | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | 0 |

| Criteria / Name | Meet one of the Following Professional Qualification Requirements, Together with at least Five Years Work Experience | | | Independence Attribute (Note) | | | | | | | | | | | | Number of Holding Concurrent Independent Director Position in Other Public Companies |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University | A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or other Professional or Technical Specialist who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company | Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | |
| Liang Cheng Investment Co., Ltd. Representative: Pao-He Chen | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | 0 |
| Yen-Liang Ho | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 0 |

| Criteria / Name | Meet one of the Following Professional Qualification Requirements, Together with at least Five Years Work Experience | | | Independence Attribute (Note) | | | | | | | | | | | | Number of Holding Concurrent Independent Director Position in Other Public Companies |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University | A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or other Professional or Technical Specialist who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company | Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | |
| Taiwan Zhi Di Co., Ltd. Representative: Chao-He Lin | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | 0 |
| Independent Director: Yi-Chi Liu | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 1 |

| Criteria / Name | Meet one of the Following Professional Qualification Requirements, Together with at least Five Years Work Experience | | | Independence Attribute (Note) | | | | | | | | | | | | Number of Holding Concurrent Independent Director Position in Other Public Companies |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University | A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or other Professional or Technical Specialist who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company | Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | |
| Independent Director: Chung-Hsi Chang | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 0 |
| Independent Director: De-Ming Liu | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 2 |

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

(1) Not an employee of this Company or its affiliates.
(2) Not a Director or Supervisor of the Company or its affiliates, (however, this does not apply, in case where the person is an Independent Director of the Company or its parent company, subsidiary or subsidiary of the same parent company are set up according to this Act or local country ordinances).
(3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children or held by the person under others' names, in an aggregate amount of one percent or more of the total number of outstanding shares of the Company or ranking in the top ten in holdings.
(4) Not a spouse, second-degree relative or third-degree relative of the managers in (1) or persons in (2) or (3).
(5) Not a director, supervisor, or employees of a corporate shareholder that directly holds five percent or more of the total number of outstand shares of the Company or that holds shares ranking in the top five in holdings or is the representative being assigned as the director or supervisor of the Company by in accordance with Article 27, Paragraph 1 or 2 of the Company Act, (However, this does not apply, in case where the person is an Independent Director of the Company or its parent company, subsidiary or subsidiary of the same parent company are set up according to this Act or local country ordinances).
(6)Not a director, supervisor or employee of other company which has over half of the number of directors' seats or shares with voting rights of the Company and is controlled by the same person (however, this does not apply, in case where the person is an Independent Director of the Company or its parent company, subsidiary or subsidiary of the same parent company are set up according to this Act or local country ordinances).
(7)Not a director, supervisor or employee of other companies or institution which concurrently works as or in a spouse relationship to the chairman, general manager or personnel of relative duties of the Company (however, this does not apply, in case where the person is an Independent Director of the Company or its parent company, subsidiary or subsidiary of the same parent company are set up according to this Act or local country ordinances).
(8) Not a director, supervisor, manager or a shareholder holing five percent or more of the shares of a company or institution that has a business or financial relationship with the Company, (however, this does not apply, in case where the specific company or institution holds over 20% but less than 50% of the total number of issued shares of the Companyand the person is an Independent Director of the Company or its parent company, subsidiary or subsidiary of the same parent company are set up according to this Act or local country ordinances).
(9) Not a professional who provides auditing, nor a professional who provides commercial legal, financial, accounting, or consulting services to the Company or its affiliates with the cumulated remuneration within the last two years less than NT$500,000, nor is an owner, partner, director, supervisor, or manager, or the spouse of any of the above, of a sole proprietorship, partnership, company, or organization that provides such service to the Company or its affiliates, however, this does not apply for members ofcompensation committee, public acquisition audit committeeor special committee for merger who exercise power in accordance with relevant laws and regulations in Securities and Exchange Act or Business Mergers and Acquisitions Act.
(10) Not a spouse or relative of second degree or closer to any other directors.
(11) Situation listed in any Sections of Article 30 of the Company Act did not occur.
(12) Not an elect in the name of a government institution, or its representative as defined in Article 27 of the Company Law.

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

Date: March 20, 2020

| Title | Nationality or Place of Registration | Name | Gender | Date Elected | Shareholding | | Spouse & Minor Current Shareholding | | Current Shareholding in the Name of Others | | Experience (Education) | Current Position at the Company and Other Companies | Spouse or Second Degree Relative Holding a Position as a Manager | | | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Share | % | Share | % | Share | % | | | Title | Name | Relations | |
| General Manager | Taiwan | Henry C. T. Ho | Male | 2009.10.16 | 142,426 | 0.01% | 113,000 | 0.01% | 0 | 0% | Department of Economics at Harvard University | Chairman of Tung Kang Steel Structure Co., Ltd.<br>Chairman of Tung Kang Wid Power Corp.<br>Chairman of Far East Steel Enterprise Co., Ltd.<br>Chairman of ShenYuan Investment Co., Ltd.<br>Chairman of Wan Nian Department Store Co., Ltd.<br>Chairman of He Zhao Investment Co., Ltd.<br>Chairman of Mao Shen Investment Co., Ltd.<br>Director of Shang Fu Industrial Inc.<br>Director of Katec Creative Resources Corp.<br>Director of Katec R&D Corp.<br>Director of Tung Kang Engineering & Construction Co., Ltd.<br>Director of Fata Xingye Co., Ltd.<br>Director of Tung Ho Steel Vietnam Corp. Ltd.<br>Director of Goldham Development Ltd.<br>Director of 3 Oceans International Inc.<br>Director of Tung Yuan International Corp.<br>Director of Best-Steel Trade Corp.<br>Director of Fujian Sino-Japan Metal Corp.<br>Chairman of Tung Tang Energy Co., Ltd.<br>Director of Mingtai Entertainment Co., Ltd.<br>Director of Tung Ho Steel Foundation<br>Chairman of THS Foundation | None | None | None | The chairman of the Company worked concurrently as the general manager to unify the business operations and maintain business performance and efficiency. It is necessary to temporarily maintain this mode. Moreover, to achieve supervision purposes, there are over half of the directors in the board who did not concurrently work as employees or managers. However, considering long-term improvement on the needs for corporate governance, |

| Title | Nationality or Place of Registration | Name | Gender | Date Elected | Shareholding | | Spouse & Minor Current Shareholding | | Current Shareholding in the Name of Others | | Experience (Education) | Current Position at the Company and Other Companies | Spouse or Second Degree Relative Holding a Position as a Manager | | | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Share | % | Share | % | Share | % | | | Title | Name | Relations | |
| | | | | | | | | | | | | | | | | the Company is currently actively cultivating apprentices for general manager and will recruit general manager in an appropriate time depends on the actual needs. |
| Executive Vice General Manager | Taiwan | Bing-Hua Huang | Male | 2019.05.14 | 6,444 | 0% | 642 | 0% | 1,075,000 | 0.11% | Master's degree from Material Development Institute of National Cheng Kung University | Chairman of Tung Ho Steel Vietnam Corp. Ltd.<br>Director of Tung Kang Engineering & Construction Co., Ltd.<br>Director of Tungjing Investment Co., Ltd.<br>Director of Tung Ho Steel Foundation<br>Director of Best-Steel Trade Corp. | None | None | None | None |

| Title | Nationality or Place of Registration | Name | Gender | Date Elected | Shareholding | | Spouse & Minor Current Shareholding | | Current Shareholding in the Name of Others | | Experience (Education) | Current Position at the Company and Other Companies | Spouse or Second Degree Relative Holding a Position as a Manager | | | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Share | % | Share | % | Share | % | | | Title | Name | Relations | |
| Vice General Manager of Production Department | Taiwan | Fu-Jin Chen | Male | 2017.01.01 | 589 | 0% | 0 | 0% | 515,000 | 0.05% | Kaohsiung Municipal Kaohsiung Industrial High School | Chairman of Katec Creative Resources Corp.<br>Director of Taiwan Steel Union | None | None | None | None |
| Vice General Manager of Sales Department | Taiwan | Kuan-Ren Gu | Male | 2009.10.16 | 69,855 | 0.01% | 100 | 0% | 0 | 0% | Department of Economics at Chinese Culture University | Director of Tung Kang Engineering & Construction Co., Ltd.<br>Chairman of Fata Xingye Co., Ltd.<br>Vice Chairman of Tung Kang Engineering & Construction Co., Ltd.<br>Supervisor of Fujian Fujian Tung Kang Steel Co., Ltd.<br>Director of Tung Ho Steel Foundation | None | None | None | None |
| Vice General Manager of Assets and Trade Department | Taiwan | Qi-Xie Lin | Male | 2009.10.16 | 21,799 | 0% | 0 | 0% | 0 | 0% | Department of Materials and Science and Engineering from Tsinghua University | Chairman of Fujian Sino-Japan Metal Corp.<br>Director of 3 Oceans International Inc.<br>Director of Tung Yuan International Corp.<br>Director of Xiaogang Warehousing Inc.<br>Director of Chien Shing Harbour Service Co., Ltd.<br>Director of Tung Ho Steel Vietnam Corp. Ltd.<br>Director of Tung Ho Steel Foundation | None | None | None | None |
| Vice General Manager of Financial Department | Taiwan | Bo-Xun Tung | Male | 2014.07.10 | 23,381 | 0% | 0 | 0% | 130,000 | 0.01% | Master's degree in Business Management from the Business Institute of National Chengchi University<br><br>Department of Economics at National Taiwan University | Director of Tung Kang Wind Power Corp.<br>Supervisor of Hexawave Inc.<br>Director of Tung Kang Engineering & Construction Co., Ltd.<br>Director of Tung Yuan International Corp.<br>Director of Goldham Development Ltd. | None | None | None | None |

| Title | Nationality or Place of Registration | Name | Gender | Date Elected | Shareholding | | Spouse & Minor Current Shareholding | | Current Shareholding in the Name of Others | | Experience (Education) | Current Position at the Company and Other Companies | Spouse or Second Degree Relative Holding a Position as a Manager | | | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Share | % | Share | % | Share | % | | | Title | Name | Relations | |
| Assistant Manager of the General Manager's Office | Taiwan | Chang-Hong Li | Male | 2011.10.01 | 3,137 | 0% | 0 | 0% | 0 | 0% | Mater degree from Institute of Management Science, Chiao Tung Unicersity | None | None | None | None | None |
| Assistant Manager of Operations Department | Taiwan | Ru-Yin Fan | Female | 2009.11.01 | 7,000 | 0% | 0 | 0% | 0 | 0% | Department of International Trade at International Business Professional School | None | None | None | None | None |
| Assistant Manager of Investment Department | Taiwan | Zhen-Yuan Chen | Male | 2009.11.01 | 0 | 0% | 0 | 0% | 0 | 0% | Department of International Trade at Feng Chia University | None | None | None | None | None |
| Assistant Manager of Investment Department | Taiwan | Jun-Sheng Jian | Male | 2009.11.01 | 870 | 0% | 0 | 0% | 0 | 0% | Master's degree from College of Technology Management at National Tsing Hua University<br><br>Department of Industrial Engineering at Taipei Engineering Professional School | Chairman of De He International Enterprise Co., Ltd.<br><br>Vice General Manager of De He International Enterprise Co., Ltd. | None | None | None | None |
| Assistant Manager of Investment Department | Taiwan | Zheng-Bin Chiu | Male | 2010.06.01 | 5,027 | 0% | 0 | 0% | 0 | 0% | Department of Mechanical Engineering at United Engineering Professional School | Chairman of Fujian Tung Kang Steel Co., Ltd.<br>Director of Goldham Development Ltd.<br>General Manager of Tung Kang Engineering & Construction Co., Ltd.<br>Director of Liyu Venture Capital Co., Ltd.<br>Supervisor of Fujian Tungsheng Metal Processing Co., Ltd.<br>Director of Lishi Venture Capital Co., Ltd. | None | None | None | None |

| Title | Nationality or Place of Registration | Name | Gender | Date Elected | Shareholding | | Spouse & Minor Current Shareholding | | Current Shareholding in the Name of Others | | Experience (Education) | Current Position at the Company and Other Companies | Spouse or Second Degree Relative Holding a Position as a Manager | | | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Share | % | Share | % | Share | % | | | Title | Name | Relations | |
| Assistant Manager of Investment Department | Taiwan | Yi-Zhi Hsu | Male | 2019.02.11 | 307 | 0% | 0 | 0% | 0 | 0% | Master's degree in Business Management from National Tsing Hua University<br><br>Master's degree in Department of Materials Science from National Cheng Kung University | General Manager of Tung Ho Steel Vietnam Corp. Ltd. | None | None | None | None |
| Manager of Corporate Governance and Assistant Manager of Administration Department | Taiwan | Ru-Yu He | Female | 2011.10.01 | 2,000 | 0% | 0 | 0% | 0 | 0% | Master's degree in Business Administration from Institute of Business, Chung Yuan Christian University | Director of Katec R&D<br>Supervisor of Katec Creative Resources Corp.<br>Supervisor of Tung Kang Wind Power Corp. | None | None | None | None |
| Assistant Manager of Systems Engineering Department | Taiwan | Zhe-Chong Lin | Male | 2005.05.01 | 9,822 | 0% | 0 | 0% | 0 | 0% | Master's degree in Information Management from Institute of Management from Sun Yat-Sen University | Director of Han Jing Optoelectronics Inc.<br>Director of Han Wei Optoelectronics Inc. | None | None | None | None |
| Manager of Work Safety Center | Taiwan | Yi-Lin Wang | Male | 2008.12.01 | 10,444 | 0% | 8,242 | 0% | 0 | 0% | Department of Economics at Tamkang University | None | None | None | None | None |
| Manager of Legal Affairs Office | Taiwan | Jun-Xian Zhao | Male | 2012.09.01 | 4,318 | 0% | 0 | 0% | 0 | 0% | Department of Law, Chinese Culture University | None | None | None | None | None |

| Title | Nationality or Place of Registration | Name | Gender | Date Elected | Shareholding | | Spouse & Minor Current Shareholding | | Current Shareholding in the Name of Others | | Experience (Education) | Current Position at the Company and Other Companies | Spouse or Second Degree Relative Holding a Position as a Manager | | | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Share | % | Share | % | Share | % | | | Title | Name | Relations | |
| Assistant Deputy Manager of Auditing Office | Taiwan | Yi-Ru Chen | Female | 2011.10.01 | 0 | 0% | 0 | 0% | 0 | 0% | Department of Statistics at Feng Chia University | None | None | None | None | None |
| Director of Taoyuan Works | Taiwan | De-Xiu Chen | Male | 2019.02.11 | 56,911 | 0.01% | 0 | 0% | 0 | 0% | Master's degree in Information from New Jersey Institute of Technology, USA | Director of De He International Enterprise Co., Ltd. | None | None | None | None |
| Director of Miaoli Works | Taiwan | Ming-Zong Liu | Male | 2008.09.01 | 3,112 | 0% | 0 | 0% | 230,000 | 0.02% | Master's degree in Materials Science and Engineering from National Taiwan University | Director of Taiwan Steel United Inc.<br>Director of Fujian Sino-Japan Metal Corp. | None | None | None | None |
| Director of Kaohsiung | Taiwan | Zong-Yu Wang | Male | 2011.07.01 | 37 | 0% | 0 | 0% | 245,000 | 0.02% | Master's degree in Financial Management from National Sun Yat-Sen University | None | None | None | None | None |

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

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

December 31, 2019

| Title | Name | Directors Compensation | | | | | | | | Ratio of Total Remuneration (A+B+C+D) to Net Income (%) | | Relevant Remuneration Received by Directors who are also Employees | | | | | | | | Ratio of Total Remuneration (A+B+C+D+E+F+G) to Net Income (%) | | Compensation Paid from an Invested Company other than the Company's Subsidiary |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Base Compensation (A) | | Pension (B) | | Directors' Compensation (C) | | Business Execution Expenses (D) | | | | Salaries, Bonuses and Allowances (E) | | Pension (F) | | Employee Compensation (G) | | | | | | |
| | | The Company | All Companies in the Consolidated Financial Statements | The Company | All Companies in the Consolidated Financial Statements | The Company | All Companies in the Consolidated Financial Statements | The Company | All Companies in the Consolidated Financial Statements | The Company | All Companies in the Consolidated Financial Statements | The Company | All Companies in the Consolidated Financial Statements | The Company | All Companies in the Consolidated Financial Statements | The Company | | All Companies in the Consolidated Financial Statements | | The Company | All Companies in the Consolidated Financial Statements | |
| | | | | | | | | | | | | | | | | Cash | Stock | Cash | Stock | | | |
| Chairman | Mao Sheng Investment Co., Ltd. Representative: Henry C. T. Ho | 2,580,000 | 2,580,000 | 0 | 0 | 6,071,350 | 6,071,350 | 40,000 | 40,000 | 0.55 | 0.55 | 10,824,402 | 12,396,402 | 549,879 | 549,879 | 484,990 | 0 | 484,990 | 0 | 1.31 | 1.41 | None |
| Director | Mao Shen Investment Co., Ltd. Representative: George Y. S. Ho | 360,000 | 360,000 | 0 | 0 | 6,071,349 | 6,071,349 | 35,000 | 35,000 | 0.41 | 0.41 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.41 | 0.41 | None |
| Director | Shen Yuan Investment Co., Ltd. | 360,000 | 360,000 | 0 | 0 | 28,072,556 | 28,072,556 | 35,000 | 35,000 | 1.82 | 1.82 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1.82 | 1.82 | None |

| Title | Name | Directors Compensation | | | | | | | | Ratio of Total Remuneration (A+B+C+D) to Net Income (%) | | Relevant Remuneration Received by Directors who are also Employees | | | | | | | | Ratio of Total Remuneration (A+B+C+D+E+F+G) to Net Income (%) | | Compensation Paid from an Invested Company other than the Company's Subsidiary |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Base Compensation (A) | | Pension (B) | | Directors' Compensation (C) | | Business Execution Expenses (D) | | | | Salaries, Bonuses and Allowances (E) | | Pension (F) | | Employee Compensation (G) | | | | | | |
| | | The Company | All Companies in the Consolidated Financial Statements | The Company | All Companies in the Consolidated Financial Statements | The Company | All Companies in the Consolidated Financial Statements | The Company | All Companies in the Consolidated Financial Statements | The Company | All Companies in the Consolidated Financial Statements | The Company | All Companies in the Consolidated Financial Statements | The Company | All Companies in the Consolidated Financial Statements | The Company | | All Companies in the Consolidated Financial Statements | | The Company | All Companies in the Consolidated Financial Statements | |
| | | | | | | | | | | | | | | | | Cash | Stock | Cash | Stock | | | |
| | Representative: Hui-Ming Wu | | | | | | | | | | | | | | | | | | | | | |
| Director | Epsil Holding Incorporation Representative:Chih-Ming Huang | 360,000 | 360,000 | 0 | 0 | 1,074,198 | 1,074,198 | 35,000 | 35,000 | 0.09 | 0.09 | 0 | 0 | 0 | 0 | 00 | 0 | 0 | 0 | 0.09 | 0.09 | None |
| Director | Liang Cheng Investment Co., Ltd. Representative: Pao-He Chen | 360,000 | 360,000 | 0 | 0 | 2,376,738 | 2,376,738 | 35,000 | 35,000 | 0.18 | 0.18 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.18 | 0.18 | None |
| Director | Yen-Liang Ho | 360,000 | 360,000 | 0 | 0 | 76,846 | 76,846 | 30,000 | 30,000 | 0.03 | 0.03 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.03 | 0.03 | None |
| Direc | Taiwan Zhi | 360,000 | 360,000 | 0 | 0 | 13,811 | 13,811 | 35,000 | 35,000 | 0.03 | 0.03 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.03 | 0.03 | None |

| Title | Name | Directors Compensation | | | | | | | | Ratio of Total Remuneration (A+B+C+D) to Net Income (%) | | Relevant Remuneration Received by Directors who are also Employees | | | | | | | | Ratio of Total Remuneration (A+B+C+D+E+F+G) to Net Income (%) | | Compensation Paid from an Invested Company other than the Company's Subsidiary |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Base Compensation (A) | | Pension (B) | | Directors' Compensation (C) | | Business Execution Expenses (D) | | | | Salaries, Bonuses and Allowances (E) | | Pension (F) | | Employee Compensation (G) | | | | | | |
| | | The Company | All Companies in the Consolidated Financial Statements | The Company | All Companies in the Consolidated Financial Statements | The Company | All Companies in the Consolidated Financial Statements | The Company | All Companies in the Consolidated Financial Statements | The Company | All Companies in the Consolidated Financial Statements | The Company | All Companies in the Consolidated Financial Statements | The Company | All Companies in the Consolidated Financial Statements | The Company | | All Companies in the Consolidated Financial Statements | | The Company | All Companies in the Consolidated Financial Statements | |
| | | | | | | | | | | | | | | | | Cash | Stock | Cash | Stock | | | |
| tor | Di Co., Ltd. Representative: Chao-He Lin | | | | | | | | | | | | | | | | | | | | | |
| Independent Director | Yi-Chi Liu | 1,080,000 | 1,080,000 | 0 | 0 | 0 | 0 | 85,000 | 85,000 | 0.07 | 0.07 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.07 | 0.07 | None |
| Independent Director | Chung-Hsi Chang | 1,110,000 | 1110000 | 0 | 0 | 0 | 0 | 80,000 | 80,000 | 0.08 | 0.08 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.08 | 0.08 | None |
| Independent Director | De-Ming Liu | 990,000 | 990,000 | 0 | 0 | 0 | 0 | 85,000 | 85,000 | 0.07 | 0.07 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.07 | 0.07 | None |

| Title | Name | Directors Compensation | | | | | | | | Ratio of Total Remuneration (A+B+C+D) to Net Income (%) | | Relevant Remuneration Received by Directors who are also Employees | | | | | | | | Ratio of Total Remuneration (A+B+C+D+E+F+G) to Net Income (%) | | Compensation Paid from an Invested Company other than the Company's Subsidiary |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Base Compensation (A) | | Pension (B) | | Directors' Compensation (C) | | Business Execution Expenses (D) | | | | Salaries, Bonuses and Allowances (E) | | Pension (F) | | Employee Compensation (G) | | | | | | |
| | | The Company | All Companies in the Consolidated Financial Statements | The Company | All Companies in the Consolidated Financial Statements | The Company | All Companies in the Consolidated Financial Statements | The Company | All Companies in the Consolidated Financial Statements | The Company | All Companies in the Consolidated Financial Statements | The Company | All Companies in the Consolidated Financial Statements | The Company | All Companies in the Consolidated Financial Statements | The Company | | All Companies in the Consolidated Financial Statements | | The Company | All Companies in the Consolidated Financial Statements | |
| | | | | | | | | | | | | | | | | Cash | Stock | Cash | Stock | | | |

1.Please clearly state the policies, systems, standards and structures for paying remuneration to independent directors and the relation between factors, such as the duties taken, risks, devoted time, and the amount of remuneration: Remuneration standard for independent directors of our company:

(1) Remuneration will be paid on a monthly fixed basis, without participating in the distribution of surplus, and attendance fees will be paid according to the actual number of meetings attended.

(2) If they are a member of the functional committees of the company, we may pay a fixed monthly remuneration to the functional committee members, and pay the attendance fee according to the actual number of meetings attended.

The remuneration payment for the independent directors of our company is determined in accordance with the business participation and contribution value from each independent director and by referencing the paid amount by listed companies of the same industry and of relevant industries. After the assessment, discussion and suggestions by the remuneration committee, the proposal will be submitted to the board of directors to confirm.

2.In addition to the numbers disclosed above, the remuneration obtained by the directors of the Company in recent years due to their provisions of services to all the companies in the financial statement (such as serving as non-employee consultant): None.

Note: A driver has been appointed to the Chairman and a total of NT$869,211 was paid in 2019.

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

Date: December 31, 2019

<table>
<tr><th rowspan="3">Title</th><th rowspan="3">Name</th><th colspan="2">Salary (A)</th><th colspan="2">Pension (B)</th><th colspan="2">Bonus and Special Fees (C)</th><th colspan="4">Employee Remuneration(D)</th><th colspan="2">The Sum of A, B, C and D as a Percentage of After-tax Net Profit (%)</th><th rowspan="3">Remuneration from Reinvested Business other than Subsidiaries</th></tr>
<tr><th rowspan="2">The Company</th><th rowspan="2">All Companies in the Consolidated Financial Statements</th><th rowspan="2">The Company</th><th rowspan="2">All Companies in the Consolidated Financial Statements</th><th rowspan="2">The Company</th><th rowspan="2">All Companies in the Consolidated Financial Statements</th><th colspan="2">The Company</th><th colspan="2">All Companies in the Consolidated Financial Statements</th><th rowspan="2">The Company</th><th rowspan="2">All Companies in the Consolidated Financial Statements</th></tr>
<tr><th>Cash</th><th>Stock</th><th>Cash</th><th>Stock</th></tr>
<tr><td>General Manager</td><td>Henry C. T. Ho</td><td rowspan="6">20,481,669</td><td rowspan="6">22,053,669</td><td rowspan="6">2,055,639</td><td rowspan="6">2,055,639</td><td rowspan="6">15,073,283</td><td rowspan="6">15,073,283</td><td rowspan="6">1,492,720</td><td rowspan="6">0</td><td rowspan="6">1,492,720</td><td rowspan="6">0</td><td rowspan="6">2.50</td><td rowspan="6">2.60</td><td rowspan="6">None</td></tr>
<tr><td>Vice General Manager</td><td>Bing-Hua Huang</td></tr>
<tr><td>Vice General Manager of Production Department</td><td>Fu-Jin Chen</td></tr>
<tr><td>Vice General Manager</td><td>Kuan-Ren Gu</td></tr>
<tr><td>Vice General Manager</td><td>Bo-Xun Tung</td></tr>
<tr><td>Vice General Manager</td><td>Qi-Xie Lin</td></tr>
</table>

Range of Remuneration

| Range of Remuneration (NT$) | Names of General Managers and Deputy General Managers | |
|---|---|---|
| | The Company | Companies in the Consolidated Financial Statements |
| Under NT$1,000,000 | None | None |
| NT$1,000,000 (included) ~ 2,000,000 (excluded) | None | None |
| NT$2,000,000 (included) ~ 3,500,000 (excluded) | None | None |
| NT$3,500,000 (included) ~ 5,000,000 (excluded) | Bo-Xun Tung, Qi-Xie Lin | Bo-Xun Tung, Qi-Xie Lin |
| NT$5,000,000 (included) ~ 10,000,000 (excluded) | Bing-Hua Huang, Fu-Jin Chen, Kuan-Ren Gu | Fu-Jin Chen, Bing-Hua Huang, Kuan-Ren Gu |
| NT$10,000,000 (included) ~ 15,000,000 (excluded) | Henry C. T. Ho | Henry C. T. Ho |
| NT$15,000,000 (included) ~ 30,000,000 (excluded) | None | None |
| NT$30,000,000 (included) ~ 50,000,000 (excluded) | None | None |
| NT$50,000,000 (included) ~ 100,000,000 (excluded) | None | None |
| Over NT$100,000,000 | None | None |
| Total | 6 persons | 6 persons |

## (3) Managers with Employee Remuneration Distribution

Date: December 31, 2019

| | Title | Name | Stock Bonus | Cash Bonus | Total | Ratio of Total Amount to Net Income (%) |
|---|---|---|---|---|---|---|
| Managers | General Manager | Henry C. T. Ho | 0 | 3,031,500 | 3,031,500 | 0.19 |
| | Executive Vice General Manager | Bing-Hua Huang | | | | |
| | Vice General Manager of Production Department | Fu-Jin Chen | | | | |
| | Vice General Manager | Kuan-Ren Gu | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| | Vice General Manager | Bo-Xun Tung | | | | |
| | Vice General Manager | Qi-Xie Lin | | | | |
| | Assistant General Manager | Chang-Hong Li | | | | |
| | Assistant General Manager | Ru-Yin Fan | | | | |
| | Assistant General Manager | Zhen-Yuan Chen | | | | |
| | Assistant General Manager | Jun-Sheng Jian | | | | |
| | Assistant General Manager | Zheng-Bin Chiu | | | | |
| | Assistant General Manager | Yi-Zhi Hsu | | | | |
| | Assistant General Manager | Ru-Yu He | | | | |
| | Assistant General Manager | Zhe-Chong Lin | | | | |
| | Director of Works | De-Xiu Chen | | | | |
| | Director of Works Director of Works | Ming-Zong Liu | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| | Director of Works | Zong-Yu Wang | | | | |

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

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

| The proportion of the total remuneration of directors, supervisors, general managers and deputy general managers, etc. to net profit after tax in individual financial statements | 2018 | | 2019 | |
|---|---|---|---|---|
| | The Company | All companies in the consolidated financial statements | The Company | All companies in the consolidated financial statements |
| | 9.17% | 9.34% | 5.83% | 5.93% |

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

A: Remuneration Policy to Directors

The remuneration of the Company directors is determined in accordance with the relevant provisions of the Company's Articles of Incorporation. The Company mayallocate no more than2% of the profit for the current year as the remuneration for the directors. To regularly assess the remuneration for the directors, the Company shall consider in accordance with business participation and contribution value of the directors to the Company and refer to the paid situation of listed companies from the same industry and related industries and Company's business performances as well as taking into consideration of the results of the assessment items in "Regulations for Assessing the Performance of the Board": the control over company's objectives and tasks, awareness of directors' duties, participation level on company's business, management and communication of internal relationship, internal control, etc. and regularly assessing the rationality of the remuneration. After the assessment, discussion and suggestions from the remuneration committee, the proposal shall be submitted to the board of directors for approval.

B. Remuneration Policy to General Managers and Deputy General Managers

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

## 4. Corporate Governance Practices

### (1) A.Board of Directors Operation Status

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

| Title | Name | Number of Actual Attendance (B) | By Proxy | Actual Attendance Rate (%) (B/A) | Remarks |
|---|---|---|---|---|---|
| Chairman | Mao Sheng Investment Co., Ltd Representative: Henry C. T. Ho | 7 | 0 | 100.00 | None |
| Director | Mao Sheng Investment Co., Ltd Representative: George Y. S. Ho | 7 | 0 | 100.00 | None |
| Director | Shen Yuan Investment Co., Ltd. Representative: Hui-Ming Wu | 7 | 0 | 100.00 | None |
| Director | Epsil Holding Incorporation Representative: Chih-Ming Huang | 7 | 0 | 100.00 | None |
| Director | Taiwan Zhi Di Co., Ltd. Representative: Chao-He Lin | 7 | 0 | 100.00 | None |
| Director | Liang Cheng Investment Co., Ltd. Representative: Pao-He Chen | 7 | 0 | 100.00 | None |
| Director | Yen-Liang Ho | 6 | 0 | 85.71 | None |
| Independent Director | Yi-Chi Liu | 7 | 0 | 100.00 | None |
| Independent Director | Chung-Hsi Chang | 7 | 0 | 100.00 | None |
| Independent Director | De-Ming Liu | 7 | 0 | 100.00 | None |

**Other matters to be recorded:**

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

(1) Matters specified in Article 14.3 of the Taiwan Securities and Exchange Act: The Company has

established audit committee, and hence this is not applicable.

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

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

| Meeting Date and Period | Meeting Content | Reason for Avoiding Conflict of Interest | Voting Participation |
|---|---|---|---|
| 2019.05.14 The 13th meeting of the 23rd board | Donations to Tung Ho Steel Foundation for their activities and conference funding. | Chairman Henry C. T. Ho is the director of the foundation and director George Y. S. Ho is within 2nd degree of kinship of director Henry C. T. Ho of the Foundation. | The proposal was discussed and voted with independent director De-Ming Liu acted as proxy chairperson. The two directors did not participate in the discussion and voting due to conflict of interest. The remaining directors present approved the case with no dissenting opinion. |
| 2019.09.26 The 16th meeting of the 23rd board | Appointment and remunerations of the members of "Corporate Governance Committee". | Chairman Henry C. T. Ho, independent director Chung-Hsi Chang and independent director De-Ming Liu are the appointed members. | The proposal was discussed and voted with independent director Yi-Chi Liu acted as proxy chairperson. The three directors did not participate in the discussion and voting due to conflict of interest. The remaining directors present approved the case with no dissenting opinion. |

**3. TWSE/GTSM Listed Companies shall disclose the cycle, period, range, method and content of the of the performance of the directors by self (or peer) evaluation, please refer to** 2. Implementations of the evaluation of the board.

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

(1) During the 12th meeting of the 23rd board on March 26, 2019, the board of directors approved the establishment of chief corporate governance officer.

(2) During the 16th meeting of the 23rd board on September 26, 2019, the board of directors approved the establishment of corporate governance committee to promote exclusive unit for corporate social responsibilities and corporate ethical management. The corporate governance committee report the promotion plan and implementations of relevant corporate social responsibilities and the ethical management during the 18th meeting of the 23rd board on December 31, 2019 to review and revise the Ethical Corporate Management Best Practice Principles, establish Procedures for Ethical Management and Guidelines for Conduct, establish Corporate Social Responsibility Policies, Human Right Policy and Strategies for Managing Greenhouse Gas, Reduction Objective and Plan.

(3) The important regulations of the Company and relevant regulations with corporate governance are disclosed on the Company's website or the Market Observation Post System in accordance with the regulations.

(4) To enhance professional knowledge of the directors and implement corporate governance, the Company arranged relevant advanced studies based on the needs of individual directors in 2019 and also arranged two advanced studies with plan, “Money Laundering Prevention and Fighting Capital Terrorism-Focusing on the Investigation of Money Laundering and Capital Terrorism”, “Multinational Management and Sustainable Management”. The situation of directors participating in advanced studies has been disclosed on the Company’s website and the Market Observation Post System in accordance with the regulation.

(5) The Company incurred for “Directors and Supervisors and Important Staff Liability Insurance” to disperse the risks of legal liabilities on directors and enhance corporate governance capabilities. This proposal is submitted to 16th meeting of the 23rd board on September 26, 2019.

**5. Plans for the Apprentice of the members of the Board and Important Management:**

According to the Company’s development direction and objectives, the Company is planning for Apprentice plans. In addition to having professional capabilities, the apprentice shall have ethical and honest personality and values consistent with the Company.

(1) Apprentice plan for members of the Board

Currently, the Company has 11 directors (including 3 independent directors). They all had commerce, finance, accounting capabilities and other skills required for the Company’ business. In the future, the composition, structure of the board and the experiences and background of the members shall carry on the current structure.

Regarding the apprentice plan for the board, the Company irregularly maintained good communication with the current corporate shareholders and discussed about the selection of the apprentice. As for independent directors, they required business to have work experiences in the areas of commerce, law, finance, or accounting, or otherwise necessary for the business of the Company in accordance with the law. Hence, the Company shall select from the domestic professionals in academia and industries.

(2) Apprentice plan for management

The Company regularly reviewed and filtered potential lists for all levels, created talent database and conducted training plans. The content of the talent cultivation plan includes professional capabilities, management capabilities, personal development plan and work rotation:

1. Cultivate design-making capabilities through work practice report system and participation in important meetings, such as objective and business management. The advanced management will regularly evaluate their performances and guide and offer feedback to assist in personal development during the process.
2. Cultivate diversified work capabilities and horizon through work rotations in cross function fields or cross departments (factories), planning and implementing projects and tasks, working with other duties concurrently, working as proxies or sending to re-investment business, etc. and give them practical experiences.
3. Participate in relevant internal and external trainings and according to the needs of personal development each year to cultivate decision and judgement capabilities.
4. Build complete training records and regularly review talent development plan in order to make adjustment to the development plan in response to the needs of organizational operation.
5. Encourage middle and advanced level talents to apply their innovation for self-learning andpropose to participate in advanced studies, seminars or other kinds of study or fellowship plans on their own. The Company will give resources to support or design or adjust their duties for the benefit of having more diversified overall human resources in the Company.

## B.Implementation of the Evaluation of the Board

| Evaluation Cycle | Evaluation Period | Evaluation Range | Evaluation Method | Evaluation Contents |
|---|---|---|---|---|
| Implement once a year. | Evaluate the performance of the board from Jan. 1, 2019 to Dec. | Evaluation of the performance of the Board, individual directors and | Conduct in self-evaluation method. The evaluation results shall be | (1) The “Questionnaire for evaluating the performance of the board of directors”is conducted by all members of the board, covering the following six aspects:alignment of the |

| | | | | |
|---|---|---|---|---|
| | 31, 2019. | functional committee (remuneration committee, audit committee, corporate governance committee). | submitted for review by the remuneration committee on Feb. 21, 2020. The reviewed results of the evaluation will be submitted to 19th meeting of the 23rd board on Feb. 27, 2020, as the reference for review and improvement. | goals and missions of the Company, awareness of the duties of a director, participation in the operation of the Company, management of internal relationship and communication, the director's professionalism and continuing education, internal control, with a total of 28 items.<br>(2) The "Questionnaire for evaluating the performance of the functional committee" is conducted by the conveyor of each functional committee, covering the following five aspects: participation in the operation of the Company, awareness of the duties of functional committee, enhancement of the decision quality of the functional committee, composition of the functional committee and the election of committee members, internal control<br>(3) The "Questionnaire for evaluating the performance of the functional committee" is conducted by the conveyor of each functional committee, covering the following five aspects: participation in the operation of the Company, improvement of the quality of the board of directors' decision making, composition and structure of the board of directors, election and continuing education of the directors, internal control, with a total of 45 items. |

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

The Audit Committee has held 8(A) meetings; the attendance of independent directors is given below:

| Title | Name | Number of Actual Attendance (B) | By Proxy | Actual Attendance (%) (B/A) | Remarks |
|---|---|---|---|---|---|
| Independent director | Yi-Chi Liu | 8 | 0 | 100.00 | None |
| Independent director | Chung-Hsi Chang | 7 | 0 | 87.50 | None |
| Independent director | De-Ming Liu | 8 | 0 | 100.00 | None |

**Other matters to be recorded:**

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

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

| Meeting Date and Period | Meeting Content | Qualified Opinion from any Independent Director | Resolution |
|---|---|---|---|
| 2019.03.21 The 12th meeting of the 1st board | 1. The business report and financial statements of 2018. | Approved by all independent directors with no dissenting opinion | Board of Directors: Approved by all the attending directors. |
| | 2. The issuance of the statement of the internal control system of 2018. | | |
| | 3. The amendments for The Company "Procedures for Loans of Funds to Others". | | |
| | 4. The amendment to "Procedures for Endorsements/Guarantees" | | |
| | 5. The amendments to "Procedures Governing the Acquisition or Disposal of Assets" | | |
| | 6. The amendments to "Procedures Governing the Engagement in Derivatives Trade" | | |
| | 7. Cooperate with the internal rotationof KPMGto change certified accountant | The unit proposed this proposal shall supplement the personal CV of the accountant, Tzu Hui Li and submit to the board of directors for approval. | |
| | 8. Entrusted EY Transaction Advisory Services Inc.to conduct due diligence | | |
| | 9. Provide endorsements and guarantees for the credit limit of the subsidiary. | | |
| 2019.05.14 The 13th meeting of the 1st board | 1. The consolidated financial report for the first quarter of 2018. | Approved by all independent directors with no dissenting opinion | Board of Directors: Approved by all the attending directors. |
| | 2. Donations to Tung Ho Steel Foundation for their activities and conference funding. | | |

| | | | | | |
|---|---|---|---|---|---|
| | 2019.06.18<br>The 14th meeting of the 1st board | The Company listed the payables from the subsidiary, Tung Ho Steel Vietnam Corp., Ltd. as other payables. | Regarding the repayment plan, please submit to the responsible person of THSVC to take full responsibilities on the implementations.Approved by all independent directors with no dissenting opinion | Board of Directors: Approved by all the attending directors. | |
| | | 2. Provide endorsements and guarantees for the credit limit of the subsidiary. | Approved by all independent directors with no dissenting opinion | | |
| | 2019.08.12<br>The 15th meeting of the 1st board | 1. The consolidated financial report for the second quarter of 2018. | Approved by all independent directors with no dissenting opinion | Board of Directors: Approved by all the attending directors. | |
| | | 2. Revise "Internal Control System" and "Rules Implementing Internal Audit" | | | |
| | | 3. Provide endorsements and guarantees for the credit limit of the subsidiary. | | | |
| | 2019.09.26<br>The 16th meeting of the 1st board | 1. Subsidiary Tung Yuan International Corporation acquired Vietnam Duc Hoa International Joint Stock Company | Approved by all independent directors with no dissenting opinion | Board of Directors: Approved by all the attending directors. | |
| | | 2. Provide endorsements and guarantees for the credit limit of the subsidiary. | | | |
| | 2019.11.11<br>The 17th | 1. The consolidated financial report for the third quarter of 2019. | Approved by all | Board of Directors: | |

| | | | |
|---|---|---|---|
| meeting of the 1st board | 2. Review of the professional fees of accountants of 2019.<br>3. Purchase the factories from the subsidiary, Fa Da Development Industrial Co., Ltd.<br>4. Provide endorsements and guarantees for the credit limit of the subsidiary. | independent directors with no dissenting opinion | Approved by all the attending directors. |
| 2019.12.31 The 18th meeting of the 1st board | Provide endorsements and guarantees for the credit limit of the subsidiary. | Approved by all independent directors with no dissenting opinion | Board of Directors: Approved by all the attending directors. |

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

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

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

**(1)Communication policy between independent directors and accountants**

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

Summary of previous communication situations in 2019:

| Date | Communication Content | Resolution |
|---|---|---|
| 2019.01.18 Audit Committee | Discussion and communication on the audit range, audit method, key audit matters, the newly added disclosed matters for 2018 financial statement adopted in response to IFRS 16 leasing gazette before the audit in accordance with No. 68 of Statements on Auditing Standards | No dissenting opinion |
| 2019.03.21 Audit Committee | Discussion and communication on the audit result of 2018 financial report. | No dissenting opinion |
| 2019.05.14 Audit Committee | Discussion and communication on the review result of the consolidated financial report of the first quarter of 2019. | No dissenting opinion |
| 2019.08.12 Audit Committee | Discussion and communication on the review result of the consolidated financial report of the second quarter of 2019. | No dissenting opinion |
| 2019.11.11 Audit Committee | ◦ Discussion and communication on the review result of the consolidated financial report of the third quarter of 2019. | No dissenting opinion |

**(2) Communication policy between independent directors and internal auditors**

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

| Date | Communication Content | Resolution |
|---|---|---|
| 2019.03.21 Audit Committee | 2017/12-2018/2 2. Report on the execution of audit business from Dec. 2018 to Feb. 2019 and communicate and discuss on relevant issues. | Acknowledged by all attending members; no dissenting opinion |
| 2019.05.14 Audit Committee | Report on the execution of audit business for March-April 2019 and communicate and discuss on relevant issues. | Acknowledged by all attending members; no dissenting opinion |
| 2019.06.18 Audit Committee | Report on the execution of audit business for May 2019 and communicate and discuss on relevant issues. | Acknowledged by all attending members; no dissenting opinion |
| 2019.08.12 Audit Committee | 1. Report on the execution of audit business for June-July 2019 and communicate and discuss on relevant issues.<br>2. The audit office reported on the exclusive project audit of the subsidiary, THSVC, during July 2019.<br>3. The audit office proposal a proposal to revise "Internal Control System" and "Rules Implementing Internal Audit". | Acknowledged by all attending members; no dissenting opinion |
| 2019.11.11 Audit Committee | 1. Report on the execution of audit business for September-October 2019 and communicate and discuss on relevant issues.<br>2. The audit office submitted the audit plan of 2019. | Acknowledged by all attending members; no dissenting opinion |
| 2019.12.31 Audit Committee | Report on the execution of audit business for November-December 2019 and communicate and discuss on relevant issues. | Acknowledged by all attending members; no dissenting opinion |

Summary of previous communication situations in 2019:

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

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

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

<table>
<tr><th rowspan="2">Evaluation Item</th><th colspan="3">Implementation Status</th><th rowspan="2">Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons</th></tr>
<tr><th>Yes</th><th>No</th><th>Description</th></tr>
<tr><td>1. Does the Company establish and disclose the Corporate Governance Best-Practice Principles based on "Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies"?</td><td>✓</td><td></td><td>On the 12th meeting of the 23rdboard on March 26, 2019, the Company approved the code of Corporate Governance Best-Practice Principles and disclosed on the company's website. Please refer to the company's website/services for investors/corporate governance/important regulations of the Company. (https://www.tunghosteel.com/investors/norm).</td><td>No difference.</td></tr>
<tr><td>2. Shareholding structure & shareholders' rights<br>(1) Has the Company established internal operating procedures to deal with shareholders' suggestions, doubts, disputes and litigations, and implement based on the procedures?<br>(2) Does the Company possess the list of its major shareholders as well as the ultimate owners of those shares?<br>(3) Has the Company established and implemented risk management and firewall mechanisms with its affiliates?<br>(4) Has the Company established internal rules against insiders trading with undisclosed information?</td><td>✓</td><td></td><td>(1) The Company has appointed a spokesperson and deputy-spokesperson to announce to pubic of important information as well as handling and respond to the investor's suggestions; provide a special contact window for all types of external stakeholders, and publishes it on the Company website. The Company accepts reports, suggestions and appeals to the Company and is obligated to handle and respond.<br>(2) The Company's share operation department is handled by a professional stock agency, and a dedicated person is responsible for the reporting of changes in the shareholding of insiders and major shareholders.<br>(3) The endorsements and guarantees and capital lending of the affiliates are strictly implemented in accordance with relevant regulations. A "Relationship Transaction Management Method" is set up to improve the financial business relationship between the Company and its affiliates in order to prevent illegal transactions or improper interests.<br>(4) The Company's "Codes of Ethical Conduct for Directors and Mangers" has clear rules and regulations to prohibit the use of undisclosed information on the market to buy or sell securities, and regularly promotes relevant laws and regulations on internal transactions.</td><td>No difference.</td></tr>
<tr><td>3. Composition and responsibilities of the board of</td><td>✓</td><td></td><td></td><td>No difference.</td></tr>
</table>

| Evaluation Item | Implementation Status | | | Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons |
|---|---|---|---|---|
| | Yes | No | Description | |
| directors<br>(1) Has the Board developed and implemented a diversified policy for the composition of its members? | | | (1) The nomination and selection of the board of directors of the Company is based on the nomination system of the Company in accordance with the provisions of the Company's Articles of Incorporation.<br>i. Diversification objective for directors:<br>(a) Basic criteria: gender, age, nationality, etc.<br>(b) There shall be at least over half of the directors in the board who did not concurrently work as employees or managers to achieve supervision purposes.<br>(c) Board members should have a diverse range of expertise related to steel industry, management, accounting and financial, and have core capabilities including leadership decision, operational judgment, business management, financial analysis, crisis management, production and sales, and unique perspectives in industry and international markets.<br>(d) Independent directors shall not be re-elected for over three sessions to maintain their independency.<br>ii. The situation of achieving diversification objective for the directors is as follows:<br>The board members all have extensive experience in related industries. There is a female director amongst the members who has wide-range of experiences in management. Other directors have relevant professional backgrounds, which are leadership decision, operational judgment, business management, financial analysis, crisis management, production and sales, and unique perspectives in industry and international markets. There are three independent directors amongst the eleven directors in order to ensure the independence of the board of directors. The independent directors have their own expertise such as holding a master's degree in accounting, doctor's degree in law-economics-social science and a doctor's degree in economics, as well as professional academic background and practical experience in related fields including accountants, management and financial analysis. | |

| Evaluation Item | Implementation Status | | | Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons |
|---|---|---|---|---|
| | Yes | No | Description | |

| Name of the Direcotr | Nationality | Gender | Whether the director concurrently work as employee of the Company | Age of the director | | | Session of the independent director | | | Core Projects | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Below 50 | 51 to | Over 70 | 1st session | 2nd session | 3rd session | Leadership | Operational | Operational | Financial | Crisis | Production & Sales | Industry | International |
| Henry C. T. Ho | R.O.C. | M | ✓ | ✓ | | | | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Shu-Chau Wang Ho | R.O.C. | F | ✓ | | | ✓ | | | | ✓ | ✓ | ✓ | ✓ | ✓ | | ✓ | ✓ |
| George Y. S. Ho | R.O.C. | M | | | ✓ | | | | | ✓ | ✓ | | | | | | ✓ |
| Hui-Ming Wu | R.O.C. | M | | | ✓ | | | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Zhi-Min Huang | R.O.C. | M | | | ✓ | | | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Bao-He Chen | R.O.C. | M | | | ✓ | | | | | ✓ | ✓ | | | ✓ | | | |
| Yan-Liang Ho | R.O.C. | M | | ✓ | | | | | | ✓ | ✓ | ✓ | ✓ | ✓ | | | ✓ |
| Zhao-He Lin | R.O.C. | M | | | | ✓ | | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Yi-Ji Liao | R.O.C. | M | | | | ✓ | | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ | | | |
| Zhuang-Xi Zhang | R.O.C. | M | | | ✓ | | | ✓ | | ✓ | ✓ | ✓ | | ✓ | | | ✓ |
| De-Min Liu | R.O.C. | M | | | ✓ | | ✓ | | | | ✓ | ✓ | ✓ | | | | |

The board of directors of the Company has the necessary professional knowledge, skills and literacy to perform

| Evaluation Item | Implementation Status | | | Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons |
|---|---|---|---|---|
| | Yes | No | Description | |
| | | | duties. In order to enhance the governance and operational effectiveness of the Company through a diversified background and practical experience. The diversity policy of the board members has been disclosed on the Company website. Please refer to the company's website/services for investors/corporate governance/board of directors/diversified policy for members of the board (https://www.tunghosteel.com/investors/member) | |
| (2) Has the Company voluntarily established other functional committees in addition to the Remuneration Committee and the Audit Committee? | | | (2) In addition to establishing the remuneration committee and audit committee in accordance with the law, the Company also established corporate governance committee. | |
| (3) Does the Company establish a standard to measure the performance of the Board, and implement it annual? | | | (3) The Company approved the establishment of Board Performance Appraisal Methods in 2017. Internal evaluation on the performance of the board is implemented once a year. The Company may entrust external profession and independent institution or external professional scholars to conduct the evaluation depending on the needs; in addition, the Company disclosed the information on the company's website, annual report and the Market Observation Post System.<br>i. The amendment to "Board Performance Appraisal Methods" was approved on Dec. 31, 2019 to expand the range of evaluation to functional committees.<br>ii.The implementation situation of the relevant evaluation of the board in 2019 is stated in Supplementary Table 2, the implementation situation of the board in the annual report.<br>iii.The 2019 evaluation results of the performance of the members of the board, each functional committees and overall board of directors are all "superior than the standard", which is superior than the evaluation standard, showing that the overall operational status is good.<br>iv.By the resolution during 18th meeting of the 23rd board on Dec. 31, 2019, the calculation and payment method for the directors' remuneration have been approved, where the evaluation results of the performance of the directors are included in the consideration. | |

| Evaluation Item | Implementation Status | | | Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons |
|---|---|---|---|---|
| | Yes | No | Description | |
| | | | v.The evaluation results of the performance of each director will be used as references for nominating re-election.<br>vi.The evaluation report on the performances of the board was reviewed during the 7th meeting of the 3rd remuneration committee on Feb. 21, 2020, which is then submitted to the 19th meeting of the 23rd board on Feb. 27, 2020 and 2020 regular shareholders' meeting for approval. | |
| (4) Does the Company regularly evaluate the independence of CPAs? | | | (4) The Company evaluates the independence and competence of the appointed accountants every year based on the "Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies":<br>i. Certified accountants report to the Audit Committee on a quarterly basis for review/checking and independence compliance.<br>ii. The certified accountants issue an independent declaration letter.<br>iii. With reference to the appraisal content established by the Bulletin of Norm of Professional Ethics for Certified Public Account of the Republic of China No.10 "Integrity, Impartiality, Objectivity and Independence" and evaluation content from Article 47 of the Certified Public Accountant Act, the Finance and Accounting Department initially assessed the independence and competence of the certified accountants. After the evaluation report was submitted to the Audit Committee for discussion, it was approved by the board of directors on March 26, 2019 on 12th meeting of 23rd Board of Directors. | |
| 4. Has the TWSE/TPEx listed company set up a dedication (or concurrent) corporate governance unit | ✓ | | The Company has established appropriate number of suitable corporate governance personnel and appointed Ms. Ru-Yu He as the Company's corporate governance manager during the 12th meeting of 23rd Board of Directors | No difference. |

| Evaluation Item | Implementation Status | | | Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons |
|---|---|---|---|---|
| | Yes | No | Description | |
| or appointed personnel responsible for corporate governance related matters (including but not limited to providing the directors and supervisors with required information to carry out their business, handling corporate registration and change of corporate registration related matters and taking the minutes of meetings)? | | | on March 26, 2019 to serve as the highest chief officer in charge of relevant corporate governance affairs. The annual implementation focus of corporate governance related matters and the further training of corporate governance manager shall be disclosed on the Company website. Please refer to the company website/services for investors/corporate governance/operational status of the board/chief corporate governance officer (https://www.tunghosteel.com/investors/resolution) of the Company website | |
| 5. Has the Company established communication channels and dedicated sections for stakeholder (including but not limited to the shareholders, employees, clients and suppliers) on its website to respond to important issues of corporate social responsibility concerns? | ✓ | | Tung Ho Steel values the rights and opinions of stakeholders and has open and direct communication channels for them. The Company publishes corporate social responsibility report every year. Rather than providing information on Tung Ho Steel's corporate social responsibility management, it also tries to comprehend the concerned issues of the stakeholders in order to continuously review and improve the performance of corporate social responsibility.<br>(1) The communication channels for shareholders:<br>i. The shareholders' meeting is held in the second quarter of each year. The votes are determined by each proposal. Shareholders are able to vote electronically in order to fully participate in the voting process.<br>ii. Annual report of the shareholders' meeting is published every year for investors' reference.<br>iii. Investor Conferences are held from time to time. Two investor conferences were held in 2019.<br>iv. The shareholder section on the Company website (http://www.tunghosteel.com/shareowner/shareholders) discloses relevant information of the shareholders' meeting, announces the revenue of the Company, significant information, as well as the contact window of the Company's spokesperson, deputy spokesperson, stock agent and stock transfer institution. Shareholders shall give their feedback by phone or email. | No difference. |

| Evaluation Item | Implementation Status | | | Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons |
|---|---|---|---|---|
| | Yes | No | Description | |
| | | | (2) Community: Frequently take part in local activities in order to understand the concerns of the residents, the Company has designated personnel to take care of suggestions or feedback, and stay in close communication with them in order to guarantee full communication and maintain a sound relationship with neighbors.<br>(3) Customers: A meeting with suppliers is held each month, and customer satisfaction surveys are carried out on a regular basis. The sales personnel visit customers occasionally in order to understand their concerns, as well as receive positive feedback.<br>(4) Employees: Employees are to make complaints and reports through written, email, verbally or telephone calls to the unit supervisors or the management units in the Works. When the Company receives the complaints and reports of the specific responsible units or personnel, it shall carry out an investigation. When a major violation is discovered or it is proved that it has caused the Company a serious damage, a written report shall be made to notify the independent directors. If it is the directors or managers who make a violation after investigation, the relevant information is to be disclosed on MOPS at once. The Company makes sure the whistle-blower's identity is kept confidential to protect their safety so that the whistle-blower does not encounter any shapes of threat or revenge. The employees shall express their concerns through corporate trade unions or regular labor meetings.<br>(5) Internal and external complaint emails:<br>i. Tung Ho email: tungho@tunghosteel.com<br>ii. Independent directors' public opinion email:<br>Yi-Chi Liu: 617ycliu@gmail.com<br>Chung-Hsi Chang: drachang@livemail.tw<br>De-Ming Liu: dmlieu@hotmail.com<br>iii. A stakeholder enquiry and complaint channel is established at the company website/corporate social responsibilities/sustainability management/stakeholder (http://www.tunghosteel.com/CSR/mp_investment) of the Company website to provide a contact window for all stakeholders. | |

| Evaluation Item | Implementation Status | | | Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons |
|---|---|---|---|---|
| | Yes | No | Description | |
| 6. Has the Company appointed a professional shareholder service agency to deal with shareholder affairs? | ✓ | | The Company has commissioned the Stock Agent Department of Yuanta Securities Co., Ltd to handles matters related to the shareholders' meeting.<br>Address: B1, No.210, Section 3, Chengde Road, Datong District, Taipei 10366<br>TEL: (02)2586-5859<br>Website: http://www.yuanta.com | No difference. |
| 7. Disclosure of information<br>(1) Does the Company have a corporate website to disclose both financial standings and the status of corporate governance?<br><br>(2) Does the Company have other information disclosure channels (e.g. building an English website, appointing designated people to handle information on collection and disclosure, creating a spokesperson system, webcasting investor conferences)?<br><br>(3) Did the Company announce and declare the annual financial statement within two months at the end of the accounting year and announce and declare the Q1, Q2 and Q3 financial statement and monthly operational status prior to the deadline in the regulation? | ✓ | | (1) The Company has a website for disclosure of relevant information on the important regulations, business, corporate governance and implementation of the Company.<br><br>(2) The Company's methods of disclosure<br>i. Establishment of Mandarin Chinese and English website, as well as appointing designated people to handle information on collection and disclosure.<br>ii. Establishment of spokesperson and deputy spokesperson.<br>iii. Disclose the Company's financial information to public investors on the Company website and MOPS.<br>vi. The relevant information and briefings of investor conferences are both disclosed on the Company website and MOPS.<br>(3) Starting from 2020, the Company announced and declared the annual financial statement within two months after the end of the accounting year; 2019 financial statement was announced and declared after approved by the board on Feb. 27, 2020.<br>The Company will announce and declare Q1, Q2 and Q3 financial statement and monthly operational status within the deadline in accordance with the regulation . | No difference. |

| Evaluation Item | Implementation Status | | | Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons |
|---|---|---|---|---|
| | Yes | No | Description | |
| 8. Is there any other important information to facilitate a better understanding of the Company's corporate governance practices (e.g. including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors' and supervisors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors and supervisors)? | ✓ | | (1) The Company has a "Measures for the Management of Related Parties Transactions" and all related parties and companies are complied with the relevant regulations as well as avoiding conflicts of interest.<br>(2) The Company established Corporate Governance Best Practice Principles in March 2019 and has disclosed the public information on MOPS and the Company website.<br>(3) The directors take part in various further training courses depending on the needs. The training progress is disclosed on the Company website and MOPS.<br>(4) The Company systematically collects, analyzes, integrates and formulates necessary strategies for exchange rate, market conditions and economic environment, and conducts tracking and review through meetings to effectively identify risks and take necessary countermeasures.<br>(5) The Company purchases liability insurance for directors to reduce and spread the risk of directors causing significant damage to the Company and shareholders due to illegal activities.<br>(6) For other relevant explanations between labor relations and supplier relations, please refer to the relevant operational overview section of the annual report. | No difference. |

9. According to the latest result of the Corporate Governance Evaluation System by the Corporate Governance Center of TWSE, explain the amendments or propose the priority measurements to the unimproved items: The results of the 6th corporate governance evaluation were announced in April 2020. As for the result of the 5th Corporate Governance Evaluation of the Company, the evaluation index for the Company that have not yet scored but have been improved are explained as below:

(1) **Index 1.6: Did the Company hold shareholders' meeting before the end of May?**

Improvement measures: Yes, 2020 regular shareholders' meeting is expected to be held on May 19, 2020.

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

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

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

Improvement measures: Yes, the Company has established diversified objectives for the board members (i. over half of the directors who did not work concurrently as employees or manager; ii. directors shall

| Evaluation Item | Implementation Status | | | Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons |
|---|---|---|---|---|
| | Yes | No | Description | |

have diversified talents related to steel and iron industry, management, accounting and finances; iii. independent directors shall not be re-elected for over three times to maintain their independency, etc.) and the implementation situation of achieving diversification objectives shall be disclosed on 2019 annual report and the company's website.

(4) **Index 2.3: Whether the chairman and the general manager (CEO) of the Company is served by the same person or served by people in a spouse relationship?**

Improvement measures: The chairman of the Company also worked concurrently as the general manager in order to smoothly unify the business operations and maintain the effects and efficiency of the business. It is necessary to maintain this mode temporarily. Moreover, there are over half of the directors in the board who did not work concurrently as employees or managers in order to achieve supervision purposes. However, considering the long-term demands of improving corporate governance, the Company is actively cultivating apprentice for general manger and will appoint general manager at an appropriate time depending on the needs.

(5) **Index 2.14: Whether the Company established functional committee other than those required by law and the number of members in the committee thereof is less than three and there are over half of the members in the committee are independent directors? And if so, did the Company disclose its composition, duties and operational situation?**

Improvement measures: To strengthen corporate governance and enhance the efficiency of the board, the Company has established the "Corporate Governance Committee" during the 16th meeting of the 23rd board on September 26, 2019 and appointed three members for the committee where over half of them are independent directors. The composition, duties and operational status of the committee have been disclosed on the company's website.

(6) **Index 2.21: Has the Company set up full-time corporate governance personnel to be responsible for corporate governance related matters, and explain the operation and implementation of the unit in the annual report and Company website.**

Improvement measures: The Company has set up appropriate number of dedicated suitable personnel to handle matters related to corporate governance. During the 12th meeting of the 23rd board on March 26, 2019, Yu-Ru He was approved to be appointed as the corporate governance manager, who is the highest chief officer in charge of the matters related to corporate governance. The operational situation of the business matters related to corporate governance and the annual implementation focus have been disclosed on the Company's website.

(7) **Index 3.4: Did the Company announce the annual financial statement within two months after the accounting year ends?**

Improvement measures: Yes, 2019 individual and consolidated financial statement has been approved during 19th meeting of the 23rd board on Feb. 27, 2020.

(8) **Index 3.2: Did the Company hold at least two investors conferences with invitation (or on its own) and the two investors conferences are spaced three months apart in the evaluated year?**

Improvement measures: Yes, the Company has held two investors conferences in September and December of 2019.

(9) **Index 4.1: Did the Company create appropriate governance structure to establish, review corporate social responsibility policies, systems or relevant management directions and disclose them in the annual report and on the Company's website?**

| Evaluation Item | Implementation Status | | | Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons |
|---|---|---|---|---|
| | Yes | No | Description | |

Improvement measures: Yes, the Company has established corporate governance committee to be in charge of establishing and supervising the policies, management directions an objectives for the corporate governance, corporate social responsibilities, ethical management, environment sustainability and risk management. Each relevant department will conduct risk assessment on the duties and propose countermeasures and then submit to the corporate governance committee for discussion before the implementation. They will regularly review and submit to the board each year and disclose the matters in the annual report and on the company's website.

(10) **Index 4.2: Has the Company set up a unit (part-time) to promote corporate social responsibility and corporate integrity management, and explain the operation and implementation of such setting in the annual report and on Company website, as well as reporting to the board of directors on regularly?**

Improvement measures: Yes, the corporate governance committee is the dedicated unit for corporate social responsibility and corporate ethical management, which is responsible for establishing, supervising and reviewing the policies, systems and relevant management directions and disclosing the explanations for its operations and implementations situations in the annual report and on the company's website. The implementation of all projects shall be handled by the chief of the relevant unit appointed by the general manager. They shall organize the implementation situation regularly each year and submitted to the corporate governance committee for discussion and to the board.

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

Improvement measures: Yes, the Company has established ethical management policy, Ethical Corporate Management Best Practice Principles and Procedures for Ethical Management and Guidelines for Conduct and implemented them after the approval from the board. To implement ethical management policy, the Company clearly stipulated the prohibition of unethical behaviors and interests and types thereof in the Ethical Corporate Management Best Practice Principles and established "Procedures for Ethical Management and Guidelines for Conduct" to specifically regulate and prevent unethical behaviors. In addition, the Company has asked the management and employees to sign the "Ethical and Integrity Commitment" and the directors to comply to the "Statement" of Ethical Corporate Management Best Practice Principles. To prevent unethical behaviors in business activities, the Company conducted necessary relevant educational training each year. Moreover, during the self-evaluation procedure for the internal control system conducted by each department, the Company also conducted risk assessment and proposed necessary prevention measures. Relevant information is disclosed in the company's website and the annual report.

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

Improvement measures: To protect employees' rights and interests for complaints or the have the regulations to comply for the whistleblowing matters involving others improperly intrude company's interests, the Company has established "Regulations Governing Employees' Complaint and Whistleblowing". Each factory zone has a complaint box. Colleagues can submit complaint and whistleblowing cases through complaint box or e-mail, oral or telephone to chief of the unit or the management unit of each factory zone. When handling complaint events, the chief of management department, audit office, office of legal affairs and necessary relevant

| Evaluation Item | Implementation Status | | | Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons |
|---|---|---|---|---|
| | Yes | No | Description | |
| | | | department will form an investigation team to conduct fact investigation. External personnel can submit the complaint to the email of Tung Ho Steel (tungho@tunghosteel.com) and the public opinion email of independent directors. | |

# Board Performance Appraisal Methods

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

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

Article 3 The Company shall conduct an evaluation of internal board performance appraisal each yearin accordance with the evaluation procedure and indications in this Regulation, and may be conducted by an external professional institution or a panel of external experts and scholars to perform the evaluation depending on the requirements.

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

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

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

Article 6 At the end of each year, the board of directors' office collects information on the board's activities and issues the "Questionnaire of Self-Evaluation of Performance of the Board" (Annex 1A-01-17-1). After the questionnaires are collected, they shall be evaluated according to the evaluation indications in this Regulation and calculated the results and shall be submitted to the Remuneration Committee for review together with the "Functional Committee Performance Appraisal Self-Questionnaire" (Annex 2 A-01-17-2) and the "Board Performance Appraisal Self-Questionnaire" (Annex 3A-01-17-3). The result of the evaluation shall be submitted to the most recent board meeting as a basis for review and improvement.

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

i. The external professional institution or a panel of external experts and scholars shall have their professionalism and independency.

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

iii. A panel of external experts and scholars shall appoint at least three experts in the board of directors or experts or scholars of corporate governance to evaluate the performance evaluation of the Company's board of directors as well as writing external evaluation analysis reports.The result of the external evaluation shall be submitted to the most recent remuneration committee meeting and board meeting.

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

i. Participation in the operation of the Company.

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

iii. Composition and structure of the board of directors.

vi. Election and continuing education of the directors.

v. Internal control.

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

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

ii. Awareness of the duties of a director.

iii. Participation in the operation of the Company.

vi. Management of internal relationship and communication.

v. The director's professionalism and continuing education

vi. Internal control.

The criteria for evaluating the performance of the functional committee should cover, at a minimum, the following five aspects:

i. Participation in the operation of the Company.

ii. Awareness of the duties of functional committee.

iii. Enhancement of the decision quality of the functional committee.

vi. Composition of the functional committee and the election of committee members.

v. Internal control.

The indexes of board performance evaluation shall be determined based on the operation and needs of the Company and suitable and appropriate for evaluations by the Company. The remuneration committee shall regularly review and propose suggestions.

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

Article 9 The evaluation results of the evaluation questionnaires established in this Regulation are follows:

i. Those measured with an evaluation score above 90 are "superior than the standard".
ii. Those measured with an evaluation score above 80 and under 90 are "above the standard".
iii. Those measured with an evaluation score above 70 and under 80 are "standard".
iv. Those measured with an evaluation score above 60 and under 70 are "not up to standard".
v. Those measured with an evaluation score under 60 are "required improvement".

Article 10 The results of performance evaluation of the board of directors of the Company shall use taken as reference when selecting or nominating directors; while the result of performance evaluation of an individual director shall be taken as a reference to establish its individual amount of remuneration.

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

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

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

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

The first amendment was made on Dec. 18, 2018.

The second amendment was made on Dec. 31, 2019.

**Annex 1(A-01-17-1)**

Questionnaire of Self-Evaluation of OOO Board Members,

Tung Ho Steel Enterprise Corp.

| Evaluated Items | Evaluation Result | | | | | Remarks |
|---|---|---|---|---|---|---|
| | 1 Strongly disagreed | 2 Disagreed | 3 Fair | 4 Agreed | 5 Strongly agreed | |
| A. Understanding of the Company goals and missions | | | | | | |
| 1. I understood the Company's core value. | | | | | | |
| 2. I understood all the strategies and goals for the future development of the Company. | | | | | | |
| 3. I understood the characteristics and risks of the industry in which the Company operates business. | | | | | | |
| B. Director's understanding of their duties and responsibilities | | | | | | |
| 4. I understood the legal obligations of the directors. | | | | | | |
| 5. I understood the duties of a director and have faithfully executed operations and exercised the duty of care of a good administrator and taken on self-regulated and careful attitude to exercise my duties. | | | | | | |
| 6. I am familiar with the operations and environment of the Company. | | | | | | |
| 7. I kept in confidentiality the internal information of the Company obtained during performance of my duties. | | | | | | |
| 8. I did not interfere with the company's decision nor obstruct business activities improperly; and I avoid involving my personal interests. | | | | | | |
| C. Participation in the Company's operation | | | | | | |
| 9. My actual attendance (not including attendance by proxy) at the board meeting. | | | | | | 5 points: attendance rate of 100%<br>4 points: attendance rate over 90%<br>3 points: |

| Evaluated Items | Evaluation Result | | | | | Remarks |
|---|---|---|---|---|---|---|
| | 1 Strongly disagreed | 2 Disagreed | 3 Fair | 4 Agreed | 5 Strongly agreed | |
| | | | | | | attendance rate over 80%<br>2 points: attendance rate over 70%<br>1 point: attendance rate less than 70% |
| 10. I attended this year's general shareholders' meeting in person. | | | | | | 5 point: attended<br>1 point: did not attend |
| 11. I read and understood the meeting materials before a board meeting in order to sufficiently fulfill my duties during the board meeting. | | | | | | |
| 12. I spent sufficient time on matters relating to board of directors. | | | | | | |
| 13. I actively participated in the discussion of the meeting proposals in the board meeting and provided practical suggestions appropriately to make effective contributions. | | | | | | |
| 14. I read the meeting minutes in detail after receiving the documents and confirmed that it had appropriately record the content of the discussion, retained opinions or concerns. | | | | | | |
| 15. I have professional and appropriate judgement to understand the company's business team and the dynamics of the belonged industrial environment. | | | | | | |
| 16. I faithfully assessed and supervised the existed or potential risks of the Company and paid attention to the implementation and tracking situation of the internal control system. | | | | | | |
| 17. I understood and supervised the appropriateness of the Company's business report, accounting system, financial status and financial statements. | | | | | | |
| 18. I did not serve concurrently as a director in over 5 TWSE/TPEx | | | | | | 5 points: did not |

| Evaluated Items | Evaluation Result | | | | | Remarks |
|---|---|---|---|---|---|---|
| | 1 Strongly disagreed | 2 Disagreed | 3 Fair | 4 Agreed | 5 Strongly agreed | |
| Listed Companies and I did not serve concurrently as independent director in over three other public companies. | | | | | | exceed the regulated number of companies<br>1 point: exceed the regulated number of companies |
| D. Internal relation maintenance and communications | | | | | | |
| 19. I regularly communicate with the management team about the Company operations related information and have good interactions with them. | | | | | | |
| 20. Before the decision of the board of directors, I fully considered the opinions of the management team and make independent and objective judgments and decisions. | | | | | | |
| 21. When engaging in board meeting, I had good communication with other board members and respect different opinions. | | | | | | |
| 22. I had good communications with CPAs. | | | | | | |
| E. Professionalism and continuous training of directors | | | | | | |
| 23. I have the professionalism required in the board's implementation of decisions. | | | | | | |
| 24. I achieved the required hours of advanced studies this year in accordance with the "Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and TPEx Listed Companies". | | | | | | 5 points: advanced studies over 6 hours<br>4 points: advanced studies of 6 hours<br>1 point: advanced studies less than 6 hours |
| 25. I continued to attend courses of diversified topics to strengthen their professional knowledge and skills in addition to corporate governance and professional capabilities. | | | | | | |
| F. Internal control | | | | | | |

| Evaluated Items | Evaluation Result | | | | | Remarks |
|---|---|---|---|---|---|---|
| | 1 Strongly disagreed | 2 Disagreed | 3 Fair | 4 Agreed | 5 Strongly agreed | |
| 26. When relevant proposals involving conflicts of interests with me, I faithfully avoid in such situation. | | | | | | |
| 27. I regularly assess and supervise the effectiveness of the internal control system and risk management (including the supervision and management of subsidiaries) and approve the issuance of the "Internal Control System Statement". | | | | | | |
| 28. I understood and supervised the Company's accounting system, financial status and financial statement, audit report and its tracking situation. | | | | | | This is a new item. |
| Other additional information | | | | | | |

Note 1. If the result of an index cannot be sufficiently expressed by the scoring points, it can be explained in the note column.

Note 2. The evaluation period is from Jan. 1 to Dec. 31 of the evaluated year.

Note 3. The implementation of the evaluation shall be completed and submitted to the board meeting after the evaluated year ended and before Q1 of the next year.

Note 4. Explanation for the points:

(1)The corresponding points of the evaluation results: 5 pints for strongly agreed; 4 points for agreed; 3 points for fair; 2 points for disagreed; 1 point for strongly disagreed. After summing up the points, convert the points into hundred mark system; score=(total points from the evaluation results ÷ full score for the evaluation index) ×100.

(2) Results of the performance evaluation:

| Score | Evaluation results |
|---|---|
| 90 and above | Superior than the standard |
| 80 ~ 90 | Above the standard |
| 70 ~ 80 | Reached the standard |
| 60 ~ 70 | Below the standard |
| Less than 60 | Improvement required |

(Filled by the execution unit)

| Index of assessment | Full points | Result |
|---|---|---|
| A. Master company target and tasks | 15 | |
| B. Director's cognition of duty | 25 | |
| C. Involved in the operation | 50 | |
| D. Maintain and communication of internal relationship | 20 | |
| E. Director's professionalism and continuous study plan | 15 | |
| F. Internal control | 15 | |
| Total | 140 | |

Result: ______ points

Assessing result of performance: ☐ Superior than the standard ☐ Above the standard ☐ Reached the standard

☐ Below the standard ☐ Improvement required

**Annex 2 (A-01-17-2)**

# Questionnaire of Evaluation of Performance of OOO Committee Members, Tung Ho Steel Enterprise Corp.

| Evaluated Items | Evaluation Result | | | | | Remarks |
|---|---|---|---|---|---|---|
| | 1 Strongly disagreed | 2 Disagreed | 3 Fair | 4 Agreed | 5 Strongly agreed | |
| A. Participation in the operation of the Company | | | | | | |
| 1.The average members' attendance (not including attendance by proxy) at the committee meeting. | | | | | | 5 points: attendance rate of 100%<br>4 points: attendance rate over 90%<br>3 points: attendance rate over 80%<br>2 points: attendance rate over 70%<br>1 point: attendance rate less than 70% |
| 2. Members read and understood the meeting materials before the committee meeting to be able to sufficiently fulfill their duties in the meeting. | | | | | | |
| 3. The members made contributions on the committee meetings. | | | | | | |
| 4. The functional committee holds meeting regularly. | | | | | | |
| B. Awareness of the duties of functional committee | | | | | | |
| 5. The scope of the duties of the functional committee is clear and appropriate. | | | | | | |
| 6. The functional committee can faithfully assess, supervise the existing or potential risks of the Company. | | | | | | |
| 7. The function committee can appropriately, professionally and objectively submit suggestions to the board meeting for discussion as references to board in decision-making. | | | | | | |
| 8. The audit committee and CPAs have communicated and exchanged sufficiently and (if encountering implementation of new accounting gazettes or major adjustments in financial statements, meeting discussion is required). | | | | | | Applicable to audit committee. |
| 9. The audit committee regularly assesses the independency and appropriateness of the recruited accountants. | | | | | | Applicable to audit committee. |
| 10. The remuneration committee established and regularly reviewed | | | | | | Applicable to remuneration |

| Evaluated Items | Evaluation Result | | | | | Remarks |
|---|---|---|---|---|---|---|
| | 1 Strongly disagreed | 2 Disagreed | 3 Fair | 4 Agreed | 5 Strongly agreed | |
| the policies, systems, standards and structures for the performance evaluation and remuneration of directors and managers. | | | | | | committee. |
| 11.The remuneration committee regularly reviews the performance evaluation standards of directors and submits to the board for approval and establishes remuneration for directors based on the performance evaluation results. | | | | | | Applicable to remuneration committee. |
| C. Enhancement of the decision quality of the functional committee | | | | | | |
| 12. The Company provides functional committee with complete and in-time information with certain quality so that the committee can smoothly fulfill its duties. If necessary, relevant managers, internal audit personnel, accountants, legal consultants or other personnel may attend the meeting as non-voters. | | | | | | |
| 13. The functional committee had sufficient time for discussion during the meeting. | | | | | | |
| 14. The Company submitted appropriate proposals to the functional committee. | | | | | | |
| 15. If there is conflict of interest to some members for relevant proposals, such members indeed avoid; and this matter is recorded in the meeting minutes. | | | | | | |
| 16. The meeting minutes of the functional committee appropriately record the discussion contents and appropriately record personal or collective reservations or concerns. | | | | | | |
| 17. There are appropriate implementation, subsequent follow-up to the committee meeting resolutions. | | | | | | |
| 18. The functional committee regularly and efficiently conducts performance evaluation. | | | | | | |
| D. Composition of the functional committee and the election of committee members | | | | | | |
| 19. The composition of the members of the functional committee is appropriate and has the required profession for design-making process. | | | | | | |
| 20. The functional committee members maintained its independency during its terms of office. | | | | | | |
| 21. The election of functional committee members is conducted in accordance with the actual needs of the company and sufficiently taken the scope of various skills, knowledge and experiences of the directors as well as the performance evaluation results of the | | | | | | |

| Evaluated Items | Evaluation Result | | | | | Remarks |
|---|---|---|---|---|---|---|
| | 1 Strongly disagreed | 2 Disagreed | 3 Fair | 4 Agreed | 5 Strongly agreed | |
| functional committee into account. | | | | | | |
| E. Internal Control | | | | | | |
| 22. The audit committee can effectively assess and supervise the effectiveness of various internal control system and risk management. | | | | | | Applicable to audit committee. |
| 23. The internal control system passed by the audit committee includes five major elements/principles and covered all the control procedures in business activities and transaction cycles. | | | | | | Applicable to audit committee. |
| 24. The audit committee understood and supervised the Company's accounting system, financial status, financial statements, audit reports and its tracking situation. | | | | | | Applicable to audit committee. |
| Other additional information | | | | | | |
| Chairman's evaluation | | | | | | |

Note 1. If the result of an index cannot be sufficiently expressed by the scoring points, it can be explained in the note column.

Note 2. The evaluation period is from Jan. 1 to Dec. 31 of the evaluated year.

Note 3. The implementation of the evaluation shall be completed and submitted to the board meeting after the evaluated year ended and before Q1 of the next year.

Note 4. Explanation for the points:

(1) The corresponding points of the evaluation results: 5 pints for strongly agreed; 4 points for agreed; 3 points for fair; 2 points for disagreed; 1 point for strongly disagreed. After summing up the points, convert the points into hundred mark system; score=(total points from the evaluation results ÷ full score for the evaluation index) ×100.

(2) Results of the performance evaluation:

| Score | Evaluation results |
|---|---|
| 90 and above | Superior than the standard |
| 80 ~ 90 | Above the standard |
| 70 ~ 80 | Reached the standard |
| 60 ~ 70 | Below the standard |

| | |
|---|---|
| Less than 60 | Improvement required |

________________________________(Date of signature and completion of the table)

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(The following shall be filled in by the implementation unit)

| Scoring index | Full score for the evaluation of the audit committee | Full score for the evaluation of the remuneration committee | Full score for the evaluation of the corporate governance committee | Evaluation results |
|---|---|---|---|---|
| A.Participation in the operation of the Company | 20 | 20 | 20 | |
| B. Awareness of the duties of functional committee | 25 | 25 | 15 | |
| C.Enhancement of the decision quality of the functional committee | 35 | 35 | 35 | |
| D. Composition of the functional committee and the election of committee members | 15 | 15 | 15 | |
| E. Internal Control | 15 | - | - | |
| Total | 110 | 95 | 85 | |

Score:points

Performance evaluation results: ☐ Superior than the standard ☐ Above the standard ☐ Reached the standard ☐ Below the standard ☐ Improvement required

**Annex 3 (A-01-17-3)**

Questionnaire of Self-Evaluation of Performance of OOO Board Members,

Tung Ho Steel Enterprise Corp.

| What is being Evaluated | Result | | | | | Remarks |
|---|---|---|---|---|---|---|
| | 1 Strongly disagreed | 2 Disagreed | 3 Fair | 4 Agreed | 5 Strongly agreed | |
| A. Participation in the Company's operation | | | | | | |
| 1. The actual directors' attendance (not including attendance by proxy) at the board meeting. | | | | | | 5 points: attendance rate of 100%<br>4 points: attendance rate over 90%<br>3 points: attendance rate over 80%<br>2 points: attendance rate over 70%<br>1 point: attendance rate less than 70% |
| 2. The actual situation of the directors' attendance at the shareholders' meeting. | | | | | | 5 points: attendance rate of 100%<br>4 points: attendance rate over 90%<br>3 points: attendance rate over 80%<br>2 points: attendance rate over 70%<br>1 point: attendance rate less than 70% |
| 3. Directors understood and read meeting materials before a board meeting and actively engaged in discussion of proposals. | | | | | | |
| 4. The board of directors had good relationship with the management team. | | | | | | |
| 5. The board of directors faithfully urged the management team to comply with the laws, regulations and practical codes. | | | | | | |
| 6. The board of directors can make effective contributions in the board meeting. | | | | | | |

| What is being Evaluated | Result | | | | | Remarks |
|---|---|---|---|---|---|---|
| | 1 Strongly disagreed | 2 Disagreed | 3 Fair | 4 Agreed | 5 Strongly agreed | |
| 7. The board of directors continued to promote the establishment of corporate governance related measure, support the Company's participation in the Company's evaluation, fully protect shareholders' rights in order to enhance corporate governance. | | | | | | |
| 8. The directors had a clear understanding of the Company's internal environment, management team and the dynamics of the industry in which the Company operates. | | | | | | |
| 9. The directors diligently assessed and supervised all kinds of existing or potential risks to the Company and management measures and paid attention to the implementation and tracking situation of the internal control system. | | | | | | |
| 10. The directors understood and supervised the appropriateness of the Company's business report, accounting system, financial status and financial statements. | | | | | | |
| 11. The directors had good communications with CPAs. | | | | | | |
| 12. The board of directors regularly reviewed the management performance of the management team and provided timely guidance. | | | | | | |
| 13. The board of directors fully and timely obtained the performance report of the Company's operations and quickly grasped all kinds of unfavorable trends. | | | | | | |
| B. Improvement of the quality of the board of directors' decision making | | | | | | |
| 14. The board of directors held meetings with an appropriate frequency. | | | | | | 5 points: over 6 times<br>4 points: over 5 times<br>3 points: over 4 times<br>2 points: over 3 times<br>1 point: less than three times |
| 15. The Company provided complete and in-time meeting | | | | | | |

| What is being Evaluated | | Result | | | | | Remarks |
|---|---|---|---|---|---|---|---|
| | | 1 Strongly disagreed | 2 Disagreed | 3 Fair | 4 Agreed | 5 Strongly agreed | |
| | materials with good quality so that the board members (including independent directors) can smoothly fulfill their duties. | | | | | | |
| 16. | The minutes of the board of directors recorded the content of the discussions, individual or collective reservation or concerns properly. | | | | | | |
| 17. | Appropriate time was arranged for each proposal in the board meeting in order for the directors to have sufficient discussions. | | | | | | |
| 18. | The discussion proposal submitted to the board resolution is appropriate. (Proposals submitted to the board meeting shall be in accordance with the law or authority of the Company.) | | | | | | |
| 19. | For the proposal which required the attendance of all independent directors, independent directors indeed attended the meeting. | | | | | | 5 points: all of the directors attended in person<br>3 points: proxy attendance occurred |
| 20. | The Company provided good communication channels so that the independent directors, directors, accountants, audit unit and management team can communication properly. | | | | | | |
| 21. | There are appropriate implementations and subsequent follow-ups to the board meeting resolutions. | | | | | | |
| 22. | If the directors had conflict of interest with relevant proposals, the relevant directors avoid on their own or the chairperson indeed asks them to avoid; and this matter was recorded in the meeting minutes. | | | | | | |
| 23. | The board, board members and functional committees conduct performance evaluation regularly and efficiently, and disclose the result of evaluation on the Company website or in annual report. | | | | | | |
| C. Composition and structure of the board of directors | | | | | | | |
| 24. | The board of directors set up independent directors and | | | | | | 5 points: number of seats |

| What is being Evaluated | | Result | | | | | Remarks |
|---|---|---|---|---|---|---|---|
| | | 1 Strongly disagreed | 2 Disagreed | 3 Fair | 4 Agreed | 5 Strongly agreed | |
| | its numbers of members meet the relevant requirements. | | | | | | comply to the regulation<br>1 point: number of seats does not comply to the regulation |
| 25. | The independent directors of the Company had the required professional knowledge and faithfully maintained their independency during their term of office. | | | | | | |
| 26. | The directors of the Company did not concurrently hold the position as directors for more than five TWSE/TPEx Listed Companies and as independent directors for more than three other public companies. | | | | | | 5 points: did not exceed the number of companies in the regulation<br>1 point: exceed the number of companies in the regulation |
| 27. | The board established proper and sufficient functional committees. | | | | | | |
| 28. | The existing functional committees are capable of fulfilling their duties as appointed by the board of directors. | | | | | | |
| 29. | The Company established a policy of diversification of board members based on the Company's development needs. | | | | | | |
| 30. | There are no more than two members of the board who are in spouse or within second kinship relationship so that the board can operate objectively and independently. | | | | | | |
| 31. | The composition of the members of the board is appropriate and has the professions required for decision-making process. | | | | | | |
| D. Election and continuing education of the directors | | | | | | | |
| 32. | The Company established strict and transparent procedures for selecting new directors and apprentice plans. | | | | | | |
| 33. | The election procedure for the board members is conducted in accordance with the measurement standard of diversified policy. | | | | | | |

| What is being Evaluated | Result | | | | | Remarks |
|---|---|---|---|---|---|---|
| | 1 Strongly disagreed | 2 Disagreed | 3 Fair | 4 Agreed | 5 Strongly agreed | |
| 34. The evaluation results on the performance of individual directors are included in the election procedure for the board members. | | | | | | |
| 35. The election procedure for the board members is conducted in accordance with the actual demands of the Company and sufficiently considered the scope of various skills, knowledge and experiences of the board members. | | | | | | |
| 36. The board arranged appropriate appointment explanations for the new directors so that they can understand their duties and be familiarize with the company's operation and environment. | | | | | | |
| 37. The board members continued to attend courses of diversified topics inaddition to corporate governance and professional capabilities and achieved the required hours of advanced studies in accordance with the "Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and TPEx Listed Companies". | | | | | | |
| 38. There is official records and continuous professional development plan for the training hours of the board members to strengthen the knowledge and skills of the board members. | | | | | | |
| E. Internal control | | | | | | |
| 39. The directors faithfully included the risk assessment and control from the management into the corporate decision process. | | | | | | |
| 40. The board regularly assessed and supervised the implementations and tracking situations of various internal control system and reviewed whether the countermeasures of the risk management were implemented effectively and provided "Statement of Internal Control System". | | | | | | |
| 41. The internal control system passed by the board includes | | | | | | |

| What is being Evaluated | Result | | | | | Remarks |
|---|---|---|---|---|---|---|
| | 1 Strongly disagreed | 2 Disagreed | 3 Fair | 4 Agreed | 5 Strongly agreed | |
| five major elements/principles and covers all the control procedures in the business activities and transaction cycles. | | | | | | |
| 42. The chief audit officer of the Company shall attend the board meeting as non-voters and submit internal audit report in accordance with the regulations and then deliver the audit report (including the tracking report) to the audit committee and independent directors or notify them. | | | | | | |
| 43. The appointment, evaluation, remuneration of internal audit personnel shall be submitted to the board or submitted by the chief audit officer to the chairman for approval. | | | | | | |
| 44. The board regularly assesses the independency and appropriateness of the CPAs to ensure the accountants maintain its objectiveness and independency when providing audit services. | | | | | | |
| 45. The board members understood and supervised the company's accounting system, financial status, financial statements, audit reports and its tracking situations. | | | | | | |
| Other additional information | | | | | | |
| Chairman's evaluation | | | | | | |

Note 1. If the result of an index cannot be sufficiently expressed by the scoring points, it can be explained in the note column.

Note 2. The evaluation period is from Jan. 1 to Dec. 31 of the evaluated year.

Note 3. The implementation of the evaluation shall be completed and submitted to the board meeting after the evaluated year ended and before Q1 of the next year.

Note 4. Explanation for the points:

(1) The corresponding points of the evaluation results: 5 pints for strongly agreed; 4 points for agreed; 3 points for fair; 2 points for disagreed; 1 point for strongly disagreed. After summing up the points, convert the points into hundred mark system; score=(total points from the evaluation results ÷ full score for the evaluation index) ×100.

(2) Results of the performance evaluation:

| Score | Evaluation results |
|---|---|
| 90 and above | Superior than the standard |
| 80 ~ 90 | Above the standard |
| 70 ~ 80 | Reached the standard |
| 60 ~ 70 | Below the standard |
| Less than 60 | Improvement required |

______________________________(Date of signature and completion of the table)

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(The following shall be filled in by the implementation unit)

| Scoring index | Full score for the scoring index | Score of the evaluation results |
|---|---|---|
| A.Participation in the Company's operation | 65 | |
| B.Improvement of the quality of the board of directors' decision | 50 | |
| C.Composition and structure of the board of directors | 40 | |
| D.Election and continuing education of the directors | 35 | |
| E. Internal Control | 35 | |
| Total | 225 | |

Score: points

Performance evaluation results: ☐ Superior than the standard ☐ Above the standard ☐ Reached the standard ☐ Below the standard ☐ Improvement required

## (3) If the Company has a remuneration committee in place, the compositionand operation of the remuneration committee shall be disclosed

### i. Information on members of the remuneration committee

| Identity | Condition / Name | Meet one of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience | | | Independence Attribute (Note) | | | | | | | | | | Concurrent remuneration committee position in other publicly listed companies | Remarks |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | An instructor or higher position in a department of commerce, law, finance, accounting, or other academic department related to the business needs of the Company in a public or private junior college, college or university | A judge, public prosecutor, attorney, certified public account, or other professional or technical specialist who has passed a national examination and been awarded a certificate in a profession necessary for the business of the Company | Have work experience in the areas of commerce, law, finance, or accounting, or otherwise necessary for the business of the Company | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | | |
| Independent Director | Chung-Hsi Chang | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 0 | None |
| Independent Director | Yi-Chi Liu | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 1 | None |
| Other | Kun-Tung Yu | ✓ | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 0 | None |

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

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

(2) Not a Director or Supervisor of the Company or its affiliates, (however, this does not apply, in case where the person is an Independent Director of the Company or its parent company, subsidiary or subsidiary of the same parent company are set up according to this Act or local country ordinances).

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

(4) Not a spouse, second-degree relative or third-degree relative of the managers in (1) or persons in (2) or (3).

(5) Not a director, supervisor, or employees of a corporate shareholder that directly holds five percent or more of the total number of outstand shares of the Company or that holds shares ranking in the top five in holdings or is the representative being assigned as the director or supervisor of the Company by in accordance with Article 27, Paragraph 1 or 2 of the Company Act, (However, this does not apply, in case where the person is an Independent Director of the Company or its parent company, subsidiary or subsidiary of the same parent company are set up according to this Act or local country ordinances).

(6) Not a director, supervisor or employee of other company which has over half of the number of directors' seats or shares with voting rights of the Company and is controlled by the same person (however, this does not apply, in case where the person is an Independent Director of the Company or its parent company, subsidiary or subsidiary of the same parent company are set up according to this Act or local country ordinances).

(7)Not a director, supervisor or employee of other companies or institution which concurrently works as or in a spouse relationship to the chairman, general manager or personnel of relative duties of the Company (however, this does not apply, in case where the person is an Independent Director of the Company or its parent company, subsidiary or subsidiary of the same parent company are set up according to this Act or local country ordinances).

(8) Not a director, supervisor, manager or a shareholder holing five percent or more of the shares of a company or institution that has a business or financial relationship with the Company, (however, this does not apply, in case where the specific company or institution holds over 20% but less than 50% of the total number of issued shares of the Companyand the person is an Independent Director of the Company or its parent company, subsidiary or subsidiary of the same parent company are set up according to this Act or local country ordinances).

(9) Not a professional who provides auditing, nor a professional who provides commercial legal, financial, accounting, or consulting services to the Company or its affiliates with the cumulated remuneration within the last two years less than NT$500,000, nor is an owner, partner, director, supervisor, or manager, or the spouse of any of the above, of a sole proprietorship, partnership, company, or organization that provides such service to the Company or its affiliates, however, this does not apply for members of compensation committee, public acquisition audit committeeor special committee for merger who exercise power in accordance with relevant laws and regulations in Securities and Exchange Act or Business Mergers and Acquisitions Act.

(10) Situation listed in any Sections of Article 30 of the Company Act did not occur.

### ii. Operation status of the Remuneration Committee

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

B. Current term: From June 16, 2017 to the expiring date of 23rd board of directors' term. The Remuneration Committee held 2 meetings (A) in the recent year, the qualifications and attendance of the Remuneration Committee are shown as follows:

| Title | Name | Actual Attendance (B) | By Proxy | Actual Attendance Rate (%) (B/A) | Remarks |
|---|---|---|---|---|---|
| Convener | Chung-Hsi Chang | 2 | 0 | 100.00 | None |
| Member | Yi-Chi Liu | 2 | 0 | 100.00 | None |
| Member | Kun-Tung Yu | 2 | 0 | 100.00 | None |

Other matters that shall be recorded:

1. If the board of directors declines to adopt or modify a recommendation of the remuneration committee, it shall specify the date of the meeting, session, content of the motion, resolution by the board of directors, and the Company's response to the remuneration committee's opinion (e.g. the remuneration passed by the Board of directors exceeds the recommendation of the remuneration committee, the circumstances and cause for the difference shall be specified):

| Meeting Date and Period | Meeting Content | Resolution from Remuneration Committee | How the Company Handled the Opinions from the Remuneration Committee |
|---|---|---|---|
| 2019.03.19 The 5th meeting of the 3rd board | 1. Allocation of 2018 Employee and directors' remuneration. | Approved by all attending members with no dissenting opinion | Approved with no dissenting opinion. |
| | 2. 2018 Review the Evaluation of the Performance of the Board. | Approved by all attending members with no dissenting opinion | Approved with no dissenting opinion. |
| 2019.03.19 The 6th meeting of the 3rd board | 1. 2019 allocation ratio for directors' and employee remuneration. | Approved by all attending members with no dissenting opinion | Approved with no dissenting opinion. |
| | 2. Proposal for 2019 annual bonus distribution. | Approved by all attending members with no dissenting | Approved with no dissenting opinion. |

| | | | | |
|---|---|---|---|---|
| | | | opinion | |
| | | 3. Revise “Board Performance Appraisal Methods”. | After discussion, parts of the text and evaluation items were revised and submitted for the board meeting for approval. | 108.12.31 18th meeting of the 23rd board: The attended directors have discussed revised some words in the evaluation results as the following: change “standard” as “reached the standard”. The rest of the proposals were approved with no dissenting opinion. |
| | | 4. Revise the calculation and payment method for directors’ remuneration. | Approved by all attending members with no dissenting opinion | Approved with no dissenting opinion. |

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

**(5) Corporate Social Responsibility and any departure of such implementation from the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies, and the reason for any such departure:**

| Evaluation Item | Implementation Status | | | Deviation from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons |
|---|---|---|---|---|
| | Yes | No | Description | |
| 1. Has the Company conducted risk assessment on environmental, social and corporate governance issues related to business operations of the Company in accordance with the concept of materiality and established relevant risk management policies or strategies? | ✓ | | The Company has established corporate governance committee, which will be in charge of establishing and supervising the policies, management directions and objectives related to corporate governance, corporate social responsibilities, ethical management, environment sustainability and risk management. The relevant department shall conduct risk assessment and propose countermeasures according to its duties and submitted to corporate governance committee for discussion before implementation and shall review regularly each year. | No difference. |
| 2. Has the Company set up a dedicated (or concurrent) corporate social responsibility promotion unit which is authorized by the board of directors to be managed by the high-level management and reports to the board of directors? | | | The dedicated unit for corporate social responsibility of the Company is the corporate governance committee, which will be in charge of establishing, supervising and reviewing the policies, systems and relevant management directions of corporate social responsibilities. The execution of each project shall be handled by the chief of the relevant unit appointed by the general manager, which will organize and report the implementations regularly each year and submit to corporate governance committee for discussion and then to the board meeting. After the finalized content of the corporate social responsibility report has been verified by third-party certification agency, it shall be submitted to the board meeting and issued after approved by the chairman; 2018 corporate social responsibility report was reported during 13the meeting of the 23rd board on May 14, 2019. | |
| 3. Environment issues<br>(1) Has the Company established an appropriate environmental management system according to its industrial characteristics? | ✓ | | (1) All the works have received the environmental management system (ISO 14001) certification. According to the regulations of the environmental management system (ISO 14001), and monthly regulatory inspections are conducted and compliance assessments are carried out in | No difference. |

| Evaluation Item | Implementation Status | | | Deviation from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons |
|---|---|---|---|---|
| | Yes | No | Description | |
| | | | the first month each year in accordance with the regulatory requirements related to the Environmental Management System (ISO 14001) to ensure the applicability of relevant environmental protection policies within the works. | |
| (2) Is the Company committed to improving the efficiency in the use of resources, and the use of recycled materials with low environmental impact? | | | (2) In order to promote the green production, and to strive for environmental sustainability. The recycling scrap of steel used in the Company's production accounted for 93.6%; the waste recycling (recycle for reuse) ration of 2019 was 99.8%; the process water was recycled and reused multiple times, and the water recycling rate of each work was higher than 70%. | |
| (3) Has the Company assessed the current and future potential risks and opportunities to the enterprise due to climate change and adopted countermeasures on issues related to the climate? | | | (3) In response to the global warming and effective mitigation of the impact of climate change, the Company actively promotes energy conservation and carbon reduction, implements the "ISO 14064 Greenhouse Gas Organization Inspection System". The greenhouse gas emission is calculated by steps such as identification of emission sources, establishment of activity intensity data, emission data, and establishment of relevant management procedures for greenhouse gas inspection. Also, the Company applied the ISO 50001 energy management system to conduct supervision and continuous improvement, continued to attend climate action project held by World Steel Association and actively attend energy-saving and carbon reduction conferences, regulation briefings, etc. to seek for potential improvement opportunities. | |
| (4) Has the Company conducted statistics on the emission of greenhouse gas, water consumption volume and the total waste weight in the past two years and developed policies for energy-saving, reduction on greenhouse gas, water consumption volume or management of other wastes? | | | (4) The total greenhouse gas emission in 2019 was 817,644,776 tons of CO2e, which is a decrease of 7.5% compared to 2018. (The actual emissions are subject to the external verification agency inspection results). The water acquired by the whole Company in 2019 was 2,142,965$m^3$, which increased 4.5% compared with 2018 with 2,049,781$m^3$; the total weight of wastes in 2019 was 304,732 tons, which decreased 2.9% compared to 2018 with 313,734 tons. The company has established policies to implement energy management, pollution prevention, | |

| Evaluation Item | Implementation Status | | | Deviation from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons |
|---|---|---|---|---|
| | Yes | No | Description | |
| | | | energy-saving plans, promote industrial waste reduction and faithfully comply with environmental-friendly regulations. In addition, the Company has made improvements in production procedure, products and services, created environment management system, focused on the control of pollution source and the spirit of pollution prevention to reduce the impact on natural environment and achieve improvement in environmental performances. | |
| 4. Social issues<br>(1) Has the Company formulated relevant management policies and procedures in accordance with relevant laws and regulations and international human rights conventions?<br><br>(2) Has the Company established and implemented reasonable employee welfare measures (including remuneration, vacations and other welfares, etc.) and reflected management performances or outcomes on employees' remuneration?<br><br>(3) Does the Company provide a safe and healthy working environment for employees and regularly | ✓ | | (1) The Company respected and supported internationally recognized human rights norms and principles, including the "Universal Declaration of Human Rights", "United Nations Global Covenant" and the "Declaration of Basic Principles and Rights at Work" of the International Labor Organization, complied to local laws and regulations where the company is located, developed human rights policies and protect legal rights and interests of employees in accordance with "United Nations Guiding Principles on Business and Human Rights".<br>(2) To sufficiently take care of employees and protect their living conditions, provide good labor conditions and satisfy employees' needs, in addition to providing basic protection in accordance with the law, the Company specifically provided or sponsored various promotion of relevant welfare projects. In addition, joint employee welfare committee was established in each factory zone to handle all kinds of employee welfare activities and subsidies. The Company has established regulations related to remuneration, various awards and performance appraisal to effectively connect work performances to personal remuneration.<br><br>(3) The Company offers health check for employees each year which are better than the regulations, including general health check and special health check, and conducts work | No difference. |

| Evaluation Item | Implementation Status | | | Deviation from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons |
|---|---|---|---|---|
| | Yes | No | Description | |
| carry out safety and health education for employees? | | | environment monitoring to provide a healthy working environment for all the staff, as well as appointing professional doctors to analyze based on the health reports. The health check is a reminder for staff to pay attention to track abnormal diagnosis and receive treatment, and as a plan for the health promotion next year, to help employees implement self-health care management and provide comprehensive health care for staff. The Company holds health talks, oral cancer screening, CPR education training courses and workplace violence education training courses. | |
| (4) Has the Company developed an effective training program for employees?<br>(5) Regarding the health and safety of products and services, customers' privacy, marketing and labelling, has the Company complied with relevant regulations and international principles and developed relevant policy and compliant procedure to protect consumers' rights and interests? | | | (4) Provide educational training, establish a good environment in response to operational needs and career planning, as well as arranging career development training programs based on individual career suitability and career planning.<br>(5) To ensure the appropriateness on the implementation of quality assurance system, each factory has established Quality Control Committee and quality control lab to maintain good quality standards of our products. To provide customers with the most excellent products and satisfied services, we actively value the voice of customers. In addition to establishing dedicated personnel to provide procurement services, consultations and suggestions, we also established dedicated e-mails to handle and reply opinions and suggestions from customers. We did not receive any matters involving intrusion of data privacy and data leak from customers in 2019. The relevant standards the Company has passed and been certified:<br>i. CNS trademark certification from the Bureau of Standards, Ministry of Economic Affairs<br>ii. Product registration and certification records from the Bureau of Standards, Ministry | |

| Evaluation Item | Implementation Status | | | Deviation from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons |
|---|---|---|---|---|
| | Yes | No | Description | |
| | | | of Economic Affairs<br>iii ISO 9001 q Quality Management System Certification<br>iv. ISO 14001 Quality Management System Certification<br>v. ISO 50001 Quality Management System Certification<br>vi. Japanese Industrial Standards (JIS) MARK factory certification by Japanese Ministry of International Trade and Industry.<br>vii. British Lloyd's Register of Ships, EU CE Mark for construction steel<br>viii. Australian Certification Authority for Reinforcing Steel for hot-rolled steel products, ACRS<br>ix. American Bureau of Shipping, ABS, Marie Steel Manufacturing Certification<br>x. Det Norske Veritas,, DNV, Marie Steel Manufacturing Certification<br>xi. Germanischer Lloyd, GL, Marie Steel Manufacturing Certification<br>xii. Bureau Veritas, BV, Marie Steel Manufacturing Certification<br>xiii. Lloyd's Register, LR, Marie Steel Manufacturing Certification<br>xiv. Nippon Kaiji Kyokai, NK Marie Steel Manufacturing Certification<br>xv. Korean Register of Shipping, KS, Marie Steel Manufacturing Certification | |
| (6) Has the Company established management policy for suppliers and asked the suppliers to comply with environmental friendly, occupational safety or labor rights and present its implementations? | | | (6) The Company has established the "Selection and Evaluation Requirements for Suppliers of Main Raw Materials, By-materials and Materials" to establish basic supplier information and to effectively manage the selection and evaluation of suppliers. At the same time to integrate suppliers of by materials includes provisions to guide suppliers to take into account product quality, energy conservation and environmental protection. Whether or not the selected supplier passed ISO 900 quality management system certification, ISO 14001 environmental | |

| Evaluation Item | Implementation Status | | | Deviation from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons |
|---|---|---|---|---|
| | Yes | No | Description | |
| | | | management system inspection, or if the product has an environmental label, use environmentally recyclable packing methods and materials. And in line with the Company's environmental policy and related industries to reduce waste, save energy, pollution prevention, environmental protection laws. The suppliers shall be urged to pay attention to the labor human right, as well as the safety and health of the working environment, and improve unfavorable working conditions. Existing suppliers shall immediately be required to improve or terminate the contract if they have actual or anticipated major environmental, labor conditions, human rights, social and other negative impacts. | |
| 5. Has the Company referenced the international principles or guidelines for preparing generalized report to prepare its non-financial reports such as corporate social responsibility reports?Has the Company obtained confirmation or guarantee opinions from third-party verification agencies regarding the aforementioned report? | | | The Company's "2018 Corporate Social Responsibility Report" has been verified by the British Standards Institution, BSI, which is a third-party body, and has met the Category 1 Moderate Assurance Level of GRI Standards Core and AA1000AS. The report has been publicly disclosed in the CSR section on the Company website. | No difference |
| 6. If the Company has its own corporate social responsibility in accordance with the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies, please describe the difference between its operational and prescribed code: No difference. | | | | |
| 7. Other important information to help understand the operation of corporate social responsibility:<br>(1) The Company takes great interest in social issues and actively participates in public welfare. The main donations in 2019 is as follows:<br>1. Donated 13,744 kilograms of steel materials for the reconstruction of Taoyuan Youth House's house, which is around NT$260,000.<br>2. Donated 261,990 kilograms of scrap steel for the creation of Tung Kang Cultural Foundation factory, which are steel sculpture creation materials worth around NT$278,000.<br>3. Sponsored the Taipei City Cultural Foundation for the annual theme curation in Taipei Contemporary Art Museum with NT$1 million.<br>4. Sponsored the Tung Kung Culture Foundation for activity funds of NT$4.1 million. | | | | |

<table>
<tr><th rowspan="2">Evaluation Item</th><th colspan="3">Implementation Status</th><th rowspan="2">Deviation from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons</th></tr>
<tr><th>Yes</th><th>No</th><th>Description</th></tr>
<tr><td colspan="5">5. Donated NT$1 million to the 6th "Visual Art Curation Project" of the National Culture and Art Foundation.<br>6. Adopted the air purification equipment for campus in Kaohsiung City, which cost NT$50,000.<br>7. Sponsored perennially for community development and good neighbors with NT$2.1 million.<br>8 Donated computers to digital opportunity centers and social welfare organizations in remote areas, worth around NT$60,000 in response to KPMG (firm of our certified accountants)"Happy Train-Spreading Love" activity.<br>(2) The "TCSA Taiwan Corporate Sustainability Academy Award, TCSA" held by Taiwan Academy of Corporate Sustainability is known as the "Oscar of the Taiwan Academy of Corporate Sustainability", of which the Company has won a number of awards ever since participating. The Company once again won the "Traditional Manufacturing – Gold Award" in 2018, confirming the Company is promoting corporate sustainability issues and governance information disclosure, as well as concrete display of efforts in economic, environmental, social and organizational governance. The Company shows its commitment of the sustainability report with actions, in order to demonstrate that the corporate is fully dedicated in social responsibilities and the implementation of sustainable issues, as a result to promote the Company to sustainable development.<br>(3) The Company participated in the "2020 The Fourth Annual Taipei Golden Eagle Micro-Movie Festival" organized by Taiwan Corporate Sustainability Collegeand obtained three awards, "Excellent Film", "Excellent Planning" and "Excellent Production Technology" for the brand "Life Earthquake". "Life Earthquake" was revised from a true story about the 1999 Jiji earthquake to express the meaning of valuing life and the extension of love.</td></tr>
</table>

## (6) Implementation of Integrity Managementand any departure of such implementation from the Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies, and the reason for any such departure

| Evaluation Item | Implementation Status (Note) | | | Deviation from "the Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons |
|---|---|---|---|---|
| | Yes | No | Description | |
| 1. Setting business integrity policies and programs<br>(1) Does the Company establish ethical management policy approved by the board of directors and express its ethical management policy, measures in its regulations and external documents and do the board of directors and senior management actively implement the commitment to management policy?<br><br>(2)Does the Company establish risk assessment system for the unethical behaviors, regularly analyze and assess business activities with higher risks of unethical behaviors within its business scope and establish prevention programs against unethical behaviors and cover at least all the acts in Article 7 (2) of the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies?<br><br>(3) Does the Company stipulate operational procedure, code of conduct, violation penalties and complaint systems in the prevention programs against unethical behaviors, implement faithfully and review and revise the aforementioned program regularly? | ✓ | | (1) The Company has established Ethical Management Policy, Corporate Governance Best Practice Principles and Procedures for Ethical Management and Guidelines for Conduct, implemented after approved by the board and publicly disclosed on the company's website. To implement ethical management policy, the Company established "Ethical and integrity commitment" signed by the management and employees and established the "Statement" for the compliance of corporate governance best practice principles signed by the directors.<br><br>(2) To prevent unethical acts in business activities, the Company has clearly established the prohibition of unethical behaviors and interests and types thereof in the Corporate Governance Best Practice Principles and established "Procedures for Ethical Management and Guidelines for Conduct" to specifically regulate and prevent unethical behaviors. During the self-evaluation procedure for the internal control system implemented by each department each year, the Company conducted risk assessment and proposed necessary prevention measures. And the Company established strict code of conduct, ethical principles, complaint and relevant award and penalty regulations in "Regulations Governing Procedure for Board of Directors Meetings", "Ethical Code of Conduct for Directors and Managers", "Procedure Governing Internal Material Information", "Code of Conduct", etc. In 2019, there are no corruption, bribery behaviors occurred.<br>(3) The Company established "Procedures for Ethical Management and Guidelines for Conduct" in accordance with the Corporate Management Best-Practice Principles for the operating procedures, violation penalties and complaint | No difference. |

| Evaluation Item | Implementation Status (Note) | | | Deviation from "the Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons |
|---|---|---|---|---|
| | Yes | No | Description | |
| | | | systems of the prevention programs against unethical behaviors and review regularly. Moreover, it also established "Regulations for the Rotation of Employees' Duties". The rotation procedures were launched on relevant duties to prevent the occurrence of various malpractices. The Company encouraged employees to prepare sufficient evidence and submit a complaint to the directors, managers, internal audit managers or chief officer of the management department when discovering matters or suspicions violating laws, regulations or code of ethical conduct. There are no unethical behaviors any complaints in 2019. | |
| 2. Implementation of integrity management<br>(1) Does the Company assess the integrity record of its business partner, and stipulate the terms of conduct on integrity in the contract with the business partner? | ✓ | | (1) The Company appoints the general manager's office to provide customer credit investigations during the Company's external business activities and legal affairs office to review and execute contract terms.<br>In accordance with Article 20 of "Procedures for Ethical Management and Guidelines for Conduct", when the Company signs a contract with a business party, the Company must fully understand the party's integrity management status, and incorporate the integrity management into the contract terms, and specify the following items in the contract:<br>i. Any party who knows that a person who has violated the contractual provisions of the prohibition of commission, rebate or other benefits shall immediately inform the other party of their identity, offer, promise, ways and amount or other interest, as well as providing relevant evidence and cooperate with other parties to investigate.<br>ii. If a party is involved in an act of dishonest in a business activity, the other party may terminate the contract at any time and without any conditions or dismiss the contract. | No difference. |

| Evaluation Item | Implementation Status (Note) | | | Deviation from "the Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons |
|---|---|---|---|---|
| | Yes | No | Description | |
| | | | iii. Establish clear and reasonable payment contents, including payment location, method and comply to relevant taxation regulations, etc. | |
| (2) Has the Company set up a dedicated corporate integrity promotion unit under the board of directors which reports ethical management policy and prevention programs against unethical behaviors and supervision and implementation situations? | | | (2) The dedicated unit for ethical management is corporate governance committee while the management department and the legal office are the concurrent unit. Regarding the implementation of ethical management, the Company submitted the report to corporate governance committee for discussion and then submitted to the board. The 2019 report regarding this matter is submitted along with corporate social responsibilities to the 13th meeting of 23rd board on May 14, 2019. | |
| (3) Has the Company formulated policies to prevent conflicts of interest, provided appropriate channels for statements and implemented them? | | | (3) To prevent conflict of interests, the Company established clear principles against conflict of interests in regulations, such as "Regulations Governing Procedure for Board of Directors Meetings", "Ethical Corporate Management Best Practice Principles", "Procedures for Ethical Management and Guidelines for Conduct", "Ethical Code of Conduct for Directors and Managers". The Company established dedicated contact windows for various external stakeholders and announced it on the Company's website, which will be used to receive reports, suggestions, complaints and whistleblowing to the Company. There are dedicated personnel who will be handling and replying these messages. In addition, the Company also established emails to independent directors for both internal and external stakeholders to submit complaints. | |
| (4) Has the Company established an effective accounting system and internal control system for the implementation of integrity management and the internal audit unit has proposed relevant audit plans in accordance with the evaluation results on the risks of the unethical behaviors and audit the compliance to the prevention programs against them accordingly or implement the audit by | | | (4) The Company has appropriately presented its business outcomes and financial situations, established effective accounting systems, prepared the financial statement in accordance with "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and "International Financial Reporting | |

| Evaluation Item | Implementation Status (Note) | | | Deviation from "the Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons |
|---|---|---|---|---|
| | Yes | No | Description | |
| entrusting accountants? | | | Standards", created effective internal control system for overall company's business and reviewed and revised the self-evaluation procedure for the internal control system each year conducted by each unit at all times in order to respond to internal and external environmental changes and ensure the continuous effectiveness of the system's design and implementation. The audit office will list the operating items with higher risks in the annual audit plan according to the risk assessment results to audit the actual implementation of such procedure. In the statement for the audit of financial statement prepared by the accountants in 2019, it stated that "during this audit procedure, no doubts have been raised about the integrity of the management and no incidents of fraud involving the management have been found." | |
| (5) Does the Company hold regular internal and external training on business integrity? | | | (5) The Company promotes integrity management principles on its quarterly or during important meetings and asks employees to comply with such principles. | |
| 3. Operation of the Company reporting system<br>(1) Has the Company set up specific reporting and reward systems and a convenient reporting channel, and does the Company assign appropriate personnel to investigate the person being reported? | ✓ | | (1)To protect employees' rights and interests for complaints or the have the regulations to comply for the whistleblowing matters involving others improperly intrude company's interests, the Company has established "Regulations Governing Employees' Complaint and Whistleblowing". Each factory zone has a complaint box. Colleagues can submit complaint and whistleblowing cases through complaint box or e-mail, oral or telephone to chief of the unit or the management unit of each factory zone. When handling complaint events, the chief of management department, audit office, office of legal affairs and necessary relevant department will form an investigation team to conduct fact | No difference. |

| Evaluation Item | Implementation Status (Note) | | | Deviation from "the Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons |
|---|---|---|---|---|
| | Yes | No | Description | |
| | | | investigation. In addition, the Company has established the "Ethical Code of Conduct for Directors and Managers" and encouraged employees to prepare sufficient evidence and submit a complaint to the directors, audit committee members, managers, internal audit managers or chief officer of the management department when discovering matters or suspicions involving directors or managers violating laws, regulations or code of ethical conduct. There are no unethical behaviors any complaints in 2019. After the complaint cases have been verified, the Company will give reward in accordance with relevant regulations. When the dedicated unit or personnel discovered material violation matters or matters that could result in major damages to the Company during an investigation, it shall prepare a report in written form and submit to the independent directors. | |
| (2) Has the Company set up standard investigation procedures, subsequent measures after the completion of the investigations and a related confidentiality mechanism for the matter being reported? | | | (2) The Company established the procedures handling complaints in "Regulations Governing Employees' Complaint and Whistleblowing", which include:Preliminary review, fact investigation, investigation results and resolution. The complainant (whistleblower) referred to the person responsible for handling the complaint (whistleblower)shall keep strictly confidential and may not make the incident public. If the information about the case was disclosed intentionally or deliberately, then the complainant shall be punished according the severity of the leak in accordance with the regulations. | |
| (3) Does the Company take measures to protect the whistle-blower from improper treatment? | | | (3) Depending on the nature of the reported case and the situation of the whistle-blower, the Company adopts necessary protective measures for keeping the whistle-blower's identity confidential in order to protect them from | |

| Evaluation Item | Implementation Status (Note) | | | Deviation from "the Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons |
|---|---|---|---|---|
| | Yes | No | Description | |
| | | | retaliation. | |
| 4. Strengthening of information disclosure<br>Does the Company disclose the contents of its Code of Practice for Business Integrity and the effectiveness on its website and MOPS? | ✓ | | The Company has established Ethical Management Policy, Corporate Governance Best Practice Principles and Procedures for Ethical Management and Guidelines for Conduct and has announced for their implementations and publicly disclosed on the company's website and the annual report. | No difference. |
| 5. If the Company has its own Corporate Governance Best Practice Principles in accordance with the "Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies", please describe the difference between them:<br>The Company has its own Corporate Governance Best Practice Principles in accordance with the "Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies" and there is no difference. | | | | |
| 6. Other important information that will help to understand the operation of the Company's integrity: (if the Company reviews and amends its established code of conduct, etc.)<br>(1) The Company made amendment to "Ethical Corporate Management Best Practice Principles" in 2019 and established "Procedures for Ethical Management and Guidelines for Conduct" to specifically regulate the matters required attention when conducting business operations.<br>(2) The "Rules of the Board of Directors" states that the director shall avoid conflict of interest when his/her own interests are involved, they. If the director's is like to damage the interest of the Company, the concerned person may not participate in the discussion or voting process, they shall not exercise voting rights as a proxy for another director. The directors of the Company are highly self-disciplined. If the proposal involves a director's own interest, he/she shall evade the principle of avoidance of interests.<br>(3) The Company has the Procedures for Handling Material Inside Information", which clearly states that the directors, managers and employees of the Company shall be subject to the attention and loyalty of the good manager. The Company's principles of integrity are used to conduct business and must not disclose important inside information to others. | | | | |

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

The Company established the Corporate Governance Best Practice Principles on the 12th meeting of 23rd Board of Directors on March 26, 2019, the Corporate Governance Best Practice Principles are disclosed on the Company website (web address: http://www.tunghosteel.com, at Investors/Corporate Governance

Important/Regulations).Prior to the implementation of the Corporate Governance Best Practice Principles, the Company followed Corporate Governance Best Practice Principles for Listed Companies.

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

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

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

i. Statement of Internal Control System

**TUNG HO STEEL ENTERPRISE CORP.**

**Statement of Internal Control System**

Date: Feb. 27, 2020

The internal control system from January 1 to December 31, 2019, according to the result of self-assessment is thus stated as follows:

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

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

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

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

5. Based on the finding of such evaluation, the Company believes that, on December 31, 2019 it has maintained, in all material respects, an effective internal control system (that includes the supervision and management of our subsidiaries), to provide reasonable assurance over our operational effectiveness and efficiency, reliability, timeliness transparency of reporting, and compliance with applicable rulings, laws and regulations.

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

7. This statement was approved by the board of directors in the meetings held on February27, 2020, with none of the ten attending directors expressing dissenting opinions, and the remainder all affirming the content of this Statement.

TUNG HO STEEL ENTERPRISE CORP.

Chairman: Henry C. T. Ho

General Manager: Henry C. T. Ho

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

## (10) For the most recent year or during the current year up to the date of publication of the annual report, disclose any sanctions imposed in accordance with the law upon the Company and its internal personnelor any sanctions imposed upon its internal personnel for violation of internal control system provisions by the Company where the sanction results could have a major impact on the shareholders' equity or securities price, principal deficiencies, and the state of any efforts to make improvements: None.

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

| Date | Period | Important Content | Resolution |
|---|---|---|---|
| 2019.03.26 | 12th of 23rd board | 1. Approved the Company's CPA replacements due to the internal job rotation mechanism of the KPMG law firm.<br>2. The report of the performance evaluation of the board of directors of 2018.<br>3. Approved the distribution of remuneration of the Company's employees and directors for 2018. The total of the employee remuneration amounted to NT$32,115,319 and the total of the director remuneration amounted to NT$25,692,256.<br>4. The review of the independence and competence of the CPAs.<br>5. Approved the Company's 2018 business report and financial statements.<br>6. Approved the Company's distribution of earnings for 2018, at NT$1.2 per cash dividend.<br>7. Approved the Company's shareholders' meeting of 2019 and the proposal of shareholders holding more than 1% of shares.<br>8. Approved the appointment of the Company's corporate governance manager.<br>9. Approved the Company's subsidiary Tung Kang Steel Co., Ltd. to apply for short-term, mid-term and long-term credit limit of RMB30 million of endorsements and guarantees at Xiamen.<br>10. Approved the extension of the Company's subsidiary Tung Ho Steel Vietnam Corp., Ltd. for short-term credit limit of endorsements and guarantees at Fubon Bank. | Approved by all attending directors with no dissenting opinions. |
| 2019.05.14 | 13th of 23rd board | 1. The Company's consolidated financial report for the first quarter of 2019.<br>2. The issuance of the 2018 CSR and Ethical Corporate Management report<br>3. Approved the establishment of "Standard Operating Procedures Handling the Requests from Directors".<br>4. Through the donation to "Tung Ho Steel Foundation" to hold activities related to steel sculpture artworks and conference expenses which were NT$4,100,000 and 60 tons of scrap steel | Approved by all attending directors with no dissenting opinions. |

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|---|---|---|---|
| 2019.06.18 | Shareholders' meeting | Status of 2019 Major shareholders' meeting proposals and implementation:<br>1. Proposals:<br>(1) Approved the 2018 business report and financial statements.<br>Implementation: Approved.<br>(2) Approved the distribution of earnings of 2018.<br>The board convened the board of directors' meeting on the same afternoon of shareholders' meeting after the proposal of the distribution of earnings was approved, to discuss matters related to based date for the issuance of cash dividends. The board of directors resolved to issue a total of NT$1,204,872,730in cash dividends at NT$1.20 per share. The ex-dividend benchmark date is set at 2019.07.22; the dividend issuance date is 2019.08.16.<br>2. Discussion:<br>(1) Approval of amendments on "Articles of Incorporation".<br>Implementation: Approved the amendments on some of the provisions, and is published on the Company website. (Web address: http://www.tunghosteel.com, at Investors/Corporate Governance/Important Regulations)<br>(2) Approval of amendments on "Regulations Governing Loaning of Funds".<br>Implementation: Approved the amendments on some of the provisions, and is published on the Company website. (Web address: http://www.tunghosteel.com, at Investors/Corporate Governance/Important Regulations)<br>(3) Approval of amendments on "Endorsements and guarantees Operating Procedures".<br>Implementation: Approved the amendments on some of the provisions, and is published on the Company website. (Web address: http://www.tunghosteel.com, at Investors/Corporate Governance/Important Regulations)<br>(4) Approval of amendments on "Regulations Governing the Acquisition and Disposal of Assets"<br>Implementation: Approved the amendments on some of the provisions, and is published on the Company website. (Web address: http://www.tunghosteel.com, at Investors/Corporate Governance/Important Regulations)<br>(5) Approval of amendments on "Procedures Governing the Engagement of Derivatives Transactions".<br>Implementation: Approved the amendments on some of the provisions, and is published on the Company website. (Web address: http://www.tunghosteel.com, at Investors/Corporate Governance/Important Regulations)<br>The important resolutions of the above shareholders' meeting are on the Company website. Web address: http://www.tunghosteel.com, at Investor/Shareholder Services/Shareholders' meeting/2019 Shareholders' Meeting Information/Minutes for 2019 Annual Meeting of Shareholders had detailed information. | The chairman consulted all attending shareholders. All shareholders approved with no dissenting opinions. |
| 2019.06.18 | 14th of 23rd board | 1. Approved the issuance of cash dividend and ex-dividend base date for 2019<br>2. Approved the transfer of the payable amount of the subsidiary Tung Ho Steel Vietnam Corp., Ltd., USD 66,643,636.23 as other payables.<br>3. Approved the renewal of the Company's subsidiary Tung Ho Steel Vietnam Corp., Ltd. for short-term credit limit of endorsements and guarantees at Cathay United Bank with USD 20,000,000 | Approved by all attending directors with no dissenting opinions. |

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| | | 4. Approved the application of the Company's subsidiary Tung Ho Steel Vietnam Corp., Ltd. for short-term credit limit of endorsements and guarantees at Taipei Fubon Bank with USD 29,500,000 | |
| 2019.08.13 | 15th of 23rd board | 1. The Company's consolidated financial report for the second quarter of 2019.<br>2. Approved the application of the Company's subsidiary Tung Ho Steel Vietnam Corp., Ltd. for middle and long-term credit limit of endorsements and guarantees at CTBC bankwith USD 30,000,000.<br>3. Approved the application of the Company's subsidiary, Fujian Tung Gang Iron and Steel Co., Ltd., for short-term credit limit of endorsements and guarantees atThe Shanghai Commercial & Savings Bank, Ltd.with USD 3,000,000 | Approved by all attending directors with no dissenting opinions. |
| 2019.09.26 | 16th of 23rd board | 1. Report of the directors and important employees' liability insurance.<br>2. Approved the establishment of "Organization Rules for Corporate Governance Committee".<br>3. Approved the establishment of "Corporate Governance Committee", appointment and remuneration of the members<br>4. Approved the acquisition of 46.75% shares of Vietnam Duc Hoa International Joint Stock Company by the subsidiary Tung Yuan International Corporation<br>5. Approved the renewal of the Company's subsidiary Tung Ho Steel Vietnam Corp., Ltd. for short-term credit limit of endorsements and guarantees at Mizuho Bank, Ltd.- Ho Chi Minh City Branch for an application of USD 47,000,000<br>6. Approved the renewal of the Company's subsidiary Tung Ho Steel Vietnam Corp., Ltd. for short-term credit limit of endorsements and guarantees at Zhaofeng International Commercial Bank Ho Chi Minh City Branch with USD 15,000,000.<br>7. Approved the renewal of the Company's subsidiary Tung Ho Steel Vietnam Corp., Ltd. for short-term DBU credit limit of endorsements and guarantees at Yongfeng Commercial Bank Ho Chi Minh City Branchwith USD 10,000,000.<br>8. Approved the renewal of the Company's subsidiary Fujian Tung Gang Iron and Steel Co., Ltd. for short-term DBU credit limit of endorsements and guarantees at Bank of Taiwan Fuzhou Branchwith RMB 30,000,000. | Approved by all attending directors with no dissenting opinions. |
| 2019.11.11 | 17th of 23rd board | 1. The Company's consolidated financial statements of the 3rd quarter of 2019<br>2. Proved the review of the professional fee of CPAs of 2019<br>3. Proved the proposal of the "Audit Plan of 2020".<br>4. Approved the budget for the construction office located at the registration address of the headquarters in accordance with Statute for Expediting Reconstruction of Urban Unsafe and Old Buildings and signed contract with the subsidiary Fa Da Construction Corporation for contracting construction and management.<br>5. Approved to purchase the factories of the subsidiary Fa Da Construction Incorporation with NT$64,000,000.<br>6. Approved the renewal of the Company's subsidiary Tung Ho Steel Vietnam Corp., Ltd. for short-term credit limit of endorsements and guarantees at First Commercial Bank for an application of USD 13,000,000. | Approved by all attending directors with no dissenting opinions. |

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| | | 7. Approved the application the Company's subsidiary Tung Ho Steel Vietnam Corp., Ltd. for short-term OBU credit limit of endorsements and guarantees at Business Department of Yongfeng Commercial Bankwith USD 10,000,000.<br>8. Approved the extension of the Company's subsidiary Tung Ho Steel Vietnam Corp., Ltd. for short-term credit limit of endorsements and guarantees at South China Commercial Bank.<br>9. Approved the renewal of the Company's subsidiary Fujian Tung Gang Iron and Steel Co., Ltd.for short-, middle and long-term OBU credit limit of endorsements and guarantees at Business Department of Yongfeng Commercial Bankwith USD 6,000,000 | |
| 2019.12.31 | 18th of 23rd board | 1. Report on Corporate Governance.<br>2. Approved the amendment to "Articles of Incorporation".<br>3. Approved the amendment to "Board Performance Appraisal Methods"<br>4. Approved the amendment to "Ethical Corporate Management Best Practice Principles" and establishment of ethical management policies.<br>5. Approved the establishment of "Procedures for Ethical Management and Guidelines for Conduct"<br>6. Approved the establishment of corporate social responsibility policy and human rights policy.<br>7. Approved the establishment of management strategies, reduction objectives and plans for greenhouse gas.<br>8. Approved the Company's shareholders' meeting of 2020 and accepted the proposal of shareholders holding more than 1% of shares and nomination of candidates for directors.<br>9.. Approved the renewal of the Company's subsidiary Tung Ho Steel Vietnam Corp., Ltd. for short-term credit limit of endorsements and guarantees at BNP Paribas, Ho Chi Minh City Branch and BNP Paribas, Hanoi Branch for an application of USD 8,000,000<br>10. Approved the renewal of the Company's subsidiary Tung Ho Steel Vietnam Corp., Ltd. for short-term credit limit of endorsements and guarantees at Taishin international commercial bank for an application of USD 15,000,000.<br>11. Approved the renewal of the Company's subsidiary Fujian Tung Gang Iron and Steel Co., Ltd. for short-term credit limit of endorsements and guarantees at Mizuho Bank (China) Ltd.- Shenzhen Branch for an application of RMB 50,000,000 | Approved by all attending directors with no dissenting opinions. |
| 2020.02.27 | 19th of 23rd board | 1. Board performance evaluation report of 2019<br>2. The review of the independence and competence of the CPAs.<br>3. Approved the distribution of remuneration of the Company's employees and directors for 2019. The total of the employee remuneration amounted to NT$54,696,060 and the total of the director remuneration amounted to NT$43,756,848.<br>4. Approved the Company's 2019 business report and financial statements.<br>5. Approved the Company's distribution of earnings for 2019, at NT$1.35 per cash dividend.<br>6. Approved the renewal of the Company's subsidiary Tung Ho Steel Vietnam Corp., Ltd. for short-term credit limit of endorsements and guarantees at Cathay United Bank. | Approved by all attending directors with no dissenting opinions. |

**(12) Where, during the most recent year or during the current year up to the date of publication of the annual report, a director has expressed a dissenting opinion with respect to a resolution approved by the board of directors, and said dissenting opinion has been recorded or prepared as a written declaration, disclose the principal content thereof:** None.

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

## 5. Information on CPA Professional Fees

### (1) Information on the range of CPA professional fee

| Accounting Firm | Name of Accountant | | Audit Period | Remarks |
|---|---|---|---|---|
| KPMG Taiwan | Tzu-Hui Li | Xin-Yu Kuo | 2019.01~2019.12 | None |

Unit: NT$1000

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

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

Unit: NT$1000

| CPA Firm | Name of Accountant | Audit Fee | Non-audit Fee | | | | | Audit Period | Remarks |
|---|---|---|---|---|---|---|---|---|---|
| | | | System of Design | Company Registration | Human Resources | Others | Subtotal | | |
| KPMG Taiwan | Tzu-Hui Li, Xin-Yu Kuo | 6,340 | 0 | 0 | 0 | 1,170 | 1,179 | 2019.01~ 2019.12 | (1) Consulting fee for R&D of 2019: NT$240 thousand.<br>(2) The main report of the country type and the corporate of 2019: NT$930 thousand. |

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

**iii. If the audit fee is reduced by over 10% compared with the previous year, the reduction in the amount of audit fees, reduction percentage, and reason(s) shall therefore be disclosed:** N/A.

### (2) The audit fees mentioned in the preceding paragraph refers to the public fees paid

**to the certified accountant regarding the audit, examination, review of the financial statements and examination of the financial estimations and the tax certification.**

## 6. Information on Replacement of Certified Public Accountants:

To cooperate with the internal rotation of KPMG to change the accountant in 2019, starting from 2019 Q1 financial statements, the certified accountants of the Company changed from accountants, Hui-Chih Kou and Xin-Yu Kuoto accountants, Tzu-Hui Liand Xin-Yu Kuo.

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

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

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

Unit: Shares

| Title | Name | 2019 | | 2020 to February29th | |
|---|---|---|---|---|---|
| | | Shareholding Increase/Decrease | Pledged Shares Increase/Decrease | Shareholding Increase/Decrease | Pledged Shares Increase/Decrease |
| Director | Mao Sheng Investment Co., Ltd | 3,433,000 | 0 | 2,469,000 | 0 |
| Director | Mao Sheng Investment Co., Ltd Representative: Henry C. T. Ho | 0 | 0 | 0 | 0 |
| Director | Mao Sheng Investment Co., Ltd Representative: George Y. S. Ho | (90,000) | 0 | 0 | 0 |
| Director | Shen Yuan Investment Co., Ltd. | 11,922,000 | 0 | 5,797,000 | 0 |
| Director | Shen Yuan Investment Co., Ltd. Representative: Shu-Chau Wang Ho (Note 1) | 0 | 0 | 0 | 0 |
| Director | Shen Yuan Investment Co., Ltd. Representative: Hui-Ming Wu | 0 | 0 | 0 | 0 |
| Director | Liang Cheng Investment Co., Ltd. | 0 | 0 | 0 | 0 |
| Director | Liang Cheng Investment Co., Ltd. Representative: Pao-He Chen | (980,000) | (2,000,000) | (2,480,000) | (2,000,000) |
| Director | Epsil Holding Incorporation | 0 | 0 | 0 | 0 |
| Director | Epsil Holding Incorporation Representative: Chih-Ming Huang | 692,940 | 0 | (4,800,000) | 0 |

| Title | Name | 2019 | | 2020 to February29th | |
|---|---|---|---|---|---|
| | | Shareholding Increase/Decrease | Pledged Shares Increase/Decrease | Shareholding Increase/Decrease | Pledged Shares Increase/Decrease |
| Director | Yen-Liang Ho | 0 | 0 | 0 | 0 |
| Director | Taiwan Zhi Di Co., Ltd. | 0 | 0 | 0 | 0 |
| Director | Taiwan Zhi Di Co., Ltd. Representative: Chao-He Lin | 0 | 0 | 0 | 0 |
| Independent Director | Yi-Chi Liu | 0 | 0 | 0 | 0 |
| Independent Director | Chung-Hsi Chang | 0 | 0 | 0 | 0 |
| Independent Director | De-Ming Liu | 0 | 0 | 0 | 0 |
| Chairman/ General Manager | Henry C. T. Ho | 0 | 0 | 0 | 0 |
| Vice President | Shu-Chau Wang Ho (Note 1) | 0 | 0 | 0 | 0 |
| Vice General Manager of Production Department | Fu-Jin Chen | 15,000 | 0 | 175,000 | 0 |
| Vice General Manager of Operations Department | Kuan-Ren Gu | 10,000 | 0 | 0 | 0 |
| Vice General Manager of Operations Department | Bing-Hua Huang | 0 | 0 | 0 | 0 |
| Vice General Manager of Assets and Trade Department | Qi-Xie Lin | 0 | 0 | 0 | 0 |
| Vice General Manager of Financial Department | Bo-Xun Tung | 0 | 0 | 0 | 0 |
| Assistant Manager of | Chang-Hong Li | 0 | 0 | 0 | 0 |

| Title | Name | 2019 | | 2020 to February29th | |
|---|---|---|---|---|---|
| | | Shareholding Increase/Decrease | Pledged Shares Increase/Decrease | Shareholding Increase/Decrease | Pledged Shares Increase/Decrease |
| General Manager Office | | | | | |
| Assistant Manager of Production Department | Ru-Yin Fan | 0 | 0 | 0 | 0 |
| Assistant Manager of Investment Department | Zheng-Bin Chiu | 0 | 0 | 0 | 0 |
| Assistant Manager of Investment Department | Hsiu-Chih Chen | 0 | 0 | 0 | 0 |
| Assistant Manager of Investment Department | Zhen-Yuan Chen | 0 | 0 | 0 | 0 |
| Assistant Manager of Investment Department | Yi-Zhi Hsu (Note 2) | 0 | 0 | 0 | 0 |
| Assistant Manager of Assets and Trade Department | Jun-Shen Jian | 0 | 0 | 0 | 0 |
| Assistant Manager of Information Department | Zhe-Chong Lin | 0 | 0 | 0 | 0 |
| The Company's Corporate Governance Manager as well as Assistant Manager of Management | Ru-Yu He | 0 | 0 | 0 | 0 |

| Title | Name | 2019 | | 2020 to February29th | |
|---|---|---|---|---|---|
| | | Shareholding Increase/Decrease | Pledged Shares Increase/Decrease | Shareholding Increase/Decrease | Pledged Shares Increase/Decrease |
| Department (Note 3) | | | | | |
| Director of Taoyuan Works | De-Xiu Chen | 0 | 0 | 0 | 0 |
| Director of Miaoli Works | Ming-Zong Liu | 10,000 | 0 | 0 | 0 |
| Director of Kaohsiung Works | Zong-Yu Wang | 8,000 | 0 | 0 | 0 |
| Major Shareholders Holding more than 10% of the Shares | Shen Yuan Investment Co., Ltd. | 11,922,000 | 0 | 5,797,000 | 0 |

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

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

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

| Name | Reason for Pledge Changes | Date of Change | Transaction Counterparty | Relationship between the Transaction Counterparty, Company, Director, Supervisors, and Managers as well as Shareholders with more than 10% stake | Shares | Shareholding % | Pledge % | Pledge Loan (Redemption) Amount |
|---|---|---|---|---|---|---|---|---|
| Liang Cheng Investment Co., Ltd. | Pledge | 2017.11 | China Bills | N/A | 10,000,000 shares | 1% | 1.00% | None |

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

Date: March 20, 2020 (unit: shares; %)

| Name | Shareholding | | Spouse & Minor Current Shareholding | | Current Shareholding in the Name of others | | Relationships among the Top Ten Shareholders, anyone who is a Related Party, Spouse, or Second-degree Kinship of another: Name and Relation | | Remarks |
|---|---|---|---|---|---|---|---|---|---|
| | Shares | % | Shares | % | Shares | % | Title (or Name) | Relation | None |
| Shen Yuan Investment Co., Ltd. | 139,505,779 | 13.89% | 0 | 0 | 0 | 0 | None | None | None |
| Shen Yuan Investment Co., Ltd. Representative: Shu-Chau Wang Ho (Note) | 10,695,847 | 1.07% | 10,382,000 | 1.03% | 0 | 0 | Mao Sheng Investment Co., Ltd. Representative: Henry C. T. Ho | Mother/Son | None |
| | | | | | | | Mao Sheng Investment Co., Ltd. Representative: Henry C. T. Ho | Mother/Son | None |
| Shen Yuan Investment Co., Ltd. Representative: Hui-Ming Wu | 128,432 | 0.01% | 0 | 0 | 0 | 0 | None | None | None |
| Mao Sheng Investment Co., Ltd | 60,407,877 | 6.02% | 0 | 0 | 0 | 0 | None | None | None |
| Mao Sheng Investment Co., Ltd. Representative: Henry C. T. Ho | 142,426 | 0.01% | 113,000 | 0.01% | 0 | 0 | Shu-Chau Wang Ho (Note) | Mother/Son | None |
| | | | | | | | Mao Sheng Investment Co., Ltd. Representative: Henry C. T. Ho | Brothers | None |
| Mao Sheng Investment Co., Ltd | 10,000 | 0.00% | 0 | 0 | 0 | 0 | Shu-Chau Wang Ho (Note) | Mother/Son | None |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Representative : George Y. S. Ho | | | | | | | Mao Sheng Investment Co., Ltd. Representative : Henry C. T. Ho | Brothers | None |
| He Zhao Investment Co., Ltd. Representative : Henry C. T. Ho | 58,944,150 | 5.87% | 0 | 0 | 0 | 0 | None | None | None |
| China Life Insurance Co., Ltd. Representative : Kuo, Yu-Ling | 31,046,597 | 3.09% | 0 | 0 | 0 | 0 | None | None | None |
| Fubon Life Insurance Co., Ltd. Representative : Tsai, Ming-Hsing | 29,892,000 | 2.98% | 0 | 0 | 0 | 0 | None | None | None |
| Public Service Pension Fund Management Committee | 27,897,385 | 2.78% | 0 | 0 | 0 | 0 | None | None | None |
| Citibank (Taiwan) Commercial Bank is Commissioned to Safeguard Norges Bank Investment Accounts | 20,172,972 | 2.01% | 0 | 0 | 0 | 0 | None | None | None |
| Yu Tai Investment Co., Ltd. Representative : Chih-Ming Huang | 19,381,193 | 1.93% | 0 | 0 | 0 | 0 | None | None | None |
| Nan Shan Life Insurance Company, Ltd. Representative : Chen-Tang | 12,768,000 | 1.27% | 0 | 0 | 0 | 0 | None | None | None |
| Jicheng Investment Co., Ltd. Representative | 11,314,080 | 1.13% | 0 | 0 | 0 | 0 | None | None | None |

| : Pao-He Chen | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|

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

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

Date: 2019.12.31 (Unit: thousand; %)

| Reinvestment Business | Investment by the Company | | Investments by Directors, Supervisors, Managers and any Companies Controlled either Directly or Indirectly by the Company | | Comprehensive Investment | |
|---|---|---|---|---|---|---|
| | Shares | Shareholding % | Shares | Shareholding % | Shares | Shareholding % |
| Xiaogang Warehouse | 2,384 | 19.87 | 0 | 0 | 2,384 | 19.87 |
| Hexawave Inc. | 2,564 | 6.39 | 0 | 0 | 2,564 | 6.39 |
| Taiwan Aerospace | 1,621 | 1.19 | 0 | 0 | 1,621 | 1.19 |
| Overseas Investment | 1,000 | 1.11 | 0 | 0 | 1,000 | 1.11 |
| Li-Shi Venture Capital Inc. | 677 | 5.68 | 0 | 0 | 677 | 5.68 |
| Li-Yu Venture Capital Inc. | 558 | 4.76 | 0 | 0 | 558 | 4.76 |
| Taiwan High Speed Rail | 1,913 | 0.04 | 0 | 0 | 1,913 | 0.04 |
| Tungjing Investment | 0 | 9.13 | 0 | 0 | 0 | 9.13 |
| Industrial Bank of Taiwan Second Venture Capital | 1,313 | 4.17 | 0 | 0 | 1,313 | 4.17 |
| Global Venture | 2,800 | 2.33 | 0 | 0 | 2,800 | 2.33 |
| Chien Shing Harbour Service | 8,204 | 10.11 | 0 | 0 | 8,204 | 10.11 |
| Katec Creative Resources Corp. – Special Stock | 577 | 65.18 | 0 | 0 | 577 | 65.18 |
| Tung Kang Wind Power | 15,500 | 100.00 | 0 | 0 | 15,500 | 100.00 |
| Fata Xingye | 9,000 | 100.00 | 0 | 0 | 9,000 | 100.00 |
| Tung Yuan International Corporation | 0.08 | 100.00 | 0 | 0 | 0.08 | 100.00 |
| Tung Kang Steel Structure | 197,565 | 97.48 | 3,474 | 1.71 | 201,039 | 99.19 |
| Taiwan Steel United Inc. | 24,829 | 22.31 | 0 | 0 | 24,829 | 22.31 |
| Katec Technology | 4,705 | 46.19 | 0 | 0 | 4,705 | 46.19 |
| Katec Creative Resources Corp. | 95,724 | 99.01 | 0 | 0 | 95,724 | 99.01 |
| Goldham Development Ltd. | 15,000 | 100.00 | 0 | 0 | 15,000 | 100.00 |
| Tung Ho Steel Vietnam Corp.Ltd. | 0 | 100.00 | 0 | 0 | 0 | 100.00 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Best-Steel Trade Corp. | 0 | 0 | 0.6 | 60.00 | 0.6 | 60.00 |
| Fujian Tung Kang Steel | 0 | 0 | 0 | 100.00 | 0 | 100.00 |
| Tung Kang Engineering & Construction | 0 | 0 | 25,000 | 100.00 | 25,000 | 100.00 |
| Fujian Sino-Japan Metal | 0 | 0 | 0 | 35.00 | 0 | 35.00 |
| 3 Oceans International Inc. | 0 | 0 | 1,840 | 66.67 | 1,840 | 66.67 |
| DUCHOA International | 0 | 0 | 4,183 | 49.25 | 4,183 | 49.25 |
| China Products | 0 | 0 | 3 | 0.66 | 3 | 0.66 |
| Tech Alliance Venture Capital | 0 | 0 | 1,792 | 5.69 | 1,792 | 5.69 |
| Ding-Xing Development | 0 | 0 | 150 | 15.00 | 150 | 15.00 |
| Fujian Tungsheng Metal | 0 | 0 | 0 | 51.00 | 0 | 51.00 |
| Tung Tang Energy Services | 1,500 | 100.00 | 0 | 0 | 1,500 | 100.00 |

# IV. Capital Raising Activities

## 1. Capital and Shares

### (1) Source of capital stock

i. Types of shares

Benchmark date: March 20, 2020

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

ii. The formation of capital

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

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

## (2) Shareholder structure

Benchmark date: March 20, 2020

| Shareholder Structure Quantity | Government Organization | Financial Institutions | Other Institutions | Individual Investors | Foreign Organizations and Foreign Individuals | Total |
|---|---|---|---|---|---|---|
| Number of People | 3 | 27 | 184 | 67,894 | 217 | 68,325 |
| Shareholding | 27,897,424 | 116,925,756 | 372,767,258 | 356,381,150 | 130,089,020 | 1,004,060,608 |
| Shareholding % | 2.78 | 11.65 | 37.13 | 35.50 | 12.94 | 100.00 |

## (3) Diffusion of ownership

NT$10 per share Benchmark date: March 20, 2020

| Class of Shareholding | Number of Shareholders | Shareholding | Ratio % |
|---|---|---|---|
| 1 ~ 999 | 27,901 | 4,937,950 | 0.49 |

| | | | |
|---|---|---|---|
| 1,000 ~ 5,000 | 28,473 | 62,548,864 | 6.23 |
| 5,001 ~ 10,000 | 6,118 | 47,017,534 | 4.68 |
| 10,001 ~ 15,000 | 2,057 | 25,543,546 | 2.54 |
| 15,001 ~ 20,000 | 1,181 | 21,654,901 | 2.16 |
| 20,001 ~ 30,000 | 980 | 24,523,151 | 2.44 |
| 30,001 ~ 50,000 | 721 | 28,860,720 | 2.87 |
| 50,001 ~ 100,000 | 467 | 33,138,153 | 3.30 |
| 100,001 ~ 200,000 | 208 | 28,925,763 | 2.88 |
| 200,001 ~ 400,000 | 93 | 25,600,563 | 2.55 |
| 400,001 ~ 600,000 | 31 | 15,176,284 | 1.51 |
| 600,001 ~ 800,000 | 11 | 7,574,932 | 0.75 |
| 800,001 ~ 1,000,000 | 12 | 11,051,000 | 1.10 |
| Over 1,000,001 | 72 | 667,507,247 | 66.50 |
| Total | 68,325 | 1,004,060,608 | 100 |

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

Benchmark date: March 20, 2020

| Shares / Name of Major Shareholders | Shareholding | Ratio % |
|---|---|---|
| Shen Yuan Investment Co., Ltd. | 139,505,779 | 13.89 |
| Mao Sheng Investment Co., Ltd | 60,407,877 | 6.02 |
| He Zhao Investment Co., Ltd. | 58,944,150 | 5.87 |
| China Life Insurance Co., Ltd. | 31,046,597 | 3.09 |
| Fubon Life Insurance Co., Ltd. | 29,892,000 | 2.98 |
| Public Service Pension Fund Management Committee | 27,897,385 | 2.78 |
| Citibank (Taiwan) Commercial Bank is Commissioned to Safeguard Norges Bank Investment Accounts | 20,172,972 | 2.01 |
| Yu-Tai Investment Co., Ltd. | 19,381,193 | 1.93 |
| Nan Shan Life Insurance Company, Ltd. | 12,768,000 | 1.27 |
| Jicheng Investment Co., Ltd. | 11,314,080 | 1.13 |

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

Unit: NT$

| Item \ Year | | | 2018 | 2019 | As of Feb. 29 in this year |
|---|---|---|---|---|---|
| Market Price Per Share | Highest | | 27.90 | 23.75 | 22.95 |
| | Lowest | | 18.75 | 18.55 | 22.00 |
| | Average | | 23.25 | 21.53 | 22.61 |
| Net Worth Per Share | Before Distribution | | 23.81 | 24.10 | N/A |
| | After Distribution (Note 1) | | 22.61 | Not yet distributed | N/A |
| Earnings Per Share | Weighted Average Shares (1,000 Shares) | | 1,004,061 | 1,004,061 | N/A |
| | Earnings Per Share | Before Adjustment (Note 2) | 0.88 | 1.56 | N/A |
| | | After Adjustment (Note 2) | 0.88 | 1.56 | N/A |
| Dividend Per Share | Cash Dividend (NT$) | | 1.20 | 1.35 | N/A |
| | Stock Dividends | Stock Dividends Appropriated from Retained Earnings | 0 | 0 | N/A |
| | | Stock Dividends Appropriated from Capital Surplus | 0 | 0 | N/A |
| | Accumulated Undistributed Dividends | | 0 | 0 | N/A |
| Return on Investment | P/E Ratio (Note 3) | | 26.42 | 13.80 | N/A |
| | Price-dividend Ratio (Note 4) | | 19.37 | 15.95 | N/A |
| | Cash Dividend Yield (Note 5) | | 5.16% | 6.27% | N/A |

Note 1: It is based on the distribution of the resolution of the shareholders' meeting of next year.
Note 2: Based on the basic earnings per shares.
Note 3: P/E Ratio = current year average closing price per share / earnings per share.
Note 4: Price-dividend Ratio = current year average closing price per share / cash dividend per share.
Note 5: Cash Dividend Yield = cash dividend per share / current year average closing price per share.

## (6) Dividend policy and implementation status

i. Dividend policy:

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

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

A. To compensate the accumulated deficit.

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

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

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

ii. Dividend allocation proposed by the shareholders' meeting: After 19th meeting of the 23rd Board of Director, it has been approved to allocated cash dividends of NT$1,355,481,821 with a total of 1,004,060,608 shares (NT$1.35/share), if the corporate bond can be transferred into common stock subsequently or the number of shares outstanding is affected for some other reasons and caused the interest rate for the allocated shares to change as a result, the chairman shall be authorized to provide adjustments accordingly.

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

## (8) Remuneration of employees, directors, and supervisors

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

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

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

The Company's remuneration to employees and directors/supervisors in 2019 amounted to NT$54,696,060 and NT$43,756,848, as regulated by the Company's Articles of Incorporation that have been approved by the board of directors. If the estimated amount differs from the actual distributed amount, then the difference will be treated as changes in accounting estimates and recognized in profit and loss in the distribution year.

iii. Remuneration proposals approved by the board of directors:

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

Unit: NT$

| Item | 2019 |
|---|---|
| Directors and Supervisors' Remuneration | 43,756,848 |
| Employee Remuneration (Cash Issued) | 54,696,060 |

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

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

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

The 2018 employee remuneration distributed in 2019 amounted to NT$32,115,319, while the directors/supervisors' remunerations for the same period amounted to NT$25,692,256. The actual amount allocated showed no discrepancies compared to that of the recognized employee bonuses and directors/supervisors/ remuneration amounts.

Unit: NT$

| Item | Actual Allocation | The Status of the Proposed Allocation Approved by the Board | Difference |
|---|---|---|---|
| Employee Remuneration | 32,115,319 | 32,115,319 | None |
| Director/Supervisor Remuneration | 25,692,256 | 25,692,256 | None |

**(9) Stock buyback:** None.

## 2. Corporate Bonds

## (1) Corporate bond issuance status

Benchmark date: February 29, 2020

| Corporate Bond | The 7th Domestic Unsecured Convertible Bonds |
|---|---|
| Date of Issue | 2018.05.14 |
| Share Par Value | NT$100,000 |
| Location of Issuance | Taipei Exchange |
| Issuing Price | Issued based on share par value |
| Total | NT$2,000,000,000 |
| Interest Rate | 0% |
| Period | Five years |
| Guarantee Institution | None |
| Commissioned Party | Trust Department of Fubon Commercial Bank Co., Ltd |
| Underwriting Institution | Taishin Comprehensive Securities Co., Ltd. |
| Certified Attorney | Yi-Cheng Pong |
| CPA | Hui-Zhi Kao, Xin-Yi Kuo |
| Repayment Method | Unless conversion method is used or unless redeemed, the full amount shall be repaid with cash upon maturity. |
| Outstanding Principal | NT$0 |
| The Terms of Redemption or Prepayment | The issuance of three years is 100.75% of the bond redemption. The issuance of four years, 101.00% of the bond redemption shall be redeemed for the converted corporate bond held. |
| Restriction Cause | None. |
| The Credit Rating Institution’s Name, Date of Rating, and Corporate Bond Rating Results | N/A. |

| | | |
|---|---|---|
| Other Rights Attached | Converted to ordinary (exchange or subscription shares, global depository receipts, or other marketable securities up to the date of publication of the annual report. | None. |
| | Issuance and Conversion (Exchange or Subscription) Method | Omit. |
| 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 | | None |
| Name of the Commissioned Custodian Institution for the Exchange Bid | | None. |

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

## (2) Convertible corporate bond information

Unit: NT$

| **Types of Corporate Bonds** | | **The 7th Domestic Unsecured Convertible Bonds** | | |
|---|---|---|---|---|
| Year / Item | | 2018 | 2019 | As of February 29 in the current year |
| Convert to Corporate Bond Market Price | Maximum | 104.00 | 106.50 | 104.70 |
| | Minimum | 100.20 | 100.00 | 103.50 |
| | Average | 102.42 | 102.86 | 104.38 |
| Conversion Price | | 27.80or 26.20 (Note 1) | 24.80(Note 2) | 24.80 |
| Issuance Date and Conversion Price at Issuance | | Issuance date: 2018.05.14, conversion price at issuance NT$27.80 | Issuance date: 2018.05.14, conversion price at issuance NT$27.80 | Issuance date: 2018.05.14, conversion price at issuance NT$27.80 |

| | | | |
|---|---|---|---|
| Method of Conversion | Issuance of new shares | Issuance of new shares | Issuance of new shares |

Note 1: Cash dividend for the 7th domestic unsecured bond conversion was adjusted to 26.20 on 2018.07.07
Note 2: Cash dividend for the 7th domestic unsecured bond conversion was adjusted to 24.80 on 2019.07.22

## 3. Preferred Shares: None.

## 4. Issuance of Global Depository Receipts (GDR):

Benchmark Date: February 29, 2020

| Item \ Issuance (Processing) Date | | | September 22, 1994 |
|---|---|---|---|
| Issuance (Processing) Date | | | 1994.09.22 |
| Location of Issuance | | | Bourse de Luxembourg |
| Total Amount Issued | | | USD103,200,000 |
| Unit Issuance Price | | | USD17.20 |
| Total Issuance Units | | | 6,000,000 units |
| Source of Securities with Recognized Value | | | Common stock of Tung Ho Steel Enterprise Corporation |
| Number of Value Recognized Securities | | | 68,610,809 shares |
| Rights and Obligations of the Depository Recipients | | | Have the same rights and obligations as Tung Ho Steel Enterprise Corporation Shareholders |
| Commissioned Party | | | The Bank of New York Mellon Corporation |
| Depository Institution | | | The Bank of New York Mellon Corporation |
| Custodian Institution | | | Far Eastern International Bank |
| Unredeemed Balance | | | 734,513 units |
| Allocation Method for Related Expenses During the Issuance | | | The issuance expenses shall serve as capital reserve reduction, and the subsisting period expenses shall serve as current expenses |
| Critical Agreement Matters for Depository and Custodial Contracts | | | The depository institution shall exercise the voting rights of the original securities attached to the depository receipts in accordance with the instructions provided by the deposit receipt holders as well as the depository contract and the laws and regulations of Taiwan. |
| Market Price per Unit | 2018 | Maximum | 9.35 |
| | | Minimum | 6.12 |
| | | Average | 7.74 |
| | 2019 | Maximum | 7.67 |
| | | Minimum | 6.04 |
| | | Average | 6.95 |
| | As of February 29, | Maximum | 7.81 |
| | | Minimum | 7.36 |

| Item \ Issuance (Processing) Date | | | September 22, 1994 |
|---|---|---|---|
| | 2020, in the current year | Average | 7.62 |

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

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

## 7. The Status of Implementation of Capital Allocation Plans:

The issuance of the 7th unsecured convertible bonds

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

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

(3) Plans, expected progress and expected possible benefits

Unit: NT$ thousands

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

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

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

# V. Business Overview of the Company and Its Subsidiaries

## 1. Business contents

### (1) Scope of business

i. Main content:

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

| | | |
|---|---|---|
| | Fujian Tung Sheng Metal Processing Co., Ltd.(Note) | Manufacture and sales of metal structure. |
| | Tungtang Energy Service Co., Ltd.(Note) | Fertilizer manufacturing and renewable energy self-use generation equipment. |

Note: Tungtang Energy Service was established in June 2019 and was concurrently included in the consolidated financial statements.

ii. Business Breakdown

| Item / Products | As a percentage of cumulative operating revenue for 2018 | As a percentage of cumulative operating revenue for 2019 |
|---|---|---|
| Rebar | 44% | 48% |
| Section steel (Note 1) | 33% | 28% |
| Billets | 10% | 4% |
| Others (Note 2) | 13% | 20% |
| Total | 100% | 100% |

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

(Note 2): Others refer to the balance after consolidated operating income write-off and the balance of engineering contract except reinforcing steel, shape steel, billet steel of the subsidiaries listed in the consolidated financial statements(Tung Kang Steel Structure Co., Ltd., Fujian Tung Kang Steel Co., Ltd).

iii. New products planned for development

Electric furnace off-gas detection, dynamic control of burners and carbon injection in the furnace, project research, HD clarity and high toughness steel development, orc power generation technology for waste heat recovery of electric furnace research, electric furnace low carbon green processing technology development, etc.

## (2) Status of the industry

i. Current status and development of the industry

In 2019, the consolidated revenue of Tung Ho Steel was NT$44.864 billion, a substantial increase of 12.81% from the NT$39.770 billion in 2018; the combined sales volume increased from 2.0258 million tons in 2018 to 2.1533 million tons in 2019, an increase of 6.29% over the same period of last year, with the consolidated revenue and consolidated sales continuing to grow for consecutive three years starting from 2017. The annual consolidated EPS after tax of Tung Ho Steel has grown from 0.88 in 2018 to 1.56 in 2019. This is mainly because the domestic rebar sales in 2019 have grown 10.73% and 13.26%, respectively, compared to 2018. In particular, the operating gross margin has greatly increased from 6.69%to 9.87%. The great performance of rebar sales has created better profit performance for Tung Ho Steel in 2019 compared to most of the steel and iron competitors. The benefits of devotion from the $2^{nd}$ rolled steel production line in the Taoyuan factory of Tung Ho Steel have started to be implemented gradually. However, Tung Ho Steel Vietnam experienced the burning incidents of electric furnace transformers in 2018. The Company officially started capitalized business operations from Jan. 2019. However, the annual business performances was not good because it had no brand reputation in Vietnam market and just started to establish cooperation relationship with the dealers consecutively; and also, since our products just entered the market, the Company still needs to communicate and promote with customers in Vietnam continuously and obtain brand recognition. The annual final product sales were only 134,600 tons and the utilization rate of the designed production capability is lower than 30%.The Company had losses in its annual business performances, which inhibited the annual growth performances of the parent company.

US has launched Article 232 in March 2018 to impose 25% high-value import customs duties on global steel and iron products, causing the EU executed prevention measures to impose customs duties on global steel and iron products as well; this further resulting that Canada, Mexico, Turkey consecutively announced launching all kinds of investigations on trade protection measures, which led to the prevalence of global steel and iron protectionism and seriously affected the free trade of global steel and iron. During the China-US trade war in 2019, retaliatory customs duties even made the global trade dilemma worse and resulted in concerns on the uncertainty of global economy. However, to achieve the 6% global economic growth objective and strengthen the bargaining chips in the China-US trade war, China has greatly increased domestic infrastructures for the rail roads and highways and expanded global fixed asset investment for the Belt and Road. Hence, China's export volume of steel continued to decrease 5 million tons in 2019 compared to 2018, which greatly reduced the threats of low-price dumping in steel products to global steel and iron industry and made the support for international steel price in 2019, which gradually trimmed down, so that global steel and iron industry can catch their breath and gradually adjust the supply and demand in its production capability. As a result, the production volume of crude steel in 2019 was around 1,869.9 million tons, which made a 3.39% growth compared to 2018.The production volume growth in China was higher than the global growth up to 8.29% with annual production volume of 996.3 million tons. However, the expansion of production capability in crude steel in Association of Southeast Asian Nations is a topic worth paying attention in the future.In the second half of 2018,the second blast furnace of Formosa Ha Tinh Steel was launched, and the 3.50 megaton production capacity of Malaysia's Alliance Steel was introduced in the market. At the end of 2019, Indonesia DXN Steel also started in the devotion of production capacity, 3,500,000 tons. Hebei Iron and Steel in China also announced to invest on steel line production steel with production capability of 8 million tons in Philippines. The rapid growth of the investment in steel and iron industry of the emerging countries is yet another big hidden worry after the supply and demand imbalance in global production capability of iron and steel caused by China.

Since the arrival of the new Taiwan government in 2016, cross strait relations and international diplomacy have faced the double dilemma of China's powerful suppression. The cross strait negotiations on trade, trade and goods and trade under the ECFA framework has been unable to restart, with the international free trade agreement under strong pressure from China, no substantial progress can be made. Domestic and foreign enterprises are not waiting to see Taiwan's investment plans, and overall Taiwan's steel demand is under tremendous downward pressure. During the Taiwanese magistrate/mayor elections in 2018, the ruling party failed. However, this led to its big win in the Taiwanese general election in 2020 where the Anti-Extradition Law Amendment Bill Movement occurred between the two elections. For Taiwan, the domestic political and economic situation in 2020 is in a turbulent state. Externally, China and the US reached their first-stage agreement in Jan. 2020 to temporarily settle the disputes in the China-US trade war lasted for a year and a half. At the moment when the uncertain factors in the domestic political and economic situation were ruled out, it is anticipated that the global economic growth in 2020 is going look good, but then coronavirus epidemic exploded in Wuhan, China and rapidly spread around the world, resulting heavy defeat global economic development in 2020. Currently, global epidemic still spreads rapidly and there are still no advances obtained in terms of treatment drugs and vaccines. Looking at the economic development in 2020, we should still take a skittish, careful, and conservative attitude. If the epidemic cannot be relieved and controlled within a short period of time, all industries around the world will have a catastrophic wave of going out of business.

Tung Ho Steel formally acquired Vietnam's Fu Guo Steel in January 2016 and later changed its name to Tung Ho Steel Vietnam Corp. Ltd. This is Tung Ho Steel's first overseas investment in electric furnace refining and steel rolling mills. Tung Ho Steel is deploying the emerging steel market in Southeast Asia, focusing on the steel demand brought about by the rapid economic growth in the future of Vietnam and the Association of Southeast Asian Nations. The Company officially started capitalized business operations from Jan. 2019. However, the annual business performances was not good because it had no brand reputation in Vietnam market and just started to establish cooperation relationship with the dealers consecutively; and also, since our products just entered the market, the Company still needs to communicate and promote with customers in Vietnam continuously and obtain brand recognition. Having said that, with the economic growth of Vietnam and Southeast Asia National Association, it will inject positive and positive contributions to the parent company's operating performance year by year.

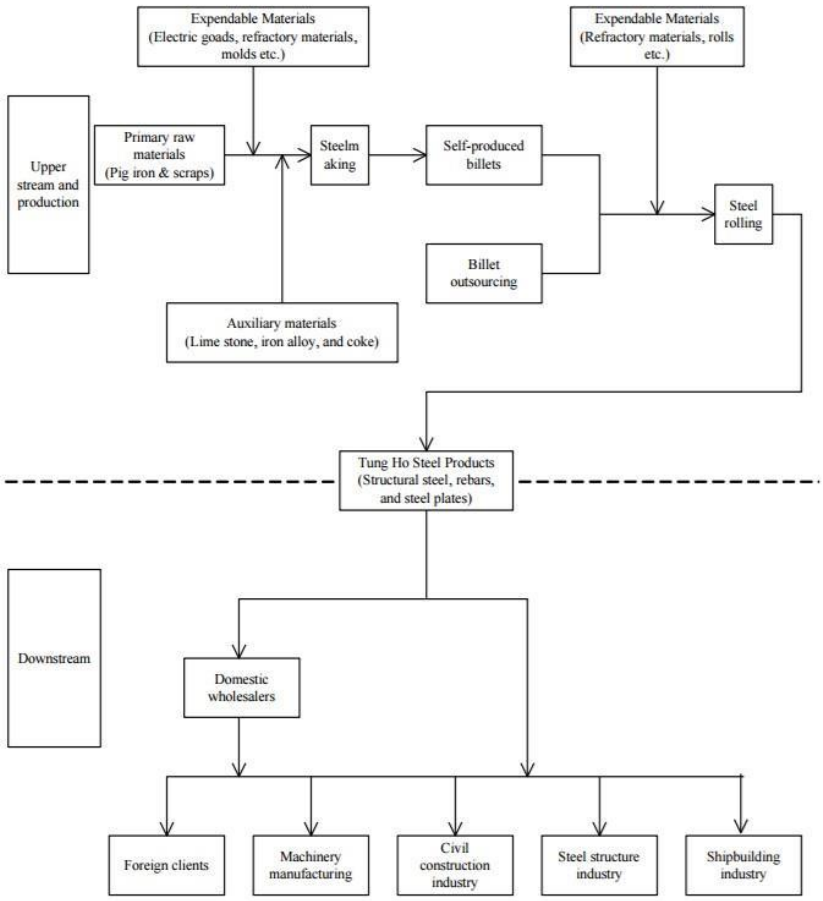
Tung Kang Steel Structure and Fujian Tung Kang Steel, both investments of Tung Ho Steel, announced new personnel deployment for 2017 with the focus on resource integration. Integrate the sales resources of Tung Gang Steel Bar and Steel Structure internally and assist Tung Gang steel structure in the domestic market for further growth and breakthrough through long term goodwill and customer resources in the construction industry. The sales volume of Tung Gang Steel Structure in 2019 isNT$7,677 million, which grew a multiple compared to 2018 of NT$3,837 million; the consolidated sales volume has grown from 83,900tonsin 2018 to

170,000in 2019, which increased 102.62% compared to the pervious similar period and made a new highest record since the establishment of Tung Gang Steel Structure. Externally integrating the resources of Tung Gang Steel Structure and Fujian Tung Gang's manpower, technology and markets on both sides of the Strait can actively enter the international steel structure market under the Chinese government’s “Belt and Road” national policy.

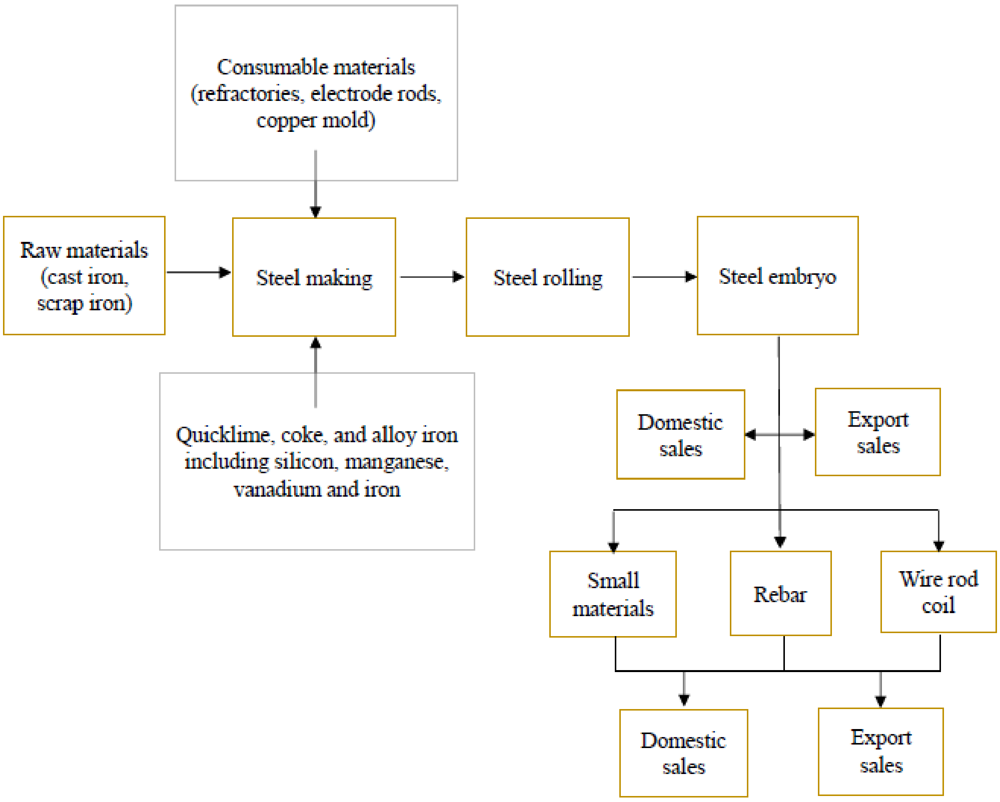
Tung Ho Steel has invested in green energy and environmental protection. It is still in the sowing stage. Both of these industries are closely related to the main operations of Tung Ho Steel, and they can all influence the future competitiveness of the steel industry. In the future, green energy conservation,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

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

(1) Tung Ho Steel



(2)Tung Ho Steel Vietnam Corp. Ltd.




iii. Various product development trends

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

## (3)Technology and R&D Overview

i. The most recent biennial research and development plan

| R&D project | 2019 R&D plan | 2020 R&D plan |
|---|---|---|
| **(1)Steel making** | a. High clarity and high toughness steel embryo development.<br>b. Low alloy ultra-high tensile | a. Research project on off gas detection of electric furnaces and dynamic control of burners and carbon injection |

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

| | | |
|---|---|---|
| | g.Tandem reciprocating universal rolling machine round section rolling technology R&D project.<br>h.Ultra-high tensile steel development.<br>i. Development of new dimensions for grooved steels in the ASTM specification.<br>j. Development of new dimensions of I Beam in the ASTM specification. | g.Tandem reciprocating universal rolling machine round section rolling technology R&D project.<br>h.Ultra-high tensile steel development.<br>i. Development of new dimensions for grooved steels in the ASTM specification.<br>j. Development of new dimensions of I Beam in the ASTM specification.<br>k.Online size automatic measurement and surface quality detection system development |
| **(3)Others** | a. "Construction of Tung Ho Miaoli Plant Integrated Air Pollution Control Strategy Plan" research case. | a. "Construction of Tung Ho Miaoli Plant Integrated Air Pollution Control Strategy Plan" research case.<br>b. Artificial intelligence technology application and smart factory technology development. |

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

Unit: NT$

| Item / Year | 2018 | 2019 | As of February 29 in the current year |
|---|---|---|---|
| Taoyuan Plant R&D Total Fees | 5,425,261 | 3,603,857 | 488,447 |
| Miaoli Plant R&D Total Fees | 21,349,870 | 23,675,130 | 3,970,736 |
| Kaohsiung Plant R&D Total Fees | 13,454,737 | 12,246,451 | 1,453,294 |
| Total research costs | 40,229,868 | 39,525,438 | 5,912,477 |
| Total research costs as a percentage of net sales | 0.10% | 0.09% | 0.19% |

## (4) Long term and short term business development plan

i. Short term development plan-Marketing business strategy:

a. Continue paying attention to the changes in the global economic development which was hardly hit by the epidemic of coronavirus and enhancing risk management and control of payable receivable and control of raw material purchase volume period.

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

c. To continuously pay close attention of the trends affected by the launch of the second blast furnace of Formosa Ha Tinh Steel and the introduction of the 3.50 megaton production capacity of Malaysia's Alliance Steel in the second half of 2018.At the end of 2019, Indonesia DXN Steel also started in the devotion of production capacity, 3,500,000 tons. Hebei Iron and Steel in China also announced to invest on steel line production steel with production capability of 8 million tons in Philippines. The Company also pay attention to the rapid growth of the investment in steel and iron industry of the emerging countries.

d. In Jan. 2020, China and US have reached first-stage agreement. Despite the truce in the China-U.S. trade war, the competition between China and the United States will continue to impact the growth of the global economy, finance and trade.

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

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

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

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

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

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

ii. Long term development plan-Marketing business strategy:

a. Develop new value added products market.

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

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

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

## 2. Market, Production/Sale Overview

### i. Market Analysis

(1)Sales area of major commodities

Unit: NT$ 1,000; %

| Area \ Year | | 2019 | | 2018 | |
|---|---|---|---|---|---|
| | | Amount of Money | % | Amount of Money | % |
| Export Sales | Asia | 4,402,603 | 9.81 | 5,403,138 | 13.59 |
| | America | 1,616,046 | 3.60 | 1,667,568 | 4.19 |
| | Other | 842,246 | 1.88 | 1,811,889 | 4.56 |
| Subtotal | | 6,860,895 | 15.29 | 8,882,595 | 22.34 |
| Domestic Sales | | 38,002,705 | 84.71 | 30,887,026 | 77.66 |
| Total | | 44,863,600 | 100.00 | 39,769,621 | 100.00 |

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

Unit: metric tons

| Items \ Year | | 2019 | 2018 |
|---|---|---|---|
| H beam steel | Total sales in Taiwan | 870,529 | 714,159 |
| | The Company | 481,498 | 418,347 |
| | Market Share | 55.31% | 58.58% |
| Rebar | Total sales in Taiwan | 5,982,643 | 5,650,267 |
| | The Company | 1,076,545 | 971,935 |
| | Total sales in Taiwan | 18.00% | 17.20% |

Source: Taiwan Steel & Iron Industries Association

(3) Future market supply and demand conditions

Looking at 2020, Article 232 in US imposed customs duties on global steel and aluminum products, which further caused the trend in protectionism of global steel and iron; the competition between the two strong authorities in China and the US continued to make an impact on global economy, finances and trade growth, etc.; however, all of these were not comparable with the hard hit on global economy from the rapid spread of coronavirus. If the epidemic cannot be relieved and controlled within a short period of time, all industries around the world will have a catastrophic wave of going out of business. Taiwan is currently the straight-A student in the prevention against epidemic around the world. People can work normally, and students can still go to school. The coronavirus epidemic is effectively controlled in Taiwan. The economic growth rate of Taiwan in 2019 took the lead among the Four Asian

Tigers. Construction industry is an indicator for falling behind. For the first half of the year, the demands for steel materials in constructioncontinued to grow due to the on-going engineering work. However, the global control of coronavirus epidemic is still unclear for the second half of the year. Taiwan's economic development is not independent on its own. The demands for steel materials in the second half of the year are still unclear. Currently, we can only respond conservatively.

In addition, a key topic worth paying attention to in the future is the expansion on the production capability of crude steel in Association of Southeast Asian Nations. In the second half of 2018, the second blast furnace of Formosa Ha Tinh Steel was launched, and the 3.50 megaton production capacity of Malaysia's Alliance Steelwas introduced. After that, at the end of 2019, Indonesia DXN Steel also started in the devotion of production capacity, 3,500,000 tons. Hebei Iron and Steel in China also announced to invest on steel line productionsteel with production capabilityof 8 milliontons in Philippines. The rapid growth of the investment in steel and iron industry of the emerging countries is another big hidden worry after the supply and demand imbalance in global production capability of iron and steelcaused by China.

(4)Competitive niche

(i) Long standing industry experience

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

(ii) Excellent product quality

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

(iii) Excellent R&D standards

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

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

(5) Advantages and Disadvantages of Developing Vision

(i) The favorable factors

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

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

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

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

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

(ii) Unfavorable factors and countermeasures

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

Countermeasures:

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

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

Countermeasures:

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

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

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

Countermeasures:

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

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

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

(3) External environment topics include:

a. The development and control of global coronavirus, especially in the R&D of treatment drugs and vaccines.

b. China-US trade war and coronavirus epidemicmade us think about the rearrangements for global industrial supply chain of production.

c. US 232 investigation on global steel and aluminum imposed custom duties due to national security problems, which aroused global protectionism in steel and iron and even aroused the sensitive nerve of “De-Sinicization”. In the past, some steel and iron industries in Taiwan were overly dependent on China’s low-price dumping of upstream steel and iron semi-final products and final products. In US 232 investigation, this unfair trade situation in China was brought to the surface.If the core competitiveness of steel and iron industry in Taiwan was built on this distorted unfair trade foundation in the long term, then we will be facingmore strict international trade obstacles. US is the first but absolutely not the last country bringing out “De-Sinicization” problem. The government shall focus on mid- to long-term policies for steel and iron industrial development and create complete accessory mechanism and measures to assist the upgrade and transformation in steel and iron industry during relevant negotiations, US 232 investigation and US prevention measures. The unfair trade stood on the foundation of China’s low-price dumping, processing and re-export of steel products will eventually lost in the global steel and iron trade market.

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

e. The topic green power generation continued being a hit and no operations for fourth nuclear power plant may result in the long-term pressure of increasing domestic electricity price.

## ii. Important uses and production process of main products

(1)Product uses

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

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

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

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

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

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

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

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

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

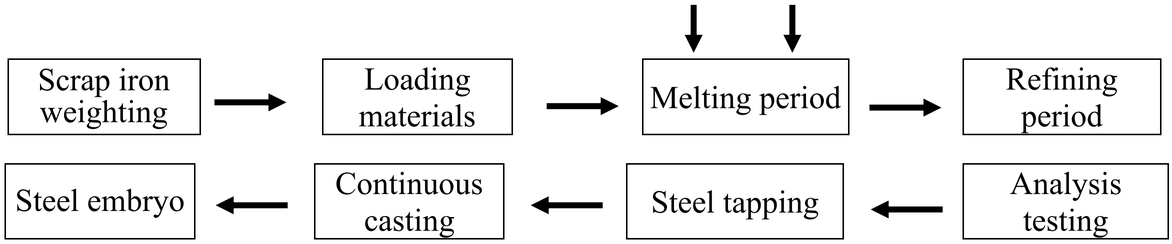
(x) Environmental protection business -slag product: used as a road material and aggregate.

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

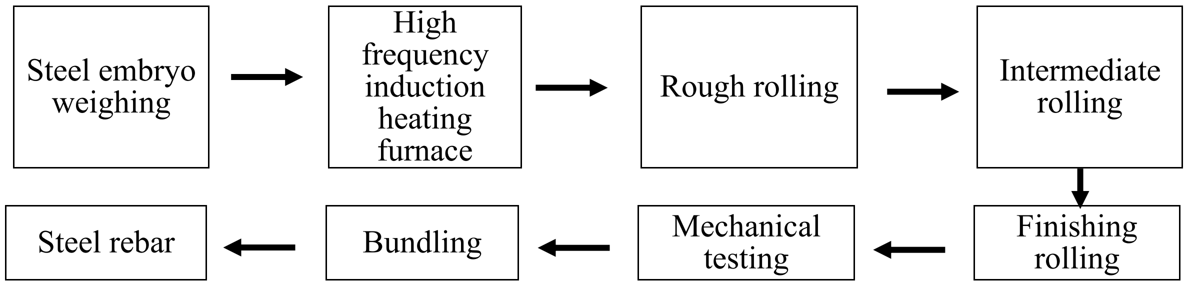
(2)Production process

(i) Refine steel embryo

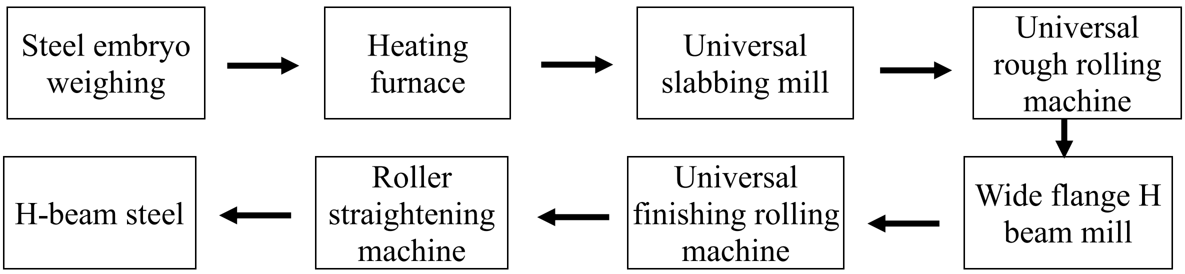
Electric power transmission Vice materials



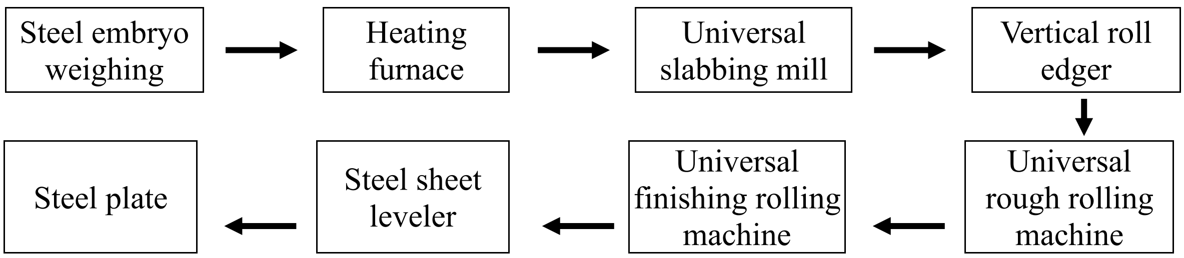

(ii) Roll rebar



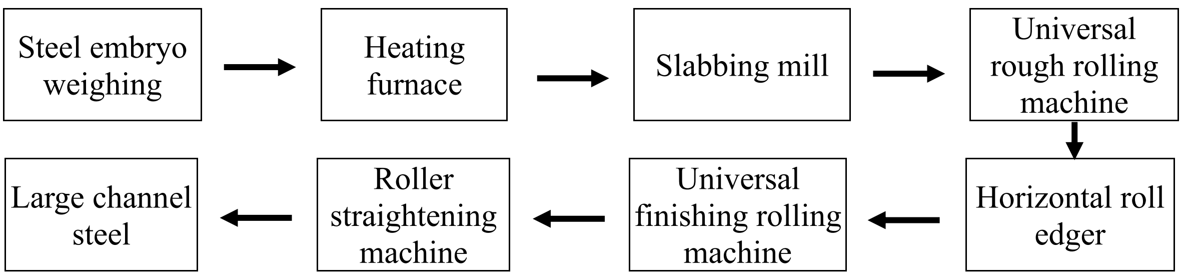

(iii) Roll H-beam steel



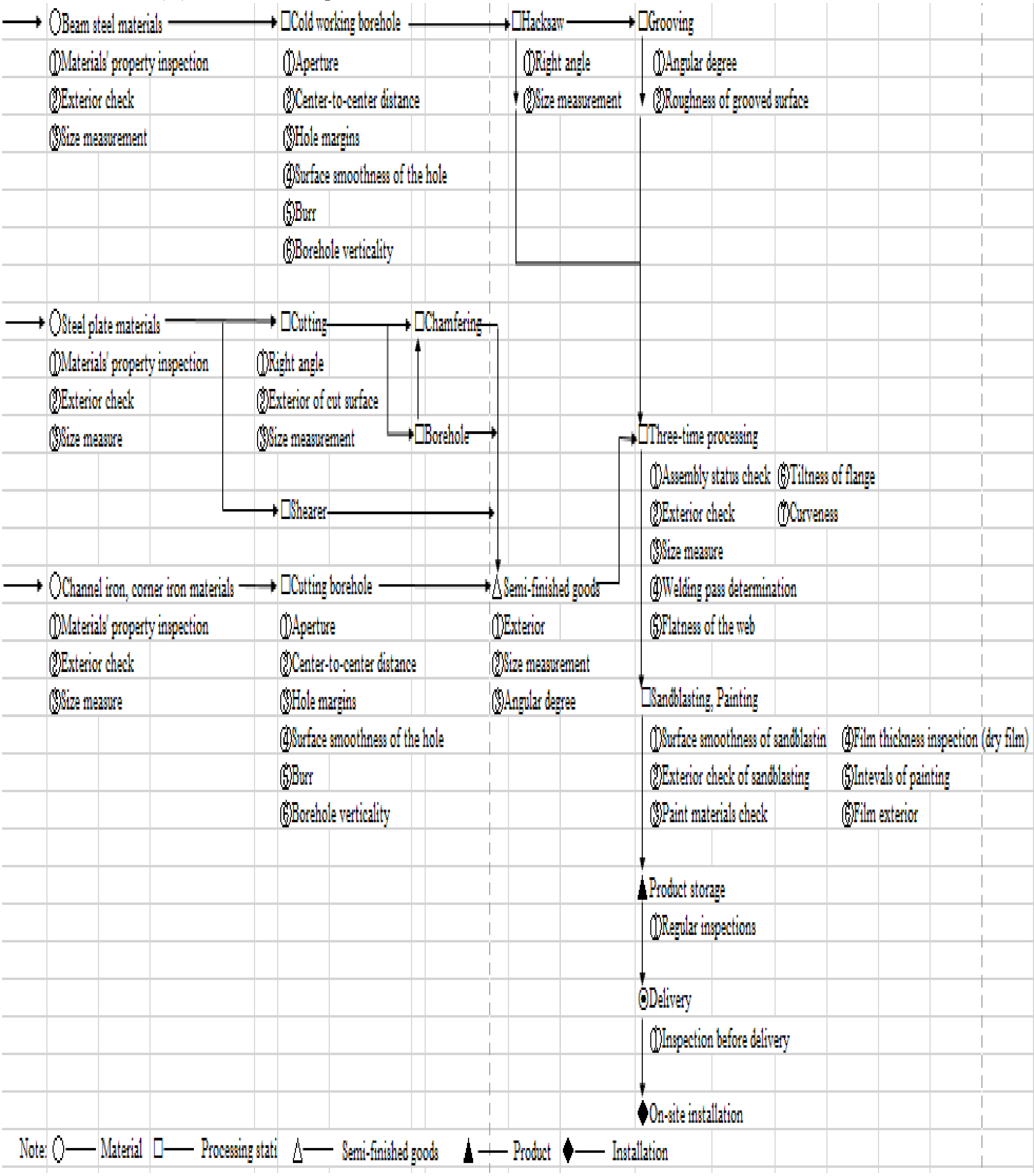

(iv) Roll universal steel plate



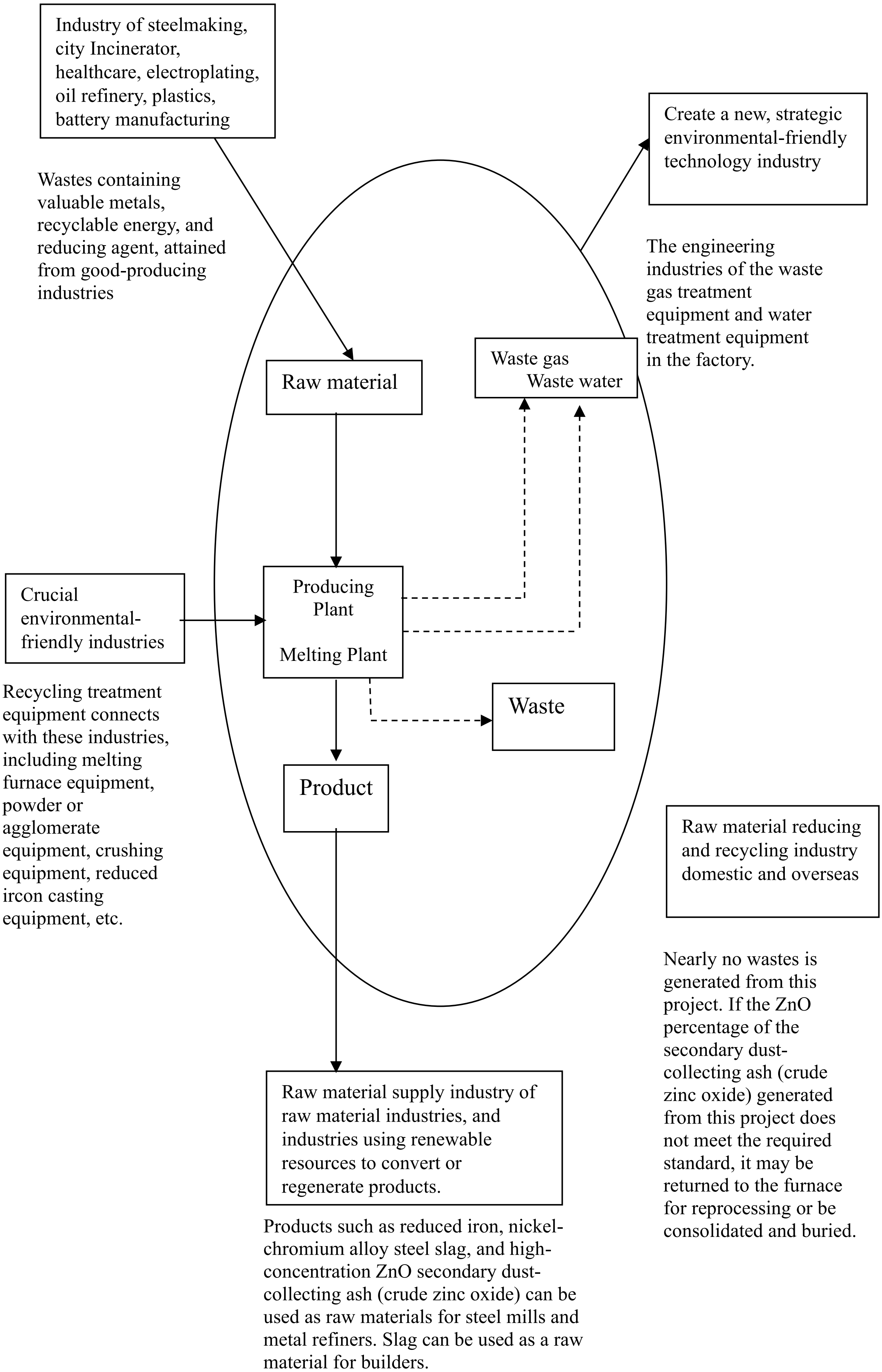

(v) Roll large channel steel



(vi) Steel structure process



(vii) Environmental friendly processing



(viii) Wind power generating

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

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

(i) Purchase of main raw materials for 2019

Unit: metric tons

| Corp. | Item \ Quantity \ Quarter | | **First quarter** | **Second quarter** | **Third quarter** | **Fourth quarter** | **Total** |
|---|---|---|---|---|---|---|---|
| Tung Ho Steel Enterprise Co., Ltd. | **Scrap steel** | Domestic | 200,041 | 225,350 | 213,306 | 226,526 | 865,223 |
| | | Overseas | 215,917 | 246,073 | 221,477 | 241,285 | 924,752 |
| Tung Ho Steel Vietnam Corp. Ltd. | **Scrap steel** | Domestic | 18,871 | 44,244 | 45,465 | 25,675 | 134,255 |
| | | Overseas | 15,994 | 46,032 | 30,036 | 14,987 | 107,049 |
| Tung Ho Steel Enterprise Co., Ltd. | **Pig iron** | Domestic | 0 | 0 | 0 | 0 | 0 |
| | | Overseas | 0 | 0 | 123,046 | 0 | 123,046 |
| Tung Ho Steel Vietnam Corp. Ltd. | **Pig iron** | Domestic | 0 | 8,116 | 0 | 0 | 8,116 |
| | | Overseas | 0 | 0 | 0 | 0 | 0 |
| Tung Ho Steel Vietnam Corp. Ltd. | **Silicon iron** | Domestic | 0 | 0 | 0 | 0 | 0 |
| | | Overseas | 1,000 | 900 | 1,300 | 900 | 4,100 |
| Tung Ho Steel Vietnam Corp. Ltd. | **Ferromanganese iron** | Domestic | 0 | 0 | 0 | 0 | 0 |
| | | Overseas | 0 | 0 | 600 | 600 | 1,200 |
| Tung Ho Steel Vietnam Corp. Ltd. | **Ferromanganese-silicon iron** | Domestic | 0 | 0 | 0 | 0 | 0 |
| | | Overseas | 6,700 | 6,000 | 6,700 | 6,900 | 26,300 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Tung Ho Steel Vietnam Corp. Ltd. | **Billet steel** | Domestic | 0 | 0 | 5,010 | 0 | 5,010 |
| | | Overseas | 0 | 0 | 70,000 | 15,000 | 85,000 |
| Tung Kang Steel Structure Co., Ltd. | **Shape steel** | Domestic | 22,167 | 11,628 | 13,041 | 15,640 | 62,476 |
| | | Overseas | 0 | 0 | 0 | 0 | 0 |
| Tung Kang Steel Structure Co., Ltd. | **Steel plate** | Domestic | 24,589 | 10,842 | 27,584 | 8,349 | 71,364 |
| | | Overseas | 6,950 | 6,589 | 5,004 | 6,505 | 25,048 |
| Fujian Tung Kang Steel Co., Ltd. | **Steel plate** | Domestic | 482 | 18,756 | 2,750 | 1,231 | 23,219 |
| | | Overseas | 0 | 0 | 0 | 0 | 0 |
| Fujian Tung Kang Steel Co., Ltd. | **H-shape plate** | Domestic | 2,606 | 1,359 | 1,045 | 1,562 | 6,572 |
| | | Overseas | 0 | 0 | 0 | 0 | 0 |
| Fujian Tung Kang Steel Co., Ltd. | **Section bar** | Domestic | 1,453 | 475 | 804 | 562 | 3,294 |
| | | Overseas | 0 | 0 | 0 | 0 | 0 |
| Katec Creative Resources Corp. | **Dust collection** | Domestic | 2,759 | 2,316 | 2,298 | 1,438 | 8,811 |
| | | Overseas | 0 | 0 | 0 | 0 | 0 |
| Katec Creative Resources Corp. | **Medical waste** | Domestic | 137 | 149 | 174 | 240 | 700 |
| | | Overseas | 0 | 0 | 0 | 0 | 0 |

(ii)Major raw material import areas and supply conditions

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

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

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

Unit: NT$ thousands; %

| 2019 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|
| Name | Amount | Share of net sales (%) | Relation with the issuer | Name | Amount | Share of net sales (%) | Relation with the issuer |
| Other | 44,863,600 | 100.00 | None | Other | 39,769,621 | 100.00 | None |
| Net sales | 44,863,600 | 100.00 | N/A | Net sales | 39,769,621 | 100.00 | N/A |

The sales target of the company is extremely diverse, in 2018 and 2019, there was no case where the amount of sales of a single object was greater than 10%.

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

Unit: NT$ thousands; %

| 2019 | | | 2018 | | |
|---|---|---|---|---|---|
| Customer name | Amount | Proportion | Customer name | Amount | Proportion |
| Rieter Steel Co., Ltd. | 2,341,627 | 5.22 | Rieter Steel Co., Ltd. | 2,361,564 | 5.94 |
| Fu Tsu Construction | 1,957,647 | 4.36 | CÔNG TY TNHH MITSUI VIỆT NAM | 1,633,574 | 4.11 |
| Gir Gai Trading Co.,Ltd. | 1,373,191 | 3.06 | SANWA | 1,613,402 | 4.06 |
| Chenggang Industry | 1,349,222 | 3.01 | Chenggang Industry | 1,393,614 | 3.50 |
| CÔNG TY CP THÉP POMINA 2 | 1,344,493 | 3.00 | Gir Gai Trading Co.,Ltd. | 1,169,371 | 2.94 |
| YUNG LI HSING BUIKING | 1,161,182 | 2.59 | CATHAY PACIFIC STEEL CORPORATION | 755,958 | 1.90 |
| FAR EASTERN GENERAL CONTRACTOR INC. | 1,045,182 | 2.33 | Haotai Steel Corporation | 672,035 | 1.69 |
| Superiority Steel Co., Ltd. | 964,954 | 2.15 | Feng Huei Steel Co., Ltd | 664,538 | 1.67 |

| 2019 | | | 2018 | | |
|---|---|---|---|---|---|
| Customer name | Amount | Proportion | Customer name | Amount | Proportion |
| Da San Yi | 938,179 | 2.09 | Fu Tsu Construction | 636,226 | 1.60 |
| SANWA | 829,945 | 1.85 | Superiority Steel Co., Ltd. | 588,676 | 1.48 |
| Subtotal | 13,305,622 | 29.66 | Subtotal | 11,488,958 | 28.89 |
| Other | 31,557,978 | 70.34 | Others | 28,280,663 | 71.11 |
| Total | 44,863,600 | 100.00 | Total | 39,769,621 | 100.00 |

Note: CÔNG TY CP THÉP POMINA 2isthe customer of Tung Ho Steel Vietnam Corp. Ltd.; Fu Tsu Construction, FAR EASTERN GENERAL CONTRACTOR INC., Da San Yi are the customers of Tung Kang Steel Structure Co., Ltd.

iii. Major supplier information within recent two years

| Period | 2018 | | | | 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| Item | Name | Amount (NT$ thousands) | Annual net purchase ratio (%) | Relationship with the issuer | Name | Amount (NT$ thousands) | Annual net purchase ratio (%) | Relationship with the issuer |
| 1 | Huating International Co., Ltd. | 5,401,113 | 13.47 | None | Huating International Co., Ltd. | 3,148,969 | 10.35 | None |
| 2 | Other | 34,692,211 | 86.53 | None | Other | 27,264,291 | 89.65 | None |
| Total | Net purchase | 40,093,324 | 100.00 | N/A | Net purchase | 30,413,260 | 100.00 | N/A |

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

Unit: NT$ thousands; %

| 2019 | | | 2018 | | |
|---|---|---|---|---|---|
| Customer | Amount | Proportion | Customer | Amount | Proportion |
| Huating International Co., Ltd. | 3,148,969 | 10.35 | Huating International Co., Ltd. | 5,401,113 | 13.47 |
| Pacific Jinmao | 2,454,965 | 8.07 | Pacific Jinmao | 2,845,761 | 7.10 |
| Hongkuan Metal Co., Ltd | 1,005,374 | 3.31 | Hongmao International Co., Ltd. | 1,019,466 | 2.54 |
| Hongmao International Co., Ltd. | 980,606 | 3.22 | AdvancedTEK International Co., Ltd. | 986,547 | 2.46 |
| Jun Ing | 768,798 | 2.53 | Hongkuan Metal Co., Ltd | 983,866 | 2.45 |
| AdvancedTEK | 715,253 | 2.35 | Jun Ing | 611,394 | 1.52 |

| | | | | | |
|---|---|---|---|---|---|
| International Co., Ltd. | | | | | |
| JINIL | 563,155 | 1.85 | Hong Ruen Co., Ltd. | 542,365 | 1.35 |
| China Steel | 551,652 | 1.81 | Nippon Steel | 446,120 | 1.11 |
| Nippon Steel | 541,662 | 1.78 | Sho Wei Enterprise | 433,823 | 1.08 |
| NEW ASIA | 524,903 | 1.73 | AML | 431,026 | 1.08 |
| Total | 11,255,337 | 37.01 | Total | 13,701,482 | 34.17 |
| Other | 19,157,923 | 62.99 | Other | 26,391,842 | 65.83 |
| Net purchase | 30,413,260 | 100.00 | Net purchase | 40,093,324 | 100.00 |

v. Production value of last two years

Unit: metric tons, NT$ thousands

| Year / Item \ Production value | 2019 Capacity | 2019 Productivity | 2019 Production value | 2018 Capacity | 2018 Productivity | 2018 Production value |
|---|---|---|---|---|---|---|
| Steel embryo | 3,650,000 | 2,177,603 | 31,870,845 | 3,300,000 | 2,136,814 | 32,612,323 |
| Steel rebar | 2,100,000 | 1,202,128 | 18,954,052 | 1,500,000 | 926,679 | 14,908,853 |
| H beam steel | 1,200,000 | 508,000 | 9,080,525 | 1,000,000 | 548,442 | 9,860,169 |
| Steel plate | | 98,521 | 1,813,511 | | 82,358 | 1,552,989 |
| Channel steel | | 35,443 | 708,728 | | 62,842 | 1,202,075 |
| I type steel | | 2,706 | 54,759 | | 2,617 | 51,135 |
| Steel sheet pile | | 637 | 12,059 | | 2,652 | 50,488 |
| Steel structure | 123,600 | 197,443 | 8,157,790 | 123,600 | 102,508 | 4,406,257 |
| Environmental treatment | 46,368 | 9,545 | 128,983 | 46,368 | 18,464 | 105,969 |
| Wind power | 28,000 | 27,573 | 55,146 | 28,000 | 25,616 | 42,120 |
| Construction income | 0 | 0 | 77,552 | 0 | 0 | 271,775 |
| Others (note) | 0 | 8,407 | 519,908 | 0 | 0 | 375,851 |
| Total | 7,147,968 | 4,268,006 | 71,433,858 | 5,997,968 | 3,908,992 | 65,440,004 |

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

vi. Sales value of last two years

Unit: metric tons, NT$ thousands

| Year | 2019 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| Salesvalue / Items | Domestic | | Overseas | | Domestic | | Overseas | |
| | Amount | Value | Amount | Value | Amount | Value | Amount | Value |
| Steel embryo | 3,686 | 51,604 | 242,510 | 1,470,548 | 2,172 | 43,841 | 283,430 | 4,169,253 |
| Steel rebar | 1,074,085 | 19,666,816 | 5,867 | 1,901,498 | 969,063 | 17,344,202 | 1,504 | 33,536 |
| H beam steel | 419,023 | 8,843,698 | 80,684 | 2,089,629 | 388,035 | 8,100,750 | 125,151 | 2,839,567 |
| Steel plate (self-made) | 39,639 | 912,354 | 0 | 0 | 32,487 | 731,591 | 0 | 0 |
| Steel plate (buy and sell) | 1,378 | 32,327 | 0 | 0 | 39 | 740 | 0 | 0 |
| Channel steel | 14,969 | 308,825 | 22,912 | 469,480 | 15,184 | 304,511 | 47,861 | 970,033 |
| I type steel | 1,927 | 46,214 | 26 | 775 | 2,242 | 52,417 | 6 | 139 |
| Steel sheet pile | 166,824 | 7,461,721 | 26,233 | 899,118 | 83,928 | 3,771,928 | 28,117 | 870,068 |
| Steel materials buy and sell | 0 | 0 | 0 | 0 | 160 | 7,098 | 0 | 0 |

| Year | 2019 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| Salesvalue / Items | Domestic | | Overseas | | Domestic | | Overseas | |
| | Amount | Value | Amount | Value | Amount | Value | Amount | Value |
| Environmental treatment | 9,545 | 128,914 | 0 | 0 | 17,237 | 291,342 | 0 | 0 |
| Steel sheet pile | 634 | 13,949 | 0 | 0 | 2,658 | 57,552 | 0 | 0 |
| Wind power | 27,573 | 55,146 | 0 | 0 | 25,616 | 51,232 | 0 | 0 |
| Construction income | 0 | 77,682 | 0 | 0 | 0 | 113,558 | 0 | 0 |
| Others (Note) | 15,736 | 403,455 | 0 | 29,847 | 868 | 16,263 | 0 | 0 |
| Total | 1,775,019 | 38,002,705 | 378,232 | 6,860,895 | 1,539,689 | 30,887,025 | 486,069 | 8,882,596 |

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

## 3. Data of employees

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

| Year | | 2018 | 2019 | As of February 29 in the current year |
|---|---|---|---|---|
| Number of employees | Head office | 184 | 187 | 185 |
| | Kaohsiung Plant | 256 | 267 | 267 |
| | Taoyuan Plant | 468 | 501 | 513 |
| | Miaoli Plant | 533 | 539 | 540 |
| | Regular contract employees | 8 | 7 | 6 |
| | Foreign employees | 211 | 215 | 220 |
| | Parent company total | 1,660 | 1,716 | 1,731 |
| | Subsidiary (includes foreign employees) | 982 | 918 | 889 |
| | Total | 2,642 | 2,634 | 2,620 |
| Average age (note) | | 40.04 | 41.09 | 41.56 |
| Average service years (note) | | 11.22 | 11.72 | 11.66 |
| Academic distribution ratio (Note) | Ph. D. | 0.07 | 0.05 | 0.05 |
| | Master's degree | 3.98 | 4.18 | 4.20 |
| | College | 62.57 | 64.45 | 64.68 |
| | High school | 21.66 | 21.14 | 21.15 |
| | Below high school | 11.72 | 10.18 | 9.92 |

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

## 4. Disbursements for environmental protection

### i. Total loss (including compensation and violation matters against environmental regulations from the audit results of environment protection; date of penalty, no. of the penalty,articles violating regulation, contents violating regulation, penalty contentshall be stated properly) and penalty due to the polluting of environment and countermeasures of last year and up to the publication date of the annual report and the estimated amount for current and potential events in the future:

| Disbursements<br>Parent Company/ Subsidiary | | Violation of environmental protection | Penalty | Countermeasures (Improvement, Precaution) |
|---|---|---|---|---|
| | Taoyuan Plant | 2019.07.02Because the Company did not prepare runoff wastewater reduction plan book for our first-phase license supplement engineering, this violated Article 18 of "Water Pollution Control Act" ( Water Pollution Control Measures and Test Reporting Management Regulations)。 | A fine of NT$35,000 | 1. The Company has made immediate improvement.<br>2. The Company had exclusive personnel to take responsibilities from the application of construction licenses to the acquisition of completion license. The application and work completion for relevant certificates were closed. If there are engineering projects in the future, then the Company shall make list and track to prevent reoccurrence of the same incident. |
| | Miaoli Plant | 1. 2019.04.17Air pollution prevention filter bag in steel making processwas not included in the waste cleaning project plan, which violated Article 31, Paragraph 1, Subparagraph 1 of Waste Disposal Act. | A fine of NT$6,000 | 1. The Company entrusted external company to execute the dissolution test on waste filter bags and confirm their type of waste and completed the application for the amendment to the waste cleaning book on July 2019.<br>2. The Company shall check whether the waste cleaning book is consistent with the wastes on site regularly each year. If not, then the Company shall revise the waste cleaning book. |
| | | 2. 2019.10.21Raw materials for self-furnace return of inorganic sludge declared in 38001 processbut shall be 24008 process to be correct, which violated Article 31, Paragraph 1, Subparagraph 2 of the Waste Disposal Act. | A fine of NT$6,000 | 1. On 2019.10.22 the Company went online to revise the base line information for the wastes and change the furnace return processto 24008steelmaking process.<br>2. When there is an amendment to the waste cleaning book, the Company shall concurrently check whether the online declaration of the wastes is consistent with the waste cleaning book. |
| | Kaohsiung Plant | None | None | None |
| Subsidiary | Katec Creative Resources Corp. | 108.06.19 vehicle no. 628-VN violated Article 27, Subparagraph 2 of Waste Disposal Actand was fined with a certain amount in accordance | A fine of NT$1,200 | Enhance car cleaning. |

| Disbursements / Parent Company/ Subsidiary | | Violation of environmental protection | Penalty | Countermeasures (Improvement, Precaution) |
|---|---|---|---|---|
| | | with Article 50, Paragraph 3 of Waste Disposal Act. | | |

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

We not only strive for excelsior of the quality of products and services for customers, but also spare no efforts for pollution prevention, industrial waste reduction and other environmental protection work, in order to complete our Corporate Social Responsibility. For the environmentally friendly expenditure of parent company in 2019, the recurrent expenditure is NT$532,452 thousand and the capital expenditure (depreciation) is NT$82,287 thousand. In total, there were NT$614,739 thousand. The environmental protection expenditure of last year up to the publication date of this annual report was as follows,

| Environmental Protection Expenditure / Parent Company/Subsidiary | | Environmental Protection Expenditure (Unit: NT$ 1,000) | | |
|---|---|---|---|---|
| | | Items | 2019 | As of February 29 in thi current year |
| Parent Company | Taoyuan Plant | Environmental protection capita expenditure depreciation | 45,096 | 6,099 |
| | | Environmental Protection regula expenditure | 295,605 | 46,960 |
| | Subtotal of Taoyuan Plant | | 340,701 | 53,059 |
| | Miaoli Plant | Environmental protection capita expenditure depreciation | 36,933 | 5,649 |
| | | Environmental Protection regula expenditure | 226,998 | 29,745 |
| | Subtotal of Miaoli Plant | | 263,931 | 35,394 |
| | Subtotal of Miaoli Plant | Environmental protection capita expenditure depreciation | 258 | 43 |
| | | Environmental Protection regula expenditure | 9,849 | 1,341 |
| | Subtotal of Kaohsiung Plant | | 10,107 | 1,384 |
| Total of Parent Company | | | 614,739 | 89,837 |
| Subsidiary | Tung Kang Steel Structure | Environmental protection capita expenditure depreciation | 391 | 98 |

| | | | | |
|---|---|---|---|---|
| | | Environmental Protection regula expenditure | 0 | 0 |
| | Katec Creative Resources | Environmental protection capita expenditure depreciation | 2,730 | 430 |
| | | Environmental Protection regula expenditure | 730 | 184 |
| Total of Subsidiaries | | | 3,851 | 712 |
| Total | | | 618,590 | 90,549 |

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

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

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

## 5. Labor management relations

### i. Various welfare, education, training, and retirement measures for employee, the implementation of the aforesaid measures, and agreement between labor and capitaland the various measures for protecting employees' rights and interests:

(1) Welfare measures

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

(i) Establish a Joint Employees' Welfare Committee

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

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

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

(iv) Provide health examination on a regular basis

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

(v) Overall occupational medical healthcare service for employees

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

(vi) Irregularly provide medical information and health education

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

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

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

(2) Implementation of educational training

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

(3) Implementation of retirement system

We have set the Business Employee Retiring Measures in accordance with the Labor Standards Law and the Labor Pensions Act and established the Supervisory Committee of Workers' Pension Preparation Fund (the Committee), which is approved by competent authority. In addition to calculating the pension for labor in old system on a yearly basis, the Committee will hold regular meeting for the purpose of safeguarding employees' right. Up to the end of 2019 the Workers' Pension Preparation Fund is sufficient for next year retirees. Employees who meet the requirement of new system of Workers' Pension Preparation Fund shall pay six percent (6%) of wages in accordance with the Monthly Contribution Wages Classification of Labor Pension into their personal pension fund account on a monthly basis. Employees may choose to pay the fund voluntarily.

(4) Agreement between labors and capital

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

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

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

## 6. Important agreements of the parent company and subsidiaries

| Parent company and subsidiary / Important agreements | | Property of the contract | Party | Start date and due date of the contract | Content | Restrictions |
|---|---|---|---|---|---|---|
| Parent company | Taoyuan Plant | Material purchasing | JIA YAW MACHINERY CORP. | 2019.04.15~2019.08.30 | Procurement of roller ring CNClathe | 1. Deposit: 30%<br>2. Delivery payment: 60%<br>3. Acceptance payment: 10% |
| | | Project contracting | SUNRISE PV ONE CO., LTD. | 2019.~2039. | Leasing and constructing places for establishing solar optoelectronic system | Calculation started from the first time solar optoelectronic merged in the power system of Taiwan Power Company. The feedback fund of electricity sales were calculated by 18% of the electricity sales income recorded on the electricity bill for buying electricity from Taiwan Power Company. |
| | | Project contracting | Taoxu Energy Co., Ltd. | | | |
| | | Project contracting | Taiwan Wesley | 2019.05.01~2019.09.30 | ISO/TS 14067:2013 and material flow analysis check and third-party certification | 100% paid within 30 days starting from in invoice date with sight check. |
| | | Material purchasing | Speedy-Care Ent. Co., Ltd. | 2019.05.24~2020.05.24 | Procurement contract for TRENCH serial reactor | 1. Deposit: 70%<br>2. Acceptance payment: 30% |
| | | Material purchasing | WEIBELL ENTERPRISES CO., LTD. | 2019.05.31~2019.09.30 | Spiral water-cooled air compressor | 1. Deposit: 30%<br>2. Device payment: 60%<br>3. Acceptance payment: 10% |
| | | Project contracting | Gaoding Enterprise | 2019.09.01~2019.09.30 | Spiral water-cooled air compressor pipe | Acceptance payment: 100% |
| | | Project contracting | NCKU Research and Development Foundation | 2019.03.04~2019.11.30 | Products in Manufacturing Industry, Industrial Bureau, Ministry of Economic Affairs, 2019 Environment footprint and resource sustainability promotion plan Demonstration and guidance plan contract for the analysis of material flow costs | Guide Party A to complete material inventory checkand then make the payment. |
| | | Project contracting | Taiwan Cement CorporationSuao Plant | 2019.05.01~2020.04.30 | Contract for handling the recycling of business wastes (Reducing residue) | Calculate the price in accordance with the actual loading volume. |
| | | Material purchasing | CANDO CORPORATION | 90 working days starting from 2019.08.01 | Procurement of 300T fixed-length rebar cutting devicein Dayuan Factory | 1. Delivery payment: 80%<br>2. Acceptance payment: 20% |
| | | Project contracting | Hung Mau Environmental Technology Corporation | 2019.09.01~2021.08.31 | Contract for clearing general business wastes (Purchase and sale of waste oil) | Sales: sight payment |
| | | Material purchasing | CAPITAL MACHINERY LIMITED | 2019.09.06~2019.10.17 | Procurement contract of payloader | 1. Delivery payment: 80%<br>2. Acceptance payment: 20% |

| Important agreements / Parent company and subsidiary | | Property of the contract | Party | Start date and due date of the contract | Content | Restrictions |
|---|---|---|---|---|---|---|
| | | Material purchasing | TCM by Unicarriers | 2019.09.06~2019.10.01 | Procurement contract of TCM3 ton forklift | Acceptance payment: 100% |
| | | Material purchasing | Tatung Company | 2019.10.09~2020.4.30 | New product procurement of transformer for rolled steel 1 | Acceptance payment: 100% |
| | | Project contracting | JINJI XIN ENTERPRISES LTD. | 2019.11.01~2020.10.31 | Sales contract of ion dioxide | Calculate the price in accordance with the actual loading volume. |
| | | Material purchasing | THE GIANT TAIWAN LTD. | 2019.10.24~2019.11.04 | Procurement contract of hydraulic excavator | Acceptance payment: 100% |
| | | Project contracting | Xinding Electromechanical Consultant Corporation | 2019.11.20~2020.07.31 | Change station 161KV adding differential current protection relay equipment to the relay board | 100% paid; closed within 30 days each month starting from the month of acceptance. |
| | | Project contracting | KATEC CREATIVE RESOURCES CORP. | 2019.12.01-2020.11.30 | Agent clearing and recycle contract for business wastes(Dust collection) | Pay once a month with sight check on the 25th of the next month. |
| | | Project contracting | Taiwan Steel Resources Co., Ltd. | 2019.12.31~2020.12.31 | Agent clearing and recycle contract for business wastes (Reducing residue) | Pay once a month with sight check on within 30days. |
| | | Project contracting | S.M.A. | 2019.10~Acquisition of license | Plan and design the details for Taoyuan Processing Center | 1. Contract signing payment: 10%<br>2. Construction license registration: 70%<br>3. License acquisition:10% |
| Parent company | Miaoli Plant | Device purchasing | SMS GROUP | 2018.07.16~2020.05.31(ETA 109.04.03) | Procurement of Rolled steel BD double gear box | 1. Deposit: 30%<br>2. Device payment: 60%<br>3. Acceptance payment: 10% |
| | | Device purchasing | SIEMENS LTD. KAOHSIUNG BRANCH | 2019.05.07~2020.03.07 | Rolled steel CNC lathe electric control system upgrade | 1. Pre-payment: 30%<br>2. Device payment: 60%<br>3. Acceptance payment: 10% |
| Subsidiary | Tung Ho Wind Power Co., Ltd. | Purchase and sale of electricity contract | Taiwan Power Company | 2016.09~2036.08 | Taipower bought all of electricity generated by Tung Ho Wind Power Co. Ltd. | The power supply (power generation) per unit time (1 hour) shall not exceed the full load capacity of 5 fans |
| | | Wind turbine maintenance | Enercon Taiwan Ltd. | 2016.08~2026.07 | Suction fan maintenance | None |
| Subsidiary | Tung Ho Engineering Co., Ltd. | Construction engineering project | Shen Tai Electric Industry Co.,Ltd | 2019.12.25~110.09.17 | New construction engineering project in Shen Tai Electric Industry Co.,Ltd Taoyuan Factory | 1. Engineering payment: 92%<br>2. Retention: 8% |
| | | Construction engineering project | Shen Tai Electric Industry Co.,Ltd | 2019.12.25~109.12.31 | New construction engineering project in Shen Tai Electric Industry Co.,Ltd Taoyuan Factory– sales of rebar materials | Payment: 100% |

| Parent company and subsidiary / Important agreements | | Property of the contract | Party | Start date and due date of the contract | Content | Restrictions |
|---|---|---|---|---|---|---|
| | | Construction engineering project | Tung Ho Steel Co., Ltd. | 2019.11.06~2020.12.31 | New construction engineering project in Shen Tai Electric Industry Co.,Ltd Taoyuan Factory: 8,510 tons of slub rebar | Payment: 100% |
| | | Construction engineering project | Qinglong ready-mixed concrete Corporation | 2019.12.24~ engineering case closed | New construction engineering project in Shen Tai Electric Industry Co.,Ltd Taoyuan Factory: ready-mixed concrete (materials) | Payment: 100% |
| | | Construction engineering project | Railway Construction Engineering Limited | 2019.12.10~ engineering case closed | New construction engineering project in Shen Tai Electric Industry Co.,Ltd Taoyuan Factory: rebar binding (salary) | 1. Engineering payment: 95%<br>2. Retention: 5% |
| | | Construction engineering project | HAIR O'RIGHT INTERNATIONAL CORPORATION | 2019.07.31~ engineering case closed | Indoor renovation and construction expansion project of HAIR O'RIGHT INTERNATIONAL CORPORATION Taoyuan Longtan green factory | 1. Pre-payment: 20%<br>2. Progress payment: 75%<br>3. Retention: 5% |
| | | Construction engineering project | Tung Ho Steel Co., Ltd. | 2019.12.25~109.03.15 | Newly constructed roads and drainage facilities in Tung Ho Bade Factory | 1. Engineering payment: 90%<br>2. Retention: 10% |
| | | Construction engineering project | Huawei Steel and Aluminum Engineering Co., Ltd. | 2019.08.20~ engineering case closed | Indoor renovation and construction expansion project of HAIR O'RIGHT INTERNATIONAL CORPORATION Taoyuan Longtan green factory: materials for for indoor renovation and construction expansion project | 1. Pre-payment: 20%<br>2. Payment: 75%<br>3. Retention: 5% |
| | | Rebar processing | Da Ying Enterprise | 2019.10.01~109.09.30 | Contracting rebar fixed cutting | Processing payment: 100% |
| | | Construction engineering project | Huawei Steel and Aluminum Engineering Co., Ltd. | 2019.08.20~engineering case closed | Indoor renovation and construction expansion project of HAIR O'RIGHT INTERNATIONAL CORPORATION Taoyuan Longtan green factory: salary for indoor renovation and construction expansion project | 1. Engineering payment: 95%<br>2. Retention: 5% |
| Subsidiary | Tung Ho Steel Vietnam Corp. Ltd. | Device purchasing | Inteco | 2018.10~2020.02 | Procurement contract for electrical furnace renovation device | 1. Deposit: 30%<br>2. Device payment: 60%<br>3. Acceptance payment: 10% |
| | | Device purchasing | Ma Kang Electromechanical | 2018.12~2020.02 | Procurement contract to replace LGP with natural gas device | 1. Device payment: 90%<br>2. Acceptance payment: 10% |

| Important agreements / Parent company and subsidiary | | Property of the contract | Party | Start date and due date of the contract | Content | Restrictions |
|---|---|---|---|---|---|---|
| | | Device purchasing | DANIELI | 2019.04~2020.02 | Procurement contract of rolled steel water quenching rebar device | 1. Deposit: 20%<br>2. Device payment: 75%<br>3. Acceptance payment: 5% |
| | | Marketing expenses | VIETSO | 2019.10~2020.10 | Television advertisement contract | 1. Deposit: 10%<br>2. Process: 80%<br>3. Acceptance payment: 10% |
| Subsidiary | Fa Da Co., Ltd. | Lease contract for factories | TUNGKANG ENGINEERING & CONSTRUCTION CORP. | 2017.08.01~2019.12.31 | Factory | 2019.12.31 signed three-party contract with Tung Ho Steel, Tung Kang Engineering Construction due to factory transfer and leasing matters |
| | | Purchase and sale contract for real estate | Tung Ho Steel Co., Ltd. | Signature date of the contract: 2019.12.12 | Building on No. 289, Baozhang 6th Rd., Guanyin Dist., Taoyuan City | None |

# VI. Financial Summary of the Company and Subsidiaries

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

### i. Concise balance sheet consolidated

Unit: NT$ 1,000

| Item \ Year | | Financial data of the last five years | | | | |
|---|---|---|---|---|---|---|
| | | 2015 | 2016 | 2017 | 2018 | 2019 |
| Current Assets | | 14,890,132 | 12,504,478 | 14,835,353 | 22,968,952 | 23,009,268 |
| Property, Plant, and Equipment (note 1) | | 15,447,983 | 17,888,505 | 20,582,554 | 20,694,943 | 19,648,493 |
| Intangible Assets | | 0 | 213,235 | 190,187 | 186,738 | 177,149 |
| Other Assets (note 1) | | 5,742,353 | 5,995,096 | 5,689,298 | 4,707,860 | 4,856,593 |
| General Assets | | 36,080,468 | 36,601,314 | 41,297,392 | 48,558,493 | 47,691,503 |
| Current Liabilities | Before Distribution | 9,570,672 | 8,611,617 | 13,268,068 | 17,489,725 | 15,670,438 |
| | Distributed | 10,668,716 | 9,909,304 | 14,673,753 | 18,694,598 | (Note 2) |
| Non-Current Liabilities | | 3,433,779 | 4,436,843 | 3,996,293 | 7,058,004 | 7,719,654 |
| Total Liabilities | Before Distribution | 13,004,451 | 13,048,460 | 17,264,361 | 24,547,729 | 23,390,092 |
| | Distributed | 14,102,495 | 14,346,147 | 18,670,046 | 25,752,602 | (Note 2) |
| Equity Attributed to Stockholders of the Company | | 22,991,941 | 23,462,063 | 23,952,441 | 23,903,085 | 24,199,492 |
| Share Capital | | 9,982,215 | 9,982,215 | 10,040,606 | 10,040,606 | 10,040,606 |
| Additional Paid-In Capital | | 6,225,993 | 6,247,267 | 6,320,178 | 6,592,236 | 6,592,236 |
| Retained Earnings | Before Distribution | 6,620,474 | 7,034,617 | 7,399,469 | 7,917,267 | 8,272,872 |
| | Distributed | 7,718,518 | 5,736,930 | 5,993,785 | 6,712,394 | (Note 2) |
| Other Interest | | 163,259 | 197,964 | 192,188 | (647,024) | (706,222) |
| Treasury Stock | | 0 | 0 | 0 | 0 | 0 |
| Non-Controlling Interests | | 84,076 | 90,791 | 80,590 | 107,679 | 101,919 |
| Total Interest | Before Distribution | 23,076,017 | 23,552,854 | 24,033,031 | 24,010,764 | 24,301,411 |
| | Distributed | 21,977,973 | 22,255,167 | 22,627,346 | 22,805,891 | (Note 2) |

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

Note 2: The 2020 shareholders' regular meeting has not yet been convened and the surplus distribution case has not been determined.

## ii. Concise balance sheet individual

Unit: NT$ 1,000

| Item \ Year | | Financial data of the last five years | | | | |
|---|---|---|---|---|---|---|
| | | 2015 | 2016 | 2017 | 2018 | 2019 |
| Current Assets | | 10,906,713 | 9,322,204 | 10,326,718 | 17,428,675 | 17,387,667 |
| Property, Plant, and Equipment (note 1) | | 12,811,483 | 12,390,131 | 13,572,371 | 13,352,838 | 12,638,857 |
| Intangible Assets | | 0 | 0 | 0 | 0 | 0 |
| Other Assets (note 1) | | 7,505,176 | 12,127,572 | 12,366,127 | 12,032,116 | 11,409,964 |
| General Assets | | 31,223,372 | 33,839,907 | 36,265,216 | 42,813,629 | 41,436,488 |
| Current Liabilities | Before Distribution | 5,064,475 | 5,943,370 | 8,322,513 | 12,732,372 | 11,042,221 |
| | Distributed | 6,162,519 | 7,241,057 | 9,728,198 | 13,937,245 | (Note 2) |
| Non-Current Liabilities | | 3,166,956 | 4,434,474 | 3,990,262 | 6,178,172 | 6,194,775 |
| Total Liabilities | Before Distribution | 8,231,431 | 10,377,844 | 12,312,775 | 18,910,544 | 17,236,996 |
| | Distributed | 9,329,475 | 11,675,531 | 13,718,460 | 20,115,417 | (Note 2) |
| Equity Attributed to Stockholders of the Company | | 22,991,941 | 23,462,063 | 23,952,441 | 23,903,085 | 24,199,492 |
| Share Capital | | 9,982,215 | 9,982,215 | 10,040,606 | 10,040,606 | 10,040,606 |
| Additional Paid-In Capital | | 6,225,993 | 6,247,267 | 6,320,178 | 6,592,236 | 6,592,236 |
| Retained Earnings | Before Distribution | 6,620,474 | 7,034,617 | 7,399,469 | 7,917,267 | 8,272,872 |
| | Distributed | 7,718,518 | 5,736,930 | 5,993,785 | 6,712,394 | (Note 2) |
| Other Interest | | 163,259 | 197,964 | 192,188 | (647,024) | (706,222) |
| Treasury Stock | | 0 | 0 | 0 | 0 | 0 |
| Non-Controlling Interests | | 0 | 0 | 0 | 0 | 0 |
| Total Interest | Before Distribution | 22,991,941 | 23,462,063 | 23,952,441 | 23,903,085 | 24,199,492 |
| | Distributed | 21,893,897 | 22,164,376 | 22,546,756 | 22,698,212 | (Note 2) |

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

Note 2: The 2020 shareholders' regular meeting has not yet been convened and the surplus distribution case has not been determined.

## 2. i. Concise statement of comprehensive income consolidated

Unit: NT$ 1,000

| Item \ Year | Financial data of the last five years | | | | |
|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 | 2019 |
| Operating Revenue | 31,053,412 | 25,209,558 | 31,749,271 | 39,769,621 | 44,863,600 |
| Operating Profit | 3,033,804 | 2,970,262 | 3,801,861 | 3,324,682 | 4,131,766 |
| Operating Income/Loss | 1,511,137 | 1,491,657 | 1,841,990 | 1,275,353 | 2,106,598 |
| Non-Operating Income/ Expenses | 3,519 | 190,573 | 157,093 | (20,250) | 15,534 |
| Pre Tax Income | 1,514,656 | 1,682,230 | 1,999,083 | 1,255,103 | 2,122,132 |
| Income from Continuing Operation | 1,245,679 | 1,479,564 | 1,700,734 | 888,939 | 1.557,798 |
| Loss from Discontinued Department | 0 | 0 | 0 | 0 | 0 |
| Net Income (loss) | 1,245,679 | 1,479,564 | 1,700,734 | 888,939 | 1.557,798 |
| Other Comprehensive (net) Income | (39,593) | 61,706 | (54,171) | (115,685) | (68,984) |
| Total Comprehensive Income | 1,206,086 | 1,541,270 | 1,646,563 | 773,254 | 1,488,814 |
| Net Profit Attributed to Stockholders of the Company | 1,269,089 | 1,484,673 | 1,714,931 | 887,932 | 1,566,059 |
| Net Profit Attributed to Non-Controlling Equity | (23,410) | (5,109) | (14,197) | 1,007 | (8,261) |
| Total Comprehensive Income Attributed to Stockholders of the Company | 1,230,981 | 1,546,892 | 1,656,764 | 762,869 | 1,494,574 |
| Total Comprehensive Income Attributed to Non-Controlling Equity | (24,895) | (5,622) | (10,201) | 10,385 | (5,760) |
| Earnings Per Share | 1.27 | 1.49 | 1.72 | 0.88 | 1.56 |

## 2. ii. Concise statement of comprehensive income individual

Unit: NT$ 1,000

| Item \ Year | Financial data of the last five years | | | | |
|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 | 2019 |
| Operating Revenue | 26,299,671 | 21,079,344 | 24,704,836 | 34,692,282 | 35,247,359 |
| Operating Profit | 2,882,307 | 2,690,024 | 3,377,611 | 3,177,085 | 4,117,593 |
| Operating Income/Loss | 1,682,453 | 1,529,153 | 2,086,827 | 1,593,327 | 2,549,525 |
| Non-Operating Income/ Expenses | (246,963) | 158,267 | (101,605) | (366,522) | (460,135) |
| Income from Continuing Operation | 1,435,490 | 1,687,420 | 1,985,222 | 1,226,805 | 2,089,390 |
| Loss from Discontinued Department | 0 | 0 | 0 | 0 | 0 |
| Net Income (loss) | 1,269,089 | 1,484,673 | 1,714,931 | 887,932 | 1,566,059 |
| Other Comprehensive (net) Income | (38,108) | 62,219 | (58,167) | (125,063) | (71,485) |
| Total Comprehensive Income | 1,230,981 | 1,546,892 | 1,656,764 | 762,869 | 1,494,574 |
| Earnings Per Share | 1.27 | 1.49 | 1.72 | 0.88 | 1.56 |

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

| Year | Certified accountants' names | Auditing opinions | Explanation |
|---|---|---|---|
| 2019 | Li Ci Hui, Kou Hui Zhi | Unqualified opinion | None |
| 2018 | Kou Hui Zhi , Guo Xin Yi | Unqualified opinion | None |
| 2017 | Kou Hui Zhi, Guo Xin Yi | Unqualified opinion | None |
| 2016 | Li Ci Hui, Kou Hui Zhi | Unqualified modified opinion | None |
| 2015 | Li Ci Hui, Kou Hui Zhi | Unqualified modified opinion | None |

## 2. Financial analysis of the last five years

## 1. i. Financial analysis consolidated

| Item analyzed (note 2) \ Year (note 1) | | Financial data of the last five years | | | | |
|---|---|---|---|---|---|---|
| | | 2015 | 2016 | 2017 | 2018 | 2019 |
| Financial Structure (%) | Debt Ratio | 36.04 | 35.65 | 41.80 | 50.55 | 49.04 |
| | Ratio of Long-term Capital to Property, Plant and Equipment | 171.61 | 156.47 | 136.18 | 150.13 | 162.97 |
| Solvency (%) | Current Ratio | 155.58 | 145.20 | 111.81 | 131.33 | 146.83 |
| | Quick Ratio | 99.42 | 57.60 | 39.32 | 31.34 | 32.32 |
| | Interest coverage ratio | 13.08 | 16.76 | 19.12 | 6.36 | 7.80 |
| Operating Ability (%) | Receivables Turnover Ratio (times) | 7.86 | 7.77 | 10.37 | 11.37 | 13.46 |
| | Average Collection Days | 46.43 | 46.97 | 35.19 | 32.10 | 27.11 |
| | Inventory Turnover (times) | 4.09 | 3.88 | 3.85 | 3.06 | 2.75 |
| | Accounts Payable Turnover Ratio (times) | 17.52 | 14.79 | 15.41 | 17.59 | 18.26 |
| | Average Days in Sales | 89.24 | 94.08 | 94.80 | 119.13 | 132.72 |
| | Property, Plant, & Equipment (PPE) Turnover (times) | 1.98 | 1.51 | 1.65 | 1.93 | 2.22 |
| | Total Assets Turnover (times) | 0.86 | 0.69 | 0.77 | 0.82 | 0.94 |
| Profitability | Return on asset (%) | 3.58 | 4.28 | 4.58 | 2.38 | 3.73 |
| | Return on Equity (%) | 5.39 | 6.35 | 7.15 | 3.70 | 6.45 |
| | Ratio of income before tax to paid-in capital (%) | 15.17 | 16.85 | 19.91 | 12.50 | 21.14 |
| | Profit margin before tax (%) | 4.01 | 5.87 | 5.36 | 2.24 | 3.47 |
| | Earnings Per Share (NT$) | 1.27 | 1.49 | 1.72 | 0.88 | 1.56 |
| Cash Flow | Cash flow Ratio (%) | 59.35 | 36.92 | -0.97 | -31.10 | 24.46 |
| | Cash flow Adequacy Ratio (%) | 143.62 | 171.27 | 107.57 | 30.78 | 29.59 |
| | Cash flow Reinvestment | 9.86 | 4.44 | -2.98 | -13.14 | 4.83 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | Ratio (%) | | | | | |
| Leveraging | Operating Leverage | 3.20 | 3.30 | 2.93 | 3.98 | 3.05 |
| | Financial Leverage | 1.07 | 1.06 | 1.06 | 1.21 | 1.16 |

Explanation for the financial ratio changes reached 20% in the past two years:

1. Interest coverage ratio increased to 7.80 and the ratio of income before tax to paid-in capital increased to 21.14%. This is because the income before tax increased NT$867,029 thousand this year, which is an increase of 69.08%.
2. Return on asset increased to 3.73%, return on equity increased to 6.45%, profit margin before tax increased to 3.47% and earnings per share increased to NT$1.56. This is because the profits and losses this year increased NT$668,859 thousand, which is an increase of 75.24% compared to last year.
3. The cash flow ratio increased to 24.46% and the cash flow reinvestment ratio increased to 4.83%. This is because the net cash flow in business activities this year increased NT$9,271,994, which is an increase of 170.47% compared to last year.
4. Operating leverage has decreased to 3.05. This is because the operating interest this year increased NT$831,245 thousand, which is an increase of 65.18% compared to last year.

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

Note 2: The formula of financial ratio is below:

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

## 1. ii. Financial analysis individual

| Year (note 1) / Item analyzed (note 2) | | | Financial data of the last five years | | | | |
|---|---|---|---|---|---|---|---|
| | | | 2015 | 2016 | 2017 | 2018 | 2019 |
| Financial Structure (%) | Debt Ratio | | 26.36 | 30.67 | 33.95 | 44.17 | 41.60 |
| | Ratio of Long-term Capital to Property, Plant and Equipment | | 204.18 | 225.15 | 205.88 | 225.28 | 240.48 |
| Solvency (%) | Current Ratio | | 215.36 | 156.85 | 124.08 | 136.88 | 157.47 |
| | Quick Ratio | | 115.87 | 60.04 | 47.29 | 44.63 | 46.61 |
| | Interest coverage ratio | | 19.77 | 27.84 | 27.77 | 9.56 | 15.09 |
| Operating Ability (%) | Receivables Turnover Ratio (times) | | 9.59 | 9.70 | 9.30 | 8.35 | 7.85 |
| | Average Collection Days | | 38.06 | 37.62 | 39.24 | 43.71 | 46.53 |
| | Inventory Turnover (times) | | 3.57 | 3.52 | 3.60 | 3.56 | 2.65 |
| | Accounts Payable Turnover Ratio (times) | | 23.00 | 21.18 | 18.99 | 22.43 | 20.80 |
| | Average Days in Sales | | 102.24 | 103.69 | 101.38 | 102.52 | 137.73 |
| | Property, Plant, & Equipment (PPE) Turnover (times) | | 2.00 | 1.67 | 1.90 | 2.58 | 2.71 |
| | Total Assets Turnover (times) | | 0.84 | 0.62 | 0.68 | 0.81 | 0.85 |
| Profitability | Return on asset (%) | | 4.00 | 4.70 | 5.05 | 2.53 | 4.00 |
| | Return on Equity (%) | | 5.51 | 6.39 | 7.23 | 3.71 | 6.51 |
| | Accounted for paid-in capital (%) | Operating profit | 16.85 | 15.32 | 20.78 | 15.87 | 25.39 |
| | | Profit margin before | 14.38 | 16.90 | 19.77 | 12.22 | 20.81 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | Earnings Per Share (NT$) | 4.83 | 7.04 | 6.94 | 2.56 | 4.44 |
| | Cash flow Ratio (%) | 1.27 | 1.49 | 1.72 | 0.88 | 1.56 |
| Cash Flow | Cash flow Adequacy Ratio (%) | 128.44 | 41.26 | 13.55 | -36.06 | 32.61 |
| | Cash flow Reinvestment Ratio (%) | 172.40 | 193.83 | 161.71 | 54.51 | 52.60 |
| | Operating Leverage | 12.09 | 2.98 | -0.37 | -12.15 | 4.74 |
| Leveraging | Financial Leverage | 2.67 | 2.77 | 2.32 | 2.84 | 2.23 |
| | Debt Ratio | 1.04 | 1.04 | 1.03 | 1.10 | 1.06 |

Explanation for the financial ratio changes reached 20% in the past two years:

1. Interest coverage ratio increased to 15.09 and the ratio of income before tax to paid-in capital increased to20.81%. This is because the income before tax increased NT$862,585, which is an increase of 70.31% compared with last year.
2. The ratio of operating profit to paid-in capital increased to 25.39%. This is because the operating profit this year increased NT$862,585, which is an increase of 70.31% compared with last year.
3. The inventory turnover decreased to 2.65 and the average days in sales increased to 137.73 days. This is because the total inventory in the beginning increased NT$5,225,284, which is an increase of 83.76% compared with last year.
4. Return on assets increased to 4.00%, return on equity increased to 6.51%, profit margin before tax increased to 4.44% and earnings per share increased to NT$1.56. This is because the profit and loss after tax this year increased NT$678,127 thousand, which is an increase of 76.37% compared with last year.
5. Cash flow ratio increased to 32.61% and cash flow reinvestment ratio increased to 4.74%. This is because the net cash flow of the business activities this year increased NT$8,192,140 thousand, which is an increase of 178.44%compared with last year.
6. Operating leverage decreased to 2.23. This is because the operating profit this year increased NT$956,198 thousand, which is an increase of 60.01% compared with last year.

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

Note 2: The formula of financial ratio is below:

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

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

(2) Cash flow adequacy ratio = (net cash flow from operating activities within five year / (capital expenditure + inventory increase + cash dividend) within five year

(3) Cash reinvestment ratio = (net cash flow from operating activity cash dividend) / (total fixed assets + long term investment + other non-current assets + working capital).

6. Leverage

(1) Operation balance = (net operating income operating variable cost and expense) / operating income.

(2) Financial balance = operating income / (operating income interest expense).

## 3. Audit committee’s review report of the latest annual individual and consolidated financial reports

Audit Committee Review Report

The Board of Directors prepares the 2019 Annual Business Report, Financial Statements (including individual and consolidated financial statements) and Earning Distribution Plan. The Financial Statements (including individual and consolidated financial statements) were audited by CPA Li Ci Huiand Guo Xinyi from KPMG Taiwan and issued an unqualified opinion for the audit report. The above mentioned Business Report, Financial Statements and Earning Distribution Plan were reviewed by the Audit Committee and considered that there was no discrepancy. The above mentioned reports are presented as required by Securities and Exchange Act 14-4 and Article 219 of the Company Act, for further inspection.

Best regards,
2020 General Meeting of Tung Ho Steel Enterprise Corp.

Tung Ho Steel Enterprise Corp.
Conveyor of the Audit Committee I-Chi Liu

Feb. 27, 2020

**4. Financial Statements of the last year:** Please refer to the attachment at the end of the annual report.

**5. Individual Financial Statement audited by CPA in the last year:** Please refer to the attachment at the end of the annual report.

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

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

## 1. Financial position

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

Unit: NT$ 1,000

| Item \ Year | 2019 | 2018 | Difference | |
|---|---|---|---|---|
| | | | Amount | % |
| Current assets | 23,009,268 | 22,968,952 | 40,316 | 0.18 |
| Long-term investment | 1,870,256 | 2,032,027 | (161,771) | (7.96) |
| Real properties, plants and devices | 19,648,493 | 20,694,943 | (1,046,450) | (5.06) |
| Intangible assets | 177,149 | 186,738 | (9,589) | (5.14) |
| Real properties for investment purpose | 1,944,482 | 1,870,098 | 74,384 | 3.98 |
| Other assets | 1,041,855 | 805,735 | 236,120 | 29.30 |
| Total assets | 47,691,503 | 48,558,493 | (866,990) | (1.79) |
| Current liabilities | 15,670,438 | 17,489,725 | (1,819,287) | (10.40) |
| Long-term liabilities | 7,719,654 | 7,058,004 | 661,650 | 9.37 |
| Other liabilities | 0 | 0 | 0 | 0.00 |
| Total liabilities | 23,390,092 | 24,547,729 | (1,157,637) | (4.72) |
| Capital stock | 10,040,606 | 10,040,606 | 0 | 0.00 |
| Capital reserve | 6,592,236 | 6,592,236 | 0 | 0.00 |
| Retained earnings | 8,272,872 | 7,917,267 | 355,605 | 4.49 |
| Other equity | (706,222) | (647,024) | (59,198) | 9.15 |
| Total equity attributable to the owner of parent company | 24,199,492 | 23,903,085 | 296,407 | 1.24 |
| Non-controlling equity | 101,919 | 107,679 | (5,760) | (5.35) |
| Total equity | 24,301,411 | 24,010,764 | 290,647 | 1.21 |
| Items with major change (change percent reaching 20% and the change amount reaching NT$10,000 thousand) are explained as below:<br>1.Other assets increased NT$ 236,120 thousand compared with last year. This is because the subject, right-of-use assets this year increased NT$411,115 thousand when applying IFRS No. 16 “lease” report. | | | | |

## ii. Financial status comparison and analysis table Individual

Unit: NT$ 1,000

| Item \ Year | 2019 | 2018 | Difference | |
|---|---|---|---|---|
| | | | Amount | Amount |
| Current assets | 17,387,667 | 17,428,675 | (41,008) | (0.24) |
| Long-term investment | 8,777,589 | 9,639,651 | (862,062) | (8.94) |
| Real properties, plants and devices | 12,638,857 | 13,352,838 | (713,981) | (5.35) |
| Intangible assets | 0 | 0 | 0 | 0 |
| Real properties for investment purpose | 2,010,800 | 1,870,098 | 140,702 | 7.52 |
| Other assets | 621,575 | 522,367 | 99,208 | 18.99 |
| Total assets | 41,436,488 | 42,813,629 | (1,377,141) | (3.22) |
| Current liabilities | 11,042,221 | 12,732,372 | (1,690,151) | (13.27) |
| Long-term liabilities | 6,194,775 | 6,178,172 | 16,603 | 0.27 |
| Other liabilities | 0 | 0 | 0 | 0.00 |
| Total liabilities | 17,236,996 | 18,910,544 | (1,673,548) | (8.85) |
| Capital stock | 10,040,606 | 10,040,606 | 0 | 0.00 |
| Capital reserve | 6,592,236 | 6,592,236 | 0 | 0.00 |
| Retained earnings | 8,272,872 | 7,917,267 | 355,605 | 4.49 |
| Other equity | (706,222) | (647,024) | (59,198) | 9.15 |
| Total equity attributable to the owner of parent company | 24,199,492 | 23,903,085 | 296,407 | 1.24 |
| Items with major change (change percent reaching 20% and the change amount reaching NT$10,000 thousand) are explained as below: None. | | | | |

## 2. Financial performance

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

Unit: NT$ 1,000

| Item \ Year | 2019 | 2018 | Increase/Decrease amount | Change percent (%) |
|---|---|---|---|---|
| Total operating income | 45,148,140 | 40,022,923 | 5,125,217 | 12.81 |
| Less: Sales return | 5,638 | 1,962 | 3,676 | 187.36 |
| Sales allowance | 278,902 | 251,340 | 27,562 | 10.97 |
| Net operating income | 44,863,600 | 39,769,621 | 5,093,979 | 12.81 |
| Operating cost | 40,731,834 | 36,444,939 | 4,286,895 | 11.76 |
| Gross operating profit | 4,131,766 | 3,324,682 | 807,084 | 24.28 |
| Operating expense | 2,025,168 | 2,049,329 | (24,161) | (1.18) |
| Net operating profit | 2,106,598 | 1,275,353 | 831,245 | 65.18 |
| Non-operating income and expenditure | 15,534 | (20,250) | 35,784 | (176.71) |
| Income from continuing operation before income tax | 2,122,132 | 1,255,103 | 867,029 | 69.08 |
| Less: Expense of income tax | 564,334 | 366,164 | 198,170 | 54.12 |
| Net profit of the current period | 1,557,798 | 888,939 | 668,859 | 75.24 |
| Other comprehensive profit/loss (After-tax net amount) | (68,984) | (115,685) | 46,701 | (40.37) |
| Total comprehensive profit/loss of the current period | 1,488,814 | 773,254 | 715,560 | 92.54 |

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

1. Operating gross profit: It increased NT$807,084 thousand compared to last year. This is because the increase in product price.
2. Non-operating income and expenditure: It increased NT$35,784 thousand compared to last year. This is because the exchange income increased NT$51,383 thousand this year and the income of affiliated enterprise recognized by adopting equity method increased NT$ 42,434 thousand.
3. Expense of income tax: It increased NT$198,170 thousand compared to last year. This is because the net profit this year has increased.
4.Other comprehensive profit/loss (After-tax net amount): It increased NT$46,701 thousand compared to last year. This is because the income on valuation of financial asset this year increased NT$51,345 thousand.

## ii. Operation results comparison and analysis table Individual

Unit: NT$ 1,000

| Item \ Year | 2019 | 2018 | Increase/Decrease amount | Change percent (%) |
|---|---|---|---|---|
| Total operating income | 35,523,207 | 34,943,060 | 580,147 | 1.66 |
| Less: Sales return | 4,024 | 1,962 | 2,062 | 105.10 |
| Sales allowance | 271,824 | 248,816 | 23,008 | 9.25 |
| Net operating income | 35,247,359 | 34,692,282 | 555,077 | 1.60 |
| Operating cost | 31,129,766 | 31,507,397 | (377,631) | (1.20) |
| Gross operating profit | 4,117,593 | 3,184,885 | 932,708 | 29.29 |
| Operating expense | 25,818 | 43,741 | (17,923) | (40.98) |
| Net operating profit | 43,741 | 35,941 | 7,800 | 21.70 |
| Non-operating income and expenditure | 4,135,516 | 3,177,085 | 958,431 | 30.17 |
| Income from continuing operation before income tax | 1,585,991 | 1,583,758 | 2,233 | 0.14 |
| Less: Expense of income tax | 2,549,525 | 1,593,327 | 956,198 | 60.01 |
| Net profit of the current period | (460,135) | (366,522) | (93,613) | 25.54 |
| Other comprehensive profit/loss (After-tax net amount) | 2,089,390 | 1,226,805 | 862,585 | 70.31 |
| Total comprehensive profit/loss of the current period | 523,331 | 338,873 | 184,458 | 54.43 |
| Total operating income | 1,566,059 | 887,932 | 678,127 | 76.37 |
| Less: Sales return | (71,485) | (125,063) | 53,578 | (42.84) |
| Sales allowance | 1,494,574 | 762,869 | 731,705 | 95.91 |

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

1. Operating gross profit: It increased NT$932,708 thousand compared to last year. This is because of the rise in product price.
2. Unrealized sales profit: It decreased NT$17,923 thousand compared to last year. This is because the downstream transactions ending inventory was lower this year.
3. Non-operating income and expenditure: It decreased NT$93,613 thousand compared to last year. This is because the losses of subsidiaries and affiliated enterprise recognized by adopting equity method increased NT$98,071thousand.
4. Expense of income tax: It increased NT$184,458 thousand compared to last year. This is because the net profit increased this year.
5. Other comprehensive profit/loss (After-tax net amount): It increased NT$53,578thousand compared to last year. This is because the income on valuation of financial assetthis year increased NT$51,618 thousand.

## 3. Cash flow

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

| Year / Item | 2019 | 2018 | Increase (Decrease) percent % |
|---|---|---|---|
| Cash flow ratio | 24.46 | (31.10) | 178.65 |
| Cash flow adequacy ratio | 29.59 | 30.78 | (3.87) |
| Cash re investment ratio | 4.83 | (13.14) | 136.76 |

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

1. Cash flow ratio increased 24.46% and cash re-investment ratio increased 4.83%.This is because the net cash flow in business activities increased 9,271,994, 000 compared to last year, which accounted for170.47% increase.

### ii. Liquidity analysis of the next year Consolidated

Unit: NT$ 1,000

| Cash balance at the beginning of the period | Estimated cash flow from the business activities of the whole year | Estimated cash outflow of the whole year | Estimated cash surplus (deficit) | Remedial measures for estimated cash deficit | |
|---|---|---|---|---|---|
| | | | | Investment plan | Financing plan |
| 976,850 | 3,998,967 | 7,601,300 | (2,625,483) | N/A | N/A |

(1) Analysis on cash flow situation

a. Business activities: It is estimated that the 2020 operating income and earnings will be increased, so it is estimated that the net cash flow from the business activities would be NT$3,998,967 thousand.

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

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

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

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

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

| Item \ Year | 2019 | 2018 | Increase (Decrease) percent % |
|---|---|---|---|
| Cash flow ratio | 32.61 | (36.06) | 190.43 |
| Cash flow adequacy ratio | 52.60 | 54.51 | (3.50) |
| Cash re investment ratio | 4.74 | (12.15) | 139.01 |
| The items with the increase/decrease percent are explained as below:<br>1. Cash flow ratio increased 32.61% and cash re-investment ratio increased 4.74%.This is because the net cash flow of the business activities increased NT$8,192,140 thousand, which is an increase of 178.44% compared to last year. | | | |

**ii. Liquidity analysis of the next year –Individual**

Unit: NT$ 1,000

| Cash balance at the beginning of the period | Estimated cash flow from the business activities of the whole year | Estimated cash outflow of the whole year | Estimated cash surplus (deficit) | Remedial measures for estimated cash deficit | |
|---|---|---|---|---|---|
| | | | | Investment plan | Investment plan |
| 375,583 | 3,944,162 | 5,651,026 | (1,331,281) | N/A | N/A |

(1) Analysis on cash flow situation

a.Business activities: It is estimated that the 2020 operating income and earnings will be increased, so it is estimated that the net cash flow from the business activities would be NT$3,944,162thousand.

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

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

(2) Remedial measures for estimated cash deficit and liquidity analysis: The Company is expected to increase bank borrowings to meet the demand for funds.

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

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

(i) Re-investment policy of last year

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

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

## 6. Risk items, and the related analysis and evaluation

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

Unit: NT$ thousands; %

| Item | 2019 | 2018 |
|---|---|---|
| Net operating income | 44,863,600 | 39,769,621 |
| Net interest income (expense) | (290,720) | (218,472) |
| Net exchange (loss) gain | 35,722 | (15,661) |
| Net interest income (expense) / Net operating income ratio | (0.65) | (0.55) |
| Net exchange (loss) gain / Net operating income ratio | (0.08) | (0.04) |

(i) Changes in interest rates

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

(ii) Changes in exchange rate

Rebar and shape steel type products of steel plates are the Company's main products. Most of the sales customers are located in Taiwan and are denominated in New Taiwan Dollar; and over half of the major raw materials, waste steel, were purchased domestically and denominated in New Taiwan Dollar. Hence, there is no risks in changes to exchange rate. On the other hand, the export product sales and the import of over half of the raw materials were denominated and paid in US Dollar. The differences of income and expenses in foreign currency will be affected by the fluctuations in exchange rate. If the US Dollar exchange rate against the New Taiwan Dollar fluctuated significantly, this will cause greater impact on our finances.

The increase in the US Dollar exchange rate against the New Taiwan Dollar in 2019 is beneficial to the Company, resulted in net exchange profit of NT$35,722,000, which accounted for 0.08% and 1.7%of the annual operating income and operating profit ratio. Its impact on the annual business performance and profit shall still be limited.

To avoid the fluctuations in exchange rate interfering normal operations, the Company has adopted specific countermeasures that should effectively reduce the impact of exchange rate fluctuations on the Company:

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

B. For the foreign exchange fund scheduling, the credit and debit can be cancelled out to result in natural hedging effects through foreign exchange rate income from exporting final productsand foreign exchange expenses for importing raw materials.

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

(iii) Inflation, deflation and overall market volatility

When the market suddenly changes its expectations of inflation and deflation, it often closely affects the global economy. It will reduce the market efficiency, interfere the investment decisions and adversely affect the general economy and the individual economy regardless it is high inflation or deflation. Recent political disputes or the promotion of extremely loose currency policy in some of the world's main economies have exacerbated the market fluctuations that caused by the anticipated inflation or deflation. The market fluctuations caused by these economic changes did not have direct impact on the Company, but it will indirectly affect the willingness of countries in the world to invest in national capital expenditures and further affect mid- and long-term demands for steel and iron.

The inflation rate of Taiwan in 2019 (referred to the CGA's consumer price index) was about 0.56%, which is relatively gentle, which did not make a significant impact or influence on the company’s operating results. However, the Company cannot guarantee that future inflation or deflation will not change significantly in terms of its nature, degree or scope and may have a significant adverse effect on the operating results of the Company.

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

i. In the recent years, the Company did not conduct financial operations involving high-risk and high-leverage investment. The main purpose to buy forward exchange of US dollars, operate options and conduct interest rate exchange is to evade the risks of fluctuations in exchange rate and interest and stabilize sales costs and fund costs. In the recent years, the Company did not have major losses due to the engagement in derivative products. In addition, the Company’s policy of conducting derivative product transactions is based on the actual hedging demands; and relevant procedures were conducted in accordance with the provisions of “Procedures governing the engagement in derivatives trading” of the Company.

ii. At the end of 2019, the Company had balances for loaning of funds to the subsidiary Tung Ho Steel Vietnam Corp., Ltd on the book. This is mainly to support the needs for business capitals of such company.In addition, the Company conducts matters for loaning of funds to others in accordance with the provisions in “Procedures for Making Loans to Others” of the Company and its subsidiaries.

iii. At the end of 2019, subsidiaries required guarantee by the parent company for bank financing, the Company made endorsement for subsidiaries Tung Ho Steel Fujian Corp. Ltd. and Tung Ho Steel Vietnam Corp. Ltd.; the subsidiary Tung Yuan International Corp made endorsement for its subsidiaries Fujian Sino-Japan Metal and Best-steel Trade Corp. The above endorsements were subject to the related operations in accordance with the "Endorsement Assurance Operating Procedures" of the Company and its subsidiaries.

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

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

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

iii. It has actively developing high strength and high value added rebar, steel plate and shape steel (BH, BOX, CROSS...)and the research project of “cold bending for architectural structure formed angular steel tube” and the artificial intelligence technology and applications and smart factory technology development.

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

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

The Company's operating team has been paying close attention to any policies and ordinances that may affect the Company's business and operations and has established the relevant risk management procedures. The changes in the major laws and regulations that related to the operation of the Company in 2019 and 2020until to the publication date of the annual report were as follows,

1. New provisions in the Labor Act were implemented on Jan. 1, 2020. This Act was an exclusive act handling labor incident in the common court, which is a special act of Code of Civil Procedure regarding its properties. Under the existing structure of Code of Civil Procedure, the dispute procedures for labor incidents were adjusted appropriately. For example, the establishment of professional labor courts or special shares, labor mediation procedures, labor litigation procedures, and security procedures, etc., are sufficient to enable the courts to deal with labor incidents on the principle of rapidness, appropriateness, professionalism, effectiveness, and equality, so as to achieve substantial and fair hearing of labor disputes and the goal of effective relief rights. The company actively cooperates with the revision and adjustment on relevant personnel management regulations in response to this matter.
2. On Dec. 12, 2018, the Ministry of Economic Affairs announced to entrust 10 local governments, including New Taipei City to conduct approval, check, register, cancellation, dismissal, audit and other related business matters for solar photovoltaic power generation equipment with device capacity less than 500 watts in accordance with “Regulations governing the establishment of renewable energy power generation equipment”, which shall come into effective starting from Jan. 1, 2019. Hence, the Company went with the electricity usage of the local government to conduct relevant evaluations and select the best plan. Each factory is consecutively signing contract and agreement with the power generation operators and installing plant roof type solar power generation equipment according to the contract.
3. On May 29, 2019, the amendment to Article 115-1 of the Enforcement law was announced. The amendment to the provision considered that within the scope of the creditor's claims and the amount of enforcement fees, the natural person's enforcement of the claims of wages or other continuing payments may affect the disadvantages required for life. Hence, the detention range is subject to ratio restrictions. In the future, if the Company received detention decrees from the court or Administrative Enforcement Agency, the Company shall pay attention that it may not exceed the detention restriction with one-third paid amount in each volume.
4. On May 15, 2019, the amendment to Labor Pension Regulations was announced, which established the penalties applied on employers for not appropriately adjusting the pension contribution rate calculated by the years of labor work and violation of the obligation to adjust contributions. If such criteria formed, this would cause adverse impact on the Company’s reputation. Hence, relevant case offices shall pay close attention to this matter.
5. On May 20, 2019, the amendment to the Supplement Table to the Regulations Governing Recycling of Business Wastes from Ministry of Economic Affairs was announced. Among them, in “Item 9. Electric arc furnace steel-making ballast (stone)”, in addition to cement usage, it requested the recycling institution to signed the contract recording the implementation unit (source business or recycling institution), method

and handling time of stabilization treatment (including high-pressure steam treatment) with the source business. Hence, relevant responsible unit of the Company shall comply to the new provisions to avoid violating the law.

6.In accordance with the amendment to Article 14-5 and Article 36 of the Securities and Exchange Act announced on June 28, 2019, regarding that TWSE/GTSM Listed Companies have gradually demolished supervisors, audit committee composed of independent directors were established instead with the function to strengthen on auditing all kinds of financial statements. However, the original article did not regulate the personnel whom shall sign or stamp on the financial statement approved by the audit committee. To implement corporate governance and strengthen the internal management procedure for the financial statement, we clearly established that the annual financial statement announced and declared by the Company shall be signed or stamped by the chairman, managers and chief accounting officer. The same procedure shall also apply on the Q1, Q2 and Q3 financial statements, which shall be audit by the accountants and submitted to the board of directors.

7.The amendment to “Regulations Governing Information to be Published in Public Offering and Issuance Prospectuses” was announced on Jan. 22, 2020, which served as the promotion of the “new version corporate governance blueprint (2018～2020)”of Financial Supervisory Commission. It referenced the major international securities market regulations and the recommendations of the “2018 Asian Corporate Governance Report (CG Watch2018)” to strengthen information disclosure of corporate governance operations, promote transparency and reasonable determination of remuneration information for directors, supervisors and senior managers, and improve the quality of disclosure of non-financial information. Also, it asked the relevant depart to respond properly. Hence, the Company shall comply with this new regulation. In addition, regarding the amendments to “Regulations Governing Information to be Published in Annual Reports of Public Companies”, “Regulations Governing Procedure for Board of Directors Meetings of Public Companies”, “Regulations Governing the Exercise of Powers by Audit Committees of Public Companies”, “Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies”, the Company will comply to the management requirements on TWSE/TPEx Listed Companies from FSC. Hence, it does not impose major impact on the Company’s finance or shareholders’ equity.

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

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

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

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

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

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

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

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

In2019 and until to the publication date of the annual report, the Company did not engage in any merger of other businesses. However, as the international steel market supply and demand and price changes will affect the Company's operations and profits, the Company will also pay close attention to the changes of the market supply and demand, adjust sales strategy and continue to increase the added value of products to reduce the risk that may arise.

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

In2019 and until to the publication date of the annual report, the company did not engage in any expansion of plants. However, as the international steel market supply and demand and price changes will affect the Company's operations and profits, the Company will also pay close attention to the changes of the market supply and demand, adjust sales strategy and continue to increase the added value of products to reduce the risk that may arise.

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

1. The Company has thousands of customers in various parts of the country. The total net sales of the top 10 customers of 2019accounted for approximately 36.99%of the Company's net sales, of which the largest customers accounted for approximately 7.36%; the total net sales of the top 10 customers of 2019 accounted for approximately 29.66% of the consolidated subsidiaries of the Company of net sales, of which the largest customers accounted for approximately 5.22%;therefore, there is no concentrated sales.

2. The amount of the top 10 purchase vendors of 2019 accounted for 40.98% of the Company's net purchase ratio this year; The amount of the top 10 purchase vendors of 2019 accounted for 37.01% of the consolidated subsidiaries of the Company of net purchase ratio this year. Due to the procurement of the raw materials of the Company is based on the industrial characteristics, some of them are supplied by a single manufacturer, therefore, there is a risk that the supply will not be able to meet the demand without finding an alternative supply source in a timely manner. If the Company unable to obtain the required raw materials in a timely manner or the raw material price increase significantly and the increased costs cannot be passed on to the customers, the Company’s revenue and profit will be declined. Therefore, the Company purchases raw materials from different suppliers or different regional suppliers as much as possible to ensure that the raw material supply is flawless and reduces the risk of centralized procurement.

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

The existing shareholders of the Company did not substantially sell the ordinary shares of the Company. In2019 anduntil to the publication date of the annual report, there was no risk of any major stock option transfer or change that could affect normal operations among the Company's directors, supervisors or shareholders with more than 10% shareholding.

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

In2019 and until to the publication date of the annual report, there was no risk for the changes of management right.

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

i. In2019 and until to the publication date of the annual report, there were no major contentious events and there are no pending major contentious events.

ii. In2019 and until to the publication date of the annual report, there were no major contentious events and there are no pending major contentious events among the directors, supervisors, general manager, substantial person in charge, shareholders with more than 10% shareholding and affiliates.

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

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

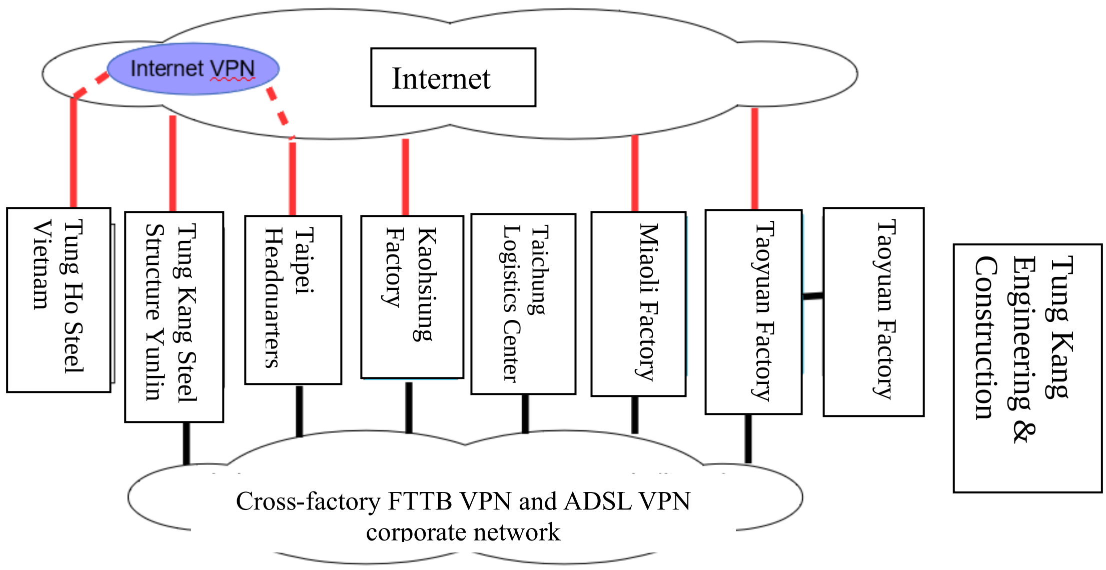
1. Purpose

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

2. Information environment

(1) Network structure

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




(2) Information system

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

3. Information safety policies

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

(1)Ensure information security management meets legal and contractual requirements.
(2) Maintain integrity and availability of data.
(3) Restrict access to confidential information.
(4) Ensure that licensed users have access to files and resources.
(5) Prevent unauthorized use.
(6) Prevent accidents from damaging hardware, software, and other resources.
(7) Prevent intentional destruction hardware, software, and other resources.
(8) Prevent improper use of internet resources.

4. Information safety and risk analysis

Risk analyzation of information asset:

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

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

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

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

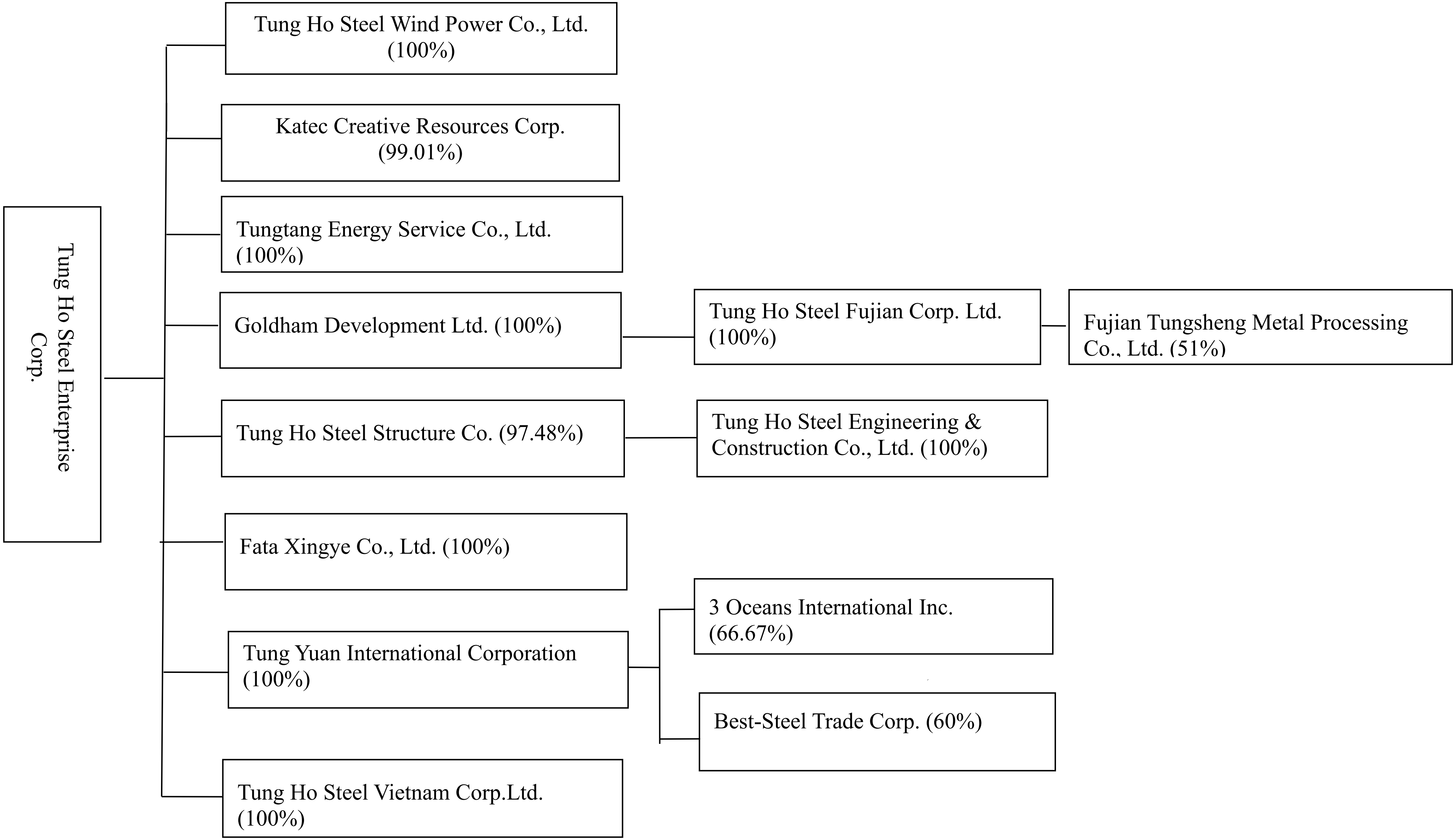
## 7. Other important matters: None.

# VIII. Special Records

## 1. Data of affiliates

### (1) Consolidated Business Report of affiliates

#### i. Organizational structure of affiliates


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

### ii. Basic information of affiliates

Unit: NT$ 1,000

| Name of enterprise | Date of establishment | Address | Address Paid-in capital | Main business items or production items |
|---|---|---|---|---|
| Tung Yuan International Corporation | 1992.11 | Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands. | 2,458 | Investment of various businesses home and abroad |
| 3 Oceans International Inc. | 2004.3 | Pillar 9 House, Suite 5, Saleufi Street, Apia, Samoa. | 82,745 | Investment of various businesses home and abroad |
| Tung Kang Steel Structure Co., Ltd. | 1993.07 | 6F, No. 9, Sec. 1, Chang'an E. Rd., Taipei City | 2,026,626 | Professional constructions |
| Tung Ho Steel Engineering & Construction Co., Ltd. | 1991.09 | 9F, No. 9, Sec. 1, Chang'an E. Rd., Taipei City | 250,000 | General constructions |
| Fata Xingye Co., Ltd. | 2015.03 | No. 116, Caota, Neighborhood 8, Baojhang Village, Guanyin District, Taoyuan City | 90,000 | Waste resources recycle |
| Katec Creative Resources Corp. | 1995.08 | No. 231, Huanke Rd., Datan Village, Guanyin District, Taoyuan City | 975,704 | General waste disposal and treatment |
| Tung Ho Wind Power Co., Ltd. | 2009.10 | 9F, No. 9, Sec. 1, Chang'an E. Rd., Taipei City | 155,000 | Power generation |
| Goldham Development Ltd | 1997.11 | 1st Floor, Lake Building, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands. | 449,700 | Investment of various businesses home and abroad |
| Tung Ho Steel Fujian Corp. Ltd. | 1998.01 | No. 5, Yanxi Rd., Hong Kuan Industrial Village, Yangxia Township, Fuqing City, Fujian Province | 449,700 | Production of steel structure products and supplementary products, provision of the corresponding installation and supporting services |
| Tung Ho Steel Vietnam Corp. Ltd. | 2007.04 (Note) | Phu My II Industrial Zone, Phu My Town, Tan Thanh District, Ba Ria Vungtau Province, Vietnam. | 5,016,935 | Manufacture of steel |

| | | | | |
|---|---|---|---|---|
| Best-Steel Trade Corp. | 2017.07 | 3395 S. Jones Blvd.247, Las Vegas NV 89146, USA. | 14,990 | Trading |
| Fujian Tung Sheng Metal Processing Co., Ltd. | 2018.08 | Fujian Runtong Hardware Co., Ltd., Hongkuan 2nd Road, Fuqing City, Fujian Province | 38,745 | Manufacture and sales of metal structure |
| Tungtang Energy Service Co., | 2019.06 | 9F., No. 9, Sec. 1, Chang'an E. Rd., Taipei City | 15,000 | Fertilizer manufacturing and renewable energy self-use power generation equipment |

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

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

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

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

| | | | | |
|---|---|---|---|---|
| | Supervisor | Tung Ho Steel Enterprise Corp., Representative: Xiuqi Chen | | |
| Goldham Development Ltd. | Director<br>Director<br>Director | Jieteng Hou<br>Boxun Tung<br>Zhengbin Qiu | 15,000,000 | 100.00% |
| Tung Ho Steel Fujian Corp. Ltd. | Chairman<br>Supervisor<br>General Manager | Zhengbin Qiu<br>Kunren Gu<br>Zhenhan Guo | 0 | 100.00% |
| Katec Creative Resources Corp. | Chairman<br>Director<br>Director<br>Director<br>Director<br>Supervisor | Tung Ho Steel Enterprise Corp., Representative: Fujin Chen<br>Tung Ho Steel Enterprise Corp., Representative: Jieteng Hou<br>Tung Ho Steel Enterprise Corp., Representative: Qinglian Huang<br>Tung Ho Steel Enterprise Corp., Representative: Changqing He<br>Tung Ho Steel Enterprise Corp., Representative: Xiuqi Chen<br>Tung Ho Steel Enterprise Corp., Representative: Ruyu He | 95,724,402 | 99.01% |
| Tung Ho Wind Power Co., Ltd. | Chairman<br>Director<br>Director<br>Supervisor | Tung Ho Steel Enterprise Corp., Representative: Jieteng Hou<br>Tung Ho Steel Enterprise Corp., Representative: Boxun Tung<br>Tung Ho Steel Enterprise Corp., Representative: Xiuqi Chen<br>Tung Ho Steel Enterprise Corp., Representative: Ruyu He | 15,500,000 | 100.00% |
| Tung Ho Steel Vietnam Corp. Ltd. | Chairman<br>Director<br>Director<br>General Manager | Binghua Huang<br>Jieteng Hou<br>Qixie Lin<br>I-Chih Hsu | 0 | 100.00% |
| Best-Steel Trade Corp. | Director<br>Director | Jieteng Hou<br>Binghua Huang | 600 | 60.00% |

| | | | | |
|---|---|---|---|---|
| Fujian Tung Sheng Metal Processing Co., Ltd. | Supervisor | Zhengbin Qiu | 0 | 51.00% |
| Tungtang Energy Service Co., Ltd. | Chairman<br>Supervisor | Tung Ho Steel Enterprise Corp., Representative:Jieteng Hou<br>Tung Ho Steel Enterprise Corp., Representative: Xiuqi Chen | 1,500,0000 | 100.00% |

**v. Business overview of affiliates**

Unit: NT$ 1,000

| Name of enterprise | Amount of capital | Total assets (Note 1) | Total liabilities (Note 1) | Net value (Note 1) | Operating income (Note 2) | Net operating profit(loss) (Note 2) | Net profit/loss of the current period (Note 2) | EPS |
|---|---|---|---|---|---|---|---|---|
| Tung Yuan International Corporation (Note 3) | 2,458 | 765,787 | 391 | 765,396 | 0 | (13,804) | (13,804) | (168,345) |
| 3 Oceans International Inc. (Note 4) | 82,745 | 36,188 | 135 | 36,053 | 0 | (2,927) | (2,927) | (1.06) |
| Tung Kang Steel Structure Co., Ltd. | 2,026,626 | 5,528,326 | 3,145,990 | 2,382,336 | 7,676,980 | 271,266 | 238,906 | 1.18 |
| Tung Ho Steel Engineering & Construction Co., Ltd. | 250,000 | 358,223 | 100,900 | 257,323 | 278,203 | 2,692 | 3,405 | 0.14 |
| Fata Xingye Co., Ltd. | 90,000 | 75,249 | 3,244 | 72,005 | 5,812 | (253) | (17,685) | (1.97) |
| Goldham Development Ltd. (Note 4) | 449,700 | 436,565 | 0 | 436,565 | 0 | (2,317) | (9,297) | (0.62) |
| Tung Ho Steel Fujian Corp. Ltd. | 449,700 | 752,900 | 316,335 | 436,565 | 899,118 | (2,317) | (9,297) | N/A |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Katec Creative Resources Corp | 975,704 | 767,518 | 36,310 | 731,208 | 362,088 | (16,057) | (15,039) | (0.15) |
| Tung Ho Wind Power Co., Ltd | 155,000 | 587,415 | 495,778 | 91,637 | 55,146 | 7,504 | 287 | 0.02 |
| Tung Ho Steel Vietnam Corp. Ltd. | 5,016,935 | 7,211,406 | 4,003,462 | 3,207,944 | 4,873,897 | (678,329) | (814,154) | N/A |
| Best Steel Trade Corporation | 14,990 | 86,790 | 80,173 | 6,617 | 1,600,151 | (25,592) | (30,425) | (50,708.33) |
| Fujian Tungsheng Met Processing Co., Ltd. | 38,745 | 66,670 | 32,530 | 34,140 | 43,298 | 480 | (1,115) | N/A |
| Tungtang Energy Service Co Ltd. | 15,000 | 14,903 | 80 | 14,823 | 0 | (223) | (177) | (0.12) |

Note 1: NT$ to US$ exchange rate on December 31, 2019 was USD1:NTD29.98; NT$ to RMB exchange rate on the same day was CNY1:NTD4.305.

Note 2: NT$ to US$ average exchange rate in 2019 was USD1:NTD30.91; NT$ to US$ average exchange rate in the same year was CNY1:NTD4.472.

Note 3: Book value per share is US$ 1,000.

Note 4: Book value per share is US$1.

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

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

Tung Ho Steel Enterprise Corp.
Chairman: Henry Ho

Stock Code:2006

# TUNG HO STEEL ENTERPRISE CORPORATION

**Parent Company Only Financial Statements**

**With Independent Auditors' Report**
**For the Years Ended December 31, 2019 and 2018**

Address: 6F, No. 9, Sec. 1, Chang An East Road, Taipei City
Telephone: (02)2551-1100

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

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# Independent Auditors' Report

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

**Opinion**

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 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 audit in accordance with the"Regulations Governing Auditing and Ruling No1090360805 issued by the Financial Supervisory Commission of the Republic of China and Certification of Financial Statements by Certified Public Accountant" and the auditing standards generally accepted in the Republic of China for the year ended December 31, 2019；and the "Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants" and the auditing standards generally accepted in the Republic of China for the year ended December 31, 2018. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Parent Company Only Financial Statements section of our report. We are independent of the Company in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained, is sufficient and appropriate to provide a basis of our opinion.

**Key Audit Matters**

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

1. Revenue recognition

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

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

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

Our principal audit procedures included:

- assessing whether appropriate revenue recognition policies were applied and whether sufficient information was disclosed；
- testing the manual or systems-based controls on its sales and collection cycle, perform reconciliations between the information from sales systems and the general ledger；
- reading the sales contracts with significant clients and testing the consistency of their accounting policy；
- performing year-to-year analysis on the revenue by product and the revenue from the ten customers with the largest sales volume to determine if there were any abnormalities；
- vouching internal and external information of sales in the selected period before and after the reporting date (the length of the period was determined based on the sales terms) to determine whether sales revenue were recorded in the appropriate period.

2. Valuation of inventories

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

Explanation of the key audit matter:

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

Our principal audit procedures included:

- assessing the rationality of accounting policies for inventory evaluation；
- assessing whether the evaluation of inventory has been in accordance with the established accounting policies；
- understanding the sales price used by management and the changes in market price of futures inventory to assess the rationality of the net realizable value of inventories；
- assessing whether the management's disclosure of the inventory allowance is acceptable.

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

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

Explanation of the key audit matter:

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

Our principal audit procedures included:

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

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

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

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

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

4. Investments accounted for using the equity method (Impairment of property, plant and equipment in subsidiaries)

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

   Explanation of the key audit matter:

   Assets impairment accounting is considered to be an audit risk to the Company's subsidiary as it requires a high degree of estimation and judgment of matters such as determination of discount rates and expected growth rates. Different judgments could lead to different outcomes, which may have an impact on the Company's shares of gain or loss on investments accounted for using the equity method on its financial statements.

   Our principal audit procedures included:

   - obtaining report of property, plant and equipment value in use from external experts appointed by the Company's subsidiaries；

   - assessing the professional competency, objectivity, and experience of external experts；

   - discussing with the management and raise professional skepticism of the significant key judgments mentioned in the report of value in use；

   - appointing internal experts to assess the reasonableness of relevant assumptions used by external experts. (including evaluation methods and related reference information.)

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

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

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

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

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

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

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

1. Identify and assess the risks of material misstatement of the parent company only financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the parent company only financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the parent company only financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient and appropriate audit evidence regarding the financial information of the investment accounted for using the equity method to express an opinion on the parent company only financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Lee, Tzu Hui and Kuo, Hsin Yi.

KPMG

Taipei, Taiwan (Republic of China)
February 27, 2020

**Notes to Readers**

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

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

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

**TUNG HO STEEL ENTERPRISE CORPORATION**

**Balance Sheets**

**December 31, 2019 and 2018**

**(Expressed in Thousands of New Taiwan Dollars)**

| | | December 31, 2019 | | December 31, 2018 | |
|---|---|---|---|---|---|
| | **Assets** | **Amount** | **%** | **Amount** | **%** |
| | **Current assets:** | | | | |
| 1100 | Cash and cash equivalents (Note 6(a)) | $ 375,583 | 1 | 329,264 | 1 |
| 1110 | Current financial assets at fair value through profit or loss (Note 6(b)) | 162,959 | - | 134,560 | - |
| 1150 | Notes receivable, net (Notes 6(d)(v) and 7) | 122,826 | - | 139,048 | - |
| 1170 | Accounts receivable, net (Notes 6(d)(v) and 7) | 3,749,844 | 9 | 4,909,108 | 12 |
| 1200 | Other receivables (Notes 6(e) and 7) | 720,125 | 2 | 72,190 | - |
| 1310 | Inventories (Note 6(f)) | 12,069,244 | 29 | 11,463,995 | 27 |
| 1410 | Prepayments | 171,132 | 1 | 282,616 | 1 |
| 1470 | Other current assets | 15,954 | - | 97,894 | - |
| | **Total current assets** | 17,387,667 | 42 | 17,428,675 | 41 |
| | **Non-current assets:** | | | | |
| 1517 | Non-current financial assets at fair value through other comprehensive income(Note 6(c)) | 456,328 | 1 | 557,915 | 1 |
| 1550 | Investments accounted for using the equity method (Notes 6(g) and 7) | 8,321,261 | 20 | 9,081,736 | 21 |
| 1600 | Property, plant and equipment (Notes 6(h) and 7) | 12,638,857 | 31 | 13,352,838 | 31 |
| 1755 | Right-of-use assets (Note 6(i)) | 145,210 | - | - | 1 |
| 1760 | Investment property (Notes 6(h) and (j)) | 2,010,800 | 5 | 1,870,098 | 4 |
| 1840 | Deferred tax assets (Note 6(s)) | 137,258 | - | 138,771 | - |
| 1990 | Other non-current assets | 103,740 | - | 135,859 | - |
| 1915 | Prepayments for equipment | 50,322 | - | 62,509 | 1 |
| 1920 | Refundable deposits (Note 8) | 185,045 | 1 | 185,228 | - |
| | **Total non-current assets** | 24,048,821 | 58 | 25,384,954 | 59 |
| | **Total assets** | $ 41,436,488 | 100 | 42,813,629 | 100 |

| | | December 31, 2019 | | December 31, 2018 | |
|---|---|---|---|---|---|
| | **Liabilities and Equity** | **Amount** | **%** | **Amount** | **%** |
| | **Current liabilities:** | | | | |
| 2100 | Short-term loans (Note 6(k)) | $ 6,964,718 | 18 | 8,288,087 | 19 |
| 2111 | Short-term notes and bills payable (Note 6(l)) | 559,831 | 1 | 1,109,567 | 3 |
| 2120 | Current financial liabilities at fair value through profit or loss (Note 6(b)) | 6,778 | - | 1,745 | - |
| 2130 | Current contract liabilities (Note 6(v)) | 530,262 | 1 | 329,010 | 1 |
| 2150 | Notes payable (Note 7) | 61,085 | - | 160,777 | - |
| 2170 | Accounts payable(Note 6(d)) | 1,359,036 | 3 | 1,412,820 | 3 |
| 2200 | Other payables (Notes 6(q) and 7) | 1,183,124 | 3 | 1,245,168 | 3 |
| 2230 | Current tax liabilities | 349,967 | 1 | 185,198 | 1 |
| 2280 | Current lease liabilities((Note 6(o)) | 18,574 | - | - | - |
| 2300 | Other current liabilities | 8,846 | - | - | - |
| | **Total current liabilities** | 11,042,221 | 27 | 12,732,372 | 30 |
| | **Non-Current liabilities:** | | | | |
| 2500 | Non-current financial liabilities at fair value through profit or loss (Notes 6(b) and (n)) | 13,000 | - | 31,200 | - |
| 2530 | Bonds payable(Note 6(n)) | 1,935,021 | 5 | 1,915,729 | 4 |
| 2540 | Long-term loans (Note 6(m)) | 3,100,000 | 8 | 3,200,000 | 8 |
| 2570 | Deferred tax liabilities (Note 6(s)) | 170,200 | - | 174,355 | - |
| 2580 | Non-current lease liabilities (Note 6(o)) | 127,060 | - | - | - |
| 2640 | Non-current defined benefit liability, net (Note 6(r)) | 836,234 | 2 | 846,223 | 2 |
| 2645 | Guarantee deposits received(Note 7) | 13,260 | - | 10,665 | - |
| | **Total non-current liabilities** | 6,194,775 | 15 | 6,178,172 | 14 |
| | **Total liabilities** | 17,236,996 | 42 | 18,910,544 | 44 |
| | **Equity (Note 6(t))** | | | | |
| 3100 | Capital stock | 10,040,606 | 24 | 10,040,606 | 24 |
| 3200 | Capital surplus | 6,592,236 | 16 | 6,592,236 | 15 |
| | Retained earnings: | | | | |
| 3310 | Legal reserve | 3,619,075 | 9 | 3,530,282 | 8 |
| 3320 | Special reserve | 647,025 | 1 | 149,309 | - |
| 3350 | Unappropriated retained earnings | 4,006,772 | 10 | 4,237,676 | 10 |
| | Total retained earnings | 8,272,872 | 20 | 7,917,267 | 18 |
| 3400 | Other equity interest | (706,222) | (2) | (647,024) | (1) |
| | **Total equity** | 24,199,492 | 58 | 23,903,085 | 56 |
| | **Total liabilities and equity** | $ 41,436,488 | 100 | 42,813,629 | 100 |

See accompanying notes to the parent company only financial statements.

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

**TUNG HO STEEL ENTERPRISE CORPORATION**

**Statements of Comprehensive Income**

**For the years ended December 31, 2019 and 2018**

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

| | | For the years ended December 31, | | | |
|---|---|---|---|---|---|
| | | 2019 | | 2018 | |
| | | Amount | % | Amount | % |
| 4000 | **Operating revenue (Notes 6(v) and 7)** | $ 35,247,359 | 100 | 34,692,282 | 100 |
| 5000 | **Operating costs (Notes 6(f)(r) and 7))** | 31,129,766 | 88 | 31,507,397 | 91 |
| 5900 | **Gross profit from operations** | 4,117,593 | 12 | 3,184,885 | 9 |
| 5910 | Less: Unrealized profit (loss) from sales (Note 7) | 25,818 | - | 43,741 | - |
| 5920 | Add: Realized profit (loss) on from sales (Note 7) | 43,741 | - | 35,941 | - |
| 5950 | **Gross profit, net** | 4,135,516 | 12 | 3,177,085 | 9 |
| 6000 | **Operating expenses:** | | | | |
| 6100 | Selling expenses(Notes 6(r)(w) and 7) | 798,960 | 3 | 896,276 | 3 |
| 6200 | Administrative expenses (Notes 6(r)(w) and 7) | 786,658 | 2 | 687,482 | 2 |
| 6450 | Expected credit loss (Note 6(d)) | 373 | - | - | - |
| 6500 | **Total operating expenses** | 1,585,991 | 5 | 1,583,758 | 5 |
| 6900 | **Operating income** | 2,549,525 | 7 | 1,593,327 | 4 |
| 7000 | **Non-operating income and expenses:** | | | | |
| 7010 | Other income (Notes 6(x) and 7) | 92,914 | - | 113,549 | - |
| 7020 | Other gains and losses, net (Notes 6(x) and 7) | 128,895 | - | 96,704 | - |
| 7050 | Finance costs, net (Notes 6(n) and (x)) | (147,539) | - | (140,441) | - |
| 7060 | Share of (loss) profit of subsidiaries and associates accounted for using the equity method, net (Note 6(g)) | (534,405) | (1) | (436,334) | (1) |
| | **Total non-operating income and expenses** | (460,135) | (1) | (366,522) | (1) |
| 7900 | **Income before income tax** | 2,089,390 | 6 | 1,226,805 | 3 |
| 7950 | Less: Income tax expenses(Note 6(s)) | 523,331 | 2 | 338,873 | 1 |
| | **Net income** | 1,566,059 | 4 | 887,932 | 2 |
| 8300 | **Other comprehensive income:** | | | | |
| 8310 | **Items that will not be reclassified subsequently to profit or loss:** | | | | |
| 8311 | Losses on remeasurements of defined benefit plans | (21,962) | - | (72,344) | - |
| 8316 | Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income | 66,244 | - | 14,626 | - |
| 8330 | Share of other comprehensive loss of subsidiaries and associates accounted for using the equity method, components of other comprehensive income that will not be reclassified to profit or loss | (447) | - | (5,453) | - |
| 8349 | Less : income tax related to components of other comprehensive income that may not be reclassified to profit or loss (Note 6 (s)) | (4,392) | - | (22,002) | - |
| | **Total items that will not be reclassified subsequently to profit or loss** | 48,227 | - | (41,169) | - |
| 8360 | **Items that may be reclassified subsequently to profit or loss:** | | | | |
| 8361 | Exchange differences on translation of foreign financial statements | (119,712) | - | (83,894) | - |
| 8399 | Less : income tax related to components of other comprehensive income that will be reclassified to profit or loss | - | - | - | - |
| | **Total items that may be reclassified subsequently to profit or loss** | (119,712) | - | (83,894) | - |
| 8300 | **Other comprehensive income** | (71,485) | - | (125,063) | - |
| 8500 | **Total comprehensive income for the period** | **$ 1,494,574** | **4** | **762,869** | **2** |
| 9750 | **Basic earnings per share (in dollars) (Note 6(u))** | **$** | **1.56** | | **0.88** |
| 9850 | **Diluted earnings per share(in dollars) (Note 6(u))** | **$** | **1.44** | | **0.87** |

See accompanying notes to the parent company only financial statements.

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

# TUNG HO STEEL ENTERPRISE CORPORATION

## Statements of Changes in Equity

## For the years ended December 31, 2019 and 2018

## (Expressed in Thousands of New Taiwan Dollars)

| | Capital stock | | | | Retained earnings | | | | Total other equity interest | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Ordinary shares | Certificate of entitlement to new shares from convertible bond | Total capital stock | Capital surplus | Legal reserve | Special reserve | Unappropriated retained earnings | Total retained earnings | Exchange differences on translation of foreign financial statements | Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income | Total other equity interest | Total equity |
| **Balance at January 1, 2018 after adjustments** | $ 10,002,241 | 38,365 | 10,040,606 | 6,320,178 | 3,358,789 | 149,309 | 4,546,800 | 8,054,898 | (581,054) | 101,745 | (479,309) | 23,936,373 |
| Net income for the period | - | - | - | - | - | - | 887,932 | 887,932 | - | - | - | 887,932 |
| Other comprehensive income for the period | - | - | - | - | - | - | (50,942) | (50,942) | (83,894) | 9,773 | (74,121) | (125,063) |
| Total comprehensive income for the period | - | - | - | - | - | - | 836,990 | 836,990 | (83,894) | 9,773 | (74,121) | 762,869 |
| Appropriation and distribution of retained earnings: | | | | | | | | | | | | |
| Legal reserve appropriated | - | - | - | - | 171,493 | - | (171,493) | - | - | - | - | - |
| Cash dividends of ordinary share | - | - | - | - | - | - | (1,405,685) | (1,405,685) | - | - | - | (1,405,685) |
| Other changes in capital surplus: | | | | | | | | | | | | |
| Due to recognition of equity component of convertible bonds issued | - | - | - | 81,973 | - | - | - | - | - | - | - | 81,973 |
| Changes in equity of associates accounted for using the equity method | - | - | - | 190,085 | - | - | - | - | - | - | - | 190,085 |
| Conversion of convertible bonds | 38,365 | (38,365) | - | - | - | - | - | - | - | - | - | - |
| Disposal of investments in equity instruments designated at fair value through other comprehensive income | - | - | - | - | - | - | 431,064 | 431,064 | - | (93,594) | (93,594) | 337,470 |
| **Balance at December 31, 2018** | 10,040,606 | - | 10,040,606 | 6,592,236 | 3,530,282 | 149,309 | 4,237,676 | 7,917,267 | (664,948) | 17,924 | (647,024) | 23,903,085 |
| Net income for the period | - | - | - | - | - | - | 1,566,059 | 1,566,059 | - | - | - | 1,566,059 |
| Other comprehensive income for the period | - | - | - | - | - | - | (17,763) | (17,763) | (119,712) | 65,990 | (53,722) | (71,485) |
| Total comprehensive income for the period | - | - | - | - | - | - | 1,548,296 | 1,548,296 | (119,712) | 65,990 | (53,722) | 1,494,574 |
| Appropriation and distribution of retained earnings: | | | | | | | | | | | | |
| Legal reserve appropriated | - | - | - | - | 88,793 | - | (88,793) | - | - | - | - | - |
| Special reserve appropriated | - | - | - | - | - | 497,716 | (497,716) | - | - | - | - | - |
| Cash dividends of ordinary share | - | - | - | - | - | - | (1,204,873) | (1,204,873) | - | - | - | (1,204,873) |
| Capital reduction of financial assets at fair value through other comprehensive income | - | - | - | - | - | - | (19,796) | (19,796) | - | 26,502 | 26,502 | 6,706 |
| Disposal of investments in equity instruments designated at fair value through other comprehensive income | - | - | - | - | - | - | 31,978 | 31,978 | - | (31,978) | (31,978) | - |
| **Balance as of December 31, 2019** | **$ 10,040,606** | **-** | **10,040,606** | **6,592,236** | **3,619,075** | **647,025** | **4,006,772** | **8,272,872** | **(784,660)** | **78,438** | **(706,222)** | **24,199,492** |

See accompanying notes to the parent company only financial statements.

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

# TUNG HO STEEL ENTERPRISE CORPORATION

## Statements of Cash Flows

## For the years ended December 31, 2019 and 2018

## (Expressed in Thousands of New Taiwan Dollars)

| | 2019 | 2018 |
|---|---|---|
| **Cash flows from (used in) operating activities:** | | |
| **Income before income tax** | $ 2,089,390 | 1,226,805 |
| **Adjustments:** | | |
| Adjustments to reconcile profit or loss: | | |
| Depreciation expense | 992,984 | 949,527 |
| Amortization expense | 36,328 | 25,474 |
| Expected credit loss | 373 | - |
| Net (gain) loss on financial assets or liabilities at fair value through profit or loss | (41,566) | 65,022 |
| Interest expense | 147,539 | 140,441 |
| Interest income | (14,715) | (860) |
| Dividend income | (23,142) | (59,935) |
| Share of loss of subsidiaries and associates accounted for using the equity method | 534,405 | 436,334 |
| Loss (gain) on disposal of property, plant and equipment | 1,524 | (1,409) |
| Gain on disposal of investment properties | - | (3,133) |
| Loss on disposal of investments accounted for using equity method | 307 | - |
| Unrealized profit from sales | 25,818 | 43,741 |
| Realized profit from sales | (43,741) | (35,941) |
| Unrealized foreign currency exchange loss (gain) | 21,192 | (19,809) |
| **Total adjustments to reconcile profit or loss** | 1,637,306 | 1,539,452 |
| **Changes in operating assets and liabilities:** | | |
| Decrease (increase) in notes receivable | 16,222 | (69,435) |
| Increase in accounts receivable | (92,188) | (292,230) |
| Decrease (increase) in accounts receivable from related parties | 1,251,079 | (1,491,937) |
| Increase in other receivable | (633,892) | (26,931) |
| Increase in inventories | (605,235) | (5,225,284) |
| Decrease (increase) in prepayments | 111,484 | (130,148) |
| Decrease (increase) in other current assets | 81,939 | (97,730) |
| Increase in other operating assets | (4,209) | (71,173) |
| **Total changes in operating assets** | 125,200 | (7,404,868) |
| Increase in contract liabilities | 201,252 | 27,749 |
| (Decrease) increase in notes payable | (99,052) | 58,528 |
| Decrease in notes payable to related parties | (640) | (65) |
| (Decrease) increase in accounts payable | (52,063) | 290,582 |
| Decrease in accounts payable to related parties | (1,721) | (11,070) |
| Increase (decrease) in other payables | 55,807 | (36,806) |
| Increase in other current liabilities | 8,846 | - |
| Decrease in net defined benefit liability | (31,951) | (24,040) |
| **Total changes in operating liabilities** | 80,478 | 304,878 |
| **Net changes in operating assets and liabilities** | 205,678 | (7,099,990) |
| **Total adjustments** | 1,842,984 | (5,560,538) |
| Cash inflow (outflow) generated from operations | 3,932,374 | (4,333,733) |
| Interest received | 13,344 | 860 |
| Dividends received | 148,277 | 197,060 |
| Interest paid | (136,638) | (119,227) |
| Income taxes paid | (356,090) | (335,833) |
| **Net cash flows from (used in) operating activities** | 3,601,267 | (4,590,873) |
| **Cash flows from (used in) investing activities:** | | |
| Acquisition of financial assets at fair value through other comprehensive income | (13,960) | (3,628) |
| Proceeds from disposal of financial assets at fair value through other comprehensive income | 137,164 | 1,358,531 |
| Proceeds from capital reduction of financial assets at fair value through other comprehensive income | 51,332 | 1,408 |
| Proceeds from liquidation of financial assets at fair value through other comprehensive income | - | 667 |
| Acquisition of investments accounted for using equity method | (15,000) | (1,199,197) |
| Proceeds from capital reduction of investments accounted for using equity method | - | 10,000 |
| Acquisition of property, plant and equipment | (303,580) | (543,190) |
| Proceeds from disposal of property, plant and equipment | 668 | 5,326 |
| Decrease (increase) in refundable deposits | 183 | (557) |
| Acquisition of investment properties | (149,777) | (26,948) |
| Proceeds from disposal of investment properties | - | 40,788 |
| Increase in prepayments for equipment and land | (35,573) | (30,154) |
| **Net cash flows used in investing activities** | (328,543) | (386,954) |
| **Cash flows from (used in) financing activities:** | | |
| Increase in short-term loans | 61,160,027 | 3,356,518 |
| Decrease in short-term loans | (62,483,396) | - |
| Increase in short-term notes and bills payable | 6,090,000 | 640,000 |
| Decrease in short-term notes and bills payable | (6,640,000) | - |
| Proceeds from issuing bonds | - | 2,000,000 |
| Proceeds from long-term loans | 1,850,000 | 200,000 |
| Repayments of long-term loans | (1,950,000) | - |
| Increase (decrease) in guarantee deposits received | 2,595 | (11,554) |
| Payment of lease liabilities | (29,566) | - |
| Cash dividends paid | (1,204,873) | (1,405,685) |
| **Net cash flows (used in) from financing activities** | (3,205,213) | 4,779,279 |
| **Effect of exchange rate changes on cash and cash equivalents** | (21,192) | 19,809 |
| **Net increase (decrease) in cash and cash equivalents** | 46,319 | (178,739) |
| **Cash and cash equivalents at beginning of period** | 329,264 | 508,003 |
| **Cash and cash equivalents at end of period** | $ 375,583 | 329,264 |

See accompanying notes to the parent company only financial statements.

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

## (1) Company history

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

## (2) Approval date and procedures of the financial statements

The parent company only financial statements as of and for the years ended December 31, 2019 and 2018 were approved and authorized for issue by the Board of Directors on February 27, 2020.

## (3) New standards, amendments and interpretations adopted

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2019.

| New, Revised or Amended Standards and Interpretations | Effective date per IASB |
|---|---|
| IFRS 16 "Leases" | January 1, 2019 |
| IFRIC 23 "Uncertainty over Income Tax Treatments" | January 1, 2019 |
| Amendments to IFRS 9 "Prepayment features with negative compensation" | January 1, 2019 |
| Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" | January 1, 2019 |
| Amendments to IAS 28 "Long-term interests in associates and joint ventures" | January 1, 2019 |
| Annual Improvements to IFRS Standards 2015–2017 Cycle | January 1, 2019 |

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

(i) IFRS 16"Leases"

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

The Company applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in right-of-use assets and lease liabilities on January 1, 2019. The details of the changes in accounting policies are disclosed below,

1) Definition of a lease

Previously, the Company determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Company assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 4(c)

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

2) As a lessee

As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

The Company decided to apply recognition exemptions to short-term leases of machinery, office equipment and vehicles.

- Leases classified as operating leases under IAS 17

  At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at either:

  - their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application – the Company applied this approach to its largest property leases; or

  - an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the Company applied this approach to all other lease.

  In addition, the Company used the following practical expedients when applying IFRS 16 to leases.

  - Applied a single discount rate to a portfolio of leases with similar characteristics.

— Adjusted the right-of-use assets by the amount of IAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review.

— Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term.

— Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.

— Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

● Leases previously classified as finance leases

For leases that were classified as finance leases under IAS 17, the carrying amount of the right-of-use asset and the lease liability at January 1, 2019 are determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

3) As a lessor

The Company is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease. The Company accounted for its leases in accordance with IFRS 16 from the date of initial application.

4) Impacts on financial statements

On transition to IFRS 16, the Company recognised additional $109,582 thousands of right-of-use assets and $109,582 thousands of lease liabilities. When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 0.901%.

The explanation of differences between operating lease commitments disclosed at the end of the annual reporting period immediately preceding the date of initial application, and lease liabilities recognized in the statement of financial position at the date of initial application disclosed as follows:

| | **January 1, 2019** |
|---|---|
| Operating lease commitment at December 31, 2018 as disclosed in the Company financial statements | $ 51,826 |
| Extension and termination options reasonably certain to be exercised | 58,673 |
| | 110,499 |
| Discounted using the incremental borrowing rate at January 1, 2019 | 109,582 |
| Lease liabilities recognized at January 1, 2019 | **$ 109,582** |

(Continued)

**TUNG HO STEEL ENTERPRISE CORPORATION**
**Notes to the parent company only Financial Statements**

(ii) IFRIC 23 "Uncertainty over Income Tax Treatments"

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

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

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2020 in accordance with Ruling No. 1080323028 issued by the FSC on July 29, 2019:

| New, Revised or Amended Standards and Interpretations | Effective date per IASB |
|---|---|
| Amendments to IFRS 3 "Definition of a Business" | January 1, 2020 |
| Amendments to IFRS 9, IAS39 and IFRS7 "Interest Rate Benchmark Reform" | January 1, 2020 |
| Amendments to IAS 1 and IAS 8 "Definition of Material" | January 1, 2020 |

The Company assesses that the adoption of the abovementioned standards would not have any material impact on its financial statements.

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

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

| New, Revised or Amended Standards and Interpretations | Effective date per IASB |
|---|---|
| Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture" | Effective date to be determined by IASB |
| IFRS 17 "Insurance Contracts" | January 1, 2021 |
| Amendments to IAS 1 "Classification of Liabilities as Current or Non-current" | January 1, 2022 |

The Company is evaluating the impact of its initial adoption of the abovementioned standards or interpretations on its financial position and financial performance. The results thereof will be disclosed when the Company completes its evaluation.

(Continued)

**TUNG HO STEEL ENTERPRISE CORPORATION**
**Notes to the parent company only Financial Statements**

**(4) Summary of significant accounting policies**

A summary of the significant accounting policies adopted in the accompanying financial statements is as follows. Except for those described in Note 4(l), the accounting policies have been applied consistently to all the reporting periods presented in the parent company only financial statements.

(a) Statement of compliance

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

(b) Basis of preparation

(i) Basis of measurement

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

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

2) Financial assets at fair value through other comprehensive income are measured at fair value;

3) Net defined benefit liabilities are measured at the fair value of plan assets less the present value of defined benefit obligatio, limited as explained in Note 4(o).

(ii) Functional and presentation currency

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

(c) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of the Company at the exchange rates at the dates of the transactions. At the end of each subsequent reporting period, monetary items denominated in foreign currencies are translated into the functional currencies using the exchange rate on that date.Non-monetary items denominated in foreign currencies that are measured at fair value are translated into the functional currencies using the exchange rate at the date that the fair value was determined. Non monetary items denominated in foreign currencies that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Exchange differences are generally recognized in profit or loss, except for that arising from fair value through other comprehensive income non-monetary securities, which is recognized through other comprehensive income.

(Continued)

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising from acquisition, are translated into the Company' s presentation currency at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into the Company' s presentation currency at average exchange rate. Exchange differences are recognized in other comprehensive income.

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

When the settlement of a monetary receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, exchange differences arising from such a monetary item that are considered to form part of the net investment in the foreign operation are recognized in other comprehensive income.

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

An asset is classified as current under one of the following criteria, and all other assets are classified as non current.

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

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

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

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

A liability is classified as current under one of the following criteria, and all other liabilities are classified as non current.

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

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

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

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

(e) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Term deposits which meet the above definition and are held for the purpose of meeting short term cash commitments rather than for investment or other purposes should be recognized as cash equivalents.

(f) Financial instruments

Trade receivables are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(i) Financial assets

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

On initial recognition, a financial asset is classified as measured at: amortized cost；fair value through other comprehensive income (FVOCI) – equity investment； or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

1) Financial assets measured at amortized cost

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

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

These assets are subsequently measured at amortized cost, which is the amount at which the financial asset is measured at initial recognition, plus/minus, the cumulative amortization using the effective interest method, adjusted for any loss allowance. Interest income, foreign exchange gains and losses, as well as impairment, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

(Continued)

2) Fair value through other comprehensive income (FVOCI)

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

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

Some accounts receivables are held within a business model whose objective is achieved by both collecting contractual cash flows and selling by the Company；therefore, those receivables are measured at FVOCI. However, they are included in the ‘ trade receivables’ line item.

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

Debt investments at FVOCI are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

Equity investments at FVOCI are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in other comprehensive income and are never reclassified to profit or loss.

Dividend income is recognized in profit or loss on the date on which the Company’s right to receive payment is established.

3) Fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVOCI described as above are measured at FVTPL, including derivative financial assets. Trade receivables that the Company intends to sell immediately or in the near term are measured at FVTPL； however, they are included in the ‘trade receivables’ line item. On initial recognition, the Company may irrevocably designate a financial asset, which meets the requirements to be measured at amortized cost or at FVOCI, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

(Continued)

4) Impairment of financial assets

The Company recognizes loss allowances for expected credit losses (ECL) on financial assets measured at amortized cost (including cash and cash equivalents, amortized costs, notes and trade receivables, other receivable, guarantee deposit paid and other financial assets),trade receivables and debt investments measured at FVOCI and contract assets.

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

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

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

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

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

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

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

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

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

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

(Continued)

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

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

- significant financial difficulty of the borrower or issuer；
- a breach of contract such as a default or being more than 90 days past due；
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider；
- it is probable that the borrower will enter bankruptcy or other financial reorganization；or
- the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is charge to profit or loss and is recognized in other comprehensive income instead of reducing the carrying amount of the asset.

5) Derecognition of financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognized in its statement of balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

Debt and equity instruments issued by the Company are classified as financial liabilities or equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

(Continued)

2) Equity instrument

An equity instrument is any contract that evidences residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued are recognized as the amount of consideration received, less the direct cost of issuing.

3) Treasury shares

When shares recognized as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is recognized in capital surplus or retained earnings (if the capital suplus is not sufficient to be written down).

4) Compound financial instruments

Compound financial instruments issued by the Company comprise convertible bonds denominated in NTD that can be converted to ordinary shares at the option of the holder, when the number of shares to be issued is fixed and does not vary with changes in fair value.

The liability component of compound financial instruments is initially recognized at the fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognized at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured.

Interest related to the financial liability is recognized in profit or loss. On conversion at maturity, the financial liability is reclassified to equity and no gain or loss is recognized.

5) Financial liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

6) Derecognition of financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

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

7) Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of balance sheet when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

8) Financial guarantee contract

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contract liabilities are measured initially at their fair values and, if not designated as at FVTPL and do not arise from a transfer of an asset, are measured subsequently at the higher of：(a) the amount of the loss allowance determined in accordance with IFRS 9；and (b) the amount recognized initially less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies set out below.

(g) Inventories

The cost of inventories shall comprise all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to the location and condition ready for sale or production. The allocation of fixed production overheads to the finished goods and work in process is based on the normal capacity of the production facilities. However, in the case where the practical capacity is larger than the normal capacity, the allocation is based on the practical capacity. Variable production overheads are allocated to each unit of production on the basis of the actual use of the production facilities. Inventories are subsequently measured at the lower of cost or net realizable value. The cost of inventories is based on the monthly weighted-average cost. Net realizable value is the estimated as the selling price in the ordinary course of business at the reporting date, less the estimated costs until completion and selling expenses. If the inventory is reserved for a contract, its net realizable value shall be based on the price of the contract.

(h) Investment in associates

Associates are those entities on which the Company has significant influence, but not control or joint control, over their financial and operating policies.

(Continued)

The Company’ s investments in associates are accounted for using the equity method and are recognized initially at cost. The cost of the investment includes transaction costs. The carrying amount of the investment in associates includes goodwill resulted from the acquisition less any accumulated impairment losses.

The financial statements include the Company’s share of the profit or loss and other comprehensive income of those associates, after adjustments to align their accounting policies with those of the Company, from the date on which significant influence commences until the date on which significant influence ceases. The Company recognizes any changes of its proportionate share in the investee within capital surplus, when an associate’s equity changes due to reasons other than profit and loss or comprehensive income, which did not result in changes in actual significant influence.

Gains and losses resulting from the transactions between the Company and an associate are recognized only to the extent of unrelated Company’s interests in the associate.

The Company discontinues the use of the equity method and measures the retained interest at fair value from the date when its investment ceases to be an associate. The difference between the fair value of retained interest and proceeds from disposing, and the carrying amount of the investment at the date the equity method was discontinued is recognized in profit or loss. The Company accounts for all the amounts previously recognized in other comprehensive income in relation to that investment on the same basis as would have been required if the associates had directly disposed of the related assets or liabilities. If a gain or loss previously recognized in other comprehensive income would be reclassified to profit or loss ( or retained earnings) on the disposal of the related assets or liabilities, the Company reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) ( or retained earnings) when the equity method is discontinued. If the Company's ownership interest in an associate is reduced while it continues to apply the equity method, the Company reclassifies the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest to profit or loss.

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 without remeasuring the retained interest.

When the Company’s share of losses of an associate equals or exceeds its interests in an associate, it discontinues recognizing its share of further losses. After the recognized interest is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate.

When the Company subscribes to additional shares in an associate at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment will differ from the amount of the Company’ s proportionate interest in the net assets of the associate. The Company records such a difference as an adjustment to investments, with the corresponding amount charged or credited to capital surplus. The aforesaid adjustment should first be adjusted under capital surplus. If the capital surplus resulting from changes in ownership interest is not sufficient, the remaining difference is debited to retained earnings. If the Company’s ownership interest is reduced due to the additional subscription to the shares of the associate by other investors, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate will be reclassified to profit or loss on the same basis as would be required if the associate had directly disposed of the related assets or liabilities.

(Continued)

(i) Investments in subsidiaries

When preparing the parent company only financial statements, the Company accounts for the investee companies on which it possesses control using the equity method. Net income, other comprehensive income, and shareholder's equity in the parent company only financial reports of the Company should be the same with the net income, other comprehensive income, and shareholder's equity attributable to the parent in the consolidated financial reports should be the same.

The Company accounts the changes in equity, under the condition that control is still present, as equity transactions between the proprietors.

(j) Investment property

Investment property is the property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, for use in the production or supply of goods or services, or for administrative purposes. Investment property is measured at cost on initial recognition, and subsequently at cost, less accumulated depreciation and accumulated impairment losses. Depreciation expense is calculated based on the depreciation method, useful life, and residual value which are the same as those adopted for property, plant and equipment. Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of raw materials and direct labor, capitalized borrowing costs, and any other costs directly attributable to bringing the investment property to a working condition for its intended use.

When the use of an investment property changes such that it is reclassified as property, plant, and equipment, its carrying amount at the date of reclassification becomes its cost for subsequent accounting.

Rental income from investment property is recognized as other revenue on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income, over the term of the lease.

(k) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment loss. Cost includes expenditures that is directly attributed to the acquisition of the asset, any cost directly attributable to transporting the asset to the location and condition necessary for it to be utilized by the manner intended by management, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, and any borrowing cost eligible for capitalization. Cost of the property, plant, and equipment also include the portion transferred from equity of effective cash flow hedges. Purchased software that is integral to the functionality of the related equipment is capitalized as part of the equipment cost.

When a piece of property, plant and equipment consist of different components, each component that is significant to the total cost with different applicable depreciation method, and useful lives should be regarded as a separate item (significant component).

Gain or loss arising from the disposal of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and is shall be recognized as other gains and losses, under non-operating income and expenses.

(ii) Subsequent cost

Subsequent expenditure is capitalized only when it is highly probable that the future economic benefits associated with the expenditure and will flow to the Company and can be assessed reliably. The carrying amount of those parts that are replaced is derecognized. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

Depreciation of property, plant and equipment is measured over their estimated useful lives using the straight-line method. Each significant part of a property, plant and equipment is evaluated individually and depreciated separately should it possess a different useful life. The depreciation charged for each period is recognized in profit or loss.

Land has an unlimited useful life and therefore is not depreciated.

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

1) Buildings：3 to 60 years

2) Machinery and equipment：2.75 to 25 years

3) Miscellaneous equipment：3 to 30 years

Depreciation methods, useful lives, and residual values are reviewed at each reporting date. If expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

(l) Leases

Applicable from January 1, 2019

(i) Identifying a lease

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether：

－ the contract involves the use of an identified asset－ this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified；and

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－ the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use；and

－ the Company has the right to direct the use of the asset only if either：

- The Company has the right to direct how and for what purpose the asset is used throughout the period of use；or

- has the right to direct how and for what purpose the asset is used throughout the period of use；or

  － the Company has the right to operate the asset throughout the period of use, without the supplier having the right to change those operating instructions；or

  － the Company designed the asset in a way that predetermines how and for what purpose it will be used throughout the period of use.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

(ii) As a leasee

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be reliably determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following：

－ fixed payments, including in-substance fixed payments；

－ variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date；

— amounts expected to be payable under a residual value guarantee；and

— payments for purchase or termination options that are reasonably certain to be exercised.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when：

— there is a change in future lease payments arising from the change in an index or rate；or

— there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee；or

— there is a change in the lease term resulting from a change of its assessment on whether it will exercise an option to purchase the underlying asset, or

— there is a change of its assessment on whether it will exercise an extension or termination option；or

— there is any lease modifications

When the lease liability is remeasured, other than lease modifications, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or in profit and loss if the carrying amount of the right-of-use asset has been reduced to zero.

When the lease liability is remeasured to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease, the Company accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease, and recognize in profit or loss any gain or loss relating to the partial or full termination of the lease.

The Company presents right-of-use assets that do not meet the definition of investment and lease liabilities as a separate line item respectively in the statement of financial position.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases of machinery, office equipment and vehicles that have a lease term of 12 months or less and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(iii) As a lessor

When the Company acts as a lessor, it determines at lease commencement whether each lease is a finance lease or an operating lease. To classify each lease, the Company makes an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of ownership incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease；if not, then the lease is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

Applicable before December 31, 2018

(i) Lessor

Lease income from an operating lease is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income. Incentives granted to the lessee to enter into the operating lease are spread over the lease term on a straight-line basis so that the lease income received is reduced accordingly.

Contingent rents are recognized as income in the period when the lease adjustments are confirmed.

(ii) Lessee

Leases which the Company assumes substantially all of the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the lease asset is measured at an amount equal to the lower of its fair value or the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to the asset.

Other leases are operating leases and are not recognized in the Company's balance sheets.

Payments made under operating lease (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the financial cost and the reduction of the outstanding liability. The finance cost is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent rent is recognized as expense in the period in which it is incurred.

(m) Impairment of non-financial assets

The Company assesses whether impairment has occurred on its non-financial assets other than inventories, deferred tax assets, and assets arising from employee benefit at every reporting date, and estimates the recoverable amounts of assets with indication of impairment. If it is not able to estimate the recoverable amounts of the individual assets, the Company estimates the recoverable amount of the cash generating unit (CGU) to which the asset belongs.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

(Continued)

The recoverable amount of an individual assets or a CGU is the greater of its fair value less costs of disposal and its value in use. If the recoverable amount of an asset or a CGU is less than its carrying amount, the carrying amount of the asset or CGU should be reduced to its recoverable amount, and that reduction will be accounted for as an impairment loss, which should be recognized immediately in profit or loss.

The Company re-assesses whether indications of impairment exist at every reporting date and whether previously recognized impairment no longer exists or decreases. If there are any changes in the determination of recoverable amounts, the Company reverses the impairment loss to increase the carrying value of the individual asset or the CGU. However, the carrying value should not exceed the amount of the asset less depreciation and amortization had it not been impaired.

(n) Revenue recognition

(i) Revenue from contracts with customers

Revenue is measured based on the consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer. The Company recognizes revenue when it satisfies a performance obligation by transferring control of a good or a service to a customer. The accounting policies for the Company's main types of revenue are explained below.

1) Sale of goods

The Company recognizes revenue when control of the products has transferred, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied.

(o) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss for the period in which services are rendered by employees.

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company’s net obligation in respect of a defined benefit pension plan is calculated separately for each plan by estimating the discounted present value of future benefit that employees have earned in return for their service in the current and prior periods. The fair value of any plan assets is deducted from aforementioned net obligation. The discount rate is the yield on the reporting date of government bonds that have maturity dates approximating the terms of the Company’s obligations and are denominated in the same currency in which the benefits are expected to be paid.

(Continued)

An actuarial calculation of pension costs and related liabilities are performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, an asset is recognized but the recognized asset is limited to the total of the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Company. An economic benefit is available to the Company if it is realizable during the life of the plan, or on settlement of the plan liabilities.

If the benefits of a plan are improved, the pension cost incurred from the portion of the increased benefit relating to past service by employees should be recognized immediately in profit or loss.

Remeasurement of the net defined benefit liability, comprising (a) actuarial gains and losses, (b) the return on plan assets, excluding the amounts included in the net interest of the net defined benefit liability; and (c) any change of upper limit of assets, excluding the amounts included in the net interest of the net defined benefit liability, is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected in retained earnings.The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset). Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(p) Income taxes

Income taxes comprises current tax expense and deferred tax expense.  Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred taxes are recognized in profit or loss.

Current taxes comprise the expected tax payablesor receivables on the taxable profits (losses) for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payables or receivables are the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date calculated using the statutory tax rate on the reporting date or the actual legislative tax rate, as well as tax adjustments related to prior years.

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes are recognized except for the following：

(i) the initial recognition of an asset or liability in a transaction which is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit (loss)；or

(ii) temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future；or

(iii) taxable temporary differences arising on the initial recognition of goodwill.

Deferred taxes are measured at tax rates that are expected to be applied to temporary differences when they reserve, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if the following criteria are met：

(i) the Company has a legally enforceable right to set off current tax assets against current tax liabilities；and

(ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either：

    1) the same taxable entity；or

    2) different taxable entities which intend to settle current tax assets and liabilities on a net basis, or to realize the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Deferred tax assets are recognized for the carry forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realized；such reductions are reversed when the probability of future taxable profits improves.

(q) Earnings per share

The Company discloses the Company's basic and diluted earnings per share attributable to ordinary shareholders of the Company. Basic earnings per share is calculated as the profit attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding. Diluted earnings per share is calculated as the profit attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding after adjustment for the effects of all potentially dilutive ordinary shares, such as convertible bonds.

(r) Operating segments

The Company has disclosed related information of its operating segments in the consolidated financial statements of the Company and its subsidiaries as of December 31, 2019, thus no additional information will be disclosed herein.

**(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty**

The preparation of the financial statements in conformity with the Regulations requires management to make judgments, estimates, and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

The management continues to monitor the accounting estimates and assumptions. Any impact from the changes in accounting estimates are recorded in the period in which the changes occur and in future periods.

Information about judgments made in the application of accounting policies that have the risks of significant effects in the next reporting period is as follows：

The Company's accounting policies include measuring financial and non-financial assets and liabilities at fair value through profit or loss. The Company' s financial instrument valuation group conducts independent verification on fair value by using data sources that are independent, reliable, and representative of exercise prices. This financial instrument valuation group also periodically adjusts valuation models, conducts back-testing, renews input data for valuation models, and makes all other necessary fair value adjustments to assure the rationality of fair value.
The Company strives to use market observable inputs when measuring assets and liabilities. Different levels of the fair value hierarchy to be used in determining the fair value of financial instruments are as follows：

Level 1：quoted prices (unadjusted) in active markets for identifiable assets or liabilities.

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

Level 3：inputs for the assets or liabilities that are not based on observable market data.

For any transfers within the fair value hierarchies, the impact of the transfer is recognized on the reporting date.

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Please refer to the notes listed as below for related information on assumptions used in measuring fair value：

Note 6(j), investment property

Note 6(y), financial instruments

## (6) Explanation of significant accounts

(a) Cash and cash equivalents

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Cash on hand | $ 1,097 | 1,126 |
| Checking and demand deposits | 373,489 | 313,141 |
| Cash equivalents | 997 | 14,997 |
| Cash and cash equivalents on the statement of cash flows | **$ 375,583** | **329,264** |

(i) Please refer to Note 6(y) for interest rate risk and sensitivity analysis of the financial assets and liabilities of the Company.

(ii) As of December 31, 2019 and 2018, certain term deposits were pledged as collateral of performance guarantee and such term deposits were reclassified to refundable deposits. Please refer to Note 8 for details.

(b) Financial assets and liabilities at fair value through profit or loss

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Financial assets mandatorily measured at fair value through profit or loss: | | |
| Non-derivative financial assets | | |
| Stocks listed on domestic markets | **$ 162,959** | **134,560** |

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Financial liabilities at fair value through profit or loss: | | |
| Derivative instruments not used for hedgimg | | |
| Foreign exchange forward contracts | $ 6,778 | 1,745 |
| Redemption options on convertible bonds | 13,000 | 31,200 |
| Total | **$ 19,778** | **32,945** |

(Continued)

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The Company uses derivative financial instruments to hedge the certain foreign exchange risk the Company is exposed to, arising from its operating, financing and investing activities. The following derivative instruments, without the application of hedge accounting, were classified as held-for-trading financial instruments：

Forward exchange contracts：

| | December 31, 2019 | | |
|---|---|---|---|
| | **Nominal amount (in thousands)** | **Currency** | **Maturity dates** |
| Forward exchange purchased | **USD 21,363** | Sell USD/buy TWD | 2020.01.10~2020.03.31 |

| | December 31, 2018 | | |
|---|---|---|---|
| | **Nominal amount (in thousands)** | **Currency** | **Maturity dates** |
| Forward exchange purchased | **USD 19,258** | Sell USD/buy TWD | 2019.01.07~2019.02.27 |

None of the financial assets were pledged as collateral as of December 31, 2019 and 2018.

(c) Financial assets at fair value through other comprehensive income

| | **December 31, 2019** | **December 31, 2018** |
|---|---|---|
| Equity investments at fair value through other comprehensive income： | | |
| Publicly listed domestic stocks | $ 307,282 | 377,716 |
| Unlisted domestic stocks | 149,046 | 180,199 |
| Total | **$ 456,328** | **557,915** |

(i) The Company designated the investments shown above as equity securities at fair value through other comprehensive income because these equity securities represent those investments that the Company intends to hold for long-term strategic purposes.

(ii) The Company disposed a part of its shares in Taiwan High Speed Rail Corporation in 2019 and 2018, where it realized a gain of $45,194 thousand and $429,706 thousand, respectively, which was recognized as other comprehensive income, and thereafter, was reclassified to retained earnings.

(iii) Hexawave Photonic System, Inc. reduced capital to cover deficit and refunded of shares, where it realized a loss of $19,796 thousand, which was recognized as other comprehensive income, and thereafter, was reclassified to retained earnings.

(iv) The Company disposed a part of its shares in Chien Shing Harbour Service Co., Ltd in 2018, where it realized a gain of $1,358 thousand, which was recognized as other comprehensive income, and thereafter, was reclassified to retained earnings.

**TUNG HO STEEL ENTERPRISE CORPORATION**
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(v) For credit risk and market risk; please refer to note 6(y).

(vi) None of the financial assets were pledged as collateral as of December 31, 2019 and 2018.

(d) Notes and accounts receivable, overdue receivables, and other receivables

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Notes receivable from operating activities | $ 123,249 | 139,471 |
| Accounts receivable | 2,496,650 | 2,404,835 |
| Accounts receivable from related parties | 1,274,728 | 2,525,807 |
| Overdue receivables | 10,393 | 10,020 |
| Less：loss allowance | (32,350) | (31,977) |
| | $ 3,872,670 | 5,048,156 |

The analysis of expected credit loss of the notes and accounts receivable of the Company as of December 31, 2019 and 2018, was as follows：

| | December 31, 2019 | | |
|---|---|---|---|
| | Gross carrying amount | Weighted-average rate of expected credit loss | Loss allowance for expected credit losses |
| With low risk | $ 1,435,512 | - | - |
| With moderate risk | 2,459,115 | 0.89% | 21,957 |
| With financial difficulties | 10,393 | 100% | 10,393 |
| | $ 3,905,020 | | 32,350 |

| | December 31, 2018 | | |
|---|---|---|---|
| | Gross carrying amount | Weighted-average rate of expected credit loss | Loss allowance for expected credit losses |
| With low risk | $ 1,479,820 | - | - |
| With moderate risk | 3,590,293 | 0.6% | 21,957 |
| With financial difficulties | 10,020 | 100% | 10,020 |
| | $ 5,080,133 | | 31,977 |

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**TUNG HO STEEL ENTERPRISE CORPORATION**
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The aging analysis of notes and accounts receivable as of December 31, 2019 and 2018, which were past due but not impaired, were as follows：

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| 1 to 60 days past due | $ 4,877 | 4,785 |
| 61 to 90 days past due | - | - |
| 91 to 120 days past due | - | - |
| | **$ 4,877** | **4,785** |

The movement in the allowance for notes and accounts receivable were as follows：

| | For the years ended December 31, | |
|---|---|---|
| | **2019** | **2018** |
| Balance at January 1, 2019 and 2018 | $ 31,977 | 31,977 |
| Impairment losses recognized | 373 | - |
| Balance at December 31, 2019 and 2018 | **$ 32,350** | **31,977** |

(e) Other receivables

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Other receivables - loans to subsidiaries (interest receivable included) | $ 702,409 | - |
| Other receivables from related parties | 1,388 | 1,929 |
| Others | 16,328 | 70,261 |
| Less：loss allowance | - | - |
| | **$ 720,125** | **72,190** |

No other receivables were impaired resulted from overdue as of December 31, 2019 and 2018. For credit risk, please refer to note 6(y).

(f) Inventories

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Finished goods (including consigned goods) | $ 2,019,885 | 2,143,319 |
| Work in process (including consigned goods) | 3,086,472 | 1,995,931 |
| Raw materials (including goods in transit) | 5,371,919 | 5,758,210 |
| Material supplies (including goods in transit and consigned goods) | 1,590,968 | 1,566,535 |
| Inventories, net | **$ 12,069,244** | **11,463,995** |

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For the years ended December 31, 2019 and 2018, cost of sales and services provided recognized was as follows：

| | For the years ended December 31, 2019 | 2018 |
|---|---|---|
| Cost of goods sold | $ 31,062,025 | 31,490,051 |
| Cost of services | 19,531 | 8,564 |
| Unallocated production overheads － capacity variance | 87,249 | 59,242 |
| Revenue from sale of materials and scrap | (39,039) | (50,460) |
| Total | **$ 31,129,766** | **31,507,397** |

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses. Any changes of competitors' reactions and market condition would impact the estimation which is based on the current market condition and past experience. The management of the Company makes such evaluation on every reporting date.

None of the inventory was pledged as collateral as of December 31, 2019 and 2018.

(g) Investments accounted for using the equity method

(i) A summary of the Company's financial information for investments accounted for using the equity method at the reporting date is as follows：

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Subsidiaries | | |
| Tung Yuan International Corp. | $ 765,395 | 790,234 |
| Tung Kang Steel Structure Corp. | 2,232,486 | 2,011,688 |
| Goldham Development Ltd. | 380,904 | 404,855 |
| Katec Creative Resources Corp. | 715,204 | 730,094 |
| Tung Kang Wind Power Corp. | 91,726 | 91,350 |
| Fa Da Enterprise Corp. | 89,491 | 89,689 |
| Tung Tang Energy Corp. | 14,823 | - |
| Tung Ho Steel Vietnam Corp., Ltd. | 3,207,944 | 4,098,293 |
| Subtotal | 7,497,973 | 8,216,203 |
| Associates | | |
| Katec Research & Development Corp. | 56,184 | 52,588 |
| Taiwan Steel Union Co., Ltd. | 767,104 | 801,561 |
| Right Investment Corp. | - | 11,384 |
| Subtotal | 823,288 | 865,533 |
| Total | **$ 8,321,261** | **9,081,736** |

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**TUNG HO STEEL ENTERPRISE CORPORATION**
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(ii) Subsidiaries

Please refer to the consolidated financial statements for the year ended December 31, 2019.

(iii) The Company's financial information for investments accounted for using the equity method that are individually insignificant was as follows：

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Carrying amount of individually insignificant associates' equity | **$ 823,288** | **865,533** |

| | For the years ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| Attributable to the Company： | | |
| Net income from continuing operations | $ 94,080 | 178,047 |
| Other comprehensive income | 118 | (3,803) |
| Comprehensive income | **$ 94,198** | **174,244** |

(iv) Cash dividends paid by the Company's associates were recognized as deductions of investment accounted for using the equity method. The details were as follows：

| | For the years ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| Katec Research & Development Corp. | $ 1,412 | 2,241 |
| Taiwan Steel Union Co., Ltd. | 123,648 | 132,835 |
| Right Investment Corp. | 75 | 2,049 |
| Total | **$ 125,135** | **137,125** |

(v) Collateral

None of the investments accounted for using the equity method were pledged for collateral as of December 31, 2019 and 2018.

The Company neither undertook any contingent liabilities of associates with other investors nor had any contingent liabilities generated from individual responsibility of associates' liabilities.

There is no any significant restriction on transferring the funds from associates to the Company.

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(h) Property, plant and equipment

The cost and depreciation of the property, plant and equipment of the Company for the years ended December 31, 2019 and 2018, were as follows：

| | | Land | Buildings | Machinery equipment | Miscellaneous equipment | Other assets | Construction in progress | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost or deemed cost:** | | | | | | | | |
| Balance as of January 1, 2019 | $ | 2,360,721 | 6,230,349 | 23,091,790 | 272,205 | 533,060 | 147,749 | 32,635,874 |
| Additions | | 18,904 | 17,166 | 139,256 | 15,429 | - | 3,629 | 194,384 |
| Reclassification in (out) (Note 1) | | - | 107,475 | 61,176 | 19,647 | 356 | (140,551) | 48,103 |
| Disposals | | - | - | (43,070) | (5,505) | - | - | (48,575) |
| Balance as of December 31, 2019 | $ | **2,379,625** | **6,354,990** | **23,249,152** | **301,776** | **533,416** | **10,827** | **32,829,786** |
| Balance as of January 1, 2018 | $ | 2,360,721 | 6,075,156 | 22,696,692 | 239,653 | 500,650 | 112,945 | 31,985,817 |
| Additions | | - | 146,978 | 282,796 | 31,006 | 33,338 | 126,012 | 620,130 |
| Reclassification in (Note 1) | | - | 9,573 | 146,590 | 17,511 | - | (91,208) | 82,466 |
| Disposals | | - | (1,358) | (34,288) | (15,965) | (928) | - | (52,539) |
| Balance as of December 31, 2018 | $ | **2,360,721** | **6,230,349** | **23,091,790** | **272,205** | **533,060** | **147,749** | **32,635,874** |
| **Depreciation :** | | | | | | | | |
| Balance as of January 1, 2019 | $ | - | 3,098,623 | 16,040,463 | 143,950 | - | - | 19,283,036 |
| Depreciation for the period | | - | 131,108 | 796,742 | 26,426 | - | - | 954,276 |
| Disposals | | - | - | (41,563) | (4,820) | - | - | (46,383) |
| Balance as of December 31, 2019 | $ | **-** | **3,229,731** | **16,795,642** | **165,556** | **-** | **-** | **20,190,929** |
| Balance as of January 1, 2018 | $ | - | 2,992,883 | 15,282,514 | 138,049 | - | - | 18,413,446 |
| Depreciation for the period | | - | 130,451 | 790,089 | 21,144 | - | - | 941,684 |
| Reclassification out (Note 1) | | - | (23,472) | - | - | - | - | (23,472) |
| Disposals | | - | (1,239) | (32,140) | (15,243) | - | - | (48,622) |
| Balance as of December 31, 2018 | $ | **-** | **3,098,623** | **16,040,463** | **143,950** | **-** | **-** | **19,283,036** |
| **Carrying value** | | | | | | | | |
| Balance as of December 31, 2019 | $ | **2,379,625** | **3,125,259** | **6,453,510** | **136,220** | **533,416** | **10,827** | **12,638,857** |
| Balance as of December 31, 2018 | $ | **2,360,721** | **3,131,726** | **7,051,327** | **128,255** | **533,060** | **147,749** | **13,352,838** |

Note 1：Reclassification to prepayments and consigned goods and reclassification from prepayments for equipment.

(i) Because some of the Company's property, plant and equipment and investment property are agricultural lands, transfer registration could not be undertaken using the Company's own title；therefore, the Company was registered as a trust registrant temporarily and signed the real estate trust registration contract, which stipulates the rights and obligations of both parties to preserve the ownership of the land. The Company is applying successively for registration of change in the category of land from relevant authorities. The details of the abovementioned land was as follows：

| Accounts | | December 31, 2019 | December 31, 2018 |
|---|---|---|---|
| Property, plant and equipment | $ | 533,416 | 533,060 |
| Investment property | | 505,299 | 483,769 |
| | $ | **1,038,715** | **1,016,829** |

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(ii) Collateral

None of the property, plant and equipment was pledged for collateral as of December 31, 2019 and 2018.

(iii) The assessment of the useful life and the residual value

Property, plant and equipment is depreciated using the straight-line method. The Company periodically evaluates the useful life and the residual value of property, plant, and equipment; if there is any significant change in relevant estimates, adjustments will be made in the period the change occurs and in the future periods.

(i) Right-of-use assets

The Company leases assets including land, buildings, machinery equipment, vehicles, and office equipment. Information about leases for which the Company as a lessee was presented below：

| | Land | Buildings | Machinery equipment | Vehicles | Office equipment | Total |
|---|---|---|---|---|---|---|
| Cost： | | | | | | |
| Balance at January 1, 2019 | $ - | - | - | - | - | - |
| Adjustment of the first adoption of IFRS 16 | 84,903 | 15,130 | 1,835 | 6,558 | 1,156 | 109,582 |
| Additions | 61,097 | - | - | 3,170 | 1,522 | 65,789 |
| Disposal | - | - | (358) | - | - | (358) |
| Balance at December 31, 2019 | **$ 146,000** | **15,130** | **1,477** | **9,728** | **2,678** | **175,013** |
| Accumulated depreciation： | | | | | | |
| Balance at January 1, 2019 | $ - | - | - | - | - | - |
| Depreciation for the period | 12,907 | 13,043 | 591 | 3,196 | 424 | 30,161 |
| Disposal | - | - | (358) | - | - | (358) |
| Balance at December 31, 2019 | **$ 12,907** | **13,043** | **233** | **3,196** | **424** | **29,803** |
| Carrying amount： | | | | | | |
| Balance at December 31, 2019 | **$ 133,093** | **2,087** | **1,244** | **6,532** | **2,254** | **145,210** |

(j) Investment property

| | Land and improvements | Buildings | Total |
|---|---|---|---|
| **Cost or deemed cost：** | | | |
| Balance as of January 1, 2019 | $ 1,783,863 | 266,188 | 2,050,051 |
| Additions | 80,096 | 69,681 | 149,777 |
| Reclassification out | (528) | - | (528) |
| Balance as of December 31, 2019 | **$ 1,863,431** | **335,869** | **2,199,300** |

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**TUNG HO STEEL ENTERPRISE CORPORATION**
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| | Land and improvements | Buildings | Total |
|---|---|---|---|
| Balance as of January 1, 2018 | $ 1,808,269 | 224,718 | 2,032,987 |
| Additions | 13,249 | 13,699 | 26,948 |
| Disposals | (37,655) | - | (37,655) |
| Reclassification in | - | 27,771 | 27,771 |
| Balance as of December 31, 2018 | **$ 1,783,863** | **266,188** | **2,050,051** |
| **Depreciation：** | | | |
| Balance as of January 1, 2019 | $ - | 179,953 | 179,953 |
| Depreciation for the period | - | 8,547 | 8,547 |
| Balance as of December 31, 2019 | **$ -** | **188,500** | **188,500** |
| Balance as of January 1, 2018 | $ - | 148,638 | 148,638 |
| Depreciation for the period | - | 7,843 | 7,843 |
| Reclassification in | - | 23,472 | 23,472 |
| Balance as of December 31, 2018 | **$ -** | **179,953** | **179,953** |
| **Carrying amounts：** | | | |
| Balance as of December 31, 2019 | **$ 1,863,431** | **147,369** | **2,010,800** |
| Balance as of December 31, 2018 | **$ 1,783,863** | **86,235** | **1,870,098** |
| **Fair value：** | | | |
| Balance as of December 31, 2019 | | | **$ 6,711,016** |
| Balance as of December 31, 2018 | | | **$ 6,502,176** |

(i) Investment property includes the investment in Kuo Kong Section, Houlong town, Miaoli County, and several construction sites and factories leased to others; leased objects mentioned above are the factory in Chienchen District of Kaohsiung, the factory in Bade City of Taoyuan, the building in Taichung, and the office in Taipei.

(ii) The investment in Kuo Kong Section, Houlong Town, Miaoli County is in a general industrial zone. The Company has planned a wind power generation project and has now established wind generator sets to improve the efficiency of the use of the land. The Company has successively invested costs into the land in an effort to make the industrial zone available for use. As of December 31, 2019 and 2018, the carrying value for the above investment both amounted to $968,139 thousand.

(iii) The fair value of investment property is in reference to the appraisal report, done by independent professionals (with certificated qualification and recent experience in appraisals of items that are within the same area or of similar items). The valuation technique used is classified as the second and the third hierarchy of input value.

(iv) Please refer to Note 6(h) for relevant information on investment property acquired under the ownership of others.

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**TUNG HO STEEL ENTERPRISE CORPORATION**

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(v) None of the investment property was for pledged for collateral as of December 31, 2019 and 2018.

(k) Short-term loans

Details of the Company's short-term loans were as follows：

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Unsecured credit loans | $ 6,315,000 | 6,450,000 |
| Letters of credit | 649,718 | 1,838,087 |
| Total | **$ 6,964,718** | **8,288,087** |
| Unused credit lines | **$ 13,229,522** | **10,374,768** |
| Range of interest rates | **0.42% ~ 3.07%** | **0.42%~3.91%** |

(l) Short-term notes and bills payable

Details of the Company's short-term notes and bills payable were as follows：

| | December 31, 2019 | | |
|---|---|---|---|
| | **Bank of acceptance** | **Interest rate** | **Amount** |
| Commercial paper payable | Mega Bills, CBF,ETFC | 0.938%~0.968% | $ 560,000 |
| Less：discount on short-term bills payable | | | (169) |
| Total | | | **$ 559,831** |

| | December 31, 2018 | | |
|---|---|---|---|
| | **Bank of acceptance** | **Interest rate** | **Amount** |
| Commercial paper payable | IBFC,Mega Bills, CBF,Ta Ching Bills | 0.938%~1.058% | $ 1,110,000 |
| Less：discount on short-term bills payable | | | (433) |
| Total | | | **$ 1,109,567** |

Please refer to Note 6(k) for unused credit lines.

(m) Long-term loans

Details of the Company's long-term loans were as follows：

| | December 31, 2019 | | | |
|---|---|---|---|---|
| | **Currency** | **Interest rate** | **Maturity** | **Amount** |
| Unsecured bank loans | TWD | 0.83% ~ 0.98% | 2021.04.27~2021.09.30 | $ 3,100,000 |
| Less: current portion | | | | - |
| Total | | | | **$ 3,100,000** |
| Unused credit lines | | | | **$ 1,200,000** |

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**TUNG HO STEEL ENTERPRISE CORPORATION**
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| | December 31, 2018 | | | |
|---|---|---|---|---|
| | Currency | Interest rate | Maturity | Amount |
| Unsecured bank loans | TWD | 0.84%~1.1% | 2020.04.27~2020.09.15 | $ 3,200,000 |
| Less: current portion | | | | - |
| Total | | | | **$ 3,200,000** |
| Unused credit lines | | | | **$ 1,100,000** |

(n) Bonds payable

(i) Major conditions of the issuance of unsecured bonds payable were as follows：

| Item | The seventh unsecured domestic convertible bond |
|---|---|
| 1. Principal amount | $2,000,000 thousand |
| 2. Par value | $100 thousand |
| 3. Original issuance date | 2018.05.14~2023.05.14 |
| 4. Maturity | 5 years |
| 5. Coupon rate | 0% |
| 6. Redemption method | (1) Three months after the issuance date and 40 days prior to maturity, the bonds may be redeemed if the closing price of the ordinary shares, for a period of 30 consecutive trading days, is at least 30% of the conversion price then in effect. 30 trading days prior to maturity, the Company may redeem all bonds for cash.<br>(2) If at least 90% in principal amount of the bonds has already been redeemed, repurchased and cancelled, or converted. |
| 7. Redemption option of bondholders | The bondholders could request the Company to redeem the bond at face value plus the interest premium of 0.75% and 1% three and four years after the issue date, respectively (actual yield: 0.25% and 0.25%, respectively). |
| 8. Conversion price and adjustment | The conversion price was NT27.8 dollars at the original issuance date. Since the Company paid cash divided on July 7, 2018, to ordinary shareholders that amounted to more than 1.5% of the market price per share then, the convertible price was reduced to NT26.2 dollars according the conversion method. Since the Company paid cash dividend on July 22, 2019, to ordinary shareholders that amounted to more than 1.5% of the market price per share then, the convertible price was reduced to NT24.8 dollars according the conversion method. |

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(ii) Bonds payable as of December 31, 2019 and 2018, were as follows：

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Originally issued amount of unsecured domestic convertible bonds | $ 2,000,000 | 2,000,000 |
| Adjustment on the equity and liability component from repurchases and conversions | (1,485) | 16,715 |
| Capital surplus–stock options | (81,973) | (81,973) |
| Call option, put options, and conversion rights | (13,000) | (31,200) |
| Accumulated interest expenses | 31,479 | 12,187 |
| Total | $ 1,935,021 | 1,915,729 |

| | For the years ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| Interest expense | $ 19,292 | 12,187 |

(iii) As of December 31, 2019 and 2018, there were no repurchases and conversions of the seventh unsecured domestic convertible bonds.

(o) Lease liabilities

The details of the Company's lease liabilities were as follows：

| | December 31, 2019 |
|---|---|
| Current | $ 18,574 |
| Non-current | $ 127,060 |

The amounts recognized in profit or loss were as follows：

| | For the year ended December 31 2019 |
|---|---|
| Interest on lease liabilities | $ 1,196 |
| Income from sub-leasing right-of-use assets | $ - |
| Expenses relating to short-term leases | $ 4,643 |
| Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets | $ 1,909 |

The amounts recognized in the statement of cash flows was as follows:

| | For the year ended December 31, 2019 |
|---|---|
| Total cash outflow for leases | $ 37,314 |

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**TUNG HO STEEL ENTERPRISE CORPORATION**
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(i) Real estate leases

As of December 31, 2019, the Company leases land and buildings for its office space and storage locations. The leases for office space and storage locations typically run for a period of 2 to 3 years. Some lessee include an option to renew the lease for an additional period of the same duration after the end of the contract term.

Certain leases contain extension or cancellation options exercisable by the Company. These leases are negotiated and monitored by local management, and accordingly, contain a wide range of different terms and conditions. The extension options held are exercisable only by the Company and not by the lessors. In which leasee is not reasonably certain to use an optional extended lease term, payments associated with the optional period are not included within lease liabilities.

(ii) Other leases

The Company leases machinery equipment and vehicles, with lease terms of two to five years. In some cases, the Company has options to purchase the assets at the end of the contract term; in other cases, it guarantees the residual value of the leased assets at the end of the contract term.

The Company also leases IT equipment and machinery with contract terms of one to three years. These leases are short-term or leases of low-value items. The Company has elected not to recognize right-of-use assets and lease liabilities for these leases.

(p) Operating lease

The Company leases out its investment property. The Company has classified these leases as operating leases, because it does not transfer substantially all of the risks and rewards incidental to the ownership of the assets. Please refer to Note 6(j) sets out information about the operating leases of investment property.

A maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date are as follows：

| | December 31, 2019 |
|---|---|
| Less than one year | $ 46,191 |
| One to two years | 29,793 |
| Two to three years | 29,554 |
| Three to four years | 30,457 |
| Four to five years | 31,388 |
| More than five years | 3,700 |
| Total undiscounted lease payments | **$ 171,083** |

The operating lease revenues for the year ended December 31, 2019 were $45,407 thousand .

**TUNG HO STEEL ENTERPRISE CORPORATION**
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(q) Other payables

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Accrued payroll, year-end bonuses, provisionally estimated bonuses, remuneration of directors and supervisors, and employee benefits | $ 295,254 | 216,363 |
| Freight payable | 197,395 | 196,645 |
| Utilities payable | 209,569 | 204,933 |
| Sales bonuses payable | 204,338 | 182,369 |
| Waste disposal payable (including to related parties) | 48,712 | 48,422 |
| Cash dividends payable (including from prior years) | 41,274 | 38,525 |
| Equipment payable | 6,930 | 112,898 |
| Other operating and manufacturing overhead payables | 179,652 | 245,013 |
| | **$ 1,183,124** | **1,245,168** |

The above payables are planned to be paid within one year. Please refer to Note 6(y) for the interest rate risk and sensitivity analysis of the aforementioned financial assets and liabilities.

(r) Employee benefits

(i) Defined benefit plans

Reconciliation of defined benefit obligation at present value and plan asset at fair value are as follows：

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Present value of the defined benefit obligations | $ 1,627,071 | 1,595,547 |
| Fair value of plan assets | (790,837) | (749,324) |
| Net defined benefit liabilities | **$ 836,234** | **846,223** |

1) Composition of plan assets

The Company allocates pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Bureau of Labor Funds, Ministry of Labor. With regard to the utilization of the funds, minimum earnings shall be no less than the earnings attainable from two-year time deposits with interest rates offered by local banks.

As of December 31, 2019 and 2018, the Company’ s Bank of Taiwan labor pension reserve account balance amounted to $790,837 thousand and $749,324 thousand, respectively. For information on the utilization of the labor pension fund assets, including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of Labor.

**TUNG HO STEEL ENTERPRISE CORPORATION**
**Notes to the parent company only Financial Statements**

2) Changes in the present value of the defined benefit obligations

Changes in the present value of the Company' s defined benefit obligations were as follows：

| | | For the years ended December 31, 2019 | 2018 |
|---|---|---|---|
| Defined benefit obligations at January 1 | $ | 1,595,547 | 1,528,074 |
| Service cost and interest expense for the period | | 38,740 | 38,600 |
| Remeasurements of the net defined benefit liability (asset) | | | |
| －Experience adjustments | | 48,479 | 93,942 |
| －Actuarial (gains) losses arising from changes in population statistics assumptions | | 96 | 263 |
| Benefits paid | | (55,791) | (65,332) |
| Defined benefit obligations at December 31 | $ | **1,627,071** | **1,595,547** |

3) Changes in the fair value of the plan assets

Changes in the Company's fair value of the plan assets were as follows：

| | | For the years ended December 31, 2019 | 2018 |
|---|---|---|---|
| Fair value of plan assets at January 1 | $ | 749,324 | 730,155 |
| Interest income | | 7,455 | 7,295 |
| Remeasurements of the net defined benefit liability(assets): | | | |
| Return on plan assets (excluding interests for the period) | | 26,613 | 21,861 |
| Contributions from employer | | 62,435 | 55,345 |
| Benefits paid | | (54,990) | (65,332) |
| Fair value of plan assets at December 31 | $ | **790,837** | **749,324** |

4) Expenses recognized in profit or loss

The expenses recognized in profit or loss for the Company were as follows：

| | | For the years ended December 31, 2019 | 2018 |
|---|---|---|---|
| Service costs for the period | $ | 23,035 | 23,528 |
| Net interest expense of net defined benefit liabilities | | 8,250 | 7,777 |
| | $ | **31,285** | **31,305** |

| | | For the years ended December 31, 2019 | 2018 |
|---|---|---|---|
| Operating costs | $ | 24,705 | 25,057 |
| Selling expenses | | 1,014 | 1,032 |
| Administrative expenses | | 5,566 | 5,216 |
| | $ | **31,285** | **31,305** |

(Continued)

**TUNG HO STEEL ENTERPRISE CORPORATION**
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5) Remeasurement of net defined benefit liability recognized in other comprehensive income

The Company' s remeasurement of the net defined benefit liability recognized in other comprehensive income for the years ended December 31, 2019 and 2018, was as follows：

| | For the years ended December 31, 2019 | 2018 |
|---|---|---|
| Accumulated amount at January 1 | $ 323,429 | 251,085 |
| Recognized during the period | 21,962 | 72,344 |
| Accumulated amount at December 31 | **$ 345,391** | **323,429** |

6) Actuarial assumptions

The principal actuarial assumptions at the reporting date were as follows：

| | For the years ended December 31, 2019 | 2018 |
|---|---|---|
| Discount rate | 0.70 % | 1.00 % |
| Future salary increase rate | 1.50 % | 1.50 % |

The expected allocation payment to be made by the Company to the defined benefit plans for the one-year period after the reporting date is NT$42,201 thousand.

The weighted average lifetime of the defined benefits plans is 9 years.

7) Sensitivity analysis

If the actuarial assumptions had changed, the impact on the present value of the defined benefit obligation shall be as follows：

| | Effects on the Company's defined benefit obligations | |
|---|---|---|
| | **Increase by 0.25%** | **Decrease by 0.25%** |
| December 31, 2019 | | |
| Discount rate | $ (36,177) | 37,406 |
| Future salary increasing rate | 37,014 | (35,984) |
| December 31, 2018 | | |
| Discount rate | (37,029) | 38,326 |
| Future salary increasing rate | 38,039 | (36,939) |

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Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown above. The method used in the sensitivity analysis is consistent with the calculation of pension liabilities in the balance sheets.

There was no change in the method and assumptions used in the preparation of sensitivity analysis for 2019 and 2018.

(ii) Defined contribution plans

The Company allocates 6% of each employee's monthly wages to the labor pension personal accounts at the Bureau of the Labor Insurance in accordance with the provisions of the Labor Pension Act. Under this defined contribution plan, the Company does not bear any additional legal or constructive obligations other than the allocation of a fixed amount to the Bureau of the Labor Insurance.

The pension costs incurred from the contributions to the Bureau of the Labor Insurance amounted to $39,972 thousand and $36,073 thousand for the years ended December 31, 2019 and 2018, respectively.

(s) Income taxes

(i) The details of income tax expense for the years ended December 31, 2019 and 2018 were as follows：

| | For the years ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| Income tax expense for the period | | |
| Current tax expense incurred during the period | $ 516,310 | 328,464 |
| Adjustments for prior years | 5,271 | 10,516 |
| | 521,581 | 338,980 |
| Deferred tax expense | | |
| The origination and reversal of temporary differences | 1,750 | 11,680 |
| Adjustment in tax rate | - | (11,787) |
| | 1,750 | (107) |
| Income tax expense for continuing operations | **$ 523,331** | **338,873** |

The income tax benefit (expense) related to components of other comprehensive income for the years ended December 31, 2019 and 2018 were as follows：

| | For the years ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| Adjustment in tax rate | $ - | 7,533 |
| Remeasurement from defined benefit plans | 4,392 | 14,469 |
| | **$ 4,392** | **22,002** |

(Continued)

**TUNG HO STEEL ENTERPRISE CORPORATION**
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The reconciliation of income tax expense and income before income tax for the years ended December 31, 2019 and 2018 were as follows：

| | For the years ended December 31, 2019 | 2018 |
|---|---|---|
| Income before income tax | $ **2,089,389** | **1,226,805** |
| Income tax using the Company's domestic tax rate | $ 417,878 | 245,361 |
| Adjustment in tax rate | - | (11,787) |
| Permanent difference | 106,111 | 92,281 |
| Current investment tax credits used | (5,929) | (6,035) |
| Difference between administrative remedy and assessment by the tax authority | - | 2,165 |
| Under-estimation from prior periods | 5,271 | 8,352 |
| Surtax on unappropriated earnings | - | 8,536 |
| Total | $ **523,331** | **338,873** |

(ii) Deferred tax assets and liabilities

1) Unrecognized deferred tax liabilities

There was no unrecognized deferred tax liability as of December 31, 2019 and 2018.

2) Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following items：

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Tax effect of deductible temporary differences | $ **24,707** | **24,707** |

3) Recognized deferred tax assets and liabilities

Changes in the deferred tax assets and liabilities for the years ended December 31, 2019 and 2018 were as follows：

| | Reserve for land appreciation tax | Others | Total |
|---|---|---|---|
| Deferred tax liabilities： | | | |
| Balance as of January 1, 2019 | $ 167,174 | 7,181 | 174,355 |
| Recognized in profit or loss | - | (4,155) | (4,155) |
| Balance as of December 31, 2019 | $ **167,174** | **3,026** | **170,200** |
| Balance as of January 1, 2018 | $ 167,174 | 2,950 | 170,124 |
| Recognized in profit or loss | - | 4,231 | 4,231 |
| Balance as of December 31, 2018 | $ **167,174** | **7,181** | **174,355** |

(Continued)

**TUNG HO STEEL ENTERPRISE CORPORATION**
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| | | Defined benefit plans | Unrealized loss on financial assets and liabilities | Reversal of difference on difference between financial and tax reports arising from deferred gain on foreign exchange forward contracts | Others | Total |
|---|---|---|---|---|---|---|
| Deferred tax assets： | | | | | | |
| Balance as of January 1, 2019 | $ | 108,241 | 349 | 20,672 | 9,509 | 138,771 |
| Recognized in profit or loss | | (6,390) | 1,007 | (1,905) | 1,383 | (5,905) |
| Recognized in other comprehensive income | | 4,392 | - | - | - | 4,392 |
| Balance as of December 31, 2019 | $ | 106,243 | 1,356 | 18,767 | 10,892 | 137,258 |
| Balance as of January 1, 2018 | $ | 83,792 | 890 | 19,190 | 8,559 | 112,431 |
| Recognized in profit or loss | | 2,447 | (541) | 1,482 | 950 | 4,338 |
| Recognized in other comprehensive income | | 22,002 | - | - | - | 22,002 |
| Balance as of December 31, 2018 | $ | 108,241 | 349 | 20,672 | 9,509 | 138,771 |

(iii) The Company's income tax returns have been examined by the ROC tax authorities through 2016.

(t) Capital and other equity

(i) Capital stock

As of December 31, 2019 and 2018, the Company's government-registered total authorized capital amounted to $12,000,000 thousand, with par value per share of $10 (dollars), and total issued ordinary shares amounted to 1,004,061 thousand shares. All issued shares were paid up upon issuance.

Reconciliation of shares outstanding for 2019 and 2018 was as follows：

| (in thousands of shares) | 2019 | 2018 |
|---|---|---|
| Balance as of January 1 | 1,004,061 | 1,000,224 |
| Conversion of convertible bonds | - | 3,837 |
| Balance as of December 31 | 1,004,061 | 1,004,061 |

On September 22, 1994, the Company issued 6,000 thousand Global Depositary Receipts (GDRs), in the Multilateral Trading Facility (MTF) market of the Luxembourg Stock Exchange (LSE). The details were as follows：

| (in shares) | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Total issued shares | 68,610,809 | 68,610,809 |
| Outstanding shares | 7,345,128 | 7,345,128 |

**TUNG HO STEEL ENTERPRISE CORPORATION**
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(ii) Capital surplus

The balances of capital surplus as of December 31, 2019 and 2018, were as follows：

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Additional paid-in capital | $ 2,289,734 | 2,289,734 |
| Conversion of bonds | 3,840,072 | 3,840,072 |
| Treasury stock transactions | 59,036 | 59,036 |
| Difference arising from subsidiary's share price and its carrying value | 21,274 | 21,274 |
| Changes in equity of associates accounted for using the equity method | 190,445 | 190,445 |
| Stock options | 81,973 | 81,973 |
| Others | 109,702 | 109,702 |
| | $ 6,592,236 | 6,592,236 |

According to the Company Act amended in January, 2012, capital surplus can only be used to offset a deficit, and only the realized capital surplus can be used to increase the common stock or be distributed as cash dividends. The aforementioned realized capital surplus includes capital surplus resulting from premium on issuance of capital stock and earnings from donated assets received. According to the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, capital increases by transferring capital surplus in excess of par value should not exceed 10% of the total common stock outstanding.

(iii) Retained earnings

Based on the Company's articles of incorporation, the Company's annual earnings should first be used to provide for income tax and to cover accumulated deficits, before being set aside 10% as a legal reserve, or if necessary, a special reserve. The remainder, along with accumulated earnings, is to be distributed as dividends and earnings distribution under the stockholder's resolution.

The Company is at a stable and mature stage, so the dividend plan is that the percentages of cash dividends and stock dividends shall not be less than 80% and more than 20%, respectively, of the total distribution.

1) Legal reserve

When a company incurs no loss, it may, pursuant to a resolution by a shareholders' meeting, distribute its legal reserve by issuing new shares or by distributing cash, and only the portion of legal reserve which exceeds 25% of capital may be distributed.

2) Special reserve

By choosing to apply exemptions granted under IFRSs 1 First-time Adoption of IFRSs during the Company' s first-time adoption of the IFRSs as approved by the FSC, unrealized revaluation gains recognized under shareholders' equity and cumulative translation adjustments (gains) shall be reclassified as investment property at the adoption date. According to regulations, retained earnings would be increased by $333,057 thousand, by recognizing the fair value on the adoption date as deemed cost. The increase in retained earnings occurring before the adoption date due to the first-time adoption of the IFRSs amounted to $149,309 thousand. In accordance with Ruling No. 1010012865 issued by the FSC on April 6, 2012, an increase in retained earnings due to the first time adoption of the IFRSs shall be reclassified as a special earnings reserve during earnings distribution, and when the relevant asset were used, disposed of, reclassified, this special earnings reserve shall be reversed as distributable earnings proportionately. The carrying amount of special earnings reserve amounted to $149,309 thousand on December 31, 2019.

In accordance with the guidelines of the above Ruling, a portion of current-period earnings and unappropriated prior-period earnings shall be reclassified as a special earnings reserve during earnings distribution. The amount to be reclassified should be equal to the difference between the total net current period reduction of special earnings reserve resulting from the first time adoption of IFRSs and the carrying amount of other shareholders' equity as stated above. Similarly, a portion of unappropriated prior period earnings shall be reclassified as a special earnings reserve (which does not qualify for earnings distribution) to account for cumulative changes to other shareholders' equity pertaining to prior periods due to the first-time adoption of IFRSs. Amounts of subsequent reversals pertaining to the net reduction of other shareholders' equity shall qualify for additional distributions.

3) Earnings distribution

Earnings distribution for 2018 and 2017 was decided by the resolution adopted, at the general meeting of shareholders held on June 18, 2019 and June 11, 2018, respectively. The relevant dividend distributions to shareholders were as follows：

| | For the years ended December 31 | |
|---|---|---|
| | **2018** | **2017** |
| Dividends per ordinary share (in dollars) | | |
| Cash dividend | $ **1.20** | **1.40** |

The abovementioned distribution approved by the shareholders' meeting is consistent with that approved by the Board of Directors. Related information can be found through the Market Observation Post System website.

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4) Other equity accounts (net of tax)

| | | Exchange differences on translation of foreign financial statements | Unrealized gains (losses) from financial assets measured at fair value through OCI | Total |
|---|---|---|---|---|
| Balance as of January 1, 2019 | $ | (664,948) | 17,924 | (647,024) |
| Exchange differences on translation of foreign operations : | | | | |
| The Company | | (112,219) | - | (112,219) |
| Subsidiaries | | (7,493) | - | (7,493) |
| Disposal of investments in equity instruments measured at fair value through other comprehensive income : | | | | |
| The Company | | - | (31,978) | (31,978) |
| Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income : | | | | |
| The Company | | - | 66,244 | 66,244 |
| Associates and subsidiaries | | - | (254) | (254) |
| Others： | | | | |
| The Company | | - | 26,502 | 26,502 |
| Balance as of December 31, 2019 | $ | (784,660) | 78,438 | (706,222) |
| Balance as of January 1, 2018 after adjustments | $ | (581,054) | 101,745 | (479,309) |
| Exchange differences on translation of foreign operations : | | | | |
| The Company | | (66,910) | - | (66,910) |
| Subsidiaries | | (16,984) | - | (16,984) |
| Disposal of equity instruments measured at fair value through other comprehensive income | | - | (93,594) | (93,594) |
| Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income | | | | |
| The Company | | - | 14,626 | 14,626 |
| Associates and subsidiaries | | - | (4,853) | (4,853) |
| Balance as of December 31, 2018 | $ | (664,948) | 17,924 | (647,024) |

(u) Earnings per share

(i) Basic earnings per share

The basic earnings per share for the years ended December 31, 2019 and 2018 were calculated on the basis of profit attributable to ordinary shareholders, which were $1,566,059 thousand and $887,932 thousand, respectively, and the weighted-average number of outstanding ordinary shares, which were 1,004,061 thousand and 1,004,061 thousand, respectively. The calculations were as follows：

1) Profit attributable to ordinary shareholders of the Company

| | For the years ended December 31, 2019 | 2018 |
|---|---|---|
| Profit attributable to the Company | $ 1,566,059 | 887,932 |
| Profit attributable to the ordinary shareholders | **$ 1,566,059** | **887,932** |

2) Weighted-average number of ordinary shares (in thousands of shares)

| | For the years ended December 31, 2019 | 2018 |
|---|---|---|
| Number of outstanding shares | **$ 1,004,061** | **1,004,061** |

(Continued)

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(ii) Diluted earnings per share

The diluted earnings per share for the years ended December 31, 2019 and 2018, were calculated on the basis of profit attributable to ordinary shareholders, which were $1,567,151 thousand and $913,011 thousand, respectively, and the weighted-average number of outstanding ordinary shares after adjustments for the effect of any potentially dilutive ordinary shares, which were 1,084,938 thousand and 1,054,202 thousand, respectively. The calculations were as follows：

1) Profit attributable to ordinary shareholders of the Company (diluted)：

| | For the years ended December 31, | |
|---|---|---|
| | **2019** | **2018** |
| Profit attributable to the ordinary shareholders of the Company (basic) | $ 1,566,059 | 887,932 |
| Interest expense after tax and valuation of convertible bonds | 1,092 | 25,079 |
| Profit attributable to the ordinary shareholders of the Company (diluted) | **$ 1,567,151** | **913,011** |

2) Weighted-average number of ordinary shares (diluted) (in thousands of shares)

| | For the years ended December 31, | |
|---|---|---|
| | **2019** | **2018** |
| Weighted-average number of outstanding ordinary shares (basic) | 1,004,061 | 1,004,061 |
| Effects of convertible bonds | 78,142 | 47,942 |
| Effects of employee stock bonus | 2,735 | 2,199 |
| Weighted-average number of outstanding ordinary shares (diluted) | **1,084,938** | **1,054,202** |

(v) Revenue from contracts with customers

(i) Disaggregation of revenue

| | For the year ended December 31, 2019 | | |
|---|---|---|---|
| | **Sale of goods** | **Rendering of services** | **Total** |
| Primary geographical markets: | | | |
| Taiwan | $ 32,500,400 | 16,288 | 32,516,688 |
| The United States | 634,493 | - | 634,493 |
| Asia | 1,253,932 | - | 1,253,932 |
| Others | 842,246 | - | 842,246 |
| | **$ 35,231,071** | **16,288** | **35,247,359** |

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| | For the year ended December 31, 2019 | | |
|---|---|---|---|
| | Sale of goods | Rendering of services | Total |
| Main products/services lines: | | | |
| Deformed bars | $ 19,732,664 | - | 19,732,664 |
| Sections | 14,325,109 | - | 14,325,109 |
| Billets | 51,604 | - | 51,604 |
| Rendering of services | - | 16,288 | 16,288 |
| Others | 1,121,694 | - | 1,121,694 |
| | $ 35,231,071 | 16,288 | 35,247,359 |

| | For the year ended December 31, 2018 | | |
|---|---|---|---|
| | Sale of goods | Rendering of services | Total |
| Primary geographical markets: | | | |
| Taiwan | $ 28,019,969 | 5,906 | 28,025,875 |
| The United States | 1,671,404 | - | 1,671,404 |
| Asia | 3,183,113 | - | 3,183,113 |
| Others | 1,811,890 | - | 1,811,890 |
| | $ 34,686,376 | 5,906 | 34,692,282 |
| Main products/services lines: | | | |
| Deformed bars | $ 17,421,914 | - | 17,421,914 |
| Sections | 14,392,301 | - | 14,392,301 |
| Billets | 626,124 | - | 626,124 |
| Rendering of services | - | 5,906 | 5,906 |
| Others | 2,246,037 | - | 2,246,037 |
| | $ 34,686,376 | 5,906 | 34,692,282 |

(ii) Contract balances

| | December 31, 2019 | December 31, 2018 | January 1, 2019 |
|---|---|---|---|
| Notes receivable | $ 123,249 | 139,471 | 70,036 |
| Accounts receivable | 3,771,378 | 4,930,642 | 3,146,475 |
| Overdue receivables | 10,393 | 10,020 | 10,020 |
| Less: allowance for impairment | (32,350) | (31,977) | (31,977) |
| Total | $ 3,872,670 | 5,048,156 | 3,194,554 |

| | December 31, 2019 | December 31, 2018 | January 1, 2019 |
|---|---|---|---|
| Contract liabilities－advance receipts | $ 530,262 | 329,010 | 301,261 |

For details on accounts receivable and allowance for impairment, please refer to note 6(d).

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(w) Employee compensation and remuneration of directors

In accordance with the articles of incorporation, the Company should contribute no less than 2.5% of the profit as employee compensation and less than 2% as remuneration of directors when there is profit for the year. However, if the Company has accumulated deficits, the profit should be reserved to offset the deficit.

For the years ended December 31, 2019 and 2018, the Company's estimated employee compensation amounted to $54,696 thousand and $32,115 thousand, respectively, and the remuneration of directors amounted to $43,757 thousand and $25,692 thousand, respectively. The estimated amounts mentioned above were calculated based on the net income before tax, excluding the compensation to employees and the remuneration of directors of each period, multiplied by the percentage of compensation to employees and the remuneration of directors as specified in the Company's articles. These compensation and remuneration were expensed under operating costs or operating expenses for the years ended December 31, 2019 and 2018. Related information is available at the Market Observation Post System website. The amounts, as stated in the financial statements for the years ended December 31, 2019 and 2018, are identical to those of the actual distributions.

(x) Non-operating income and expenses

(i) Other income

The details of other income for the years ended December 31, 2019 and 2018 were as follows：

| | For the years ended December 31, | |
|---|---|---|
| | **2019** | **2018** |
| Interest income | $ 14,715 | 860 |
| Dividend income | 23,142 | 59,935 |
| Rental income | 55,057 | 52,754 |
| | **$ 92,914** | **113,549** |

(ii) Other gains and losses

The details of other gains and losses for the years ended December 31, 2019 and 2018 were as follows：

| | For the years ended December 31, | |
|---|---|---|
| | **2019** | **2018** |
| Foreign exchange gain | $ 24,898 | 22,702 |
| Net (loss) gain on disposal of property, plant and equipment | (1,524) | 1,409 |
| Net gain on disposal of investments | (307) | - |
| Net gain on disposal of investment property | - | 3,133 |
| Net gain on financial assets and liabilities at fair value through profit or loss | 66,417 | 2,548 |
| Compensation of land superficies and improvement | - | 30,554 |
| Compensation gain on damage of assets | 20,791 | 2,246 |
| Others | 18,620 | 34,112 |
| | **$ 128,895** | **96,704** |

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(iii) Finance cost

The details of finance costs for the years ended December 31, 2019 and 2018 were as follows：

| | For the years ended December 31, 2019 | 2018 |
|---|---|---|
| Interest expense | | |
| Bank loans | $ 122,974 | 122,643 |
| Amortized interest of domestic corporate bond | 19,292 | 12,187 |
| Interest on domestic commercial paper | 4,752 | 8,246 |
| Lease payable | 1,196 | - |
| Less: interest capitalization | (675) | (2,635) |
| | **$ 147,539** | **140,441** |

(y) Financial instruments

(i) Credit risk

1) Credit risk exposure

The carrying amount of financial assets excluding cash and cash equivalents represents the Company' s maximum credit exposure. As of December 31, 2019 and 2018, the maximum exposure to credit risk amounted to $5,397,127 thousand and $5,998,049 thousand, respectively.

2) Concentration of credit risk

Credit risk, which is mainly generated from operating activities, is the risk that counterparties default. The Company only deals with counterparties that are reputable. Therefore, it is not expected to generate any material credit risk. Moreover, the Company has numerous clients and does not make any concentrative transactions with any single client. Therefore, there is no concentration of credit risk for account receivables.

(ii) Liquidity risk

The following table shows the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

| | Carrying amount | Contractual cash flows | Within 6 months | 6-12 months | 1-2 years | 2-5 years | Over 5 years |
|---|---|---|---|---|---|---|---|
| **December 31, 2019** | | | | | | | |
| Non-derivative financial liabilities | | | | | | | |
| Unsecured bank loans | $ 10,064,718 | 10,124,233 | 6,987,894 | 13,447 | 3,122,892 | - | - |
| Unsecured commercial papers payable | 559,831 | 560,000 | 560,000 | - | - | - | - |
| Unsecured corporate bonds | 2,000,000 | 2,000,000 | - | - | - | 2,000,000 | - |
| Lease liabilities | 145,634 | 154,510 | 10,963 | 8,844 | 15,933 | 34,966 | 83,804 |
| Accounts payable | 1,420,121 | 1,420,121 | 1,420,121 | - | - | - | - |
| Other payables | 1,183,124 | 1,183,124 | 1,183,124 | - | - | - | - |
| | **$ 15,373,428** | **15,441,988** | **10,162,102** | **22,291** | **3,138,825** | **2,034,966** | **83,804** |

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| | Carrying amount | Contractual cash flows | Within 6 months | 6-12 months | 1-2 years | 2-5 years | Over 5 years |
|---|---|---|---|---|---|---|---|
| **December 31, 2018** | | | | | | | |
| Non-derivative financial liabilities | | | | | | | |
| Unsecured bank loans | $ 11,488,087 | 11,568,348 | 8,338,529 | 14,496 | 3,215,323 | - | - |
| Unsecured commercial papers payable | 1,109,567 | 1,110,000 | 1,110,000 | - | - | - | - |
| Unsecured corporate bonds | 2,000,000 | 2,000,000 | - | - | - | 2,000,000 | - |
| Accounts payable | 1,573,597 | 1,573,597 | 1,573,597 | - | - | - | - |
| Other payables | 1,245,168 | 1,245,168 | 1,245,168 | - | - | - | - |
| | $ 17,416,419 | 17,497,113 | 12,267,294 | 14,496 | 3,215,323 | 2,000,000 | - |

The Company does not expect the cash flows included in the maturity analysis to occur significantly earlier or at significantly different amounts.

(iii) Exchange rate risk

1) Exposure to exchange rate risk

The Company’s financial assets and liabilities exposed to significant exchange rate risk were as follows:

| | December 31, 2019 | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|
| | Foreign currency | Exchange rate (in dollars) | TWD | Foreign currency | Exchange rate (in dollars) | TWD |
| Financial assets | | | | | | |
| Monetary items | | | | | | |
| USD | $ 32,930 | 29.98 | 987,241 | 69,374 | 30.72 | 2,131,169 |
| EUR | 2 | 33.59 | 67 | 2 | 35.20 | 70 |
| JPY | 472 | 0.2760 | 130 | 472 | 0.2782 | 131 |
| CNY | 24 | 4.305 | 103 | 22 | 4.472 | 98 |
| Financial liabilities | | | | | | |
| Monetary items | | | | | | |
| USD | 18,738 | 29.98 | 561,765 | 57,244 | 30.72 | 1,758,536 |
| EUR | 2,094 | 33.59 | 70,337 | 1,884 | 35.20 | 66,317 |
| JPY | 63,825 | 0.2760 | 17,616 | 47,607 | 0.2782 | 13,244 |

2) Sensitivity analysis

The Company's exposure to exchange rate risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, loans and accounts receivable, which were denominated in different foreign currencies. The overall effects to net income after tax for the years ended December 31, 2019 and 2018 assuming the TWD appreciate or depreciate by 1% against the USD, EUR, JPY, and CNY, while other factors remain constant, as of December 31, 2019 and 2018 were as follows：

| | Effect of appreciation on net income after tax | Effect of depreciation on net income after tax |
|---|---|---|
| December 31, 2019 | | |
| USD (appreciation/depreciation of 1%) | $ 3,404 | (3,404) |
| EUR (appreciation/depreciation of 1%) | (562) | 562 |
| JPY (appreciation/depreciation of 1%) | (140) | 140 |
| CNY (appreciation/depreciation of 1%) | 1 | (1) |
| | **$ 2,703** | **(2,703)** |

(Continued)

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| | Effect of appreciation on net income after tax | Effect of depreciation on net income after tax |
|---|---|---|
| December 31, 2018 | | |
| USD (appreciation/depreciation of 1%) | $ 2,981 | (2,981) |
| EUR (appreciation/depreciation of 1%) | (530) | 530 |
| JPY (appreciation/depreciation of 1%) | (105) | 105 |
| CNY (appreciation/depreciation of 1%) | 1 | (1) |
| | **$ 2,347** | **(2,347)** |

3) Exchange gains and losses on monetary items

Since the Company has many kinds of functional currency, the information on foreign exchange gain (loss) on monetary items is disclosed by total amount. For years ended December 31, 2019 and 2018, foreign exchange gain (loss) (including realized and unrealized portions) amounted to $24,898 thousand and $22,702 thousand, respectively.

(iv) Interest rate analysis

Please refer to the notes on liquidity risk management and interest rate exposure of the Company's financial assets and liabilities.

The following sensitivity analysis is based on the exposure to the interest rate risk of derivative and non derivative financial instruments on the reporting date. For variable rate instruments, the sensitivity analysis assumes the liabilities bearing variable interest rates are outstanding for the whole year. A 1% increase in interest rate is assessed by management to be a reasonably possible interest rate change.

If the interest rate had increased by 1%, the Company’s net income would have decreased by $100,647 thousand and $114,881 thousand for the years ended December 31, 2019 and 2018 respectively, assuming all other variable factors remaining constant.

(v) Other market price risk

For the years ended December 31, 2019 and 2018, the sensitivity analyses for the changes in the securities price at the reporting date were performed using the same basis for the profit and loss as illustrated below：

| | For the years ended December 31, | |
|---|---|---|
| | **2019** | **2018** |
| **Securities price at reporting date** | **Other comprehensive income after tax** | **Other comprehensive income after tax** |
| Increasing 1% | **$ 3,073** | **3,777** |
| Decreasing 1% | **$ (3,073)** | **(3,777)** |

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(vi) Information on fair value

1) Types and fair value of financial instruments

The carrying and fair value of the Company's financial assets and liabilities, including fair value hierarchy, wherein, disclosures are not required for financial instruments not measured at fair value whose carrying amount is reasonably close to the fair value, and for equity investments that has no quoted prices in the active markets and whose fair value cannot be reliably measured, are listed as follows：

| | December 31, 2019 | | | | |
|---|---|---|---|---|---|
| | Carrying amount | Level 1 | Level 2 | Level 3 | Total |
| Financial assets mandatorily measured at fair value through profit or loss | | | | | |
| Non-derivative financial asset mandatorily measured at fair value through profit or loss - publicly listed domestic stocks | $ 162,959 | 162,959 | - | - | 162,959 |
| Financial assets at fair value through other comprehensive income | | | | | |
| Publicly listed domestic stocks | 307,282 | 307,282 | - | - | 307,282 |
| Equity instruments measured at fair value with no publicly quoted price | 149,046 | - | - | 149,046 | 149,046 |
| Subtotal | 456,328 | 307,282 | - | 149,046 | 456,328 |
| Financial assets measured at amortized cost | | | | | |
| Cash and cash equivalents | 375,583 | - | - | - | - |
| Notes and accounts receivable | 3,872,670 | - | - | - | - |
| Other receivables | 720,125 | - | - | - | - |
| Refundable deposits | 185,045 | - | - | - | - |
| Subtotal | 5,153,423 | - | - | - | - |
| Total | **$ 5,772,710** | **470,241** | **-** | **149,046** | **619,287** |
| Financial liabilities at fair value through profit or loss | | | | | |
| Derivative financial liabilities－foreign exchange forward contract | $ 6,778 | - | 6,778 | - | 6,778 |
| Redemption options on convertible bonds | 13,000 | - | 13,000 | - | 13,000 |
| Subtotal | 19,778 | - | 19,778 | - | 19,778 |
| Financial liabilities measured at amortized cost | | | | | |
| Short-term loans | 6,964,718 | - | - | - | - |
| Short-term bills payable | 559,831 | - | - | - | - |
| Long-term loans | 3,100,000 | - | - | - | - |
| Convertible bonds | 1,945,021 | - | 1,943,400 | - | 1,943,400 |
| Notes and accounts payable | 1,420,121 | - | - | - | - |
| Other payables | 1,183,124 | - | - | - | - |
| Lease liabilities | 145,634 | - | - | - | - |
| Subtotal | 15,318,449 | - | 1,943,400 | - | 1,943,400 |
| Total | **$ 15,338,227** | **-** | **1,963,178** | **-** | **1,963,178** |

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| | December 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Carrying amount | Level 1 | Level 2 | Level 3 | Total |
| Financial assets mandatorily measured at fair value through profit or loss | | | | | |
| Non-derivative financial asset mandatorily measured at fair value through profit or loss - publicly listed domestic stocks | $ 134,560 | 134,560 | - | - | 134,560 |
| Financial assets at fair value through other comprehensive income | | | | | |
| Publicly listed domestic stocks | 377,716 | 377,716 | - | - | 377,716 |
| Equity instruments measured at fair value with no publicly quoted price | 180,199 | - | - | 180,199 | 180,199 |
| Subtotal | 557,915 | 377,716 | - | 180,199 | 557,915 |
| Financial assets measured at amortized cost | | | | | |
| Cash and cash equivalents | 329,264 | - | - | - | - |
| Notes and accounts receivable | 5,048,156 | - | - | - | - |
| Other receivables | 72,190 | - | - | - | - |
| Refundable deposits | 185,228 | - | - | - | - |
| Subtotal | 5,634,838 | - | - | - | - |
| Total | **$ 6,327,313** | **512,276** | **-** | **180,199** | **692,475** |
| Financial liabilities at fair value through profit or loss | | | | | |
| Derivative financial liabilities－foreign exchange forward contract | $ 1,745 | - | 1,745 | - | 1,745 |
| Redemption options on convertible bonds | 31,200 | - | 31,200 | - | 31,200 |
| Subtotal | 32,945 | - | 32,945 | - | 32,945 |
| Financial liabilities measured at amortized cost | | | | | |
| Short-term loans | 8,288,087 | - | - | - | - |
| Short-term bills payable | 1,109,567 | - | - | - | - |
| Long-term loans | 3,200,000 | - | - | - | - |
| Convertible bonds | 1,915,729 | - | 1,914,200 | - | 1,914,200 |
| Notes and accounts payable | 1,573,597 | - | - | - | - |
| Other payables | 1,245,168 | - | - | - | - |
| Subtotal | 17,332,148 | - | 1,914,200 | - | 1,914,200 |
| Total | **$ 17,365,093** | **-** | **1,947,145** | **-** | **1,947,145** |

2) Technique for fair value evaluation of financial instruments not measured at fair value

The Company’s valuation techniques and assumptions used for financial instruments not measured at fair value are as follows：

a) Financial assets measured at amortized cost (Financial assets held to maturity)

If the quoted prices in active markets are available, the market price is established as the fair value. However, if quoted prices in active markets are not available, the estimated valuation or prices used by competitors are adopted.

b) Financial assets measured at amortized cost (debt investments with no active market) and financial liabilities measured at amortized cost

If there is quoted price generated by transactions, the recent transaction price and quoted price data is used as the basis for fair value measurement. However, if no quoted prices are available, the discounted cash flows are used to estimate fair values.

(Continued)

3) Technique for fair value evaluation of financial instruments measured at fair value

a) Non- derivative financial instruments

If a financial instrument is quoted in an active market, the quoted price is its fair value. Announced prices at major exchanges and market prices of popular government bonds at the Taipei Exchange are bases of fair value for listed equity instruments and other debt investments with an active market.

A financial instrument is regarded as being quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency. If this condition is not met, the market is not active. Generally, if bid-ask spreads are very wide, the spread is increasing, or the transaction volume is low, the market is not active.

Fair value of the Company’s financial instruments that have an active market is displayed by category and attributed as follows：

Listed stocks are financial assets and liabilities with standard transaction terms and conditions, and are traded on an active market. The fair value of such items is determined in reference to the quoted market price.

Except for the abovementioned financial instruments with an active market price, the fair value of other financial instruments is measured using the valuation techniques. The fair value obtained through valuation techniques can be used as a reference to the current fair value, discounted cash flow, or other valuation techniques for other financial instruments with substantially similar properties and conditions. Fair value calculated using the valuation models and the available market information on the balance sheet date are also accepted by the market.

The fair value and the attributes of a financial instrument without an active market held by the Company is listed as follows：

- Equity instruments without an open quoted price: Fair value is estimated using the approach of comparative companies. The main assumptions are the estimated EBITDA of the investee, and the earnings multiplier derived from the quoted price of a comparative publicly listing company. Such estimate has been adjusted by the discount due from the lack of market circulation of the equity securities.

b) Derivative financial instruments

Such items are valued using the valuation models which are widely accepted by the market. Foreign exchange forward contracts normally are valued using the current forward exchange rates. Interest rate structured financial instruments are valued using the option pricing models or other valuation methods.

4) Transfers between Level 1 and Level 2

There were no transfers in either direction for the years ended December 31, 2019 and 2018.

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5) Quantified information on significant unobservable inputs (Level 3) used in fair value measurement

The Company's financial instruments that use Level 3 inputs to measure fair value include "financial assets measured at fair value through other comprehensive income – equity investments".

Multiple unobservable inputs exist with the fair value of the Company's investments in equity instruments. Since the significant unobservable inputs are independent of each other, no interrelationship exists.

Quantified information of significant unobservable inputs was as follows：

| Item | Valuation technique | Significant unobservable inputs | Inter-relationship between significant unobservable inputs and fair value measurement |
|---|---|---|---|
| Financial assets at fair value through other comprehensive income － investment in equity instrument without an active market | Comparative method | ·Multiplier of P/E ratio (0.62~2.31 and 0.6~12.97 as of December 31, 2019 and December 31, 2018) | ·The higher the multiplier and the control premium, the higher the fair value<br>·The higher the discount rate, the lower the fair value· |
| | Value Method | ·Discount rate for lack of market circulation (4.92%~29.43% and 15%~33.7% as of December 31, 2019 and December 31, 2018) | |

6) Fair value measurements in Level 3 – sensitivity analysis of reasonably possible alternative assumptions

The measurement of fair value by the Company is considerably reasonable. However, if a different valuation model or assumption is adopted, the result can differ. For fair value measurements in Level 3, changes in the assumptions would have the following effects:

| | Input | Changes in assumptions | Changes in fair value reflected in OCI | |
|---|---|---|---|---|
| | | | Favorable | Unfavorable |
| **December 31, 2019** | | | | |
| Financial assets at fair value through other comprehensive income | | | | |
| Investment in equity instrument without an active market | Discount on circulation 4.92%~29.43% | 5% | 9,139 | (9,139) |
| **December 31, 2018** | | | | |
| Financial assets at fair value through other comprehensive income | | | | |
| Investment in equity instrument without an active market | Discount on circulation 15%~33.7% | 5% | 11,899 | (11,899) |

(Continued)

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The favorable and unfavorable effects represent the changes in fair value, and fair value is based on a variety of unobservable inputs calculated using a valuation technique. The analysis above only reflects the effects of changes in a single input, and it does not include the interrelationships with another input.

(z) Financial risk management

(i) Summary

The Company have exposures to the following risks from its financial instruments：

1) Credit risk

2) Liquidity risk

3) Market risk

The following likewise discusses the Company’ s objectives, policies and processes for measuring and managing the above mentioned risks. For more disclosures about the quantitative effects of these risks exposures, please refer to the respective notes in the accompanying consolidated financial statements.

(ii) Structure of risk management

The goal of risk management of the Company is to seek balance between risk and revenue, reducing the negative impact of financial risks on financial performance. Based on that goal, the Company has already established risk management policies for identifying and analyzing the risks faced, set appropriate acceptable risk level, and designed corresponding internal control procedures in order to supervise the risk level of the Company. The Company will review these risk management policies and relevant internal control system periodically to adapt to the market or the changes in operational activities of the Company.

(iii) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company’s receivables from customers and investment in securities.

1) Accounts receivable and other receivables

To maintain the credit quality of receivables, a credit risk management policy has been established. Under this policy, each customer is analyzed individually regarding customer’ s financial situation, external and internal credit rating, historical trading record, and current economic condition which may affect customer’s payment ability. In addition, some methods are adopted to reduce the credit risk for specific customers, such as prepayment and insurance of accounts receivable.

2) Investments

The exposure to credit risk for the bank deposits, fixed income investments and other financial instruments is measured and monitored by the Company's finance department. The Company only deals with banks, other external parties, corporate organizations, government agencies and financial institutions with good credit rating. The Company does not expect any counterparty above fails to meet its obligations hence there is no significant credit risk arising from these counterparties.

3) Endorsements and guarantees

The parties whom the Company endorses and guarantees are its subsidiaries and affiliated companies; the items that the Company endorses and guarantees are mostly financing and import duties commodity tax. Because the affiliated companies are financially sound and operate stably, the Company has never suffered from losses due to endorsements and guarantees.

(iv) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. The Company's approach to managing liquidity is to ensure, as much as possible, that it will always have sufficient current funds, such as cash and cash equivalent, securities with high liquidity, and sufficient credit line from banks, to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Company's reputation. Therefore, the Company believes the liquidity risk is low.

The Company not only analyzes its debt structure and deadline periodically to maintain sufficient capital, but also consults with financial institutions to maintain its credit lines, thereby, mitigating liquidity risk. The Company obtains its credit lines from certain financial institutions, of which the unused credit lines amounted to $14,429,522 thousand as of December 31, 2019. The borrowings that had been used within the credit lines were listed separately in short-term and long-term loans.

(v) Market risk

Market risk is the risk of changes in market prices, such as foreign exchange rates, interest rates and equity prices that will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

1) Exchange rate risk

Exchange rate risks are the risks generated from the fluctuation of fair value or the future cash flows of the financial instruments. The Company's exchange rate risks arise from transactions such as sales, purchases and loans that are not recognized at the Company's functional currency.

Steel bars and sections are the two main products of the Company. Sales of steel bars mainly go to domestic clients and are recognized in New Taiwan dollar. The ratio of domestic sales to external sales for sections was about 89 to 11 for the year ended December 31, 2019. The external sales for the year ended December 31, 2019 was about $2,730,000 thousand, which was 8% of the total revenue. Because the functional currency for import and export sales are all recognized in United States dollar ("USD"), sales revenue in USD and payments in USD can offset each other. The Company uses foreign exchange forward contracts to avoid the risk of exchange rate fluctuation, recognizing the fluctuation of the fair value of the derivatives in profit or loss and takes the following steps to avoid exchange risk：

Collect relevant information about the daily fluctuation in exchange rate in order to know its trend. Decide whether to convert one currency into another specific currency at a proper time or retain foreign currency borrowings.

On dispatching foreign funds, the creditor's rights and debts in foreign currency offset each other through regular external sales and imports, causing the effect of natural hedge.

Consult with foreign exchange departments of banks about hedging strategies and decide the foreign position that depends on the actual need of capital and the fluctuation of the exchange rate.

2) Interest rate risk

Interest rate risks are the risks that arise due to fluctuations in fair value or future cash flows of financial instruments because of changes in interest rate.

The Company will obtain a more beneficial capital according to the compatibility of corresponding banks and the actual interest rate trends. The ratio of net interest revenue to the net operating revenue is not material; therefore, interest rate fluctuation does not cause any significant impact on the Company. Besides, the Company maintains a close relationship with certain corresponding banks and is well informed of any changes in the market in order to obtain a much more beneficial borrowing rate. The Company continues to observe changes of interest rate on the market and issues convertible bonds to raise capital at proper time, and to fix and reduce interest cost for the Company. Material capital expenditure will be evaluated with prudence and will be compared to different fund-raising instruments in order to raise capital with the least cost.

(aa) Capital management

Although business operated by the Company has reached the stage of maturity, a sufficient amount of capital is still required to support the operation of investee companies, construction and expand its production facilities and equipment. The Company's policy is to maintain adequate financial resources and operating plan to meet future operating capital, capital expenditure, research and development expenditure, loans reimbursement, and dividend distribution.

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The Company uses the debt-to-capital ratio to manage capital. The debt-to-capital ratio is calculated by dividing the net liabilities by the total capital. Net liabilities derive from deducting cash and cash equivalents from total liabilities.

The Company reviews the ratio of debt-to-capital periodically to improve stockholders' value. The debt-to-capital ratios as of December 31, 2019 and 2018, were as follows：

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Total liabilities | $ 17,236,996 | 18,910,544 |
| Less：cash and cash equivalents | (375,583) | (329,264) |
| Net liabilities | 16,861,413 | 18,581,280 |
| Total equity | 24,199,492 | 23,903,085 |
| Total capital | **$ 41,060,905** | **42,484,365** |
| Debt-to-capital ratio | **41.06 %** | **43.74 %** |

As of December 31, 2019, there were no changes in the Company's approach to capital management during the period.

(ab) The investing and financing activities of non-cash transactions

Cash flow of non-cash investing and financing transactions for the years ended December 31, 2019 and 2018, were as follows：

| | For the years ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| Reclassification of prepayment of land and equipment to property, plant and equipment | **$ 47,746** | **110,437** |
| Changes in unrealized gain or loss on financial instruments | **$ 6,896** | **14,626** |
| Unrealized gain or loss on financial instruments accounted for using the equity method | **$ -** | **(3,803)** |
| Exchange differences arising from foreign operation | **$ (119,712)** | **(84,312)** |
| Increase in property, plant and equipment | $ 194,384 | 620,130 |
| Add: payable for equipment as of January 1 | 120,519 | 43,579 |
| Less: payable for equipment as of December 31 | (11,323) | (120,519) |
| Cash paid | **$ 303,580** | **543,190** |

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Reconciliation of liabilities arising from financing activities were as follows:

| | | Cash flows | | | Non-cash changes | |
|---|---|---|---|---|---|---|
| | January 1,2019 | Proceeds from loans | Repayment | Other | Other | December 31, 2019 |
| Short-term loans | $ 8,288,087 | 61,160,027 | (62,483,396) | - | - | 6,964,718 |
| Long-term loans | 3,200,000 | 1,850,000 | (1,950,000) | - | - | 3,100,000 |
| Short-term notes and bills payable | 1,110,000 | 6,090,000 | (6,640,000) | - | - | 560,000 |
| Bonds payable | 1,915,729 | - | - | - | 19,292 | 1,935,021 |
| Refundable deposits | 10,665 | - | - | 2,595 | - | 13,260 |
| Lease liabilities | 109,582 | - | - | 30,762 | 5,290 | 145,634 |
| Total liabilities from financing activities | $ 14,634,063 | 69,100,027 | (71,073,396) | 33,357 | 24,582 | 12,718,633 |

| | | Cash flows | | | Non-cash changes | |
|---|---|---|---|---|---|---|
| | January 1,2018 | Proceeds from loans | Repayment | Other | Other | December 31, 2018 |
| Short-term loans | $ 4,931,569 | 53,929,277 | (50,572,759) | - | - | 8,288,087 |
| Long-term loans | 3,000,000 | 2,550,000 | (2,350,000) | - | - | 3,200,000 |
| Short-term notes and bills payable | 470,000 | 9,055,000 | (8,415,000) | - | - | 1,110,000 |
| Bonds payable | - | 2,000,000 | - | - | (84,271) | 1,915,729 |
| Refundable deposits | 22,219 | - | - | (11,554) | - | 10,665 |
| Total liabilities from financing activities | $ 8,423,788 | 67,534,277 | (61,337,759) | (11,554) | (84,271) | 14,524,481 |

## (7) Related-party transactions

(a) Names and relationship with related parties

| Name of related party | Relationship with the Company |
|---|---|
| Tung Yuan International Corp. | A subsidiary |
| Tung Kang Steel Structure Corp. | A subsidiary |
| Goldham Development Ltd. | A subsidiary |
| Katec Creative Resources Corp. | A subsidiary |
| Tung Kang Wind Power Corp. | A subsidiary |
| Fa Da Enterprise Corp. | A subsidiary |
| Tung Ho Steel Vietnam Corp., Ltd. | A subsidiary |
| 3 Oceans International Inc. | A subsidiary |
| Best-steel Trade Corp. | A subsidiary |
| Tung Kang Engineering and Construction Corp. | A subsidiary |
| Fujian Tung Kang Steel Co., Ltd. | A subsidiary |
| Tung Tang Energy Corp. | A subsidiary |
| Fujian Dong Sheng Metal Processing Co., Ltd. | A subsidiary |
| Katec R & D Corp. | An associate |

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| Name of related party | Relationship with the Company |
|---|---|
| Taiwan Steel Union Co., Ltd. | An associate |
| Duc Hoa International Joint Stock Company | An associate |
| Fujian Sino-Japan Metal Corp. | An associate |
| Shen Yuan Investment Co., Ltd. | The entity's chairman is a second immediate family of the chairman of the Company |
| Far East Steel Enterprise Corp. | Same chairman with the Company |
| Delta Design Corp. | The entity's chairman is a second immediate family of the chairman of the Company |
| Tung Ho Steel Foundation ("THSF") | The entity's chairman is an immediate family of the chairman of the Company |
| Directors, general manager and vice general manager | |

(b) Significant related-party transactions

(i) Sales to related parties

Significant sales to related parties and the balance of outstanding accounts receivable were as follows：

| | Sales | | Accounts receivable | |
|---|---|---|---|---|
| | For the years ended December 31, | | December 31, | December 31, |
| **Relationship** | **2019** | **2018** | **2019** | **2018** |
| Subsidiaries | $ **4,370,841** | **5,260,365** | **1,274,728** | **2,525,807** |

The selling price and credit terms for sales to related parties are not significantly different from those to other customers, except for the credit terms for sales to Best-Steel Trade Corp. were within 110 days and to Tung Ho Steel Vietnam Corp., Ltd. were within 120 days and 330 days respectively. Part of accounts receivable to Tung Ho Steel Vietnam Corp., Ltd. has exceeded the credit days, and the Company had translated to financing, please refer to (vi) Financing to related parties.

(ii) Purchases from related parties

| | Purchases | | Accounts payable | |
|---|---|---|---|---|
| | For the years ended December 31, | | December 31, | December 31, |
| **Relationship** | **2019** | **2018** | **2019** | **2018** |
| Other related parties | $ - | 1,412 | - | - |
| Associates | 877 | 2,044 | - | 882 |
| Subsidiaries | 1,829,681 | 277,112 | 18,315 | 19,154 |
| | $ **1,830,558** | **280,568** | **18,315** | **20,036** |

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The terms of purchase transactions and the payment terms with related parties were not significantly different from those with other vendors.

(iii) The unrealized profit resulting from the Company's downstream sales to its subsidiaries has been directly deducted from its operating gross profit. The realized profit has been added to its operating gross profit.

Significant unrealized (realized) profits from downstream sales for the years ended December 31, 2019 and 2018 were as follows：

| | For the years ended December 31, 2019 | 2018 |
|---|---|---|
| Downstream unrealized profit from sales | $ (25,818) | (43,741) |
| Downstream realized profit from sales | 43,741 | 35,941 |
| | **$ 17,923** | **(7,800)** |

As of December 31, 2019 and 2018, the balances of unrealized profits from downstream sale transactions were $25,818 thousand and $43,741 thousand, respectively, and were recognized as a reduction to investment accounted for using the equity method.

(iv) Property transactions

1) In 2016, the Company entered into two seperate agreements with Tung Kang Engineering & Construction Corp for the "Taoyuan Phase II Expansion Project"and "Taiper Harbor Scrap Factory Construction", at the amounts of $70,421 thousand and $99,316 thousand respectively. Both constructions were completed in September and August of 2018, respectively, and were reclassified from construction in progress to property, plant and equipment, totaling $165,359 thousand, resulting in an unrealized gain of $40,691 thousand, which was recognized as a deduction to investment accounted for using the equity method.

2) In 2018, the Company entered into an agreement with Tung Kang Steel Structure Corp. for its "Taoyuan cut-to-length production factory", at an amount of $117,865 thousand. The construction was completed in August of 2018, and was reclassified from construction in progress to property, plant and equipment, totaling $106,079 thousand. As of December 31, 2018, the unpaid amount was $106,079 thousand, resulting in an unrealized gain of $9,779 thousand, which was recognized as a deduction to investment accounted for using the equity method.

3) In December 2019, the Company entered into an agreement with Fa Da Enterprise Corp. for "Contract of real estate sale & purchase", at an amount of $64,000 thousand (exclude tax), and listed as "Investment property", resulting in an unrealized loss of $17,486 thousand, which was recognized as an addition to investment accounted for using the equity method.

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**Notes to the parent company only Financial Statements**

(v) Endorsement/guarantees provided

The details regarding balances of financing endorsement were as follows：

Expressed in thousands

| | December 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Highest balance for current period | | Ending amount (Note) | | Actual usage amount | |
| Subsidiaries | USD | 366,500 | USD | 276,500 | USD | 109,692 |
| Subsidiaries | CNY | 130,000 | CNY | 80,000 | CNY | 28,930 |

| | December 31, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Highest balance for current period | | Ending amount (Note) | | Actual usage amount | |
| Subsidiaries | USD | 305,500 | USD | 254,500 | USD | 128,220 |
| Subsidiaries | USD$ | 50,000 | USD | 50,000 | USD | 29,465 |

Note：The credit limit approved by the Board of Directors

(vi) Financing to related parties

The details of financing to related parties (listed as other receivables－loans to subsidiaries) were as follows：

| | December 31, 2019 |
|---|---|
| **Relationship** | **Actual usage amount** |
| Subsidiaries－Tung Ho Steel Vietnam Corp., Ltd. | $ 701,041 |

The Company financing to related parties was interest based on the average interest rate of the Company's short-term loans from financial institutions in the year of appropriation, and all of unsecured loan. After assessment, no impairment loss is required.

Financing transactions with related parties were as follows：

| | For the years ended December 31, 2019 | | December 31, 2019 |
|---|---|---|---|
| **Relationship** | **Interest income** | **Interest rate** | **Interest receivable** |
| Subsidiaries－Tung Ho Steel Vietnam Corp., Ltd. | $ 14,122 | 2.031%~2.848% | 1,368 |

(Continued)

**TUNG HO STEEL ENTERPRISE CORPORATION**
**Notes to the parent company only Financial Statements**

(vii) Others

| Relationship | Rental income For the years ended December 31, 2019 | 2018 | Miscellaneous revenue For the years ended December 31, 2019 | 2018 |
|---|---|---|---|---|
| Subsidiaries | $ 4,788 | 4,718 | 19,037 | 16,704 |
| Associates | 3,249 | 3,249 | - | - |
| Other related parties | 4,328 | 2,893 | - | - |
| | $ 12,365 | 10,860 | 19,037 | 16,704 |

| Relationship | Other operating expenses For the years ended December 31, 2019 | 2018 | Donation expenses For the years ended December 31, 2019 | 2018 | Manufacturing expenses For the years ended December 31, 2019 | 2018 |
|---|---|---|---|---|---|---|
| Subsidiaries | $ 3,740 | 8,408 | - | - | 322 | 3,798 |
| Associates | 4,364 | 4,448 | - | - | 27,219 | 22,246 |
| Other related parties | - | 961 | 4,378 | 3,558 | - | - |
| | $ 8,104 | 13,817 | 4,378 | 3,558 | 27,541 | 26,044 |

| Relationship | Notes payable December 31, 2019 | December 31, 2018 |
|---|---|---|
| Other related parties | $ - | 640 |

| Relationship | Other receivables December 31, 2019 | December 31, 2018 | Other payables December 31, 2019 | December 31, 2018 |
|---|---|---|---|---|
| Subsidiaries | $ 1,360 | 1,908 | 34,541 | 1,022 |
| Associates | - | - | 3,657 | 3,107 |
| Other related parties | 28 | 21 | - | - |
| | $ 1,388 | 1,929 | 38,198 | 4,129 |

| Relationship | Deposits received December 31, 2019 | December 31, 2018 | Investment property December 31, 2019 | December 31, 2018 |
|---|---|---|---|---|
| Associates | $ 304 | 304 | - | 4,143 |

**TUNG HO STEEL ENTERPRISE CORPORATION**
**Notes to the parent company only Financial Statements**

(c) Compensation of key management personnel

| | For the years ended December 31, | |
|---|---|---|
| | **2019** | **2018** |
| Short-term employee benefits | $ 41,432 | 46,695 |
| Post-employment benefits | 2,101 | 2,362 |
| | **$ 43,533** | **49,057** |

For the years ended December 31, 2019 and 2018, the Company provided three and four cars that cost $9,306 thousand and $12,543 thousand for the key management personnel of the entity.

## (8) Pledged assets

The details of the Company's pledged assets were as follows：

| Pledged assets | Pledged to secure | December 31, 2019 | December 31, 2018 |
|---|---|---|---|
| Refundable deposits | Performance guarantee | **$ 3,955** | **3,687** |

## (9) Significant commitments and contingencies

(a) Unrecognized contractual commitments

(i) The guarantees were mainly for securing loans and gave rise to potential off-balance-sheet credit risk, which represents the risk of loss incurred by the default of counterparties or by the devaluation of collateral provided by the counterparties. The Company did not ask counterparties for collateral as secure guarantees. The amounts of the Company's guarantees were as following:

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Guarantees securities amounts | **$ 8,633,870** | **8,041,840** |

(ii) The amounts of guaranteed notes issued by the Company were as follows：

| Nature | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Bank credit limit | $ 1,000,000 | 1,000,000 |
| Leases | 200 | 200 |
| Guaranteed payment for purchases of raw materials | 102,080 | 40,030 |
| Performance guarantee | 637 | - |
| | **$ 1,102,917** | **1,040,230** |

(iii) The amount of unused outstanding letters of credit was as follows：

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Unused outstanding letters of credit | **$ 1,083,614** | **1,122,575** |

(Continued)

**TUNG HO STEEL ENTERPRISE CORPORATION**
**Notes to the parent company only Financial Statements**

**(10) Losses due to major disasters: None**

**(11) Subsequent events: None**

**(12) Others**

A summary of current-period employee benefits, depreciation, and amortization, by function, was as follows:

| | For the year ended December 31, 2019 | | | For the year ended December 31, 2018 | | |
|---|---|---|---|---|---|---|
| | Classified as operating costs | Classified as operating expenses | Total | Classified as operating costs | Classified as operating expenses | Total |
| Employee benefits | | | | | | |
| Salaries | 1,080,656 | 463,723 | 1,544,379 | 983,679 | 375,902 | 1,359,581 |
| Labor and health insurance | 95,295 | 32,988 | 128,283 | 87,963 | 30,966 | 118,929 |
| Pension expenses | 54,708 | 16,549 | 71,257 | 52,017 | 15,361 | 67,378 |
| Remuneration of directors | - | 43,757 | 43,757 | - | 35,292 | 35,292 |
| Other personnel expenses | 36,768 | 10,303 | 47,071 | 35,110 | 10,064 | 45,174 |
| Depreciation expenses | 910,539 | 82,445 | 992,984 | 894,638 | 54,889 | 949,527 |
| Amortization expenses | 34,474 | 1,854 | 36,328 | 23,574 | 1,900 | 25,474 |

For the years ended December 31,2019 and 2018, the Company's additional information of number of employees and employee benefit expenses were as follows：

| | For the years ended December 31, 2019 | 2018 |
|---|---|---|
| Number of employees | 1,674 | 1,672 |
| Number of directors who have not served as employees | 9 | 9 |
| Averaged employee benefit expenses | $ 1,076 | 957 |
| Averaged employee salary expenses | $ 928 | 818 |
| Percentage of averaged employee salary expenses adjustment | 13.45 % | |

# TUNG HO STEEL ENTERPRISE CORPORATION
## Notes to Financial Statements

**(13) Other disclosures**

(a) Information on significant transactions:

The following is the information on significant transactions required by the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" for the Company:

(i) Financing to other parties:

(in thousands of NTD/USD)

| Number | Name of lender | Name of borrower | Account name | Related party | Highest balance of financing to other parties during the period | Ending balance | Actual usage amount during the period | Range of interest rates during the period | Purposes of fund financing for the borrower | Transaction amount for business between two parties | Reasons for short-term financing | Allowance for bad debt | Collateral Item | Collateral Value | Individual funding loan limits | Maximum limit of fund financing |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | The Company | Tung Ho Steel Vietnam Corp., Ltd. | Other receivables | Yes | 1,997,976 (USD66,644) | 701,041 (USD23,384) | 701,041 (USD23,384) | 2.031%~ 2.848% | (2) | - | Operating capital | - | | - | 2,419,949 | 4,839,898 |

Note 1: Financing to an individual party should not exceed 10% of the net equity on its latest financial statements. The maximum amount allowed for financing should not exceed 20% of the net equity on its latest financial statements.

Note 2: Reasons for short-term financing were as follows:

(1) Those with business contact

(2) Those necessary for short-term fund circulation

Note 3: On June 18, 2019, the board of directors approved the reclassification of accounts receivable to financing to THSVC.

(ii) Guarantees and endorsements for other parties:

(in thousands of NTD/USD)

| No. | Name of guarantor | Counter-party of guarantee and endorsement: Name | Counter-party of guarantee and endorsement: Relationship with the Company | Limitation on amount of guarantees and endorsements for a specific enterprise | Highest balance for guarantees and endorsements during the period | Balance of guarantees and endorsements as of reporting date | Actual usage amount during the period | Property pledged for guarantees and endorsements (amount) | Ratio of accumulated amounts of guarantees and endorsements to net worth of the latest financial statements | Maximum amount for guarantees and endorsements | Parent company endorsements/ guarantees to third parties on behalf of subsidiary | Subsidiary endorsements/ guarantees to third parties on behalf of parent company | Endorsements/ guarantees to third parties on behalf of companies in Mainland China |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 0 | The Company (Note 2, 3) | Fujian Tung Kang Steel Co., Ltd | 2 | 12,099,746 | 1,219,210 (USD22,000) (CNY130,000) | 614,220 (USD9,000) (CNY80,000) | 204,146 (USD2,655) (CNY28,930) | - | 2.54 % | 12,099,746 | Y | N | Y |
| 0 | The Company (Note2,3) | Tung Ho Steel Vietnam Corp., Ltd. | 2 | 12,099,746 | 10,328,110 (USD344,500) | 8,019,650 (USD267,500) | 3,208,964 (USD107,037) | - | 33.14 % | 12,099,746 | Y | N | N |
| 1 | Tung Yuan International Corp. (Note 4, 5) | Best Steel Trade Corp | 2 | 382,698 (USD12,765) | 125,916 (USD4,200) | 89,940 (USD3,000) | 35,976 (USD1,200) | 35,976 (USD1,200) | 11.75 % | 765,395 (USD25,530) | N | N | N |
| 1 | Tung Yuan International Corp. (Note 4, 5) | Fujian Sino-Japan Metal Corp. | 6 | 382,698 (USD12,765) | 314,790 (USD10,500) | 157,395 (USD5,250) | 157,395 (USD5,250) | - | 20.56 % | 765,395 (USD25,530) | N | N | Y |

Note 1: There are seven kinds of conditions in which the Company may have guarantees or endorsements for the receiving parties.

(1) The Company has business with the receiving parties.

(2) The Company holds directly more than 50% of the ordinary stock of the subsidiaries.

(3) The Company and its subsidiaries hold more than 50% of the investee.

(4) The Company holds directly or indirectly through its subsidiaries more than 50% of the investee.

(5) The Company is required to make guarantees or endorsements for the construction project based on the contract.

(6) The stockholders of the Company make guarantees or endorsements for the investee in proportion to their stockholding percentage.

(7) The companies in the same industry provide among themselves, joint and several security for a performance guarantee on sales contracts for pre-construction homes pursuant to the Consumer Protection Act for each other.

Note 2: Guarantees and endorsements for an individual company should not exceed 50% of the net equity of the latest financial statements.

Note 3: The total amount of guarantees and endorsements should not exceed 50% of the net equity of the latest financial statements.

Note 4: Guarantees and endorsements for an individual company should not exceed 50% of the total amount of guarantees and endorsements.

Note 5: The total amount of guarantees and endorsements should not exceed the Company's net worth on its latest financial statements. The limitation amount for the current period is USD25,530 thousand. Guarantees and endorsements for an individual company should not exceed 50% of the company's net worth on its latest financial statements. Moreover, according to the Company's policy, the total amount of guarantees and endorsements made by the company should not exceed 50% of the Company's latest financial statement (limit of the current period: $12,099,746 thousand); the total amount of guarantees and endorsements on an individual company should not exceed 50% of the Company's net worth of its latest financial statements (limit of the current period: $12,099,746 thousand.)

# TUNG HO STEEL ENTERPRISE CORPORATION
## Notes to Financial Statements

(iii) Securities held as of December 31, 2019 (excluding investment in subsidiaries, associates and joint ventures):

(in thousands of NTD)

| Name of holder | Category and name of security | Relationship with company | Account title | Ending balance | | | | Note |
|---|---|---|---|---|---|---|---|---|
| | | | | Shares/Units (thousands) | Carrying value | Percentage of ownership (%) | Fair value | |
| The Company | Stock－Zenitron Corporation | - | (a) | 3,825,000 | 80,707 | 1.79 % | 80,707 | None |
| The Company | Stock－Adlink | - | (a) | 1,713,577 | 82,252 | 0.79 % | 82,252 | 〃 |
| The Company | Stock－Shiao Kang Warehousing Corp. | One of its directors | (b) | 2,384,060 | 16,069 | 19.87 % | 16,069 | 〃 |
| The Company | Stock－Hexawave Photonic System, Inc. | - | (b) | 2,564,023 | 21,794 | 6.39 % | 21,794 | 〃 |
| The Company | Stock－Overseas Investment & Development Corp. | - | (b) | 1,000,000 | 6,230 | 1.11 % | 6,230 | 〃 |
| The Company | Stock－Power World Fund, Inc. | One of its directors | (b) | 677,245 | 8,825 | 5.68 % | 8,825 | 〃 |
| The Company | Stock－Universal Venture Fund, Inc. | One of its directors | (b) | 558,255 | 7,653 | 4.76 % | 7,653 | 〃 |
| The Company | Stock－Tung Jiang Investment Corp. | One of its directors | (b) | - | 36,523 | 9.13 % | 36,523 | 〃 |
| The Company | Stock－Taiwan Aerospace Corp. | - | (b) | 1,621,441 | 26,332 | 1.19 % | 26,332 | 〃 |
| The Company | Stock－Universal Venture Capital Investment Corp. | - | (b) | 2,800,000 | 19,292 | 2.33 % | 19,292 | 〃 |
| The Company | Stock－IBT | - | (b) | 1,312,993 | 6,328 | 4.17 % | 6,328 | 〃 |
| The Company | Katec Creative Resources Corporation－preferred stock | Subsidiary of the Company | (b) | 577,031 | - | 65.18 % | - | 〃 |
| The Company | Stock－Chien Shing Harbour Service Co., Ltd. | One of its directors | (b) | 8,203,800 | 233,808 | 10.11 % | 233,808 | 〃 |
| The Company | Stock－Taiwan High Speed Rail Corporation | - | (b) | 1,913,376 | 73,474 | 0.04 % | 73,474 | 〃 |
| Tung Yuan International Corp. | Chinese Products Promotion Center | - | (b) | 2,500 | 229 | 0.66 % | 229 | 〃 |
| Tung Yuan International Corp. | Pech alliance Corp. | - | (b) | 1,791,562 | 5,195 | 5.69 % | 5,195 | 〃 |
| Tung Kang Engineering & Construction Corp. | Toko Sanitaryware Trading Development Corp. | - | (b) | 150,000 | 2,982 | 15.00 % | 2,982 | 〃 |

Note : (a) Financial assets at fair value through profit or loss －current

(b) Financial assets at fair value through other comprehensive income －non-current

(iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT$300 million or 20% of the capital stock: None

(v) Acquisition of individual real estate with amount exceeding the lower of NT$300 million or 20% of the capital stock: None

(vi) Disposal of individual real estate with amount exceeding the lower of NT$300 million or 20% of the capital stock: None

# TUNG HO STEEL ENTERPRISE CORPORATION
## Notes to Financial Statements

(vii) Related-party transactions for purchases and sales with amounts exceeding the lower of NT$100 million or 20% of the capital stock:

(in thousands of NTD)

| Name of company | Related party | Nature of relationship | Transaction details | | | | Transactions with terms different from others | | Notes/Accounts receivable (payable) | | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Purchase/Sale | Amount | Percentage of total purchases/sales | Payment terms | Unit price | Payment terms | Ending balance | Percentage of total notes/accounts receivable (payable) | |
| The Company | Tung Kang Steel Structure Corp. | Subsidiary of the Company | Sale | (2,595,346) | (7.36)% | Receivable within 60 days | - | - | 992,644 | 25.63% | |
| The Company | THSVC | Subsidiary of the Company | Purchase | 1,532,495 | 5.76% | payment at the end of the month | - | - | - | -% | |
| The Company | THSVC | Subsidiary of the Company | Sale | (1,121,694) | (3.18)% | 330 and 120 days after B/L | - | | 224,949 | 5.81% | |
| The Company | Best-Steel Trade Corp | Subsidiary of the Company | Sale | (618,598) | (1.76)% | 110 days after B/L | - | - | 46,292 | 1.20% | |
| Tung Kang Steel Structure Corp. | The Company | Parent company | Purchase | 2,595,346 | 62.92% | Payable within 60 days | - | - | (992,644) | (61.22)% | |
| THSVC | The Company | Parent company | Sale | (1,532,495) | (31.44)% | payment at the end of the month | - | | - | -% | |
| THSVC | The Company | Parent company | Purchase | 1,121,694 | 35.30% | 330 and 120 days after B/L | - | | (224,949) | (21.22)% | |
| Best-Steel Trade Corp | The Company | Parent company | Purchase | 618,598 | 100.00% | 110 days after B/L | - | | (46,292) | (100.00)% | |

(viii) Receivables from related parties with amounts exceeding the lower of NT$100 million or 20% of the capital stock:

(in thousands of NTD)

| Name of company | Counter-party | Nature of relationship | Ending balance | Turnover rate | Overdue | | Amounts received in subsequent period | Allowance for bad debts |
|---|---|---|---|---|---|---|---|---|
| | | | | | Amount | Action taken | | |
| The Company | Tung Kang Steel Structure Corp. | Subsidiary of the Company | 992,644 (Accounts receivable—related parties) | 3.72 | - | | 307,147 | - |
| | | | 359 (Other receivables—related parties) | - | - | | 359 | - |
| The Company | THSVC | Subsidiary of the Company | 224,949 (Accounts receivable—related parties) | 1.33 | - | | 59,043 | - |
| | | | 702,409 (Other receivables—related parties) | - | - | | 217,985 | - |
| The Company | Best-Steel Trade Corp | Subsidiary of the Company | 46,292 (Accounts receivable—related parties) | 1.78 | - | | - | - |

(ix) Trading in derivative instruments: Please refer to Notes 6(b).

(b) Information on investees:

The following is the information on investees for the year ended December 31, 2019 (excluding information on investees in Mainland China):

(in thousands of NTD)

| Name of investor | Name of investee | Location | Main businesses and products | Original investment amount | | Balance as of December 31, 2019 | | | Net income (losses) of investee | Share of profits/losses of investee | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | December 31, 2019 | December 31, 2018 | Shares (thousands) | Percentage of ownership | Carrying value | | | |
| The Company | Tung Yuan International Corp. | British Virgin Islands | Investment activities | 814,955 | 814,955 | 82 | 100.00 % | 765,395 | (13,804) | (13,898) | Subsidiary |
| 〃 | Tung Kang Steel Structure Corp. | Taiwan | Construction | 1,775,138 | 1,775,138 | 197,565,134 | 97.48 % | 2,232,486 | 238,906 | 219,082 | Subsidiary |
| 〃 | Katec R & D Corp. | Taiwan | Metal inspection | 35,352 | 35,352 | 4,705,332 | 46.19 % | 56,184 | 10,999 | 5,080 | Associate |
| 〃 | Goldham Development Ltd. | British Virgin Islands | Investment activities | 449,700 | 449,700 | 15,000,000 | 100.00 % | 380,904 | (9,297) | (7,016) | Subsidiary |
| 〃 | Taiwan Steel Union Co., Ltd. | Taiwan | Waste disposal | 113,291 | 113,291 | 24,829,009 | 22.31 % | 767,104 | 398,825 | 89,000 | Associate |
| 〃 | Katec Creative Resources Corporation | Taiwan | Waste recycling | 1,211,442 | 1,211,442 | 95,724,402 | 99.01 % | 715,204 | (15,039) | (14,890) | Subsidiary |
| 〃 | Right Investment Corp. | Taiwan | Investment activities | - | 189,827 | - | - % | - | 328 | 2,390 | Associate (Note 1) |
| 〃 | Fa Da Enterprise Corp. | Taiwan | Waste recycling | 90,000 | 90,000 | 9,000,000 | 100.00 % | 89,491 | (17,685) | (198) | Subsidiary |
| 〃 | Tung Kang Wind Power Corp. | Taiwan | Electric power generation | 155,000 | 155,000 | 15,500,000 | 100.00 % | 91,726 | 287 | 376 | Subsidiary |
| 〃 | Tung Ho Steel Vietnam Corp., Ltd. | Vietnam | Steel industry | 5,016,935 | 5,016,935 | - | 100.00 % | 3,207,944 | (814,154) | (814,154) | Subsidiary |
| 〃 | Tung Tang Energy Corp. | Taiwan | Fertilizer producing and self-used equipment of renewable electric power | 15,000 | - | 1,500,000 | 100.00 % | 14,823 | (177) | (177) | Subsidiary |
| Tung Yuan International Corp. | 3 Oceans International Inc. | Brunei | Investment activities | 55,163 | 55,163 | 1,840,000 | 66.67 % | 24,037 | (2,927) | (1,952) | Associate |

# TUNG HO STEEL ENTERPRISE CORPORATION
## Notes to Financial Statements

| Name of investor | Name of investee | Location | Main businesses and products | Original investment amount | | Balance as of December 31, 2019 | | | Net income (losses) of investee | Share of profits/losses of investee | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | December 31, 2019 | December 31, 2018 | Shares (thousands) | Percentage of ownership | Carrying value | | | |
| Tung Yuan International Corp. | Duc Hoa International Joint Stock Company | Vietnam | Quicklime factory | 65,956 | 65,956 | 4,183,380 | 49.25 % | 48,443 | 6,756 | 3,327 | Subsidiary |
| Tung Yuan International Corp. | Best-steel Trade Corp. | U.S.A | Trading | 8,994 | 8,994 | 600 | 60.00 % | 3,970 | (30,425) | (18,255) | Subsidiary |
| Tung Kang Steel Structure Corp. | Tung Kang Engineering & Construction Corp. | Taiwan | Civil engineering | 359,340 | 359,340 | 25,000,000 | 100.00 % | 257,323 | 3,405 | 3,405 | Subsidiary |

1 USD＝29.98 TWD, 1 CNY＝4.305 TWD

Note 1: The company was dissolved and liquidated on August 15, 2019, by the resolution of the Board of Directors and the dissolution date was set on September 4, 2019.

(c) Information on investment in Mainland China:

(i) The names of investees in Mainland China, the main businesses and products, and other information:

(in thousands of New Taiwan Dollars and USD)

| Name of investee | Main businesses and products | Total amount of paid-in capital | Method of investment (Note 1) | Accumulated outflow of investment from Taiwan as of January 1, 2019 | Investment flows | | Accumulated outflow of investment from Taiwan as of December 31, 2019 | Net income (losses) of the investee | Percentage of ownership | Investment income (losses) (Note 3) | Book value (Note 2) | Accumulated remittance of earnings in current period |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Outflow | Inflow | | | | | | |
| Fujian Sino-Japan Metal Corp. | Tin-coated plate | 1,558,960 (USD52,000) | ( 2 ) | 550,643 (USD18,367) | - | - | 550,643 (USD18,367) | 3,756 | 35.00% | 1,314 | 533,792 | - |
| Fujian Tung Kang Steel Co., Ltd. | Processing of section steels and steel structures | 449,700 (USD15,000) | ( 2 ) | 399,633 (USD13,330) | - | - | 399,633 (USD13,330) | (9,297) | 100.00% | (7,016) | 380,904 | - |
| Fujian Dong Sheng Metal Processing Co., Ltd. | Metal processing | 38,745 (CNY9,000) | ( 3 ) | - | - | - | - | (1,115) | 51.00% | (569) | 17,412 | - |

Note 1: List of the method of investments

(1) Direct investment

(2) Indirect investment

(3) Others

Note 2: On December 31, 2019, 1 USD＝29.98 TWD, 1 CNY＝4.305 TWD.

Note 3: For the year ended December 31, 2019, 1 USD＝30.91 TWD, 1 CNY ＝4.472 TWD.

(ii) Limitation on investment in Mainland China:

(in thousands of New Taiwan Dollars and USD)

| Accumulated investment in Mainland China as of December 31, 2019 | Investment amounts authorized by Investment Commission, MOEA | Upper limit on investment (Note) |
|---|---|---|
| 1,010,236 (USD33,697) | 1,010,236 (USD33,697) | 14,519,695 |

Note: 60% of net equity.

(iii) Significant transactions:

For direct or indirect significant transactions between the Company and its investees in Mainland China, please refer to the illustrations in "Related information on Significant Transactions."

**(14) Segment information**

Please refer to the consolidated financial statements for the year ended December 31, 2019.

**TUNG HO STEEL ENTERPRISE CORPORATION**

**DETAILS OF CASH AND CASH EQUIVALENTS**

**December 31, 2019**

**(Expressed in thousands of New Taiwan Dollars)**

| Items | Description | Amount | Notes |
|---|---|---|---|
| Cash | Cash on hand | $ 239 | |
| | Revolving funds | 858 | |
| | Subtotal | 1,097 | |
| Cash in banks | Checking accounts | 112,651 | |
| | Demand deposits accounts | 247,064 | |
| | Foreign currency demand deposits | 13,774 | Note 1 |
| | Subtotal | 373,489 | |
| Cash equivalents | Short-term bills | 997 | Interest rate: 0.40% Maturity: 109.01.16 |
| Total | | **$ 375,583** | |

| | |
|---|---|
| Note 1: Total amount of foreign currency | USD 452,338 (dollars) |
| | JPY 470,741 (dollars) |
| | EUR 636(dollars) |
| | CNY 14,358 (dollars) |
| Exchange rate | USD →NT @29.98 |
| | JPY →NT @0.276 |
| | EUR →NT @33.59 |
| | CNY →NT @4.31 |

**TUNG HO STEEL ENTERPRISE CORPORATION**

**DETAILS OF FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS-CURRENT**

**December 31, 2019**

**(Expressed in thousands of New Taiwan Dollars/USD)**

| Name of financial instruments－current | Description | Number of shares or unit | Book value | Total amount/ Nominal amount | Interest rate % | Acquisition costs | Fair value Unit price | Fair value Amount |
|---|---|---|---|---|---|---|---|---|
| Financial assets held for trading: | | | | | | | | |
| Stock: | | | | | | | | |
| Zenitron | Publicly Listed | 3,825,000 | $ 10 | 38,250 | - | 92,166 | 21.10 | 80,707 |
| Adlink | Publicly Listed | 1,713,577 | 10 | 17,136 | - | 54,881 | 48.00 | 82,252 |
| Total | | | | | | $ **147,047** | | **162,959** |

**TUNG HO STEEL ENTERPRISE CORPORATION**

**DETAILS OF NOTES RECEIVABLE**

**December 31, 2019**

**(Expressed in thousands of New Taiwan Dollars)**

| Client name | Description | Amount |
|---|---|---|
| Non-related parties: | | |
| Kung Sing Engineering | Payment for goods | $ 28,711 |
| Sheng Kun Construction | Payment for goods | 15,538 |
| Wei Shun Construction | Payment for goods | 15,333 |
| TASA Construction | Payment for goods | 13,828 |
| Chien Chiao Construction | Payment for goods | 12,792 |
| Chang Tai Construction | Payment for goods | 7,748 |
| Yao Ren Construction | Payment for goods | 6,908 |
| Hong Bin Construction | Payment for goods | 5,891 |
| Chun Cheng Construction | Payment for goods | 4,417 |
| Tai Wu Building Material | Payment for goods | 4,224 |
| Others (Note) | Payment for goods | 7,859 |
| Subtotal | | 123,249 |
| Total notes receivable | | 123,249 |
| Less: Allowance for impairment | | (423) |
| Total | | **$ 122,826** |

Note: Consisting of individual accounts with less than 5% of the total amount.

**TUNG HO STEEL ENTERPRISE CORPORATION**

**DETAILS OF ACCOUNTS RECEIVABLE**

**December 31, 2019**

**(Expressed in thousands of New Taiwan Dollars)**

| Client name | Description | Amount |
|---|---|---|
| Related parties: | | |
| Tung Kang Steel Structure | Payment for goods | $ 992,644 |
| Tung Kang Engineering & Construction | Payment for goods | 10,843 |
| Tung Ho Steel Vietnam Corp., Ltd. | Payment for goods | 224,949 |
| Best-Steel Trade Corp. | Payment for goods | 46,292 |
| Subtotal | | 1,274,728 |
| Non-related parties: | | |
| BES Engineering Corporation | Payment for goods | 198,723 |
| Zhong Fu Construction | Payment for goods | 125,429 |
| Chyi Yuh Construction | Payment for goods | 101,934 |
| Continental Engineering | Payment for goods | 99,175 |
| Honinco Honex Industry | Payment for goods | 97,374 |
| Ruentex Engineering & Construction | Payment for goods | 70,496 |
| Jin Jyun Construction | Payment for goods | 61,128 |
| Cuo Chi Construction | Payment for goods | 57,966 |
| Far Eastern Contractor | Payment for goods | 52,785 |
| Li Jin Engineering | Payment for goods | 52,196 |
| Others (Note) | Payment for goods | 1,579,444 |
| Subtotal | | 2,496,650 |
| Total accounts receivable | | 3,771,378 |
| Less: Allowance for impairment | | (21,534) |
| Total | | $ 3,749,844 |

Note: Consisting of individual accounts with less than 5% of the total amount.

**TUNG HO STEEL ENTERPRISE CORPORATION**

**DETAILS OF OTHER RECEIVABLES**

**December 31, 2019**

**(Expressed in thousands of New Taiwan Dollars)**

| Items | Amount |
|---|---|
| Loans to subsidiaries (interest receivable included) | $ 702,409 |
| Distribution of associate liquidation of property | 13,392 |
| Revenue of disposing metal shavings | 1,718 |
| Revenue of selling scrap iron and material supplies (related parties included) | 118 |
| Others (related parties included) | 2,488 |
| Total | **$ 720,125** |

**TUNG HO STEEL ENTERPRISE CORPORATION**

**DETAILS OF INVENTORIES**

**December 31, 2019**

**(Expressed in thousands of New Taiwan Dollars)**

| | | Amount | | |
|---|---|---|---|---|
| **Items** | **Description** | **Cost** | **Market price** | **Notes** |
| Finished goods | Deformed bars | $ 1,440,338 | 1,583,309 | Market price based on net realizable value |
| | Sections | 452,634 | 563,607 | 〃 |
| | Universal plates | 126,913 | 156,808 | 〃 |
| | Subtotal | 2,019,885 | 2,303,724 | |
| Work in process | Billets | 1,711,321 | 1,950,876 | 〃 |
| | Beam blank | 1,311,236 | 1,826,005 | 〃 |
| | Bloom | 63,915 | 86,694 | 〃 |
| | Subtotal | 3,086,472 | 3,863,575 | |
| Raw materials | Scrap iron | 5,371,919 | 6,809,006 | 〃 |
| Material supplies | Electrode rods | 446,883 | 305,082 | 〃 |
| | Silicon iron | 35,372 | 32,117 | 〃 |
| | Manganese iron | 21,196 | 18,392 | 〃 |
| | Silicon manganese | 167,518 | 154,795 | 〃 |
| | Vanadium iron | 68,616 | 41,030 | 〃 |
| | Roller | 27,568 | 27,672 | 〃 |
| | Roller ring | 54,820 | 53,672 | 〃 |
| | Other material | 768,995 | 767,071 | 〃 |
| | Subtotal | 1,590,968 | 1,399,831 | |
| Inventories, net | | **$ 12,069,244** | **14,376,136** | |

**TUNG HO STEEL ENTERPRISE CORPORATION**

**DETAILS OF PREPAYMENTS**

**December 31, 2019**

**(Expressed in thousands of New Taiwan Dollars)**

| Items | Description | Amount |
|---|---|---|
| Prepaid expenses | Insurance premium and rent expenses | $ 18,603 |
| | Prepaid supplies expenses | 79,481 |
| | Prepaid heavy oil and maintenance expenses | 2,207 |
| | Others | 7,018 |
| | Subtotal | 107,309 |
| Prepayments for goods | | 58,149 |
| Other prepayments | | 5,674 |
| Total | | **$ 171,132** |

# TUNG HO STEEL ENTERPRISE CORPORATION

## DETAILS OF CHANGES IN INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

### For the year ended December 31, 2019

### (Expressed in thousands of New Taiwan Dollars)

| | Balance as of January 1, 2019 | | Increase and reclassification | | Decrease and reclassification | | Investment income | Balance as December 31, 2019 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Name of company | Share | Amount | Share | Amount | Share | Amount | recognized under the equity method | Share | Share-holding percentage | Amount | Net value or market price | Pledged or collateralized |
| Subsidiaries: | | | | | | | | | | | | |
| Tung Yuan International Corp. | 82 | $ 790,234 | - | - | - | 10,941 (Notes 1, 2, 6) | (13,898) | 82 | 100.00 % | 765,395 | 705,395 | None |
| Tung Kang Steel Structure Corp. | 197,565,134 | 2,011,688 | - | 1,716 (Notes 2, 3, 6) | - | - | 219,082 | 197,565,134 | 97.48 % | 2,232,486 | 2,322,301 | None |
| Goldham Development Ltd. | 15,000,000 | 404,855 | - | - | - | 16,935 (Note 1) | (7,016) | 15,000,000 | 100.00 % | 380,904 | 436,565 | None |
| Katec Creative Resources Corp. | 95,724,402 | 730,094 | - | - | - | - | (14,890) | 95,724,402 | 99.01 % | 715,204 | 715,204 | None |
| Tung Kang Wind Power Corp. | 15,500,000 | 91,350 | - | - | - | - | 376 | 15,500,000 | 100.00 % | 91,726 | 91,636 | None |
| Fa Da Enterprise Corp. | 9,000,000 | 89,689 | - | - | - | - | (198) | 9,000,000 | 100.00 % | 89,491 | 72,005 | None |
| Yung Tang Energy Corp. | - | - | 1,500,000 | 15,000 (Note 4) | - | - | (177) | 1,500,000 | 100.00 % | 14,823 | 14,823 | None |
| Tung Ho Steel Vietnam Corp., Ltd. | - | 4,098,293 | - | - | - | 76,195 (Note 1) | (814,154) | - | 100.00 % | 3,207,944 | 3,207,944 | None |
| Subtotal | | 8,216,203 | | 16,716 | | 104,071 | (630,875) | | | 7,497,973 | | |
| Associates: | | | | | | | | | | | | |
| Katec Research & Development Corp. | 4,705,332 | 52,588 | - | - | - | 1,484 (Notes 3, 5) | 5,080 | 4,705,332 | 46.19 % | 56,184 | 56,184 | None |
| Taiwan Steel Union Co., Ltd. | 24,829,009 | 801,561 | - | - | - | 123,457 (Notes 3, 5) | 89,000 | 24,829,009 | 22.31 % | 767,104 | 767,104 | None |
| Right Investment Corp. | 499,800 | 11,384 | - | - | - | 13,774 (Notes 5, 7) | 2,390 | | - % | - | - | None |
| Subtotal | | 865,533 | | - | | 138,715 | 96,470 | | | 823,288 | | |
| Total | | $ 9,081,736 | | 16,716 | | 242,786 | (534,405) | | | 8,321,261 | | |

Note 1: Adjustments of exchange difference on translation of foreign operations.

Note 2: Resulting from downstream unrealized sales profit.

Note 3: From other comprehensive income on defined benefit plans of subsidiaries and associates.

Note 4: Subsidiary capital increase by cash.

Note 5: Proceeds from cash dividends.

Note 6: Adjustment of "evaluation of equity instrument at fair value through other comprehensive income " due to changes in fair value.

Note 7: The Company was dissolved and liquidated.

**TUNG HO STEEL ENTERPRISE CORPORATION**

**DETAILS OF FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS-NON-CURRENT**

**For the year ended December 31, 2019**

**(Expressed in thousands of New Taiwan Dollars)**

| | Balance as of January 1, 2019 | | Increase and reclassification | | Decrease and reclassification | | Balance as December 31, 2019 | | Pledged or |
|---|---|---|---|---|---|---|---|---|---|
| **Name of company** | **Share** | **Amount** | **Share** | **Amount** | **Share** | **Amount** | **Share** | **Amount** | **collateralized** |
| Fair value through other comprehensive income－non current: | | | | | | | | | |
| Hsiao Kang Warehousing Corp. | 2,384,060 | $ 16,927 | - | - | - | 858 | 2,384,060 | 16,069 | None |
| Hexawave Photonic System, Inc. | 11,687,916 | 50,492 | 907,846 | 13,636 (Note 1, 4) | 10,031,739 | 42,334 (Note 2) | 2,564,023 | 21,794 | None |
| Taiwan Aerospace Corp. | 1,621,441 | 30,694 | - | - | - | 4,362 | 1,621,441 | 26,332 | None |
| Overseas Investment & Development Corp. | 1,000,000 | 6,360 | - | - | - | 130 | 1,000,000 | 6,230 | None |
| Power World Fund, Inc. | 677,245 | 9,597 | - | - | - | 772 | 677,245 | 8,825 | None |
| Universal Venture Fund, Inc. | 558,255 | 7,257 | - | 396 | - | - | 558,255 | 7,653 | None |
| IBT II Venture Capital Co. | 1,312,993 | 6,381 | - | 2,239 | - | 2,292 | 1,312,993 | 6,328 | None |
| Tung Jing Investment Corp. | - | 31,407 | - | 5,116 (Note 1) | - | - | - | 36,523 | None |
| Universal Venture Capital Investment Corp. | 2,800,000 | 21,084 | - | - | - | 1,792 | 2,800,000 | 19,292 | None |
| Katec Creative Resources Corp.－preferred stock | 577,031 | - | - | - | - | - | 577,031 | - | None |
| Total | | **$ 180,199** | | **21,387** | | **52,540** | | **149,046** | |
| Public listed stocks －Taiwan High Speed Rail Corporation | 6,214,376 | 189,849 | | 21,378 | 4,301,000 | 137,753 (Note 3) | 1,913,376 | 73,474 | None |
| Stock listed on emerging markets－Chien Shing Harbour Service Co., Ltd. | 8,203,800 | 187,867 | - | 45,941 | - | - | 8,203,800 | 233,808 | None |
| Total | | **$ 377,716** | | **67,319** | | **137,753** | | **307,282** | |

Note 1： New acquisition

Note 2： Capital reduction to cover deficits

Note 3： Disposal of investment

Note 4： Evaluation at fair value of investment

**TUNG HO STEEL ENTERPRISE CORPORATION**

**DETAILS OF REFUNDABLE DEPOSITS**

**December 31, 2019**

**(Expressed in thousands of New Taiwan Dollars)**

| Item | Description | Amount |
|---|---|---|
| Refundable deposits | Lease deposits | $ 3,182 |
| | Golf card deposits | 46,577 |
| | Gas procurement guarantees | 123,913 |
| | Bid deposits and performance guarantees, etc. | 11,373 |
| Total | | **$ 185,045** |

Please refer to Note 6(h) for details of property, plant and equipment.

Please refer to Note 6(j) for details of investment property.

**TUNG HO STEEL ENTERPRISE CORPORATION**

**DETAILS OF OVERDUE RECEIVABLES**

**December 31, 2019**

**(Expressed in thousands of New Taiwan Dollars)**

| Item | Amount |
|---|---|
| Famous Technology | $ 8,929 |
| Jian Kai Property | 245 |
| International Engineering & Construction | 751 |
| Tsun Sheng Corp. | 95 |
| Yu Tai Construction | 373 |
| Subtotal | 10,393 |
| Less: Allowance for bad debt expense | (10,393) |
| Total | $ - |

**TUNG HO STEEL ENTERPRISE CORPORATION**

**DETAILS OF SHORT-TERM LOANS**

**December 31, 2019**

**(Expressed in thousands of New Taiwan Dollars)**

| Bank | Description | Balance as of December 31, 2019 | Duration | Interest rate | Amount | Pledge or collateralized |
|---|---|---|---|---|---|---|
| Bank of Taiwan | Unsecured loans | $ 700,000 | October 29, 2019 ~ March 4, 2020 | 0.87%~0.88% | 700,000 | None |
| Land Bank of Taiwan | Unsecured loans | 490,000 | December 25, 2019 ~ March 30, 2020 | 0.95% | 800,000 | None |
| Taipei Fubon Bank | Unsecured loans | 600,000 | November 28, 2019 ~ Febuary 27, 2020 | 0.92%~0.96% | 1,200,000 | None |
| Cathay United Bank | Unsecured loans | 700,000 | October 15, 2019 ~ January 20,2020 | 0.90% | 700,000 | None |
| Agricultural Bank of Taiwan | Unsecured loans | 800,000 | November 15, 2019 ~ Febuary 19, 2020 | 0.85% | 800,000 | None |
| O Bank | Unsecured loans | 180,000 | December 27, 2019 ~ March 27, 2020 | 0.95% | 200,000 | None |
| HSBC Bank | Unsecured loans | 570,000 | November 11, 2019 ~ March 23, 2020 | 0.95% | 600,000 | None |
| Bank SinoPac | Unsecured loans | 500,000 | November 6, 2019 ~ January 10, 2020 | 0.83% | 600,000 | None |
| E. Sun Bank | Unsecured loans | 500,000 | December 6, 2019 ~ January 10, 2020 | 0.86% | 600,000 | None |
| Taishin Bank | Unsecured loans | 975,000 | November 25, 2019 ~ January 16, 2020 | 0.88% | 1,000,000 | None |
| CTBC Bank | Unsecured loans | 300,000 | November 29, 2019 ~ March 2, 2020 | 0.87% | 635,000 | None |
| | | 6,315,000 | | | | |
| Bank of Taiwan | Letter of credit | 126,588 | July 12, 2019 ~ June 20, 2020 | 0.42%~2.72% | 900,000 | None |
| Land Bank of Taiwan | Letter of credit | 23,966 | December 6, 2019 ~ June 3, 2020 | 2.53%~2.59% | 800,000 | None |
| Taiwan Corporative Bank | Letter of credit | 33,532 | November 22, 2019 ~ June 16, 2020 | 2.44%~2.54% | 1,200,000 | None |
| First Commercial Bank | Letter of credit | 18,192 | October 28, 2019 ~ March 9, 2020 | 2.64%~2.70% | 1,500,000 | None |
| Hua Nan Commercial Bank | Letter of credit | 56,430 | July 12, 2019 ~ June 16, 2020 | 0.65%~2.72% | 2,000,000 | None |
| The Shanghai Commercial & Savings Bank | Letter of credit | 71,154 | November 20, 2019 ~ March 26, 2020 | 2.44%~2.51% | 300,000 | None |
| Taipei Fubon Bank | Letter of credit | 13,576 | December 3, 2019 ~ June 14, 2020 | 2.94%~3.07% | 1,600,000 | None |
| Cathay United Bank | Letter of credit | 32,785 | November 12, 2019 ~ May 29, 2020 | 2.86%~2.89% | 960,000 | None |
| Mega International Commercial Bank | Letter of credit | 8,152 | July 22, 2019 ~ June 22, 2020 | 0.53% | 900,000 | None |
| Mizuho Bank | Letter of credit | 47,349 | December 12, 2019 ~ June 23, 2020 | 2.5% | 210,000 | None |
| Taiwan Business Bank | Letter of credit | 36,957 | November 11, 2019 ~ March 22, 2020 | 2.45%~2.63% | 450,000 | None |
| Taichung Bank | Letter of credit | 31,888 | November 12, 2019 ~ March 27, 2020 | 2.63%~2.69% | 300,000 | None |
| Shin Kong Bank | Letter of credit | 14,438 | November 18, 2019 ~ June 12, 2020 | 2.74%~2.81% | 300,000 | None |
| Sunny Bank | Letter of credit | 20,421 | October 21, 2019 ~ June 28, 2020 | 2.53%~2.59% | 300,000 | None |
| Bank of Panhsin | Letter of credit | 10,438 | December 9, 2019 ~ March 27, 2020 | 2.73%~2.80% | 160,000 | None |
| BNP Paribas | Letter of credit | 4,646 | November 1, 2019 ~ June 22, 2020 | 2.63%~2.80% | 300,000 | None |
| Union Bank of Taiwan | Letter of credit | 8,779 | December 16, 2019 ~ January 26, 2020 | 2.68%~2.75% | 300,000 | None |
| E. Sun Bank | Letter of credit | 70,121 | November 18, 2019 ~ June 24, 2020 | 2.41%~2.57% | 750,000 | None |
| Chang Hwa Bank | Letter of credit | 13,666 | December 18, 2019 ~ March 18, 2020 | 2.70%~2.71% | 1,000,000 | None |
| KGI Bank | Letter of credit | 6,640 | December 13, 2019 ~ January 14, 2020 | 2.89%~2.90% | 500,000 | None |
| Subtotal | | 649,718 | | | | |
| Total | | $ **6,964,718** | | | | |

Note 1: The effective period of the financing contract is two to three years. However, the banks will evaluate the terms of the contract periodically through credit checking every year.

## TUNG HO STEEL ENTERPRISE CORPORATION

## DETAILS OF SHORT-TERM NOTES AND BILLS PAYABLE

## December 31, 2019

## (Expressed in thousands of New Taiwan Dollars)

| Bank of acceptance | Duration | Interest rate | Originally issued amount | Unamortized discount on short-term bills payable | Carrying amount | Notes |
|---|---|---|---|---|---|---|
| Mega Bills | 2020/1/7~2020/1/8 | 0.94%~0.97% | $ 240,000 | (39) | 239,961 | |
| CBF | 2020/1/20 | 0.97% | 120,000 | (60) | 119,940 | |
| ETFC | 2020/1/13~2020/1/16 | 0.958%~0.968% | 200,000 | (70) | 199,930 | |
| | | | **$ 560,000** | **(169)** | **559,831** | |

**TUNG HO STEEL ENTERPRISE CORPORATION**

**DETAILS OF NOTES PAYABLE**

**December 31, 2019**

**(Expressed in thousands of New Taiwan Dollars)**

| Objects | Description | Amount |
|---|---|---|
| Non-related parties: | | |
| Yi Tsai Transportation | Operating expenses | $ 9,181 |
| KPMG | Operating expenses | 6,955 |
| Dentsu Taiwan | Operating expenses | 7,998 |
| Others (Note) | Operating expenses | 36,951 |
| Total | | **$ 61,085** |

Note: Consisting of individual accounts with less than 5% of the total amount

**TUNG HO STEEL ENTERPRISE CORPORATION**

**DETAILS OF ACCOUNTS PAYABLE**

**December 31, 2019**

**(Expressed in thousands of New Taiwan Dollars)**

| Objects | Description | Amount |
|---|---|---|
| Related parties: | | |
| Katec Creative Resources | Payment for goods | $ 39 |
| Tung Kang Engineering & Construction Corp. | Payment for goods | 18,276 |
| Subtotal | | 18,315 |
| Non-related parties: | | |
| Hong Kuan Material | Payment for goods | 75,243 |
| Others (Note) | Payment for goods | 1,265,478 |
| Subtotal | | 1,340,721 |
| Total | | **$ 1,359,036** |

Note: Consisting of individual accounts of less than 5% of the total amount
Please refer to Note 6(q) for details of other payables.

**TUNG HO STEEL ENTERPRISE CORPORATION**

**DETAILS OF CONTRACT LIABILITIES**

**December 31, 2019**

**(Expressed in thousands of New Taiwan Dollars)**

| Items | Description | Amount |
|---|---|---|
| Non-related parties: | | |
| Immense Team Construction & Building | Payment for goods | $ 43,756 |
| Fu Hsuan Construction & Eegineering | Payment for goods | 28,261 |
| Kedge Construction | Payment for goods | 21,818 |
| Sheng Jie Construction | Payment for goods | 19,699 |
| Tung Ying Construction | Payment for goods | 19,622 |
| Yuan Jing Construction | Payment for goods | 19,093 |
| Hwang Chang General Contractor | Payment for goods | 17,687 |
| Chang Feng Steel | Payment for goods | 17,055 |
| Kai Jian Construction | Payment for goods | 15,500 |
| Dehwa Construction | Payment for goods | 14,876 |
| Others (Note) | | 312,895 |
| Total advance receipts | | **$ 530,262** |

Note: Consisting of individual accounts of less than 5% of the total amount

**TUNG HO STEEL ENTERPRISE CORPORATION**

**DETAILS OF BONDS PAYABLE**

**December 31, 2019**

**(Expressed in thousands of New Taiwan Dollars)**

| Item | Object | Original issuance date | Interest payment date | Coupon rate | Principal amount | Repurchased/ Converted amount | Balance as of December 31, 2019 | Discount on bonds payable | Carrying amount | Repayment | Collateralized |
|---|---|---|---|---|---|---|---|---|---|---|---|
| The seventh unsecured domestic convertible bond | Taishin Securities | 2018.05.14 | - | - | $ 2,000,000 | - | 2,000,000 | (64,979) | 1,935,021 | Please refer to Notes6(n) | None |
| Less : Redemption options of holders in one year | | | | | | | - | - | - | | |
| | | | | | | | **$ 2,000,000** | **(64,979)** | **1,935,021** | | |

# TUNG HO STEEL ENTERPRISE CORPORATION

## DETAILS OF LONG-TERM LOANS

## December 31, 2019

## (Expressed in thousands of New Taiwan Dollars)

| Bank | Duration | Nature | Interest rate | Amount | Pledged or Collateralized |
|---|---|---|---|---|---|
| Hua Nan Bank | August 1, 2019 ~ July 22, 2021<br>Principal repaid at maturity | Repayment of loan and improvement of financial structure | 0.86% | $ 1,300,000 | None |
| Mizuho Bank | April 27, 2019 ~ April 27, 2021<br>Principal repaid at maturity | Repayment of loan and improvement of financial structure | 0.83% | 1,200,000 | None |
| Mega Bank | December 30, 2019 ~ September 27, 2021<br>Principal repaid at maturity | Repayment of loan and improvement of financial structure | 0.98% | 250,000 | None |
| Bank SinoPac | September 30, 2019 ~ September 30, 2021<br>Principal repaid at maturity | Repayment of loan and improvement of financial structure | 0.84% | 350,000 | None |
| Total | | | | $ 3,100,000 | |

**TUNG HO STEEL ENTERPRISE CORPORATION**

**DETAILS OF GUARANTEE DEPOSITS**

**December 31, 2019**

**(Expressed in thousands of New Taiwan Dollars)**

| Client name | Description | Amount |
|---|---|---|
| Related parties: | | |
| Katec Research & Development | Rental deposits | $ 304 |
| Non-related parties: | | |
| Chang Jieh Logistics Corp. | Rental deposits | 3,779 |
| Chin Chi Hsin | Performance guarantee | 3,000 |
| Chia Mei Construction | Performance guarantee | 1,820 |
| Ji Lian Container Co., Ltd. | Rental deposits | 1,630 |
| Kang Shiung Construction | Performance guarantee | 1,071 |
| Others (Note) | Rental deposits and performance guarantee | 1,656 |
| Subtotal | | 12,956 |
| Total | | **$ 13,260** |

Note: Consisting of individual accounts with less than 5% of the total amount.

**TUNG HO STEEL ENTERPRISE CORPORATION**

**DETAILS OF OPERATING REVENUES**

**For the year ended December 31, 2019**

**(Expressed in thousands of New Taiwan Dollars)**

| Item | Description | | Amount |
|---|---|---|---|
| Deformed steel bar | 1,078,066 | tons | $ 19,748,560 |
| Billet | 3,686 | tons | 51,604 |
| H-Section | 532,735 | tons | 11,666,710 |
| Universal plate | 88,283 | tons | 2,020,929 |
| I-Section | 2,262 | tons | 54,878 |
| Channel steel | 39,462 | tons | 824,577 |
| Raw material | 102,019 | tons | 1,139,661 |
| Others | - | tons | 16,288 |
| Total operating revenue | | | 35,523,207 |
| Less: Sales returns | | | (4,024) |
| Sales allowances | | | (271,824) |
| Net operating revenue | | | **$ 35,247,359** |

**TUNG HO STEEL ENTERPRISE CORPORATION**

**DETAILS OF OPERATING COSTS**

**For the year ended December 31, 2019**

**(Expressed in thousands of New Taiwan Dollars)**

| Items | Amount Subtotal | Amount Total |
|---|---|---|
| Manufacturing: | | |
| (a) Direct raw materials | | |
| Beginning balance of raw materials | $ 5,758,210 | |
| Self-manufactured transferred in | 35,296,686 | |
| Purchases of raw materials | 18,188,871 | |
| Sale of raw materials | (1,084) | |
| Reclassification to manufacturing overhead | (3,887) | |
| Reclassification to other expenses | (306) | |
| Transfer to finished goods | (686) | |
| Transfer to work in process | (5,378) | |
| R&D scrap transferred in | 501 | |
| Roller scrap transferred in | 5,120 | |
| Ending balance of raw materials | (5,371,919) | |
| Cost of direct raw materials consumed | | 53,866,128 |
| (b) Indirect raw materials | | |
| Beginning balance of raw materials | 1,561,056 | |
| Purchases of raw materials | 4,531,949 | |
| Sale of material supplies | (7,771) | |
| Reclassification to manufacturing overhead | (1,761,393) | |
| Reclassification to deferred expenses and prepaid expenses | (242,010) | |
| Reclassification to construction in progress and equipment | (4,297) | |
| Transfer to finished goods | (746) | |
| Ending balance of raw materials | (1,584,810) | |
| Reclassification to consigned goods | (679) | |
| Cost of indirect materials consumed | | 2,491,299 |
| (c) Direct labor, net | | 754,213 |
| (d) Manufacturing overhead, net | | 6,325,606 |
| Manufacturing cost | | 63,437,246 |
| (e) Cost of by-products | | (882,962) |
| Cost of finished goods (work in process) | | 62,554,284 |
| (f) Beginning balance of work in process | 1,994,373 | |
| (g) Purchases of work in process | 2,173,853 | |
| (h) Raw materials transferred in | 5,378 | |
| (i) Consigned goods transferred in | 677 | |
| (j) Work in process transferred to raw materials | (26,652,191) | |
| (k) Transfer to consigned goods | (860,467) | |
| (l) Ending balance of work in process | (3,049,611) | |
| (m) Reclassification to other expenses | (395) | |
| Subtotal | | (26,388,383) |
| Cost of finished goods | | |
| (n) Beginning balance of finished goods | 1,958,218 | |
| (o) Finished goods transferred to raw materials | (7,761,533) | |
| (p) Material supplies transferred to finished goods | 746 | |
| (q) Raw materials transferred to finished goods | 686 | |
| (r) Finished goods transferred to construction in progress and prepayment of equipment | (3,279) | |
| (s) Consigned goods transferred to finished goods | 6,318,616 | |
| (t) Transfer to consigned goods | (5,516,297) | |
| (u) Ending balance of finished goods | (1,812,616) | |
| (v) Reclassification to donation expenses | (236) | |
| (w) Reclassification to other expenses | (644) | |
| (x) Reclassification to deferred expenses | (2,290) | |
| (y) Temporapy adjustments for downstream/ upstream transactions | 678 | |
| Subtotal | | (6,817,951) |
| Cost of work in process and finished goods | | 29,347,950 |
| (z) Cost of by-products | | |
| Beginning balance of by-products | - | |
| By-products manufactured | 882,962 | |
| By-product transferred to raw materials | (882,962) | |
| Ending balance of by-products | - | |
| Cost of by-products | | - |
| (z) Cost of consigned goods | | |
| Beginning balance of consigned goods | 192,138 | |
| Raw materials transferred in | 679 | |
| Work in process transferred in | 860,467 | |
| Finished goods transferred in | 5,516,297 | |
| Transfer to work in process | (677) | |
| Transfer to finished goods | (6,318,616) | |
| Ending balance of consigned goods | (250,288) | |
| Cost of goods sold－manufacturing | | |
| Selling: | | |
| Beginning inventory | - | |
| Purchases | 1,714,075 | |
| Ending inventory | - | |
| Cost of goods sold－selling | | 1,714,075 |
| Work in process | | 19,531 |
| Adjustment for capacity variance | | 87,249 |
| Revenue from sale of raw materiels and scrap | | (39,039) |
| Operating costs | | $ 31,129,766 |

**TUNG HO STEEL ENTERPRISE CORPORATION**

**DETAILS OF MANUFACTURING EXPENSES**

**For the year ended December 31, 2019**

**(Expressed in thousands of New Taiwan Dollars)**

| **Items** | **Amount** |
|---|---|
| Indirect labor | $ 322,525 |
| Utilities expense | 2,111,166 |
| Depreciation | 910,539 |
| Amortization | 34,474 |
| Repair and maintenance | 749,112 |
| Equipment insurance | 36,872 |
| Labor insurance | 53,947 |
| National health insurance | 41,348 |
| Meal expenses | 36,768 |
| Employee benefits | 14,965 |
| Pension | 54,708 |
| Fuel expenses | 1,462,617 |
| Cleaning expense | 308,264 |
| Taxes | 37,737 |
| Professional service fee | 78,647 |
| Packaging fee | 52,748 |
| Others | 19,169 |
| Total | **$ 6,325,606** |

**TUNG HO STEEL ENTERPRISE CORPORATION**

**DETAILS OF OPERATING EXPENSES**

**For the year ended December 31, 2019**

**(Expressed in thousands of New Taiwan Dollars)**

| Item | Selling expenses | Administrative expenses | Total |
|---|---|---|---|
| Salaries | $ 55,333 | 408,390 | 463,723 |
| Rental expense | 324 | 3,889 | 4,213 |
| Travel expense | 1,017 | 8,344 | 9,361 |
| Freight expense | 583,644 | 94 | 583,738 |
| Advertisement | 31,235 | 682 | 31,917 |
| Utilities expenses | 91 | 7,000 | 7,091 |
| Entertainment | 11,701 | 6,247 | 17,948 |
| Donation expense | 5 | 11,147 | 11,152 |
| Taxes | 21 | 48,819 | 48,840 |
| Depreciation | 1,832 | 80,613 | 82,445 |
| Amortizations | - | 1,854 | 1,854 |
| Employee benefits | 646 | 4,055 | 4,701 |
| Professional service expense | 57 | 20,473 | 20,530 |
| Inspection expense | 15,234 | 5,204 | 20,438 |
| Meal expense | 1,294 | 9,009 | 10,303 |
| Labor pension | 2,691 | 13,858 | 16,549 |
| Export expense | 79,956 | - | 79,956 |
| Labor insurance | 1,982 | 17,235 | 19,217 |
| National health insurance | 2,116 | 11,655 | 13,771 |
| Others | 9,781 | 128,090 | 137,871 |
| Total | $ **798,960** | **786,658** | **1,585,618** |

**TUNG HO STEEL ENTERPRISE CORPORATION**

**DETAILS OF NON-OPERATING INCOME AND EXPENSES**

**For the year ended December 31, 2019**

**(Expressed in thousands of New Taiwan Dollars)**

| Item | Amount |
|---|---|
| Net gain on financial assets at fair value through profit or loss | $ 30,115 |
| Net loss on financial liabilities at fair value through profit or loss | 36,303 |
| Net loss on disposal of property, plant, and equipment | (1,524) |
| Loss on disposal of investments | (307) |
| Gain on sale of miscellaneous purchases and scrap | 3,232 |
| Net foreign exchange gain | 24,898 |
| Net gain from compensation on damage of assets | 20,791 |
| Gain on disposal of metal shavings | 3,036 |
| Technical service revenue | 4,957 |
| Directors' remuneration and transportation fee | 4,325 |
| Foreign worker board and lodging income | 3,051 |
| Others | 18 |
| Total | **$ 128,895** |

Stock Code: 2006

# TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES

## Consolidated Financial Statements

## With Independent Auditors' Report
## For the Years Ended December 31, 2019 and 2018

**Address:** **6F, No. 9, Sec. 1, Chang An East Road, Taipei City**
**Telephone:** **(02)2551-1100**

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## Representation Letter

The entities that are required to be included in the combined financial statements of Tung Ho Steel Enterprise Corporation as of and for the year ended December 31, 2019 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 by the Financial Supervisory Commission, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Tung Ho Steel Enterprise Corporation and Subsidiaries do not prepare a separate set of combined financial statements.

Company name: Tung Ho Steel Enterprise Corporation
Chairman: Henry Ho
Date: February 27, 2020

**Independent Auditors' Report**

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

## Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Consolidated Company as of December 31, 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 with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), Interpretations developed by the International Financial Reporting Interpretations Committee ("IFRIC") or the former Standing Interpretations Committee ("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 Ruling No1090360805 issued by the Financial Supervisory Commission of the Republic of China and Certification of Financial Statements by Certified Public Accountants" and the auditing standards generally accepted in the Republic of China for the year ended December 31, 2019；and the "Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants" and the auditing standards generally accepted in the Republic of China for the year ended December 31, 2018. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Consolidated Company in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

## Other Matter

The Company has prepared its parent-company-only financial statements as of and for the years ended December 31, 2019 and 2018, on which we have issued an unmodified opinion.

**Key Audit Matters**

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

1. Revenue recognition

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

   Explanation of the key audit matter:

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

   Our principal audit procedures included:

   - assessing whether appropriate revenue recognition policies were applied and whether sufficient information was disclosed；
   - testing the manual or systems-based controls on its sales and collection cycle, perform reconciliations between the information from sales systems and the general ledger；
   - reading the sales contracts with significant clients and testing the consistency of their accounting policy;
   - performing year-to-year analysis on the revenue by product and the revenue from the ten customers with the largest sales volume to determine if there were any abnormalities；
   - vouching internal and external information of sales in the selected period before and after the reporting date (the length of the period was determined based on the sales terms) to determine whether sales revenue were recorded in the appropriate period.

2. Valuation of inventories

   Please refer to Note 4(h) "Inventories" and Note 6(f) "Inventories" in the consolidated financial statements.

   Explanation of the key audit matter:

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

   Our principal audit procedures included:

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

- understanding the sales price used by management and the changes in market price of futures inventory to assess the rationality of the net realizable value of inventories；
- assessing whether the management's disclosure of the inventory allowance is acceptable.

3. Construction contracts

Please refer to Note 4(o) "Revenue recognition－ Construction contracts" Note 5(b) "Significant accounting assumptions and judgments, and major sources of estimation uncertainty on construction contracts", and Note 6(v) "Revenue from contracts with customers" of the consolidated financial statements.

Explanation of the key audit matter:

Contract accounting is considered to be an audit risk to the Consolidated Company as it requires a high degree of estimation and judgment of matters, such as the costs of the work required to complete the contract, the stage of completion of the contract, as well as the recognition of onerous contract. Different judgments could lead to different outcomes, leading to different profit or loss and revenue being reported in the consolidated financial statements.

Our principal audit procedures included:

- reviewing significant contracts and discussing them with the management to obtain a full understanding of specific terms and risks, to assess whether revenue was appropriately recognized；
- selecting a sample from the ongoing constructions to verify the costs between the estimation and the contracts, discussing with the management about the estimates for total contract costs and forecasted costs, including taking into account the historical accuracy of such estimates；
- selecting a sample from the completed constructions to assess settlement of revenue by examination of external evidence；
- obtaining the estimated warranty costs, vouching internal and external data to assess the rationality of the estimates and whether there are any abnormalities in the provisions estimated by the management；
- assessing whether the loss recognized for onerous contracts appropriately reflect the expected contractual position.

4. Impairment of property, plant and equipment

Please refer to Note 4(m) "Impairment of non-financial assets", Note 5(a) "Impairment evaluation of property, plant and equipment ", and Note 6(h) "Property, plant and equipment" of the consolidated financial statements.

Explanation of the key audit matter:

The subsidiary in Vietnam of Tung Ho Steel Enterprise Corporation is facing an assets impairment issue due to the impact of the local market. The subsidiary regularly evaluates whether there is any indication of impairment of non-financial assets such as property, plant and equipment, based on the value in use and industry characteristics to estimate the recoverable amount of property, plant and equipment. The estimation involves numbers of assumptions, including the determination of discount rates and expected growth rates, subject to subjective judgment and uncertainty. Therefore, the assessment of impairment is one of the important evaluation matters in auditing the consolidated financial report of Tung Ho Steel Enterprise Corporation and its subsidiaries.

Our principal audit procedures included:

- obtaining report of property, plant and equipment value in use from external experts appointed by Tung Ho Steel Enterprise Corporation and its subsidiaries；
- assessing the professional competency, objectivity, and experience of external experts；
- discussing with the management and raise professional skepticism of the significant key judgments mentioned in the report of value in use；
- appointing internal experts to assess the reasonableness of relevant assumptions used by external experts. (including evaluation methods and related reference information.)

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs, IASs, IFRC, 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 Consolidated Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Consolidated Company or to cease operations, or has no realistic alternative but to do so.

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

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

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Consolidated Company's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Consolidated Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Consolidated Company to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Consolidated Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit.

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Lee, Tzu Hui and Kuo, Hsin Yi.

KPMG

Taipei, Taiwan (Republic of China)
February 27, 2020

**Notes to Readers**

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

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

**(English Translation of Consolidated Financial Statements Originally Issued in Chinese)**

# TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES

## Consolidated Balance Sheets

## December 31, 2019 and 2018

**(Expressed in Thousands of New Taiwan Dollars)**

| | Assets | December 31, 2019 Amount | % | December 31, 2018 Amount | % |
|---|---|---|---|---|---|
| | **Current assets:** | | | | |
| 1100 | Cash and cash equivalents (Note 6(a)) | $ 976,850 | 2 | 1,097,976 | 2 |
| 1110 | Current financial assets at fair value through profit or loss (Note 6(b)) | 162,959 | - | 134,560 | - |
| 1140 | Current contract assets (Note 6(v)) | 3,877,575 | 8 | 1,603,030 | 3 |
| 1150 | Notes receivable, net (Notes 6(d)(v) and 7) | 234,549 | 1 | 328,262 | 1 |
| 1170 | Accounts receivable, net (Notes 6(d)(v) and 7) | 2,962,483 | 6 | 3,031,813 | 6 |
| 1200 | Other receivables (Notes 6(e) and 7) | 20,835 | - | 79,853 | - |
| 1310 | Inventories (Note 6(f)) | 13,819,636 | 29 | 15,453,079 | 32 |
| 1410 | Prepayments | 247,472 | 1 | 432,024 | 1 |
| 1470 | Other current assets (Note 8) | 706,909 | 1 | 808,355 | 2 |
| | **Total current assets** | 23,009,268 | 48 | 22,968,952 | 47 |
| | **Non-current assets:** | | | | |
| 1517 | Non-current financial assets at fair value through other comprehensive income (Note 6(c)) | 464,734 | 1 | 566,823 | 1 |
| 1550 | Investments accounted for using the equity method (Note 6(g)) | 1,405,522 | 3 | 1,465,204 | 3 |
| 1600 | Property, plant and equipment (Notes 6(h) and 8) | 19,648,493 | 41 | 20,694,943 | 43 |
| 1755 | Right-of-use assets (Note 6(i)) | 411,115 | 1 | - | - |
| 1760 | Investment property (Notes 6(h)(j) and 7) | 1,944,482 | 4 | 1,870,098 | 4 |
| 1780 | Intangible assets | 177,149 | 1 | 186,738 | - |
| 1840 | Deferred tax assets (Note 6(s)) | 153,350 | - | 154,732 | - |
| 1900 | Other non-current assets (Notes 6(r) and 8) | 159,123 | - | 316,027 | 1 |
| 1911 | Natural resources | 36,050 | - | 39,671 | - |
| 1915 | Prepayments for equipment | 76,826 | - | 95,236 | - |
| 1920 | Refundable deposits (Note 8) | 205,391 | 1 | 200,069 | 1 |
| | **Total non-current assets** | 24,682,235 | 52 | 25,589,541 | 53 |
| | **Total assets** | $ 47,691,503 | 100 | 48,558,493 | 100 |

| | Liabilities and equity | December 31, 2019 Amount | % | December 31, 2018 Amount | % |
|---|---|---|---|---|---|
| | **Current liabilities:** | | | | |
| 2100 | Short-term loans (Note 6(k)) | $ 9,532,226 | 20 | 11,752,724 | 24 |
| 2110 | Short-term notes and bills payable (Note 6(l)) | 964,495 | 2 | 1,499,369 | 3 |
| 2120 | Current financial liabilities at fair value through profit or loss (Note 6(b)) | 7,144 | - | 1,745 | - |
| 2130 | Current contract liabilities (Note 6(v)) | 884,406 | 2 | 483,278 | 1 |
| 2150 | Notes payable (Note 7) | 69,723 | - | 172,020 | - |
| 2170 | Accounts payable (Note 7) | 2,220,426 | 5 | 1,999,344 | 4 |
| 2200 | Other payables (Notes 6(q) and 7) | 1,328,612 | 3 | 1,307,761 | 3 |
| 2230 | Current tax liabilities | 393,281 | 1 | 200,510 | 1 |
| 2250 | Current provisions | 1,311 | - | 64,118 | - |
| 2280 | Current lease liabilities (Note 6(o)) | 40,431 | - | - | - |
| 2322 | Long-term loans, current portion (Note 6(m)) | 216,960 | - | 7,143 | - |
| 2399 | Other current liabilities | 11,423 | - | 1,713 | - |
| | **Total current liabilities** | 15,670,438 | 33 | 17,489,725 | 36 |
| | **Non-current liabilities:** | | | | |
| 2500 | Non-current financial liabilities at fair value through profit or loss (Notes 6(b) and (n)) | 13,000 | - | 31,200 | - |
| 2530 | Bonds payable (Note 6(n)) | 1,935,021 | 4 | 1,915,729 | 4 |
| 2540 | Long-term loans (Note 6(m)) | 4,477,953 | 9 | 4,076,466 | 9 |
| 2570 | Deferred tax liabilities (Note 6(s)) | 170,303 | - | 174,488 | - |
| 2580 | Non-current lease liabilities (Note 6(o)) | 222,719 | 1 | - | - |
| 2640 | Non-current defined benefit liability, net (Note 6(r)) | 836,234 | 2 | 846,223 | 2 |
| 2645 | Guarantee deposits received (Note 7) | 15,507 | - | 13,898 | - |
| 2550 | Non-current provisions | 48,917 | - | - | - |
| | **Total non-current liabilities** | 7,719,654 | 16 | 7,058,004 | 15 |
| | **Total liabilities** | 23,390,092 | 49 | 24,547,729 | 51 |
| | **Equity (Note6 (t)):** | | | | |
| 3100 | Capital stock | 10,040,606 | 21 | 10,040,606 | 20 |
| 3200 | Capital surplus | 6,592,236 | 14 | 6,592,236 | 14 |
| | Retained earnings: | | | | |
| 3310 | Legal reserve | 3,619,075 | 8 | 3,530,282 | 7 |
| 3320 | Special reserve | 647,025 | 1 | 149,309 | - |
| 3350 | Unappropriated retained earnings | 4,006,772 | 8 | 4,237,676 | 9 |
| | Total retained earnings | 8,272,872 | 17 | 7,917,267 | 16 |
| 3400 | Other equity interest | (706,222) | (1) | (647,024) | (1) |
| | Total equity attributable to owners of the parent | 24,199,492 | 51 | 23,903,085 | 49 |
| 36XX | Non-controlling interests | 101,919 | - | 107,679 | - |
| | **Total equity** | 24,301,411 | 51 | 24,010,764 | 49 |
| | **Total liabilities and equity** | $ 47,691,503 | 100 | 48,558,493 | 100 |

See accompanying notes to consolidated financial statements.

**(English Translation of Consolidated Financial Statements Originally Issued in Chinese)**
**TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES**

**Consolidated Statements of Comprehensive Income**

**For the years ended December 31, 2019 and 2018**

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

| | | 2019 | | 2018 | |
|---|---|---|---|---|---|
| | | **Amount** | **%** | **Amount** | **%** |
| 4000 | **Operating revenue (Notes 6(v) and 7)** | $44,863,600 | 100 | 39,769,621 | 100 |
| 5000 | **Operating costs (Notes 6(f)(r)(w) and 7)** | 40,731,834 | 91 | 36,444,939 | 92 |
| 5900 | **Gross profit from operations** | 4,131,766 | 9 | 3,324,682 | 8 |
| 6000 | **Operating expenses:** | | | | |
| 6100 | Selling expenses (Notes 6(r)(w) and 7) | 957,356 | 2 | 1,002,718 | 3 |
| 6200 | Administrative expenses (Notes 6(r)(w) and 7) | 1,067,327 | 2 | 1,006,750 | 2 |
| 6450 | Expected credit loss (Note 6(d)) | 485 | - | 39,861 | - |
| | **Total operating expenses** | 2,025,168 | 4 | 2,049,329 | 5 |
| 6900 | **Operating income** | 2,106,598 | 5 | 1,275,353 | 3 |
| 7000 | **Non-operating income and expenses:** | | | | |
| 7010 | Other income (Notes 6(p)(x) and 7) | 79,943 | - | 114,165 | - |
| 7020 | Other gains and losses, net (Notes 6(x) and 7) | 130,681 | - | 31,456 | - |
| 7050 | Finance costs, net (Note 6(x)) | (296,203) | - | (224,550) | - |
| 7060 | Share of profit of associates accounted for using the equity method, net (Note 6(g)) | 101,113 | - | 58,679 | - |
| | **Total non-operating income and expenses** | 15,534 | - | (20,250) | - |
| 7900 | **Income before income tax** | 2,122,132 | 5 | 1,255,103 | 3 |
| 7950 | Less: income tax expenses (Note 6(s)) | 564,334 | 2 | 366,164 | 1 |
| | **Net income** | 1,557,798 | 3 | 888,939 | 2 |
| 8300 | **Other comprehensive income:** | | | | |
| 8310 | **Items that will not be reclassified subsequently to profit or loss** | | | | |
| 8311 | Losses on remeasurements of defined benefit plans | (22,351) | - | (71,970) | - |
| 8316 | Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income | 65,971 | - | 14,626 | - |
| 8320 | Share of other comprehensive income of associates accounted for using the equity method, components of other comprehensive income that will not be reclassified to profit or loss | 118 | - | (5,744) | - |
| 8349 | Less: income tax related to components of other comprehensive income that will not be reclassified to profit or loss | (4,470) | - | (21,919) | - |
| | **Total items that will not be reclassified subsequently to profit or loss** | 48,208 | - | (41,169) | - |
| 8360 | **Items that may be reclassified subsequently to profit or loss** | | | | |
| 8361 | Exchange differences on translation of foreign financial statements | (117,192) | - | (74,516) | - |
| 8399 | Less: income tax related to components of other comprehensive income that may be reclassified to profit or loss | - | - | - | - |
| | **Total items that may be reclassified subsequently to profit or loss** | (117,192) | - | (74,516) | - |
| 8300 | **Other comprehensive income for the period** | (68,984) | - | (115,685) | - |
| 8500 | **Total comprehensive income for the period** | **$ 1,488,814** | **3** | **773,254** | **2** |
| 8600 | **Net income attributable to:** | | | | |
| 8610 | Owners of the parent | $ 1,566,059 | 3 | 887,932 | 2 |
| 8620 | Non-controlling interests | (8,261) | - | 1,007 | - |
| | | **$ 1,557,798** | **3** | **888,939** | **2** |
| 8700 | **Comprehensive income attributable to:** | | | | |
| 8710 | Owners of the parent | $ 1,494,574 | 3 | 762,869 | 2 |
| 8720 | Non-controlling interests | (5,760) | - | 10,385 | - |
| | | **$ 1,488,814** | **3** | **773,254** | **2** |
| 9750 | **Basic earnings per share (in dollars) (Note 6(u))** | **$** | **1.56** | | **0.88** |
| 9850 | **Diluted earnings per share (in dollars) (Note 6(u))** | **$** | **1.44** | | **0.87** |

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

## TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES

## Consolidated Statements of Changes in Equity

## For the years ended December 31, 2019 and 2018

## (Expressed in Thousands of New Taiwan Dollars)

| | Equity attributable to owners of parent | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Capital stock | | | | Retained earnings | | | | Total other equity interest | | | | | |
| | Ordinary shares | Certificate of entitlement to new shares from convertible bond | Total stock capital | Capital surplus | Legal reserve | Special reserve | Unappropriated retained earnings | Total retained earnings | Exchange differences on translation of foreign financial statements | Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income | Total other equity interest | Total equity attributable to owners of the parent | Non-controlling interests | Total equity |
| **Balance as of January 1, 2018 after adjustment** | $ 10,002,241 | 38,365 | 10,040,606 | 6,320,178 | 3,358,789 | 149,309 | 4,546,800 | 8,054,898 | (581,054) | 101,745 | (479,309) | 23,936,373 | 86,426 | 24,022,799 |
| Net income for the period | - | - | - | - | - | - | 887,932 | 887,932 | - | - | - | 887,932 | 1,007 | 888,939 |
| Other comprehensive income for the period | - | - | - | - | - | - | (50,942) | (50,942) | (83,894) | 9,773 | (74,121) | (125,063) | 9,378 | (115,685) |
| Total comprehensive income for the period | - | - | - | - | - | - | 836,990 | 836,990 | (83,894) | 9,773 | (74,121) | 762,869 | 10,385 | 773,254 |
| Appropriation and distribution of retained earnings: | | | | | | | | | | | | | | |
| Legal reserve appropriated | - | - | - | - | 171,493 | - | (171,493) | - | - | - | - | - | - | - |
| Cash dividends of ordinary share | - | - | - | - | - | - | (1,405,685) | (1,405,685) | - | - | - | (1,405,685) | - | (1,405,685) |
| Other changes in capital surplus: | | | | | | | | | | | | | | |
| Due to recognition of equity component of convertible bonds issued | - | - | - | 81,973 | - | - | - | - | - | - | - | 81,973 | - | 81,973 |
| Changes in equity of associates accounted for using equity method | - | - | - | 190,085 | - | - | - | - | - | - | - | 190,085 | - | 190,085 |
| Conversion of convertible bonds | 38,365 | (38,365) | - | - | - | - | - | - | - | - | - | - | - | - |
| Changes in non-controlling interests | - | - | - | - | - | - | - | - | - | - | - | - | 10,868 | 10,868 |
| Disposal of investments in equity instruments designated at fair value through other comprehensive income | - | - | - | - | - | - | 431,064 | 431,064 | - | (93,594) | (93,594) | 337,470 | - | 337,470 |
| **Balance at December 31, 2018** | 10,040,606 | - | 10,040,606 | 6,592,236 | 3,530,282 | 149,309 | 4,237,676 | 7,917,267 | (664,948) | 17,924 | (647,024) | 23,903,085 | 107,679 | 24,010,764 |
| Net income for the period | - | - | - | - | - | - | 1,566,059 | 1,566,059 | - | - | - | 1,566,059 | (8,261) | 1,557,798 |
| Other comprehensive income for the period | - | - | - | - | - | - | (17,763) | (17,763) | (119,712) | 65,990 | (53,722) | (71,485) | 2,501 | (68,984) |
| Total comprehensive income for the period | - | - | - | - | - | - | 1,548,296 | 1,548,296 | (119,712) | 65,990 | (53,722) | 1,494,574 | (5,760) | 1,488,814 |
| Appropriation and distribution of retained earnings: | | | | | | | | | | | | | | |
| Legal reserve appropriated | - | - | - | - | 88,793 | - | (88,793) | - | - | - | - | - | - | - |
| Special reserve appropriated | - | - | - | - | - | 497,716 | (497,716) | - | - | - | - | - | - | - |
| Cash dividends of ordinary share | - | - | - | - | - | - | (1,204,873) | (1,204,873) | - | - | - | (1,204,873) | - | (1,204,873) |
| Disposal of investments in equity instruments designated at fair value through other comprehensive income | - | - | - | - | - | - | 31,978 | 31,978 | - | (31,978) | (31,978) | - | - | - |
| Capital reduction of financial assets at fair value through other comprehensive income | - | - | - | - | - | - | (19,796) | (19,796) | - | 26,502 | 26,502 | 6,706 | - | 6,706 |
| **Balance as of December 31, 2019** | $ 10,040,606 | - | 10,040,606 | 6,592,236 | 3,619,075 | 647,025 | 4,006,772 | 8,272,872 | (784,660) | 78,438 | (706,222) | 24,199,492 | 101,919 | 24,301,411 |

See accompanying notes to consolidated financial statements.

**(English Translation of Consolidated Financial Statements Originally Issued in Chinese)**
**TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES**

**Consolidated Statements of Cash Flows**

**For the years ended December 31, 2019 and 2018**

**(Expressed in Thousands of New Taiwan Dollars)**

| | 2019 | 2018 |
|---|---|---|
| **Cash flows from (used in) operating activities:** | | |
| **Income before income tax** | $ 2,122,132 | 1,255,103 |
| **Adjustments:** | | |
| Adjustments to reconcile profit or loss: | | |
| Depreciation expense | 1,576,532 | 1,307,037 |
| Amortization expense | 119,068 | 77,763 |
| Expected credit loss | 485 | 39,861 |
| Net (gain) loss on financial assets or liabilities at fair value through profit or loss | (41,182) | 64,386 |
| Interest expense | 296,203 | 224,550 |
| Interest income | (5,483) | (6,078) |
| Dividend income | (23,382) | (59,935) |
| Share of profit of associates accounted for using the equity method | (101,113) | (58,679) |
| Loss (gain) on disposal of property, plant and equipment | 1,522 | (979) |
| Prepayments for equipment transferred to expenses | 284 | 447 |
| Gain on disposal of investment properties | - | (3,133) |
| Loss on disposal of investments accounted for using equity method | 307 | - |
| Impairment loss on non-financial assets | - | 20,811 |
| Unrealized foreign exchange loss (gain) | 21,192 | (19,809) |
| **Total adjustments to reconcile profit or loss** | 1,844,433 | 1,586,242 |
| **Changes in operating assets and liabilities:** | | |
| Increase in contract assets | (2,274,545) | (515,143) |
| Decrease (increase) in notes receivable | 93,387 | (91,284) |
| Decrease in accounts receivable | 68,961 | 206,589 |
| Decrease in other receivable | 71,023 | 102,117 |
| Decrease (increase) in inventories | 1,634,072 | (6,801,912) |
| Decrease (increase) in prepayments | 173,365 | (77,576) |
| Decrease (increase) in other current assets | 100,985 | (461,700) |
| Increase in other operating assets | (100,183) | (37,275) |
| Increase in other non-current assets | (2,318) | - |
| Increase (decrease) in contract liabilities | 401,128 | (255,299) |
| (Decrease) increase in notes payable | (102,297) | 63,823 |
| Increase in accounts payable | 221,082 | 134,487 |
| Increase (decrease) in other payables | 161,406 | (118,090) |
| Increase (decrease) in other current liabilities | 9,710 | (518) |
| Decrease in net defined benefit liability | (32,292) | (24,040) |
| Decrease in provisions | (13,890) | (52,619) |
| **Total adjustments** | 2,254,027 | (6,342,198) |
| Cash inflow (outflow) from operations | 4,376,159 | (5,087,095) |
| Interest received | 6,071 | 5,615 |
| Dividends received | 148,517 | 197,060 |
| Interest paid | (322,483) | (207,205) |
| Income taxes paid | (375,273) | (347,378) |
| **Net cash flows from (used in) operating activities** | 3,832,991 | (5,439,003) |
| **Cash flows from (used in) investing activities:** | | |
| Acquisition of financial assets at fair value through other comprehensive income | (13,960) | (3,628) |
| Proceeds from disposal of financial assets at fair value through other comprehensive income | 137,164 | 1,358,531 |
| Proceeds from capital reduction of financial assets at fair value through other comprehensive income | 51,332 | 2,075 |
| Decrease (increase) in other current and non-current assets | 633 | (36,484) |
| Acquisition of property, plant and equipment | (651,285) | (1,705,982) |
| Proceeds from disposal of property, plant and equipment | 697 | 8,345 |
| Decrease (increase) in refundable deposits | (5,322) | 4,361 |
| Acquisition of investment properties | (83,459) | (26,948) |
| Proceeds from disposal of investment properties | - | 40,788 |
| Increase in prepayments for equipment and land | (60,006) | (62,882) |
| **Net cash flows used in investing activities** | (624,206) | (421,824) |
| **Cash flows from (used in) financing activities:** | | |
| Increase in short-term loans | 70,957,998 | 61,414,940 |
| Decrease in short-term loans | (73,261,944) | (57,973,533) |
| Increase in short-term notes and bills payable | 9,340,000 | 12,730,000 |
| Decrease in short-term notes and bills payable | (9,875,000) | (11,835,000) |
| Proceeds from issuing bonds | - | 2,000,000 |
| Proceeds from long-term loans | 2,617,138 | 3,427,413 |
| Repayments of long-term loans | (1,960,143) | (2,353,571) |
| Increase (decrease) in guarantee deposits received | 1,609 | (11,390) |
| Payment of lease liabilities | (57,331) | - |
| Cash dividends paid | (1,204,873) | (1,405,685) |
| Change in non-controlling interests | 2,501 | 20,246 |
| **Net cash flows (used in) from financing activities** | (3,440,045) | 6,013,420 |
| **Effect of exchange rate changes on cash and cash equivalents** | 110,134 | (75,077) |
| **Net (decrease) increase in cash and cash equivalents** | (121,126) | 77,516 |
| **Cash and cash equivalents at beginning of period** | 1,097,976 | 1,020,460 |
| **Cash and cash equivalents at end of period** | $ **976,850** | **1,097,976** |

See accompanying notes to consolidated financial statements.

**(English Translation of Consolidated Financial Statements Originally Issued in Chinese)**
**TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

**For the years ended December 31, 2019 and 2018**

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

## (1) Company history

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

## (2) Approval date and procedures of the consolidated financial statements

The consolidated financial statements as of and for  months ended December 31, 2019 and 2018 were approved and authorized for issuance by the Board of Directors on February 27, 2020.

## (3) New standards, amendments and interpretations adopted

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2019.

| New, Revised or Amended Standards and Interpretations | Effective date per IASB |
|---|---|
| IFRS 16 "Leases" | January 1, 2019 |
| IFRIC 23 "Uncertainty over Income Tax Treatments" | January 1, 2019 |
| Amendments to IFRS 9 "Prepayment features with negative compensation" | January 1, 2019 |
| Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" | January 1, 2019 |
| Amendments to IAS 28 "Long-term interests in associates and joint ventures" | January 1, 2019 |
| Annual Improvements to IFRS Standards 2015–2017 Cycle | January 1, 2019 |

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

(i) IFRS 16"Leases"

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

The Consolidated Company applied IFRS 16 using the modified retrospective approach. The details of the changes in accounting policies are disclosed below,

1) Definition of a lease

   Previously, the Consolidated Company determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Consolidated Company assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 4(c)

   On transition to IFRS 16, the Consolidated Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Consolidated Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

2) As a lessee

   As a lessee, the Consolidated Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Consolidated Company. Under IFRS 16, the Consolidated Company recognizes right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

   The Consolidated Company decided to apply recognition exemptions to short-term leases of machinery, office equipment and vehicles.

   - Leases classified as operating leases under IAS 17

     At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Consolidated Company's incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at either：

     — their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application – the Consolidated Company applied this approach to its largest property leases；or

     — an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the Consolidated Company applied this approach to all other lease.

In addition, the Consolidated Company used the following practical expedients when applying IFRS 16 to leases.

- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Adjusted the right-of-use assets by the amount of IAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review.
- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

● Leases previously classified as finance leases

For leases that were classified as finance leases under IAS 17, the carrying amount of the right-of-use asset and the lease liability at January 1, 2019 are determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

3) As a lessor

The Consolidated Company is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease. The Consolidated Company accounted for its leases in accordance with IFRS 16 from the date of initial application.

4) Impacts on financial statements

On transition to IFRS 16, the Consolidated Company recognised additional $363,003 thousands of right-of-use assets (including reclassification of long-term prepaid rent) and $205,458 thousands of lease liabilities. When measuring lease liabilities, the Consolidated Company discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 0.901% ~ 2%.

**TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES**
**Notes to the Consolidated Financial Statements**

The explanation of differences between operating lease commitments disclosed at the end of the annual reporting period immediately preceding the date of initial application, and lease liabilities recognized in the statement of financial position at the date of initial application disclosed as follows：

| | January 1, 2019 |
|---|---|
| Operating lease commitment at December 31, 2018 as disclosed in the Consolidated Company consolidated financial statements | $ 51,826 |
| Extension and termination options reasonably certain to be exercised | 191,416 |
| | 243,242 |
| Discounted using the incremental borrowing rate at January 1, 2019 | 205,458 |
| Lease liabilities recognized at January 1, 2019 | **$ 205,458** |

(ii) IFRIC 23 "Uncertainty over Income Tax Treatments"

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

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

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2020 in accordance with Ruling No. 1080323028 issued by the FSC on July 29, 2019：

| New, Revised or Amended Standards and Interpretations | Effective date per IASB |
|---|---|
| Amendments to IFRS 3 "Definition of a Business" | January 1, 2020 |
| Amendments to IFRS 9, IAS39 and IFRS7 "Interest Rate Benchmark Reform" | January 1, 2020 |
| Amendments to IAS 1 and IAS 8 "Definition of Material" | January 1, 2020 |

The Consolidated Company assesses that the adoption of the abovementioned standards would not have any material impact on its consolidated financial statements.

**TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES**
**Notes to the Consolidated Financial Statements**

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

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

| New, Revised or Amended Standards and Interpretations | Effective date per IASB |
|---|---|
| Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture" | Effective date to be determined by IASB |
| IFRS 17 "Insurance Contracts" | January 1, 2021 |
| Amendments to IAS 1 "Classification of Liabilities as Current or Non-current" | January 1, 2022 |

The Consolidated Company is evaluating the impact of its initial adoption of the abovementioned standards or interpretations on its consolidated financial position and consolidated financial performance. The results thereof will be disclosed when the Consolidated Company completes its evaluation.

**(4) Summary of significant accounting policies**

A summary of the significant accounting policies adopted in the accompanying consolidated financial company.

(a) Statement of compliance

The accompanying consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as the Regulations) and the International Financial Reporting Standards, International Accounting Standards, and IFRIC Interpretations and SIC Interpretations as endorsed by the Financial Supervisory Commissions of the Republic of China (hereinafter referred to IFRSs as endorsed by the FSC).

(b) Basis of preparation

(i) Basis of measurement

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

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

2) Financial assets measured at fair value through OCI (available-for-sale financial assets) measured at fair value；

3) Net defined benefit liabilities measured as the fair value of plan assets, less the present value of defined benefit obligation, limited as explained in Note 4(q).

(ii) Functional and presentation currency

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

(c) Basis of consolidation

(i) Principle of preparing consolidated financial statements

The Consolidated Company comprise of the Company and the entities over which it possessed control (its subsidiaries). When the Company is exposed to variable rewards and the right to such rewards of an entity, the Company possesses control over such entities.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Balances, transactions, and any unrealized income and expenses arising from intra-group transactions are eliminated in the preparation of the consolidated financial statements. Attributable comprehensive income to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

The financial statements of the subsidiaries have been adjusted so that they align with the accounting policies of the Consolidated Company.

Changes in the Consolidated Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Adjustments or differences between purchase consideration and fair value of non-controlling interest are recognized as equity attributable to the owners of the Company.

(ii) A list of subsidiaries included in the consolidated financial statements is as follows:

| Investor | The name of subsidiaries | Business activity | Percentage of ownership | | Note |
|---|---|---|---|---|---|
| | | | December 31, 2019 | December 31, 2018 | |
| The Company | Tung Yuan International Corp. | Investment activities | 100.00 % | 100.00 % | |
| The Company | Tung Kang Steel Structure Corp. | Construction | 97.48 % | 97.48 % | |
| The Company | Goldham Development Ltd. | Investment activities | 100.00 % | 100.00 % | |
| The Company | Katec Creative Resources Corporation | Waste recycling | 99.01 % | 99.01 % | |
| The Company | Tung Kang Wind Power Corp. | Electric power generation | 100.00 % | 100.00 % | |
| The Company | Fa Da Enterprise Corp. | Waste recycling | 100.00 % | 100.00 % | |
| The Company | Tung Ho Steel Vietnam Corp., Ltd. (THSVC) | Steel industry | 100.00 % | 100.00 % | |
| The Company | Tung Tang Energy Corp. | Fertilizer producing and self-used equipment of renewable electric power | 100.00 % | - % | Note 1 |
| Tung Yuan International Corp. | 3 Oceans International Inc. | Investment activities | 66.67 % | 66.67 % | |
| Tung Yuan International Corp. | Best-Steel Trade Corp. (BST) | Trading | 60.00 % | 60.00 % | |
| Tung Kang Steel Structure Corp. | Tung Kang Engineering & Construction Corp. | Civil engineering | 100.00 % | 100.00 % | |

(Continued)

**TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES**
**Notes to the Consolidated Financial Statements**

| Investor | The name of subsidiaries | Business activity | Percentage of ownership | | Note |
|---|---|---|---|---|---|
| | | | December 31, 2019 | December 31, 2018 | |
| Goldham Development Ltd. | Fujian Tung Kang Steel Co., Ltd. | Manufacture of section steels and steel structures | 100.00 % | 100.00 % | |
| Fujian Tung Kang Steel Co., Ltd. | Fujian Dong Sheng Metal Processing Co., Ltd. | Metal processing | 51.00 % | 51.00 % | |

Note 1: Tung Tang Energy Corp. was established in June 2019, and was included into the consolidated financial statement at the same time.

(iii) All of the subsidiaries above were included in consolidation.

(d) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of Group entities at the exchange rates at the dates of the transactions. At the end of each subsequent reporting period, monetary items denominated in foreign currencies are translated into the functional currencies using the exchange rate at that date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated into the functional currencies using the exchange rate at the date that the fair value was determined. Non monetary items denominated in foreign currencies that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Exchange differences are generally recognized in profit or loss, except for an investment in equity securities designated as at fair value through other comprehensive income, which are recognized in other comprehensive income.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising from acquisition, are translated into the Company' s presentation currency at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into the Company' s presentation currency at average exchange rate. Exchange differences are recognized in other comprehensive income.

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

When the settlement of a monetary receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, Exchange differences arising from such a monetary item that are considered to form part of the net investment in the foreign operation are recognized in other comprehensive income.

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

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

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

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

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

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

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

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

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

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

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

(f) Cash and cash equivalents

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

(g) Financial instruments

Accounts receivables are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Consolidated Company becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(i) Financial assets

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

On initial recognition, a financial asset is classified as measured at：amortized cost；Fair value through other comprehensive income (FVOCI) – debt investment；FVOCI – equity investment； or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Consolidated Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

1) Financial assets measured at amortized cost

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

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

These assets are subsequently measured at amortized cost, which is the amount at which the financial asset is measured at initial recognition, plus/minus, the cumulative amortization using the effective interest method, adjusted for any loss allowance. Interest income, foreign exchange gains and losses, as well as impairment, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

2) Fair value through other comprehensive income (FVOCI)

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

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

Some accounts receivables are held within a business model whose objective is achieved by both collecting contractual cash flows and selling by the Consolidated Company； therefore, those receivables are measured at FVOCI. However, they are included in the 'accounts receivables' line item.

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

Debt investments at FVOCI are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

Equity investments at FVOCI are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in other comprehensive income and are never reclassified to profit or loss.

Dividend income is recognized in profit or loss on the date on which the Consolidated Company’s right to receive payment is established.

3) Fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVOCI described as above are measured at FVTPL, including derivative financial assets. Trade receivables that the Consolidated Company intends to sell immediately or in the near term are measured at FVTPL; however, they are included in the ‘trade receivables’ line item. On initial recognition, the Consolidated Company may irrevocably designate a financial asset, which meets the requirements to be measured at amortized cost or at FVOCI, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

4) Impairment of financial assets

The Consolidated Company recognizes loss allowances for expected credit losses (ECL) on financial assets measured at amortized cost (including cash and cash equivalents, amortized costs, notes and accounts receivables, other receivable, guarantee deposit paid and other financial assets), accounts receivables and debt investments measured at FVOCI and contract assets.

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

- debt securities that are determined to have low credit risk at the reporting date； and

- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowance for accounts receivable and contract assets are measured at an amount equal to lifetime ECL.

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

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

The Consolidated Company considers a financial asset to be in default when the financial asset is more than one year past due or the debtor is unlikely to pay its credit obligations to the Consolidated Company in full.

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

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

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

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

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

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

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

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**Notes to the Consolidated Financial Statements**

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

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.For debt securities at FVOCI, the loss allowance is charge to profit or loss and is recognized in other comprehensive income instead of reducing the carrying amount of the asset.

5) Derecognition of financial assets

The Consolidated Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Consolidated Company neither transfers nor retains substantially all of therisks and rewards of ownership and it does not retain control of the financial asset.

The Consolidated Company enters into transactions whereby it transfers assets recognized in its statement of balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

Debt and equity instruments issued by the Consolidated Company are classified as financial liabilities or equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

2) Equity instrument

An equity instrument is any contract that evidences residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued are recognized as the amount of consideration received, less the direct cost of issuing.

3) Treasury shares

When shares recognized as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is recognized in capital surplus or retained earnings (if the capital suplus is not sufficient to be written down).

(Continued)

4) Compound financial instruments

Compound financial instruments issued by the Consolidated Company comprise convertible bonds denominated in NTD that can be converted to ordinary shares at the option of the holder, when the number of shares to be issued is fixed and does not vary with changes in fair value.

The liability component of compound financial instruments is initially recognized at the fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognized at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured.

Interest related to the financial liability is recognized in profit or loss. On conversion at maturity, the financial liability is reclassified to equity and no gain or loss is recognized.

5) Financial liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

6) Derecognition of financial liabilities

The Consolidated Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Consolidated Company also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

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

7) Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of balance sheet when, and only when, the Consolidated Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(Continued)

8) Financial guarantee contract

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contract liabilities are measured initially at their fair values and, if not designated as at FVTPL and do not arise from a transfer of an asset, are measured subsequently at the higher of: (a) the amount of the loss allowance determined in accordance with IFRS 9； and (b) the amount recognized initially less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies set out below.

(h) Inventories

The cost of inventories shall comprise all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to the location and condition ready for sale or production. The allocation of fixed production overheads to the finished goods and work in process is based on the normal capacity of the production facilities. However, in the case where the practical capacity is larger than the normal capacity, the allocation is based on the practical capacity. Variable production overheads are allocated to each unit of production on the basis of the actual use of the production facilities. Inventories are subsequently measured at the lower of cost or net realizable value. The cost of inventories is based on the monthly weighted-average cost. Net realizable value is the estimated as the selling price in the ordinary course of business at the reporting date, less the estimated costs until completion and selling expenses. If the inventory is reserved for a contract, its net realizable value shall be based on the price of the contract.

(i) Investment in associates

Associates are those entities in which the Consolidated Company has significant influence, but not control, over the financial and operating policies.

The Consolidated Company’ s investments in associates are accounted for using the equity method and are recognized initially at cost. The cost of the investment includes transaction costs. The carrying amount of the investment in associates includes goodwill resulted from the acquisition less any accumulated impairment losses.

The financial statements include the Consolidated Company’s share of the profit or loss and other comprehensive income of those associates, after adjustments to align their accounting policies with those of the Consolidated Company, from the date on which significant influence commences until the date on which significant influence ceases. The Consolidated Company recognizes any changes of its proportionate share in the investee within capital surplus, when an associate’s equity changes due to reasons other than profit and loss or comprehensive income, which did not result in changes in actual significant influence.

Gains and losses resulting from the transactions between the Consolidated Company and an associate are recognized only to the extent of unrelated Consolidated Company’ s interests in the associate.

The Consolidated Company discontinues the use of the equity method and measures the retained interest at fair value from the date when its investment ceases to be an associate. The difference between the fair value of retained interest and proceeds from disposing, and the carrying amount of the investment at the date the equity method was discontinued is recognized in profit or loss. The Consolidated Company accounts for all the amounts previously recognized in other comprehensive income in relation to that investment on the same basis as would have been required if the associates had directly disposed of the related assets or liabilities. If a gain or loss previously recognized in other comprehensive income would be reclassified to profit or loss ( or retained earnings) on the disposal of the related assets or liabilities, the Consolidated Company reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) ( or retained earnings) when the equity method is discontinued. If the Consolidated Company's ownership interest in an associate is reduced while it continues to apply the equity method, the Consolidated Company reclassifies the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest to profit or loss.

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 Consolidated Company continues to apply the equity method without remeasuring the retained interest.

When the Consolidated Company’s share of losses of an associate equals or exceeds its interests in an associate, it discontinues recognizing its share of further losses. After the recognized interest is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Consolidated Company has incurred legal or constructive obligations or made payments on behalf of the associate.

When the Consolidated Company subscribes to additional shares in an associate at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment will differ from the amount of the Consolidated Company’ s proportionate interest in the net assets of the associate. The Consolidated Company records such a difference as an adjustment to investments, with the corresponding amount charged or credited to capital surplus. The aforesaid adjustment should first be adjusted under capital surplus. If the capital surplus resulting from changes in ownership interest is not sufficient, the remaining difference is debited to retained earnings. If the Consolidated Company’ s ownership interest is reduced due to the additional subscription to the shares of the associate by other investors, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate will be reclassified to profit or loss on the same basis as would be required if the associate had directly disposed of the related assets or liabilities

(j) Investment property

Investment property is the property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, for use in the production or supply of goods or services, or for administrative purposes. Investment property is measured at cost on initial recognition, and subsequently at cost, less accumulated depreciation and accumulated impairment losses. Depreciation expense is calculated based on the depreciation method, useful life, and residual value which are the same as those adopted for property, plant and equipment. Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of raw materials and direct labor, capitalized borrowing costs, and any other costs directly attributable to bringing the investment property to a working condition for its intended use.

When the use of an investment property changes such that it is reclassified as property, plant and equipment, its carrying amount at the date of reclassification becomes its cost for subsequent accounting.

Rental income from investment property is recognized as other revenue on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income, over the term of the lease.

(k) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment loss. Cost includes expenditures that is directly attributed to the acquisition of the asset, any cost directly attributable to transporting the asset to the location and condition necessary for it to be utilized by the manner intended by management, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, and any borrowing cost eligible for capitalization. Cost of the property, plant and equipment also include the portion transferred from equity of effective cash flow hedges. Purchased software that is integral to the functionality of the related equipment is capitalized as part of the equipment cost.

When a piece of property, plant and equipment consist of different components, each component that is significant to the total cost with different applicable depreciation methods and useful lives should be regarded as a separate item (significant component).

Gain or loss arising from the disposal of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and is recognized as other gains and losses under non-operating income and expenses.

(ii) Subsequent cost

Subsequent expenditure is capitalized only when it is highly probable that the future economic benefits associated with the expenditure and will flow to the Consolidated Company and can be assessed reliably. The carrying amount of those parts that are replaced is derecognized. Ongoing repairs and maintenance are expensed as incurred.

(Continued)

(iii) Depreciation

Depreciation of property, plant and equipment is measured over their estimated useful lives using the straight-line method. Each significant part of a property, plant and equipment is evaluated individually and depreciated separately should it possess a different useful life. The depreciation charged for each period is recognized in profit or loss.

Land has an unlimited useful life and therefore is not depreciated.

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows：

1) Buildings：3 to 60 years

2) Machinery and equipment：2.75 to 25 years

3) Miscellaneous equipment：3 to 30 years

Depreciation methods, useful lives, and residual values are reviewed at each reporting date. If expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

(l) Leases

Applicable from January 1, 2019

(i) Identifying a lease

At inception of a contract, the Consolidated Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Consolidated Company assesses whether：

－ the contract involves the use of an identified asset－ this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified；and

－ the Consolidated Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use；and

－ the Consolidated Company has the right to direct the use of the asset.

- The Consolidated Company has the right to direct the use of the asset when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

- In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Consolidated Company has the right to direct the use of an asset if either：

  — the Consolidated Company has the right to operate the asset throughout the period of use, without the supplier having the right to change those operating instructions；or

  — the Consolidated Company designed the asset in a way that predetermines how and for what purpose it will be used throughout the period of use.

At inception or on reassessment of a contract that contains a lease component, the Consolidated Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Consolidated Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

(ii) As a leasee

The Consolidated Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be reliably determined, the Consolidated Company’s incremental borrowing rate. Generally, the Consolidated Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following：

— fixed payments, including in-substance fixed payments；

— variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date；

— amounts expected to be payable under a residual value guarantee；and

— payments for purchase or termination options that are reasonably certain to be exercised.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when：

— there is a change in future lease payments arising from the change in an index or rate；or

— there is a change in the Consolidated Company's estimate of the amount expected to be payable under a residual value guarantee；or

— there is a change of its assessment on whether it will exercise a purchase；or

— there is a change of its assessment on whether it will exercise an extension or termination option；or

— there is any lease modifications

When the lease liability is remeasured, other than lease modifications, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or in profit and loss if the carrying amount of the right-of-use asset has been reduced to zero.

When the lease liability is remeasured to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease, the Consolidated Company accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease, and recognize in profit or loss any gain or loss relating to the partial or full termination of the lease.

The Consolidated Company presents right-of-use assets that do not meet the definition of investment and lease liabilities as a separate line item respectively in the statement of financial position.

The Consolidated Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases of machinery, office equipment and vehicles that have a lease term of 12 months or less and leases of low-value assets. The Consolidated Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(iii) As a lessor

When the Consolidated Company acts as a lessor, it determines at lease commencement whether each lease is a finance lease or an operating lease. To classify each lease, the Consolidated Company makes an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of ownership incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then the lease is an operating lease. As part of this assessment, the Consolidated Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

Applicable before December 31, 2018

(i) Lessor

Lease income from an operating lease is recognized in profit or loss using a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income. Incentives granted to the lessee to enter into the operating lease are spread over the lease term on a straight-line basis so that the lease income received is reduced accordingly.

Contingent rents are recognized as income for the period when the lease adjustments are confirmed.

(ii) Lessee

Leases which the Consolidated Company assumes substantially all of the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the lease asset is measured at an amount equal to the lower of its fair value or the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to the asset.

Other leases are operating leases and are not recognized on the Consolidated Company’ s balance sheets.

Payments made under operating lease (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense and spread over the term of the lease.

Minimum lease payments made under finance leases are apportioned between financial cost and reduction of the outstanding liability. The finance cost is allocated to each period during the lease term using a fixed periodic rate of interest on the remaining balance of the liability.

Contingent rent is recognized as expense in the periods in which it is incurred.

(m) Impairment of non-financial assets

The Consolidated Company assesses whether impairment has occurred on its non-financial assets other than inventories, deferred tax assets, and assets arising from employee benefit at every reporting date, and estimate the recoverable amounts of asset with indication of impairment. If the Consolidated Company is not able to estimate the recoverable amounts of individual assets, the Consolidated Company estimates the recoverable amount of the cash generating unit (CGU) to which the asset belongs.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

(Continued)

The recoverable amount of an individual assets or a CGU is the higher of its fair value less costs of disposal and its value in use. If the recoverable amount of an asset or a CGU is less than its carrying amount, the carrying amount of the asset or CGU should be reduced to its recoverable amount, and that reduction will be accounted for as an impairment loss, which should be recognized immediately in profit or loss.

The Consolidated Company re-assesses whether indications of impairment exist at every reporting date whether previously recognized impairment no longer exists or decreases. If there are any changes in the determination of recoverable amounts, the Consolidated Company reverses the impairment loss to increase the carrying value of the individual asset or the CGU. However, the carrying value should not exceed the amount less depreciation or amortization had it not been impaired.

(n) Provision

A provision for warranties is recognized based on the estimated expenditures that may incur during the warranty period of the contracted projects. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities. Provisions are reversed when actual expenditures incur. If the expenditures exceed the balance of the provisions, they are recognized as expenses for the period. In accordance with the Consolidated Company’s policies that require an obligation to be settled, a provision for site demolition is recognized as expense during the period of demolition.

(o) Revenue recognition

(i) Revenue from contracts with customers

Revenue is measured based on the consideration to which the Consolidated Company expects to be entitled in exchange for transferring goods or services to a customer. The Consolidated Company recognizes revenue when it satisfies a performance obligation by transferring control of a good or a service to a customer. The accounting policies for the Consolidated Company's main types of revenue are explained below：

1) Sale of goods

The Consolidated Company recognizes revenue when control of the products has transferred, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Consolidated Company has objective evidence that all criteria for acceptance have been satisfied.

2) Construction contracts

The Consolidated Company engages in construction contracts. Because its customer controls the asset as it is constructed, the Consolidated Company recognizes revenue over time on the basis of the construction costs incurred to date as a proportion of the total estimated costs of the contract. The customer pays the fixed amount based on a payment schedule. If the Consolidated Company has recognized revenue, but not issued a bill, then the entitlement to consideration is recognized as a contract asset. The contract asset is transferred to receivables when the entitlement to payment becomes unconditional.

If the Consolidated Company cannot reasonably measure its progress towards the completion of a construction contract, the Consolidated Company shall recognize revenue only to the extent of the costs expected to be recovered.

A provision for onerous contracts is recognized when the Consolidated Company expects the unavoidable costs of performing the obligations under a construction contract exceed the economic benefits expected to be received under the contract.

Estimates of revenues, costs, or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

The Consoldiated Company recognizes provisions for its warranty for the agreed specifications of the construction contracts.

3) Rendering of services

The Consolidated Company is engaged in the collection and disposal services of electric arc furnace dusts (EAF dusts). The revenue is recognized when the services are completed. Under IFRS 15, the total consideration in the service contracts will be allocated to all services based on their stand-alone selling prices. The Consolidated Company does not expect significant differences in the timing of revenue recognition for these services.

4) Financing components

The Consolidated Company does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Consolidated Company does not adjust any of the transaction prices for the time value of money.

(Continued)

(p) Contract costs

(i) Incremental costs of obtaining a contract

The Consolidated Company recognizes as an asset the incremental costs of obtaining a contract with a customer if the Consolidated Company expects to recover those costs. The incremental costs of obtaining a contract are those costs that the Consolidated Company incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained shall be recognized as an expense when incurred, unless those costs are explicitly chargeable to the customer regardless of whether the contract is obtained.

The Consolidated Company applies the practical expedient to recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that the entity otherwise would have recognized is one year or less.

(ii) Costs to fulfil a contract

If the costs incurred in fulfilling a contract with a customer are not within the scope of other standards (for example, IAS 2 “Inventories”, IAS 16 “Property, Plant and Equipment” or IAS 38 “Intangible Assets”), the Consolidated Company recognizes an asset from the costs incurred to fulfil a contract only if those costs meet all of the following criteria:

- the costs relate directly to a contract or to an anticipated contract that the Consolidated Company can specifically identify;
- the costs generate or enhance resources of the Consolidated Company that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
- the costs are expected to be recovered.

General and administrative costs, costs of wasted materials, labor or other resources to fulfil the contract that were not reflected in the price of the contract, costs that relate to satisfied performance obligations (or partially satisfied performance obligations), and costs for which the Consolidated Company cannot distinguish whether the costs relate to unsatisfied performance obligations or to satisfied performance obligations (or partially satisfied performance obligations), the Consolidated Company recognizes these costs as expenses when incurred.

(q) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss for the period in which services are rendered by employees.

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(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Consolidated Company's net obligation in respect of a defined benefit pension plan is calculated separately for each plan by estimating the discounted present value of future benefit that employees have earned in return for their service in the current and prior periods. The fair value of any plan assets is deducted from aforementioned net obligation. The discount rate is the yield on the reporting date of government bonds that have maturity dates approximating the terms of the Consolidated Company's obligations and are denominated in the same currency in which the benefits are expected to be paid.

An actuarial calculation of pension costs and related liabilities are performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Consolidated Company, an asset is recognized but the recognized asset is limited to the total of the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Consolidated Company. An economic benefit is available to the Consolidated Company if it is realizable during the life of the plan, or on settlement of the plan liabilities.

Remeasurement of the net defined benefit assets (liability), comprising (a) actuarial gains and losses, (b) the return on plan assets, excluding the amounts included in the net interest of the net defined benefit liability (asset); and (c) any change of upper limit of assets, excluding the amounts included in the net interest of the net defined benefit liability (asset), is recognized in other comprehensive income in the period in which they occur.

Gains or losses on the curtailment or settlement of a defined benefit plan are also recognized as pension expenses when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets, change in the present value of defined benefit obligation and any related actuarial gains or losses and past service cost that was not previously recognized.

(iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Consolidated Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(r) Income taxes

Income taxes comprises current tax expense and deferred tax expense. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred taxes are recognized in profit or loss.

Current taxes comprise the expected tax payablesor receivables on the taxable profits (losses) for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payables or receivables are the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date calculated using the statutory tax rate on the reporting date or the actual legislative tax rate, as well as tax adjustments related to prior years.

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes are recognized except for the following：

(i) the initial recognition of an asset or liability in a transaction which is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit (loss)；or

(ii) temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Consolidated Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future；or

(iii) taxable temporary differences arising on the initial recognition of goodwill.

Deferred taxes are measured at tax rates that are expected to be applied to temporary differences when they reserve, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if the following criteria are met：

(i) the Consolidated Company has a legally enforceable right to set off current tax assets against current tax liabilities ; and

(ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either：

   1) the same taxable entity；or

   2) different taxable entities which intend to settle current tax assets and liabilities on a net basis, or to realize the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Deferred tax assets are recognized for the carry forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realized; such reductions are reversed when the probability of future taxable profits improves.

(Continued)

(s) Business combination

The Consolidated Company measures goodwill as the fair value of the consideration transferred on the acquisition date, including the amount of any non-controlling interest of the acquiree , net of the amounts of identifiable assets acquired and liabilities assumed (generally at fair value as of the date of acquisition). If the residual balance is negative, the Consolidated Company shall re-assess whether it has correctly identified all of the assets acquired and liabilities assumed, and recognize a gain on the bargain purchase through profit or loss.

The Consolidated Company selects whether to measure non-controlling interest at fair value as of the date of acquisition or at the amount of identifiable net assets in proportion to the shareholding percentage of the non-controlling interest, based on each of the basis of transaction.

In a business combination achieved in stages, the Consolidated Company shall re-measure its previously-held equity interest in the acquiree at fair value as of the date of acquisition and recognize the resulting gain or loss, if any, in profit or loss. In prior reporting periods, the Consolidated Company may have recognized changes in the value of its equity interest in the acquiree in other comprehensive income. If so, the amount that was recognized in other comprehensive income shall be recognized on the same basis as would be required if the Consolidated Company had disposed directly of the previously held equity interest. If the disposal of the equity interest requires a reclassification to profit or loss, such an amount shall be reclassified to profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Consolidated Company shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the Consolidated Company shall retrospectively adjust the provisional amounts recognized at the acquisition date, or recognize additional assets or liabilities to reflect new information obtained about facts and circumstances that exists as of the date of acquisition. The measurement period shall not exceed one year from the date of acquisition.

All transaction costs incurred for the business combination are recognized immediately as the Consolidated Company’ s expenses when incurred, except for the issuance of debt or equity instruments.

(t) Earnings per share

The basic earnings per share is calculated based on the profit attributable to the ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding. The diluted earnings per share is calculated based on the profit attributable to ordinary shareholders of the Company, divided by the weighted average number of ordinary shares outstanding after adjustments for the effects of all potentially dilutive ordinary shares, including convertible bonds and employee stock options.

(Continued)

(u) Natural resource

Natural resource is the mining right acquired for a specific area and the necessary cost incurred to acquire the mining right, including developing costs. It is measured at costs less accumulated amortization and accumulated impairment. Natural resource is amortized after the mining license is acquired by production life (20 years) using the straight-line method, with the amortized amount recognized through profit or loss.

Salvage value, amortization period, and amortization method should be inspected at least at every fiscal year-end. If any changes occur, changes should be recognized as changes in accounting estimate.

(v) Operating segments

An operating segment is a component of the Consolidated Company that engages in business activities from which it may incur revenues and incur expenses. Operating results of the operating segment are regularly reviewed by the Consolidated Company' s chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance.

**(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty**

The preparation of the consolidated financial statements in conformity with the IFRSs endorsed by the FSC requires management to make judgments, estimates, and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

The management continues to monitor the accounting estimates and assumptions. Any impact from the changes in accounting estimates are recorded in the period in which the changes occur and in future periods.

Information about judgments made in the application of accounting policies that have the risks of significant effects in the next reporting period is as follows：

(a) Impairment evaluation of property, plant and equipment

In the process of evaluating impairment, the Consolidated Company is required to make subjective judgments in determining the independent cash flows, useful lives, expected future income and expenses related to the specific asset groups considering of the nature of the industry. Any changes in these estimates based on changed economic conditions or business strategies and could result in significant impairment charges or reversal in future years.

(b) Revenue recognition of construction contracts

Contract revenue are recognized by reference to the stage of completion of each contract. The stage of completion of a contract is measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. Estimated total contract costs of contracted items are assessed and determined by the management based on the nature of activities, expected sub-contracting charges, construction periods, processes, methods, etc., for each construction contract. Changes in these estimates might affect the calculation of the percentage of completion and related profits from construction contracts.

(Continued)

The Consolidated Company's accounting policies include measuring financial and non-financial assets and liabilities at fair value through profit or loss. The Consolidated Company's financial instrument valuation group conducts independent verification on fair value by using data sources that are independent, reliable, and representative of exercise prices. This financial instrument valuation group also periodically adjusts valuation models, conducts back-testing, renews input data for valuation models, and makes all other necessary fair value adjustments to assure the rationality of fair value.

The Consolidated Company strives to use market observable inputs when measuring assets and liabilities. Different levels of the fair value hierarchy to be used in determining the fair value of financial instruments are as follows：

Level 1：quoted prices (unadjusted) in active markets for identifiable assets or liabilities.

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

Level 3：inputs for the assets or liability that are not based on observable market data.

For any transfers between the fair value hierarchies, the impact of the transfer is recognized on the reporting date.

Please refer to the notes listed as below for related information on assumptions used in measuring fair value：

Note 6(j), Investment property

Note 6(y), Financial instruments

## (6) Explanation of significant accounts

(a) Cash and cash equivalents

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Cash on hand | $ 1,986 | 1,756 |
| Checking and demand deposits | 834,357 | 876,498 |
| Term deposits | 139,510 | 147,768 |
| Cash equivalents | 997 | 71,954 |
| Cash and cash equivalents on the statement of cash flows | **$ 976,850** | **1,097,976** |

(i) Please refer to Note 6(y) for interest rate risk and sensitivity analysis of the financial assets and liabilities of the Consolidated Company.

(ii) As of December 31, 2019 and 2018, certain term deposits were pledged as collateral of performance guarantee, and such term deposits were reclassified to refundable deposits. Please refer to Note 8 for details.

# TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
## Notes to the Consolidated Financial Statements

(b) Financial assets and liabilities at fair value through profit or loss

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Mandatorily measured at fair value through profit or loss: | | |
| Non-derivative financial assets | | |
| Stocks listed on domestic markets | $ **162,959** | **134,560** |

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Financial liabilities at fair value through profit or loss： | | |
| Derivative instruments not used for hedging | | |
| Foreign exchange forward contracts | $ 7,144 | 1,745 |
| Redemption options on convertible bonds | 13,000 | 31,200 |
| Total | $ **20,144** | **32,945** |

The Consolidated Company uses derivative financial instruments to hedge certain foreign exchange and interest rate risks that the Consolidated Company is exposed to arising from its operating, financing, and investing activities. The Consolidated Company held the following derivative financial instruments, which did not meet the criteria for hedge accounting, under financial assets held for trading：

| | December 31, 2019 | | |
|---|---|---|---|
| | Nominal amount (in thousands) | Currency | Maturity dates |
| Foreign exchange forward | USD **22,363** | Sell USD/buy TWD | 2019.11.15~2020.03.31 |

| | December 31, 2018 | | |
|---|---|---|---|
| | Nominal amount (in thousands) | Currency | Maturity dates |
| Foreign exchange forward | USD **19,258** | Sell USD/buy TWD | 2019.01.07~2019.02.27 |

None of the financial assets were pledged as collateral as of December 31, 2019 and 2018, respectively.

(c) Financial assets at fair value through other comprehensive income

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Equity investments at fair value through other comprehensive income： | | |
| Publicly listed stocks and stocks listed on emerging markets | $ 307,282 | 377,716 |
| Unlisted stocks | 157,452 | 189,107 |
| Total | $ **464,734** | **566,823** |

(Continued)

(i) The Consolidated Company designated the investments shown above as equity securities as at fair value through other comprehensive income because these equity securities represent those investments that the Consolidated Company intends to hold for long-term for strategic purposes.

(ii) The Consolidated Company disposed a part of its shares in Taiwan High Speed Rail Corporation during the years ended December 31, 2019 and 2018, where it realized a gain of $45,194 and $429,796 thousands, which was recognized under other comprehensive income, and later on, reclassified to retained earnings.

(iii) Hexawave Photonic System, Inc. reduced capital to cover deficit and refunded of shares, where it realized a loss of $19,796 thousand, which was recognized as other comprehensive income, and thereafter, was reclassified to retained earnings.

(iv) The Consolidated Company disposed a part of its shares in Chien Shing Harbour Service Co., Ltd in 2018, where it realized a gain of $1,358 thousand, which was recognized under other comprehensive income, and later on, reclassified to retained earnings.

(v) For credit risk and market risk, please refer to Note 6(y).

(vi) None of the financial assets were pledged as collateral as of December 31, 2019.

(d) Notes and accounts receivable

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Notes receivable from operating activities | $ 235,298 | 328,685 |
| Accounts receivable | 2,982,336 | 3,089,946 |
| Accounts receivable from related parties | 5,033 | 2,910 |
| Overdue receivables | 10,393 | 10,020 |
| Less: loss allowance | (36,028) | (71,486) |
| | $ 3,197,032 | 3,360,075 |

The Consolidated Company applies the simplified approach to provide for its expected credit losses, i.e. the use of lifetime expected loss provision for all receivables. To measure the expected credit losses, notes and accounts receivable have been grouped based on shared credit risk characteristics and the days past due, as well as incorporated forward looking information. The loss allowance provision in the Steel Structure Department in China, in Vietnam Department and the other Departments was determined as follows：

| | December 31, 2019 | | |
|---|---|---|---|
| | Gross carrying amount | Weighted-average rate of expected credit loss | Loss allowance for expected credit losses |
| Current | $ 277,605 | 0% | - |

(Continued)

| | December 31, 2018 | | |
|---|---|---|---|
| | **Gross carrying amount** | **Weighted-average rate of expected credit loss** | **Loss allowance for expected credit losses** |
| Current | $ 273,137 | 0% | - |

The analysis of expected credit loss of the notes and accounts receivable of the Consolidated Company, except for the Steel Structure Department in China, the Vietnam Department, and the Other Departments, was as follows：

| | December 31, 2019 | | |
|---|---|---|---|
| | **Gross carrying amount** | **Weighted-average rate of expected credit loss** | **Loss allowance for expected credit losses** |
| With low risk | $ 1,763,274 | 0.20% | 3,569 |
| With moderate risk | 1,181,781 | 1.86% | 22,034 |
| With financial difficulties | 10,400 | 100% | 10,400 |
| | $ 2,955,455 | | 36,003 |

| | December 31, 2018 | | |
|---|---|---|---|
| | **Gross carrying amount** | **Weighted-average rate of expected credit loss** | **Loss allowance for expected credit losses** |
| With low risk | $ 1,385,884 | 0.25% | 3,430 |
| With moderate risk | 1,726,563 | 1.28% | 22,060 |
| With financial difficulties | 45,977 | 100% | 45,977 |
| | $ 3,158,424 | | 71,467 |

The aging analysis of notes and accounts receivable, which were past due but not impaired, was as follows:

| | **December 31, 2019** | **December 31, 2018** |
|---|---|---|
| 1 to 60 days past due | $ 4,877 | 4,785 |
| 61 to 90 days past due | - | - |
| 91 to 120 days past due | - | - |
| | $ 4,877 | 4,785 |

**TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES**
**Notes to the Consolidated Financial Statements**

The changes in the allowance for notes and accounts receivable were as follows：

| | For the years ended December 31, | |
|---|---|---|
| | **2019** | **2018** |
| Balance at January 1, 2019 and 2018 | $ 71,486 | 49,003 |
| Impairment losses recognized | 485 | 39,861 |
| Amounts written off | (36,153) | (16,993) |
| Foreign exchange losses | 210 | (385) |
| Balance at December 31, 2019 and 2018 | **$ 36,028** | **71,486** |

(e) Other receivables

| | **December 31, 2019** | **December 31, 2018** |
|---|---|---|
| Dividends receivable | $ 13,392 | - |
| Other receivables from related parties | 64 | 57 |
| Other receivables | 7,379 | 79,796 |
| Less: allowance for impairment | - | - |
| | **$ 20,835** | **79,853** |

For the years ended December 31, 2019 and 2018, no other receivables were impaired resulted from overdue. For credit risk, please refer to Note 6 (y).

(f) Inventories

| | **December 31, 2019** | **December 31, 2018** |
|---|---|---|
| Finished goods (including consigned goods) | $ 2,469,404 | 2,882,305 |
| Work in process (including consigned goods and goods in transit ) | 3,086,472 | 2,155,407 |
| Raw materials (including goods in transit) | 6,626,156 | 8,119,784 |
| Material supplies (including goods in transit and consigned goods) | 1,637,604 | 2,295,583 |
| Inventories, net | **$ 13,819,636** | **15,453,079** |

None of the inventory was pledged as collateral as of December 31, 2019 and 2018.

**TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES**
**Notes to the Consolidated Financial Statements**

(i) For the years ended December 31, 2019 and 2018, cost of sales recognized were as follows：

| | For the years ended December 31, 2019 | For the years ended December 31, 2018 |
|---|---|---|
| Cost of goods sold | $ 34,760,580 | 32,752,928 |
| (Gain from recovery) loss on the declin of inventory market price | (53,456) | 181,615 |
| Unallocated fixed overheads — capacity variance | 172,567 | 131,393 |
| Revenue from sale of materials and scrap | (108,973) | (136,225) |
| Total | **$ 34,770,718** | **32,929,711** |

Net realizable vaiue is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses. Any changes of competitors' reactions and market condition would impact the estimation which is based on current market condition and past experience. The management would make evaluation onevery reporting date.

(ii) The Consolidated Company's processing costs recognized for providing services for the years ended December 31, 2019 and 2018, consisted of the following：

| | For the years ended December 31, 2019 | For the years ended December 31, 2018 |
|---|---|---|
| Processing costs | **$ 505,851** | **357,333** |

(g) Investments accounted for using the equity method

(i) The Consolidated Company's financial information for investments accounted for using the equity method that are individually insignificant was as follows：

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Carrying amount of individually insignificant associates' equity | **$ 1,405,522** | **1,465,204** |

| | For the years ended December 31, 2019 | For the years ended December 31, 2018 |
|---|---|---|
| Attributable to the Consolidated Company： | | |
| Net income from continuing operations | $ 101,113 | 58,679 |
| Other comprehensive income | 118 | (5,744) |
| Total | **$ 101,231** | **52,935** |

**TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES**
**Notes to the Consolidated Financial Statements**

(ii) The details of cash dividends paid by the Consolidated Company's associates recognized as deductions of investment accounted for using equity method were as follows：

| | For the years ended December 31, 2019 | For the years ended December 31, 2018 |
|---|---|---|
| Katec Research & Development Corp. | $ 1,412 | 2,241 |
| Taiwan Steel Union Co., Ltd. | 123,648 | 132,835 |
| Right Investment Corp. | 75 | 2,049 |
| Total | $ 125,135 | 137,125 |

(iii) Collateral

None of the investments accounted for using the equity method were pledged for collateral as of December 31, 2019 and 2018.

(h) Property, plant and equipment

The details of the changes in the property, plant and equipment of the Consolidated Company for the years ended December 31, 2019 and 2018 were as follows：

| | Land | Buildings | Machinery equipment | Miscellaneous equipment | Other assets | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| **Cost or deemed cost:** | | | | | | | |
| Balance as of January 1, 2019 | $ 2,750,817 | 9,370,026 | 28,400,667 | 366,615 | 633,560 | 205,566 | 41,727,251 |
| Additions | 18,904 | 8,519 | 158,054 | 33,366 | - | 322,967 | 541,810 |
| Reclassification in (out) | 20,914 | 104,331 | 193,525 | 18,914 | (20,558) | (273,024) | 44,102 |
| Disposals | - | (79,760) | (56,816) | (12,408) | - | - | (148,984) |
| Effects of exchange rate and others | - | (46,269) | (91,922) | (2,169) | - | (7,394) | (147,754) |
| Balance as of December 31, 2019 | $ **2,790,635** | **9,356,847** | **28,603,508** | **404,318** | **613,002** | **248,115** | **42,016,425** |
| Balance as of January 1, 2018 | $ 2,750,817 | 8,120,861 | 25,983,021 | 328,117 | 601,150 | 2,619,614 | 40,403,580 |
| Additions | - | 142,714 | 266,723 | 31,660 | 33,338 | 1,308,572 | 1,783,007 |
| Reclassification in (out) | - | 1,094,382 | 2,166,857 | 28,973 | - | (3,715,147) | (424,935) |
| Disposals | - | (2,229) | (45,095) | (21,917) | (928) | - | (70,169) |
| Effects of exchange rate and others | - | 14,298 | 29,161 | (218) | - | (7,473) | 35,768 |
| Balance as of December 31, 2018 | $ **2,750,817** | **9,370,026** | **28,400,667** | **366,615** | **633,560** | **205,566** | **41,727,251** |
| **Depreciation and impairment:** | | | | | | | |
| Balance as of January 1, 2019 | $ - | 3,596,182 | 17,238,121 | 198,005 | - | - | 21,032,308 |
| Depreciation for the period | - | 259,366 | 1,207,350 | 41,824 | - | - | 1,508,540 |
| Reclassification in (out) | - | 46 | 846 | (892) | - | - | - |
| Disposals | - | (79,760) | (55,309) | (11,696) | - | - | (146,765) |
| Effects of exchange rate and others | - | (5,827) | (19,433) | (891) | - | - | (26,151) |
| Balance as of December 31, 2019 | $ **-** | **3,770,007** | **18,371,575** | **226,350** | **-** | **-** | **22,367,932** |
| Balance as of January 1, 2018 | $ - | 3,393,494 | 16,243,302 | 184,230 | - | - | 19,821,026 |
| Depreciation for the period | - | 228,457 | 1,035,643 | 35,094 | - | - | 1,299,194 |
| Reclassification out | - | (23,472) | - | - | - | - | (23,472) |
| Disposals | - | (1,743) | (39,883) | (21,177) | - | - | (62,803) |
| Effects of exchange rate and others | - | (554) | (941) | (142) | - | - | (1,637) |
| Balance as of December 31, 2018 | $ **-** | **3,596,182** | **17,238,121** | **198,005** | **-** | **-** | **21,032,308** |
| **Carrying value** | | | | | | | |
| Balance as of December 31, 2019 | $ **2,790,635** | **5,586,840** | **10,231,933** | **177,968** | **613,002** | **248,115** | **19,648,493** |
| Balance as of December 31, 2018 | $ **2,750,817** | **5,773,844** | **11,162,546** | **168,610** | **633,560** | **205,566** | **20,694,943** |

(Continued)

**TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES**
**Notes to the Consolidated Financial Statements**

(i) Because some of the Consolidated Company's property, plant and equipment and investment property are agricultural lands, transfer registration could not be undertaken using the Consolidated Company's own title; therefore, the Consolidated Company was registered as a trust registrant temporarily and signed the real estate trust registration contract, which stipulates the rights and obligations of both parties to preserve the ownership of the land. The Consolidated Company is applying successively for registration of change in the category of land from relevant authorities. The details of the abovementioned land was as follows：

| Accounts | | December 31, 2019 | December 31, 2018 |
|---|---|---|---|
| Property, plant and equipment | $ | 613,003 | 633,561 |
| Investment property | | 505,299 | 483,769 |
| | **$** | **1,118,302** | **1,117,330** |

(ii) Impairment

For the years ended December 31, 2019 and 2018, the Consolidated Company performed an assessment on the property, plant and equipment that indicated impairment. The recoverable amount was calculated using the value in use. For the years ended December 31, 2019 and 2018, the carrying value was higher than the value in use. The Consolidated Company recorded an impairment loss which amounted to $7,731 and $7,908 thousand, respectively.

(iii) Collateral

None of the property, plant and equipment was pledged for the year ended December 31, 2019；please refer to Note 8 for the details of the property, plant and equipment pledged for collateral for the year ended December 31, 2018.

(i) Right-of-use assets

The Consolidated Company leases assets including land, buildings, machinery equipment, vehicles, and office equipment. Information about leases for which the Consolidated Company as a lessee is presented below：

| | | Land | Buildings | Machinery equipment | Vehicles | Office equipment | Total |
|---|---|---|---|---|---|---|---|
| Cost: | | | | | | | |
| Balance at January 1, 2019 | $ | - | - | - | - | - | - |
| Adjustment of the first adoption of IFRS 16 | | 243,497 | 22,936 | 84,008 | 9,340 | 3,222 | 363,003 |
| Additions | | 65,765 | 37,179 | - | 9,391 | 2,018 | 114,353 |
| Disposal | | (358) | (466) | (358) | (792) | (12) | (1,986) |
| Effect of changes in foreign exchange rates | | (4,030) | (1,493) | (2,055) | - | - | (7,578) |
| Balance at December 31, 2019 | **$** | **304,874** | **58,156** | **81,595** | **17,939** | **5,228** | **467,792** |

(Continued)

**TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES**
**Notes to the Consolidated Financial Statements**

| | Land | Buildings | Machinery equipment | Vehicles | Office equipment | Total |
|---|---|---|---|---|---|---|
| Accumulated depreciation: | | | | | | |
| Balance at January 1, 2019 | $ - | - | - | - | - | - |
| Depreciation for the period | 17,852 | 24,951 | 10,144 | 5,391 | 1,107 | 59,445 |
| Disposal | (318) | (466) | (358) | (790) | (12) | (1,944) |
| Effect of changes in foreign exchange rates | (142) | (374) | (308) | - | - | (824) |
| Balance at December 31, 2019 | $ **17,392** | **24,111** | **9,478** | **4,601** | **1,095** | **56,677** |
| Carrying amount: | | | | | | |
| Balance at December 31, 2019 | $ **287,482** | **34,045** | **72,117** | **13,338** | **4,133** | **411,115** |

(j) Investment property

| | Land and improvements | Buildings | Total |
|---|---|---|---|
| **Cost or deemed cost:** | | | |
| Balance as of January 1, 2019 | $ 1,783,863 | 266,188 | 2,050,051 |
| Additions | 80,096 | 3,363 | 83,459 |
| Reclassification out | (528) | - | (528) |
| Balance as of December 31, 2019 | $ **1,863,431** | **269,551** | **2,132,982** |
| Balance as of January 1, 2018 | $ 1,808,269 | 224,718 | 2,032,987 |
| Additions | 13,249 | 13,699 | 26,948 |
| Disposal | (37,655) | - | (37,655) |
| Reclassification in | - | 27,771 | 27,771 |
| Balance as of December 31, 2018 | $ **1,783,863** | **266,188** | **2,050,051** |
| **Depreciation and impairment:** | | | |
| Balance as of January 1, 2019 | $ - | 179,953 | 179,953 |
| Depreciation for the period | - | 8,547 | 8,547 |
| Balance as of December 31, 2019 | $ **-** | **188,500** | **188,500** |
| Balance as of January 1, 2018 | $ - | 148,638 | 148,638 |
| Reclassification in | - | 23,472 | 23,472 |
| Depreciation for the period | - | 7,843 | 7,843 |
| Balance as of December 31, 2018 | $ **-** | **179,953** | **179,953** |
| **Carrying amounts:** | | | |
| Balance as of December 31, 2019 | $ **1,863,431** | **81,051** | **1,944,482** |
| Balance as of December 31, 2018 | $ **1,783,863** | **86,235** | **1,870,098** |
| **Fair value:** | | | |
| Balance as of December 31, 2019 | | | $ **6,711,016** |
| Balance as of December 31, 2018 | | | $ **6,502,176** |

(Continued)

**TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES**
**Notes to the Consolidated Financial Statements**

(i) Investment property includes the investment in Kuo Kong Section, Houlong town, Miaoli County, and several construction sites and factories leased to others; leased objects mentioned above are the factory in Chienchen District of Kaohsiung, the factory in Bade City of Taoyuan, the building in Taichung, and the office in Taipei.

(ii) The investment in Kuo Kong Section, Houlong Town, Miaoli County is in a general industrial zone. The Consolidated Company has planned a wind power generation project and has now established wind generator sets to improve the efficiency of the use of the land. The Consolidated Company has successively invested costs into the land in an effort to make the industrial zone available for use. As of December 31, 2019 and 2018, the carrying value for the above investment amounted to $968,139 thousand, both.

(iii) The fair value of investment property is in reference to the appraisal report done by independent professionals ( with certificated qualification and recent experience in appraisals of items that are within the same area or of similar items). The valuation technique used is classified as the secend and the third hierarchy of input value.

(iv) Please refer to Note 6(h) for relevant information on investment property acquired under the ownership of others.

(v) None of the investment property was for pledged for collateral as of December 31, 2019 and 2018.

(k) Short-term loans

(i) Details of the Consolidated Company's short-term loans were as follows:

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Letters of credits | $ 680,189 | 1,838,088 |
| Unsecured bank loans | 8,852,037 | 9,838,612 |
| Secured bank loans | - | 76,024 |
| | **$ 9,532,226** | **11,752,724** |
| Unused credit lines (including notes and bills payable) | **$ 21,929,795** | **16,543,386** |
| Range of interest rates | **0.42%~5.80%** | **0.42%~6.20%** |

(ii) For the collateral pledge for short-term loans, please refer to Note 8.

(l) Short-term notes and bills payable

(i) Details of the Consolidated Company's short-term bills payable were as follows:

| | | December 31, 2019 | |
|---|---|---|---|
| | | **Interest rate** | **Amount** |
| Commercial papers payable | CBF, Grand Bills, Ta Ching Bills, SCSB, TFC, Mega Bills | 0.938%~1.45% | $ 965,000 |
| Less：discount on short-term bills payable | | | (505) |
| Total | | | **$ 964,495** |

(Continued)

| | | December 31, 2018 | |
|---|---|---|---|
| | | **Interest rate** | **Amount** |
| Commercial papers payable | CBF, Grand Bills, Ta Ching Bills, IBFC, TFC, Mega Bills | 0.938%~1.058% | $ 1,500,000 |
| Less：discount on short-term bills payable | | | (631) |
| Total | | | **$ 1,499,369** |

Please refer to Note 6(k) for unused credit lines.

(m) Long-term loans

(i) Details of the Consolidated Company's long-term loans were as follows：

| | December 31, 2019 | | | |
|---|---|---|---|---|
| | **Currency** | **Interest rate** | **Maturity** | **Amount** |
| Unsecured bank loans | TWD | 0.83%~1.49% | 2021.04.27 ~2025.04.10 | $ 3,166,286 |
| Unsecured bank loans | USD | 3.05%~3.81% | 2021.04.21 ~2022.08.13 | 1,528,627 |
| Less：current portion | | | | (216,960) |
| Total | | | | **$ 4,477,953** |
| Unused credit lines | | | | **$ 1,200,000** |

| | December 31, 2018 | | | |
|---|---|---|---|---|
| | **Currency** | **Interest rate** | **Maturity** | **Amount** |
| Unsecured bank loans | TWD | 0.84%~1.55% | 2020.07.31 ~2022.04.21 | $ 3,246,429 |
| Unsecured bank loans | USD | 3.81% | 2022.04.21 | 837,180 |
| Less：current portion | | | | (7,143) |
| Total | | | | **$ 4,076,466** |
| Unused credit lines | | | | **$ 1,100,000** |

**TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES**
**Notes to the Consolidated Financial Statements**

(n) Bonds payable

(i) Major conditions of the issuance of unsecured bonds payable were as follows：

| Item | The seventh unsecured domestic convertible bond |
|---|---|
| 1. Principal amount | $2,000,000 thousand |
| 2. Par value | $100 thousand |
| 3. Original issuance date | 2018.05.14~2023.05.14 |
| 4. Maturity | 5 years |
| 5. Coupon rate | 0% |
| 6. Redemption method | (1) Three months after the issuance date and 40 days prior to maturity, the bonds may be redeemed if the closing price of the ordinary shares, for a period of 30 consecutive trading days, is at least 30% of the conversion price then in effect. 30 trading days prior to maturity, the Company may redeem all bonds for cash.<br>(2) If at least 90% in principal amount of the bonds has already been redeemed, repurchased and cancelled, or converted. |
| 7. Redemption option of bondholders | The bondholders could request the Company to redeem the bond at face value plus the interest premium of 0.75% and 1% three and four years after the issue date, respectively (actual yield: 0.25% and 0.25%, respectively). |
| 8. Conversion price and adjustment | The conversion price was NT27.8 dollars at the original issuance date. Since the Company paid cash dividend on July 7, 2018, to ordinary shareholders that amounted to more than 1.5% of the market price per share then, the convertible price was reduced to NT26.2 dollars according the conversion method. Since the Company paid cash divid on July 22, 2019, to ordinary shareholders that amounted to more than 1.5% of the market price per share then, the convertible price was reduced to NT24.8 dollars according the conversion method. |

(ii) Bonds payable as of December 31, 2019 and 2018, were as follows：

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Originally issued amount of unsecured domestic convertible bonds | $ 2,000,000 | 2,000,000 |
| Adjustment on the equity and liability component from repurchases and conversions | (1,485) | 16,715 |
| Capital surplus–stock options | (81,973) | (81,973) |
| Call options, put options, and conversion rights | (13,000) | (31,200) |
| Accumulated interest expenses | 31,479 | 12,187 |
| Total | **$ 1,935,021** | **1,915,729** |
| Interest expense | **$ 19,292** | **12,187** |

(Continued)

**TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES**
**Notes to the Consolidated Financial Statements**

(iii) As of December 31, 2019 and 2018, the Consolidated Company were no repurchases and conversions of the seventh unsecured domestic convertible bonds.

(o) Lease liabilities

The details of the Consolidated Company's lease liabilities were as follows：

| | December 31, 2019 |
|---|---|
| Current | $ 40,431 |
| Non-current | $ 222,719 |

The amounts recognized in profit or loss were as follows：

| | For the year ended December 31, 2019 |
|---|---|
| Interest on lease liabilities | $ 5,236 |
| Income from sub-leasing right-of-use assets | $ 56 |
| Expenses relating to short-term leases | $ 17,688 |
| Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets | $ 4,824 |

The amounts recognized in the statement of cash flows was as follows：

| | For the year ended December 31, 2019 |
|---|---|
| Total cash outflow for leases | $ 85,023 |

(i) Real estate leases

As of December 31, 2019, the Consolidated Company leases land and buildings for its office space and storage locations. The leases for office space and storage locations typically run for a period of 2 to 3 years；and for land in Vietnam and China is 50 years. Some leases include an option to renew the lease for an additional period of the same duration after the end of the contract term.

Certain leases contain extension or cancellation options exercisable by the Consolidated Company. These leases are negotiated and monitored by local management, and accordingly, contain a wide range of different terms and conditions. The extension options held are exercisable only by the Consolidated Company and not by the lessors. In which lessee is not reasonably certain to use an optional extended lease term, payments associated with the optional period are not included within lease liabilities.

(ii) Other leases

The Consolidated Company leases machinery equipment and vehicles, with lease terms of two to five years. In some cases, the Consolidated Company has options to purchase the assets at the end of the contract term; in other cases, it guarantees the residual value of the leased assets at the end of the contract term.

The Consolidated Company also leases IT equipment and machinery with contract terms of one to three years. These leases are short-term or leases of low-value items. The Consolidated Company has elected not to recognize right-of-use assets and lease liabilities for these leases.

(p) Operating lease

The Consolidated Company leases out its investment property and has classified these leases as operating leases, because it does not transfer substantially all of the risks and rewards incidental to the ownership of the assets. Please refer to Note 6(j) sets out information about the operating leases of investment property.

A maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date are as follows：

| | **December 31, 2019** |
|---|---|
| Less than one year | $ 46,191 |
| One to two years | 29,793 |
| Two to three years | 29,554 |
| Three to four years | 30,457 |
| Four to five years | 31,388 |
| Over five years | 3,700 |
| | **$ 171,083** |

The operating lease revenues for the year ended December 31, 2019, were $45,407 thousand.

(q) Other payables

| | **December 31, 2019** | **December 31, 2018** |
|---|---|---|
| Accrued payroll, year-end bonuses, provisionally estimated bonuses, remuneration of directors and supervisors, and employee benefits | $ 367,069 | 281,106 |
| Freight payable | 206,037 | 201,463 |
| Utilities payable | 218,614 | 215,793 |
| Sales bonuses payable | 204,338 | 182,369 |
| Waste disposal payable (including to related parties) | 48,642 | 46,254 |
| Cash dividends payable (including from prior years) | 41,274 | 38,525 |
| Taxes payable | 25,755 | 479 |
| Equipment payable | 11,926 | 121,401 |
| Other operating and manufacturing overhead payable | 204,957 | 220,371 |
| | **$ 1,328,612** | **1,307,761** |

(Continued)

**TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES**
**Notes to the Consolidated Financial Statements**

The above payables are planned to be paid within one year. Please refer Note 6(y) for the interest rate risk and sensitivity analysis of the aforementioned financial assets and liabilities.

(r) Employee benefits

(i) Defined benefit plan

Reconciliation between the present value of the Company’s defined benefit obligation and the fair value of the plan assets were as follows：

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Present value of the defined benefit obligation | $ 1,627,071 | 1,595,547 |
| Fair value of the plan assets | (790,837) | (749,324) |
| Net defined benefit liabilities | **$ 836,234** | **846,223** |

Reconciliation between the present value of the subsidiaries’s defined benefit obligation and the fair value of plan assets were as follows：

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Present value of defined benefit obligation | $ (1,469) | (635) |
| Fair value of plan assets | 12,656 | 12,107 |
| Net defined benefit assets | **$ 11,187** | **11,472** |

1) Composition of the plan assets

The Labor Pension Fund Supervisory Committee manages the Consolidated Company’s pension fund which is being funded according to the Labor Standards Act. Under the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, this fund is required to distribute income of not less than the interest income derived from two-year time deposit with the local banks.

As of December 31, 2019 and 2018, the balance of the Consolidated Company’s pension fund at Bank of Taiwan amounted to $803,493 thousand and $761,431 thousand, respectively. Please refer to the related information published on the website of the Labor Pension Supervisory Committee concerning the utilization off the labor pension fund, related yield rate and its asset allocation.

**TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES**
**Notes to the Consolidated Financial Statements**

2) Changes in the present value of the defined benefit obligation

Changes in the present value of the Company' s defined benefit obligation were as follows：

| | For the years ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| Balance as of January 1 | $ 1,595,547 | 1,528,074 |
| Service cost and interest expense for the period | 38,740 | 38,600 |
| Remeasurements of the net defined benefit liabilities： | | |
| －Experience adjustments | 48,479 | 93,942 |
| －Actuarial (gains) losses arising from changes in population statistics assumptions | 96 | 263 |
| Benefits paid | (55,791) | (65,332) |
| Balance as of December 31 | **$ 1,627,071** | **1,595,547** |

Changes in the present value of the subsidiaries' defined benefit obligation were as follows：

| | For the years ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| Balance as of January 1 | $ (635) | (684) |
| Service cost and interest expense for the period | (6) | (9) |
| Remeasurements of the net defined benefit assets： | | |
| －Experience adjustments | (778) | 76 |
| －Actuarial losses arising from changes in financial assumptions | (50) | (18) |
| Balance as of December 31 | **$ (1,469)** | **(635)** |

3) Changes in the fair value of the plan assets

Changes in the Company's fair value of the plan assets were as follows：

| | For the years ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| Balance as of January 1 | $ 749,324 | 730,155 |
| Interest income | 7,455 | 7,295 |
| Remeasurements of the net defined benefit liabilities： | | |
| －Return on plan assets (excluding interests for the period) | 26,613 | 21,861 |
| Contributions from employer | 62,435 | 55,345 |
| Benefits paid | (54,990) | (65,332) |
| Balance at December 31 | **$ 790,837** | **749,324** |

**TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES**
**Notes to the Consolidated Financial Statements**

Changes in the subsidiaries' fair value of the plan assets were as follows：

| | | For the years ended December 31, | |
|---|---|---|---|
| | | **2019** | **2018** |
| Balance as of January 1 | $ | 12,107 | 11,636 |
| Interest income | | 121 | 145 |
| Remeasurements of the net defined benefit assets: | | | |
| － Return on plan assets (excluding interests for the period) | | 428 | 326 |
| Balance as of December 31 | **$** | **12,656** | **12,107** |

The Consolidated Company's pension costs recognized in profit or loss were as follows：

| | | For the years ended December 31, | |
|---|---|---|---|
| | | **2019** | **2018** |
| Service cost for the period | $ | 23,035 | 23,528 |
| Net interest expense of net defined benefit liabilities | | 8,250 | 7,777 |
| | **$** | **31,285** | **31,305** |

| | | For the years ended December 31, | |
|---|---|---|---|
| | | **2019** | **2018** |
| Cost of sales | $ | 24,705 | 25,057 |
| Selling expenses | | 1,014 | 1,032 |
| Administrative expenses | | 5,566 | 5,216 |
| | **$** | **31,285** | **31,305** |

The subsidiaries' pension costs recognized in profit or loss were as follows：

| | | For the years ended December 31, | |
|---|---|---|---|
| | | **2019** | **2018** |
| Net interest expense of net defined benefit assets | **$** | **(115)** | **(137)** |

| | | **2019** | **2018** |
|---|---|---|---|
| Administrative expenses | **$** | **(115)** | **(137)** |

(Continued)

**TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES**
**Notes to the Consolidated Financial Statements**

4) Changes in the remeasurement of the net defined benefit (assests) liabilities recognized in other comprehensive income

The Company' s cumulated remeasurement of the net defined benefit liabilities recognized in other comprehensive income was as follows：

| | For the years ended December 31, 2019 | 2018 |
|---|---|---|
| Balance at January 1 | $ 323,429 | 251,085 |
| Recognized in the current period | 21,962 | 72,344 |
| Balance at December 31 | **$ 345,391** | **323,429** |

The subsidiaries' cumulated pretax remeasurement of the net defined benefit liabilities recognized in other comprehensive income was as follows：

| | For the years ended December 31, 2019 | 2018 |
|---|---|---|
| Balance as of January 1 | $ 178 | (196) |
| Recognized in the current period | (389) | 374 |
| Balance as of December 31 | **$ (211)** | **178** |

5) Actuarial assumptions

The principal assumptions of the Company's actuarial valuation were as follows：

| | For the years ended December 31, 2019 | 2018 |
|---|---|---|
| Discount rates | 0.70 % | 1.00 % |
| Rates of increase in future salary | 1.50 % | 1.50 % |

The Company expects to make a contribution of NT$42,201 thousand to its defined benefit plans in the following year, beginning December 31, 2018. The weighted average duration of the defined benefit obligation is 9 years.

The principal assumptions of the subsidiaries' actuarial valuation were as follows：

| | For the years ended December 31, 2019 | 2018 |
|---|---|---|
| Discount rates | 0.75 % | 1.00 % |
| Rates of increase in future salary | 2.00 % | 2.00 % |

The subsidiaries do not expect to make contributions to its defined benefit plans in the following year, beginning December 31, 2019. The weighted average duration of the defined benefit obligation is 13 years.

6) Sensitivity analysis

If the actuarial assumptions had changed, the impact on the present value of the defined benefit obligation shall be as follows：

| | | Effects on the Company's defined benefit obligations | |
|---|---|---|---|
| | | **Increase by 0.25%** | **Decrease by 0.25%** |
| December 31, 2019 | | | |
| Discount rate | $ | (36,177) | 37,406 |
| Rate of increase in future salary | | 37,014 | (35,984) |
| December 31, 2018 | | | |
| Discount rate | | (37,029) | 38,326 |
| Rate of increase in future salary | | 38,039 | (36,939) |

| | | Effects on the subsidiaries' defined benefit obligations | |
|---|---|---|---|
| | | **Increase by 0.25%** | **Decrease by 0.25%** |
| December 31, 2019 | | | |
| Discount rate | $ | (50) | 52 |
| Rate of increase in future salary | | 52 | (50) |
| December 31, 2018 | | | |
| Discount rate | | (18) | 19 |
| Rate of increase in future salary | | 19 | (18) |

The above sensitivity analysis was based on the changes of a single assumption while holding other assumptions constant. In practicality, it is reasonably possible that the changes in different assumptions are linked to one another. The sensitivity analysis adopts the same method for determining the defined benefit assets at the reporting date.

There was no change of method and assumptions used in the sensitivity analysis for 2019 and 2018.

(Continued)

(ii) Defined contribution plan

The Consolidated Company allocates 6% of each employee’ s monthly wages to the Labor Pension Personal Accounts at the Bureau of the Labor Insurance in accordance with the provisions of the Labor Pension Act. Under this defined contribution plan, the Consolidated Company does not bear any additional legal or constructive obligations other than the allocation of a fixed amount to the Bureau of the Labor Insurance.

The Consolidated Company’s pension costs under the defined contribution plan were $58,224 thousand and $53,091 thousand for 2019 and 2018, respectively. The payment was made to the Bureau of the Labor Insurance and .

(s) Income tax

(i) The details of income tax expense were as follows:

| | For the years ended December 31, 2019 | For the years ended December 31, 2018 |
|---|---|---|
| Income tax expense for the period | | |
| Current tax expense incurred during the period | $ 552,643 | 349,161 |
| Adjustments for prior years | 10,022 | 10,516 |
| | 562,665 | 359,677 |
| Deferred tax expense | | |
| The origination and reversal of temporary differences | 1,669 | 6,487 |
| Income tax expense for continuing operations | **$ 564,334** | **366,164** |

The income tax (expense) benefit related to components of other comprehensive income for the years ended December 31, 2019 and 2018, were as follows：

| | For the years ended December 31, 2019 | For the years ended December 31, 2018 |
|---|---|---|
| Adjuestment in tax rate | $ - | 7,533 |
| Remeasurement of the defined benefit plans | 4,392 | 14,386 |
| | **$ 4,392** | **21,919** |

The reconciliation of income tax expense and income before income tax for the years ended December 31, 2019 and 2018, were as follows：

| | For the years ended December 31, 2019 | 2018 |
|---|---|---|
| Income before income tax | $ 2,122,132 | 1,255,103 |
| Income tax using the Company's domestic tax rate | $ 424,426 | 251,021 |
| Adjuestment in tax rate | - | (33,087) |
| Effect of difference in income tax rates between foreign investees | 85,773 | 69,495 |
| Permanent difference | (17,996) | (2,544) |
| Current investment tax credits used | (5,928) | (6,035) |
| Previously of unrecognized deferred tax assets used | (5,206) | (2,286) |
| Changes of unrecognized temporary difference | (30,395) | (28,324) |
| Previously of unrecognized taxable losses reversed | - | 12,772 |
| Failure of previously taxable losses | 248 | - |
| Losses from current periods of unrecognized deferred tax assets | 96,113 | 70,663 |
| Under-estimation from prior periods | 10,022 | 8,352 |
| Surtax on unappropriated earnings | 4,226 | 8,536 |
| Difference between administrative remedy and assessment by the tax authority | - | 2,164 |
| Other adjustments | 3,051 | 15,437 |
| Total | $ 564,334 | 366,164 |

(ii) Deferred tax assets and liabilities

1) Unrecognized deferred tax liabilities

There was no unrecognized deferred tax liabilities as of December 31, 2019 and 2018.

2) Unrecognized deferred tax assets

The items of unrecognized deferred tax assets were as follows：

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Tax effect of deductible temporary differences | $ 89,395 | 59,000 |
| Loss carry-forward | 251,172 | 155,059 |
| | $ 340,567 | 214,059 |

**TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES**
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The R.O.C. Income Tax Act allows net losses, as assessed by the tax authorities, to offset taxable income over a period of five to ten years for local tax reporting purposes. No deferred tax assets have been recognized in respect of the losses due to the uncertainty about whether there will be sufficient taxable gains in the future to utilize the temporary differences.

As of December 31, 2019, the Consolidated Company's unused loss carry-forwards that were not recognized as deferred tax assets was $1,255,860 thousand and the deductible deadline was December 31, 2029.

3) Recognized deferred tax assets and liabilities

Changes in deferred tax assets and liabilities for the years ended December 31, 2019 and 2018 were as follows：

| | Reserve for land appreciation tax | Others | Total |
|---|---|---|---|
| Deferred tax liabilities: | | | |
| Balance as of January 1, 2019 | $ 167,174 | 7,314 | 174,488 |
| Recognized in profit or loss | - | (4,105) | (4,105) |
| Recognized in other comprehensive income | - | (80) | (80) |
| Balance as of December 31, 2019 | **$ 167,174** | **3,129** | **170,303** |
| Balance as of January 1, 2018 | $ 167,174 | 2,997 | 170,171 |
| Recognized in profit or loss | - | 4,232 | 4,232 |
| Recognized in other comprehensive income | - | 85 | 85 |
| Balance as of December 31, 2018 | **$ 167,174** | **7,314** | **174,488** |

| | Defined benefit plans | Unrealized loss on financial assets and liabilities | Reversal of difference on difference between financial and tax reports arising from deferred gain on foreign exchange forward contracts | Loss carry-forward | Others | Total |
|---|---|---|---|---|---|---|
| Deferred tax assets: | | | | | | |
| Balance as of January 1, 2019 | $ 108,241 | 349 | 20,672 | 5,980 | 19,490 | 154,732 |
| Recognized in profit or loss | (6,390) | 1,007 | (1,905) | (51) | 1,565 | (5,774) |
| Recognized in other comprehensive income | 4,392 | - | - | - | - | 4,392 |
| Balance as of December 31, 2019 | **$ 106,243** | **1,356** | **18,767** | **5,929** | **21,055** | **153,350** |
| Balance as of January 1, 2018 | $ 83,792 | 890 | 19,190 | 15,313 | 15,800 | 134,985 |
| Recognized in profit or loss | 2,447 | (541) | 1,482 | (9,333) | 3,690 | (2,255) |
| Recognized in other comprehensive income | 22,002 | - | - | - | - | 22,002 |
| Balance as of December 31, 2018 | **$ 108,241** | **349** | **20,672** | **5,980** | **19,490** | **154,732** |

(Continued)

**TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES**
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As of December 31, 2019, the Consolidated Company's unused loss carry-forwards that were recognized as deferred tax assets were as follows:

| Year of occurrence | Remaining creditable amount | Expiry year |
|---|---|---|
| 2010 (assessment) | $ 1,402 | 2020 |
| 2011 (assessment) | 2,805 | 2021 |
| 2012 (assessment) | 3,648 | 2022 |
| 2013 (assessment) | 2,435 | 2023 |
| 2014 (assessment) | 2,882 | 2024 |
| 2015 (assessment) | 3,669 | 2025 |
| 2016 (assessment) | 4,740 | 2026 |
| 2017 (assessment) | 3,176 | 2027 |
| 2018 (projection) | 4,889 | 2028 |
| | **$ 29,646** | |

(iii) The Company's income tax returns have been examined by the ROC tax authorities through 2016.

(t) Capital and other equity

(i) Capital stock

As of December 31, 2019 and 2018, the Company's government-registered total authorized capital amounted to $12,000,000 thousand, with par value per share of $10 (dollars), and total issued ordinary shares amounted to 1,004,061 thousand shares. All issued shares were paid up upon issuance.

The reconciliation for numbers of outstanding shares was as follows：

| | For the years ended December 31, | |
|---|---|---|
| (in thousands of shares) | **2019** | **2018** |
| Balance as of January 1 | 1,004,061 | 1,000,224 |
| Conversion of convertible bonds | - | 3,837 |
| Balance as of December 31 | **1,004,061** | **1,004,061** |

On September 22, 1994, the Company issued 6,000 thousand Global Depositary Receipts (GDRs), in the Multilateral Trading Facility (MTF) market of the Luxembourg Stock Exchange (LSE). The details were as follows：

| (in shares) | **December 31, 2019** | **December 31, 2018** |
|---|---|---|
| Total issued shares | **68,610,809** | **68,610,809** |
| Outstanding shares | **7,345,128** | **7,345,128** |

**TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES**
**Notes to the Consolidated Financial Statements**

(ii) Capital surplus

The balances of capital surplus were as follows:

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Additional paid-in capital | $ 2,289,734 | 2,289,734 |
| Conversion of bonds | 3,840,072 | 3,840,072 |
| Treasury stock transactions | 59,036 | 59,036 |
| Difference between the acquiring value and the carrying value of subsidiaries | 21,274 | 21,274 |
| Changes in equity of associates accounted for using the equity method | 190,445 | 190,445 |
| Stock options | 81,973 | 81,973 |
| Others | 109,702 | 109,702 |
| | $ 6,592,236 | 6,592,236 |

According to the Company Act amended in January, 2012, capital surplus can only be used to offset a deficit, and only the realized capital surplus can be used to increase the common stock or be distributed as cash dividends. The aforementioned realized capital surplus includes capital surplus resulting from premium on issuance of capital stock and earnings from donated assets received. According to the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, capital increases by transferring capital surplus in excess of par value should not exceed 10% of the total common stock outstanding.

(iii) Retained earnings

Based on the Company's articles of incorporation, the Company's annual earnings should first be used to provide for income tax and to cover accumulated deficits, before being set aside 10% as a legal reserve, or if necessary, a special reserve. The remainder, along with accumulated earnings, is to be distributed as dividends and earnings distribution under the stockholders' resolution.

The Company is at a stable and mature stage, so the dividend plan is that the percentages of cash dividends and stock dividends shall not be less than 80% and more than 20%, respectively, of the total distribution.

1) Legal reserve

When a company incurs no loss, it may, pursuant to a resolution by a shareholders' meeting, distribute its legal reserve by issuing new shares or by distributing cash, and only the portion of legal reserve which exceeds 25% of capital may be distributed.

2) Special reserve

By choosing to apply exemptions granted under IFRSs 1 First-time Adoption of IFRSs during the Consolidated Company's first-time adoption of the IFRSs as approved by the FSC, unrealized revaluation gains recognized under shareholders' equity and cumulative translation adjustments (gains) shall be reclassified as investment property at the adoption date. According to regulations, retained earnings would be increased by $333,057 thousand, by recognizing the fair value on the adoption date as deemed cost. The increase in retained earnings occurring before the adoption date due to the first-time adoption of the IFRSs amounted to $149,309 thousand. In accordance with Ruling No. 1010012865 issued by the FSC on April 6, 2012, an increase in retained earnings due to the first time adoption of the IFRSs shall be reclassified as a special earnings reserve during earnings distribution, and when the relevant asset were used, disposed of, reclassified, this special earnings reserve shall be reversed as distributable earnings proportionately. The carrying amount of special earnings reserve amounted to $149,309 thousand on December 31, 2019.

In accordance with the guidelines of the above Ruling, a portion of current-period earnings and unappropriated prior-period earnings shall be reclassified as a special earnings reserve during earnings distribution. The amount to be reclassified should be equal to the difference between the total net current period reduction of special earnings reserve resulting from the first time adoption of IFRSs and the carrying amount of other shareholders' equity as stated above. Similarly, a portion of unappropriated prior period earnings shall be reclassified as a special earnings reserve (which does not qualify for earnings distribution) to account for cumulative changes to other shareholders' equity pertaining to prior periods due to the first-time adoption of IFRSs. Amounts of subsequent reversals pertaining to the net reduction of other shareholders' equity shall qualify for additional distributions.

3) Earnings distribution

Earnings distribution for 2018 and 2017 were decided by the resolution adopted, at the general meeting of shareholders held on June 18, 2019 and June 11, 2018, respectively. The relevant dividend distributions to shareholders were as follows：

| | **2018** | **2017** |
|---|---|---|
| Dividends per ordinary share (in dollars) | | |
| Cash dividend | **$ 1.20** | **1.40** |

The abovementioned distribution approved by the shareholders' meeting is consistent with that approved by the Board of Directors. Related information can be found through the Market Observation Post System website.

**TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES**
**Notes to the Consolidated Financial Statements**

4) OCI accumulated in reserves, net of tax

| | Exchange differences on translation of foreign financial statements | Unrealized gains (losses) from financial assets measured at fair value through OCI | Total |
|---|---|---|---|
| Balance as of January 1, 2019 | $ (664,948) | 17,924 | (647,024) |
| Exchange differences on translation of foreign operations (net of taxes)： | | | |
| The Consolidated Company | (119,712) | - | (119,712) |
| Disposal of investments in equity instruments designated at fair value through other comprehensive income | | | |
| The Consolidated Company | - | (31,978) | (31,978) |
| Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income： | | | |
| The Consolidated Company | - | 65,990 | 65,990 |
| Others： | | | |
| The Consolidated Company | - | 26,502 | 26,502 |
| Balance as of December 31, 2019 | **$ (784,660)** | **78,438** | **(706,222)** |
| Balance as of January 1, 2018 after adjustments | $ (581,054) | 101,745 | (479,309) |
| Exchange differences on translation of foreign operations (net of taxes)： | | | |
| The Consolidated Company | (83,894) | - | (83,894) |
| Disposal of investments in equity instruments designated at fair value through other comprehensive income | | | |
| The Consolidated Company | - | (93,594) | (93,594) |
| Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income： | | | |
| The Consolidated Company | - | 14,626 | 14,626 |
| Associates | - | (4,853) | (4,853) |
| Balance as of December 31, 2018 | **$ (664,948)** | **17,924** | **(647,024)** |

(Continued)

**TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES**
**Notes to the Consolidated Financial Statements**

(u) Earnings per share

(i) Basic earnings per share

The basic earnings per share for the years ended December 31, 2019 and 2018, were calculated on the basis of profit attributable to common shareholders, which were $1,566,059 thousand and $887,932 thousand, respectively, and the weighted-average number of outstanding ordinary shares, which were 1,004,061 thousand and 1,004,061 thousand, respectively. The calculations were as follows：

1) Profit attributable to ordinary shareholders of the Company (basic)

| | For the years ended December 31, 2019 | 2018 |
|---|---|---|
| Profit attributable to the Company | $ 1,566,059 | 887,932 |
| Profit attributable to the ordinary shareholders | **$ 1,566,059** | **887,932** |

2) Weighted-average number of outstanding ordinary shares (basic) (in thousands of shares)

| | For the years ended December 31, 2019 | 2018 |
|---|---|---|
| Number of outstanding shares | **1,004,061** | **1,004,061** |

(ii) Diluted earnings per share

The diluted earnings per share for the years ended December 31, 2019 and 2018, were calculated on the basis of profit attributable to ordinary shareholders, which were $1,567,151 thousand and $913,011 thousand, respectively, and the weighted-average number of outstanding ordinary shares after adjustments for the effect of any potentially dilutive ordinary shares, which were 1,084,938 thousand and 1,054,202 thousand, respectively. Calculations were as follows：

1) Profit attributable to ordinary shareholders of the Company (diluted)：

| | For the years ended December 31, 2019 | 2018 |
|---|---|---|
| Profit attributable to the ordinary shareholders of the Company (basic) | $ 1,566,059 | 887,932 |
| Interest expense after tax and valuation of convertible bonds | 1,092 | 25,079 |
| Profit attributable to the ordinary shareholders of the Company (dilutive) | **$ 1,567,151** | **913,011** |

**TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES**
**Notes to the Consolidated Financial Statements**

2) Weighted-average number of ordinary shares (diluted) (in thousands of shares)

| | For the years ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| Weighted-average number of outstanding ordinary shares (basic) | 1,004,061 | 1,004,061 |
| Effects of convertible bonds | 78,142 | 47,942 |
| Effects of employee stock bonus | 2,735 | 2,199 |
| Weighted-average number of outstanding ordinary shares (dilutive) | **1,084,938** | **1,054,202** |

(v) Revenue from contracts with customers

(i) Disaggregation of revenue

| | For the year ended December 31, 2019 | | | |
|---|---|---|---|---|
| | Sale of goods | Construction contracts | Rendering of services | Total |
| Primary geographical markets: | | | | |
| Taiwan | $ 30,163,970 | 7,539,403 | 299,332 | 38,002,705 |
| The United States | 1,616,046 | - | - | 1,616,046 |
| Asia | 3,473,638 | 899,118 | 29,847 | 4,402,603 |
| Others | 842,246 | - | - | 842,246 |
| | **$ 36,095,900** | **8,438,521** | **329,179** | **44,863,600** |
| Main product/service line: | | | | |
| Deformed bars | $ 21,568,313 | - | - | 21,568,313 |
| Sections | 12,717,253 | - | - | 12,717,253 |
| Billets | 1,522,152 | - | - | 1,522,152 |
| Rendering of services | - | - | 329,179 | 329,179 |
| Metal structure | - | 8,360,839 | - | 8,360,839 |
| Civil engineering | - | 77,682 | - | 77,682 |
| Others | 288,182 | - | - | 288,182 |
| | **$ 36,095,900** | **8,438,521** | **329,179** | **44,863,600** |

**TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES**
**Notes to the Consolidated Financial Statements**

| | For the year ended December 31, 2018 | | | |
|---|---|---|---|---|
| | Sale of goods | Construction contracts | Rendering of services | Total |
| Primary geographical markets: | | | | |
| Taiwan | $ 26,873,601 | 3,866,973 | 146,452 | 30,887,026 |
| The United States | 1,667,568 | - | - | 1,667,568 |
| Asia | 4,533,070 | 870,068 | - | 5,403,138 |
| Others | 1,811,889 | - | - | 1,811,889 |
| | $ 34,886,128 | 4,737,041 | 146,452 | 39,769,621 |
| Main product/service line: | | | | |
| Deformed bars | $ 17,377,738 | - | - | 17,377,738 |
| Sections | 13,057,300 | - | - | 13,057,300 |
| Billets | 4,213,094 | - | - | 4,213,094 |
| Rendering of services | - | - | 146,452 | 146,452 |
| Metal structure | - | 4,641,996 | - | 4,641,996 |
| Civil engineering | - | 95,045 | - | 95,045 |
| Others | 237,996 | - | - | 237,996 |
| | $ 34,886,128 | 4,737,041 | 146,452 | 39,769,621 |

(ii) Contract balances

| | December 31, 2019 | December 31, 2018 | January 1, 2018 |
|---|---|---|---|
| Notes receivable | $ 235,298 | 328,685 | 237,401 |
| Accounts receivable | 2,987,369 | 3,092,856 | 3,316,438 |
| Overdue receivables | 10,393 | 10,020 | 10,020 |
| Less: allowance for impairment | (36,028) | (71,486) | (49,003) |
| Total | $ 3,197,032 | 3,360,075 | 3,514,856 |

| | December 31, 2019 | December 31, 2018 | January 1, 2018 |
|---|---|---|---|
| Contract assets－construction contract | $ 3,877,575 | 1,603,030 | 1,087,887 |

| | December 31, 2019 | December 31, 2018 | January 1, 2018 |
|---|---|---|---|
| Contract liabilities－advance receipts | $ 330,347 | 153,017 | 301,389 |
| Contract liabilities－construction contract | 554,059 | 330,261 | 437,188 |
| Total | $ 884,406 | 483,278 | 738,577 |

For details on accounts receivable and allowance for impairment for , please refer to note 6(d).

The amounts of revenue recognized for the years ended December 31, 2019 and 2018 that were included in the contract liability balance at the beginning of the period were $153,017 thousand and $301,389 thousand, respectively.

The major changes in the balance of the contract assets and contract liabilities is the difference between the timing in the performance obligation to be satisfied and the payment to be received.

(w) Employee compensation and remuneration of directors

In accordance with the articles of incorporation, the Company should contribute no less than 2.5% of the profit as employee compensation and less than 2% as remuneration of directors when there is profit for the year. However, if the Company has accumulated deficits, the profit should be reserved to offset the deficit.

For the years ended December 31, 2019 and 2018, the Company’s estimated employee compensation amounted to $54,696 thousand and $32,115 thousand, and the remuneration of directors amounted to $43,757 thousand and $25,692 thousand, respectively. The estimated amounts mentioned above were calculated based on the net income before tax, excluding the compensation to employees and the remuneration to directors of each period, multiplied by the percentage of compensation employees and remuneration to directors as specified in the Company’s articles. These compensation and remuneration were expensed under operating costs or operating expenses for the years ended December 31, 2019 and 2018. Related information is available at the Market Observation Post System website. There amounts, as stated in the financial statements for the years ended December 31, 2019 and 2018, are identical to those of the actual distributions.

(x) Non-operating income and expenses

(i) Other income

The details of other income were as follows：

| | For the years ended December 31, | |
|---|---|---|
| | **2019** | **2018** |
| Interest income | $ 5,483 | 6,078 |
| Dividend income | 23,382 | 59,935 |
| Rental income | 51,078 | 48,152 |
| | **$ 79,943** | **114,165** |

**TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES**
**Notes to the Consolidated Financial Statements**

(ii) Other gains and losses

The details of other gains and losses were as follows：

| | For the years ended December 31, 2019 | 2018 |
|---|---|---|
| Foreign exchange gain (loss) | $ 35,722 | (15,661) |
| Net (loss) gain on disposal of property, plant and equipment | (1,521) | 4,112 |
| Net loss on disposal of financial assets at cost | (307) | - |
| Gain (loss) on disposal of financial assets and liabilities carried at fair value through profit or loss | 66,150 | 3,391 |
| Impairment Loss | - | (20,811) |
| Others | 30,637 | 60,425 |
| | **$ 130,681** | **31,456** |

(iii) Finance cost

The details of financial costs were as follows：

| | For the years ended December 31, 2019 | 2018 |
|---|---|---|
| Interest expense | | |
| Bank loans | $ 276,239 | 212,244 |
| Amortized interest of domestic corporate bond | 19,292 | 8,246 |
| Interest on domestic commercial paper | 9,309 | 12,187 |
| Lease payments | 5,236 | - |
| Less: interest capitalization | (13,873) | (8,127) |
| | **$ 296,203** | **224,550** |

(y) Financial instruments

(i) Credit risk

1) Exposure to credit risk

The carrying amount of financial assets excluding cash and cash equivalents represents the Consolidated Company’s maximum credit exposure. As of December 31, 2019 and 2018, the maximum exposure to credit risk amounted to $4,091,582 thousand and $4,382,644 thousand, respectively.

**TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES**
**Notes to the Consolidated Financial Statements**

2) Concentration of credit risk

Credit risk, which is mainly generated from operating activities, is the risk that counterparties default. The Consolidated Company only deals with counterparties that are reputable. Therefore, it is not expected to generate any material credit risk. Moreover, the Consolidated Company has numerous clients and does not make any concentrative transactions with any single client. Therefore, there is no concentration of credit risk for account receivables.

(ii) Liquidity risk

The following table shows the contractual maturities of financial liabilities, including estimated interest payments but excluding the impact of netting agreements.

| | | Carrying amount | Contractual cash flows | Within 6 months | 6-12 months | 1-2 years | 2-5 years | Over 5 years |
|---|---|---|---|---|---|---|---|---|
| **December 31, 2019** | | | | | | | | |
| Non-derivative financial liabilities | | | | | | | | |
| Unsecured bank loans | $ | 14,227,139 | 14,298,183 | 8,236,017 | 1,557,447 | 4,475,942 | 28,776 | - |
| Commercial papers payable | | 964,495 | 964,907 | 964,907 | - | - | - | - |
| Unsecured corporate bonds | | 2,000,000 | 2,000,000 | - | - | - | 2,000,000 | - |
| Lease liabilities | | 263,150 | 283,077 | 23,832 | 21,153 | 47,374 | 79,133 | 111,585 |
| Accounts and notes payable | | 2,290,149 | 2,290,149 | 2,290,149 | - | - | - | - |
| Other payables | | 1,328,612 | 1,328,612 | 1,317,254 | 11,358 | - | - | - |
| | $ | **21,073,545** | **21,164,928** | **12,832,159** | **1,589,958** | **4,523,316** | **2,107,909** | **111,585** |
| **December 31, 2018** | | | | | | | | |
| Non-derivative financial liabilities | | | | | | | | |
| Secured bank loans | $ | 76,024 | 76,405 | 76,405 | - | - | - | - |
| Unsecured bank loans | | 15,760,309 | 15,961,813 | 11,126,297 | 697,557 | 4,110,690 | 27,269 | - |
| Commercial paper payable | | 1,499,369 | 1,499,369 | 1,499,369 | - | - | - | - |
| Unsecured corporate bonds | | 2,000,000 | 2,000,000 | - | - | - | - | - |
| Accounts and notes payable | | 2,171,364 | 2,171,364 | 2,171,364 | - | - | - | - |
| Other payables | | 1,307,761 | 1,307,761 | 1,307,761 | - | - | - | - |
| | $ | **22,814,827** | **23,016,712** | **16,181,196** | **697,557** | **4,110,690** | **27,269** | **-** |

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

**TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES**
**Notes to the Consolidated Financial Statements**

(iii) Exchange rate risk

1) Exposure to exchange rate risk

The Consolidated Company' s financial assets and liabilities exposed to significant exchange rate risk were as follows：

| | December 31, 2019 | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|
| | Foreign currency | Exchange rate (in dollars) | TWD | Foreign currency | Exchange rate (in dollars) | TWD |
| Financial assets | | | | | | |
| Monetary items | | | | | | |
| USD | $ 33,672 | 29.98 | 1,009,487 | 76,365 | 30.72 | 2,345,933 |
| EUR | 2 | 33.59 | 67 | 2 | 35.20 | 70 |
| JPY | 472 | 0.2760 | 130 | 472 | 0.2782 | 131 |
| CNY | 24 | 4.305 | 103 | 22 | 4.472 | 98 |
| Financial liabilities | | | | | | |
| Monetary items | | | | | | |
| USD | $ 123,880 | 29.98 | 3,713,922 | 174,832 | 30.72 | 5,370,839 |
| EUR | 2,425 | 33.59 | 81,456 | 1,884 | 35.20 | 66,317 |
| JPY | 63,825 | 0.2760 | 17,616 | 47,607 | 0.2782 | 13,244 |

Due to the variety of functional currencies, the Consolidated Company disclosed the aggregated information on foreign exchange gains or losses. The realized and unrealized exchange gain (loss) amounted to $35,722 thousand and $(15,661) thousand for the years ended December 31, 2019 and 2018, respectively.

2) Sensitivity analysis

The Consolidated Company' sexposure to exchange rate risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, accounts receivable, and loans and borrowings, which were denominated in different foreign currencies. The overall effects to net income before tax for the years ended December 31, 2019 and 2018 assuming the TWD appreciate or depreciate by 1% against the USD, EUR, JPY, and CNY, while other factors remain constant, as of December 31, 2019 and 2018 were as follows：

| | Effect of appreciation on net income after tax | Effect of depreciation on net income after tax |
|---|---|---|
| December 31, 2019 | | |
| USD (appreciation/depreciation of 1%) | $ (21,635) | 21,635 |
| EUR (appreciation/depreciation of 1%) | (651) | 651 |
| JPY (appreciation/depreciation of 1%) | (140) | 140 |
| CNY (appreciation/depreciation of 1%) | 1 | (1) |
| | **$ (22,425)** | **22,425** |

| | Effect of appreciation on net income after tax | Effect of depreciation on net income after tax |
|---|---|---|
| December 31, 2018 | | |
| USD (appreciation/depreciation of 1%) | $ (24,199) | 24,199 |
| EUR (appreciation/depreciation of 1%) | (530) | 530 |
| JPY (appreciation/depreciation of 1%) | (105) | 105 |
| CNY (appreciation/depreciation of 1%) | 1 | (1) |
| | **$ (24,833)** | **24,833** |

(iv) Interest rate analysis

Please refer to the notes on liquidity risk management and interest rate exposure of the Consolidated Company’ s financial assets and liabilities.

The following sensitivity analysis is based on the risk exposure to interest rates of the derivative and non-derivative financial instruments on the reporting date. For variable rate instruments, the sensitivity analysis assumes the liabilities bearing variable interest rates are outstanding for the whole year. A 1% increase or decrease in interest rate is assessed by management to be a reasonably possible change in interest rate.

If the interest rate increases by 1%, the Consolidate Company's net income will decrease by $142,271 thousand and $158,363 thousand for the years ended December 31, 2019 and 2018 respectively, assuming all other variable factors remain constant.

(v) Other market price risk：

The impact of hypothetical changes in prices of equity securities on other comprehensive income on the reporting date was as follows：

| | For the years ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| **Security price on reporting date** | **Other comprehensive income (after tax)** | **Other comprehensive income (after tax)** |
| Increase 1% | **$ 3,073** | **3,777** |
| Decrease 1% | **$ (3,073)** | **(3,777)** |

**TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES**
**Notes to the Consolidated Financial Statements**

(vi) Information on fair value

1) Types and fair value of financial instruments

The carrying and fair value of the Consolidated Company' s financial assets and liabilities, including fair value hierarchy, wherein, disclosures are not required for financial instruments not measured at fair value whose carrying amount is reasonably close to the fair value, and for equity investments that has no quoted prices in the active markets and whose fair value cannot be reliably measured, were listed as follows：

| | December 31, 2019 | | | | |
|---|---|---|---|---|---|
| | Carrying amount | Fair value | | | |
| | | Level 1 | Level 2 | Level 3 | Total |
| Financial assets at fair value through profit or loss | | | | | |
| Non-derivative financial asset mandatorily measured at fair value through profit or loss | $ 162,959 | 162,959 | - | - | 162,959 |
| Subtotal | 162,959 | 162,959 | - | - | 162,959 |
| Financial assets at fair value through other comprehensive income | | | | | |
| Publicly listed stocks | 307,282 | 307,282 | - | - | 307,282 |
| Equity instruments measured at fair value with no publicly quoted price | 157,452 | - | - | 157,452 | 157,452 |
| Subtotal | 464,734 | 307,282 | - | 157,452 | 464,734 |
| Financial assets measured at amortized cost | | | | | |
| Cash and cash equivalents | 976,850 | - | - | - | - |
| Notes and accounts receivable | 3,197,032 | - | - | - | - |
| Other receivables | 20,835 | - | - | - | - |
| Refundable deposits and pledged deposits | 246,022 | - | - | - | - |
| Subtotal | 4,440,739 | - | - | - | - |
| Total | **$ 5,068,432** | **470,241** | **-** | **157,452** | **627,693** |
| Financial liabilities at fair value through profit or loss | | | | | |
| Derivative financial liabilities－foreign exchange forward contracts | $ 7,144 | - | 7,144 | - | 7,144 |
| Redemption options on convertible bonds | 13,000 | - | 13,000 | - | 13,000 |
| Subtotal | 20,144 | - | 20,144 | - | 20,144 |
| Financial liabilities measured at amortized cost | | | | | |
| Short-term loans | 9,532,226 | - | - | - | - |
| Long-term loans (including current portion) | 4,694,913 | - | - | - | - |
| Convertible bonds | 1,935,021 | - | 1,943,400 | - | 1,943,400 |
| Short-term notes and bills payable | 964,495 | - | - | - | - |
| Notes and accounts payable | 2,290,149 | - | - | - | - |
| Other payables | 1,328,612 | - | - | - | - |
| Lease liabilities | 263,150 | - | - | - | - |
| Subtotal | 21,008,566 | - | 1,943,400 | - | 1,943,400 |
| Total | **$ 21,028,710** | **-** | **1,963,544** | **-** | **1,963,544** |

(Continued)

# TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
## Notes to the Consolidated Financial Statements

| | December 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Carrying | Fair value | | | |
| | amount | Level 1 | Level 2 | Level 3 | Total |
| Financial assets at fair value through profit or loss | | | | | |
| Non-derivative financial asset mandatorily measured at fair value through profit or loss | $ 134,560 | 134,560 | - | - | 134,560 |
| Financial assets at fair value through other comprehensive income | | | | | |
| Publicly listed stocks and stocks listed on emerging markets | 377,716 | 377,716 | - | - | 377,716 |
| Equity instruments measured at fair value with no publicly quoted price | 189,107 | - | - | 189,107 | 189,107 |
| Subtotal | 566,823 | 377,716 | - | 189,107 | 566,823 |
| Financial assets measured at amortized cost | | | | | |
| Cash and cash equivalents | 1,097,976 | - | - | - | - |
| Notes and accounts receivable | 3,360,075 | - | - | - | - |
| Other receivables | 79,853 | - | - | - | - |
| Refundable deposits and pledged deposits | 241,333 | - | - | - | - |
| Subtotal | 4,779,237 | - | - | - | - |
| Total | **$ 5,480,620** | **512,276** | **-** | **189,107** | **701,383** |
| Financial liabilities at fair value through profit or loss | | | | | |
| Derivative financial liabilities－foreign exchange forward contracts | $ 1,745 | - | 1,745 | - | 1,745 |
| Redemption options on convertible bonds | 31,200 | - | 31,200 | - | 31,200 |
| Subtotal | 32,945 | - | 32,945 | - | 32,945 |
| Financial liabilities measured at amortized cost | | | | | |
| Short-term loans | 11,752,724 | - | - | - | - |
| Long-term loans (including current portion) | 4,083,609 | - | - | - | - |
| Convertible bonds | 1,915,729 | - | 1,914,200 | - | 1,914,200 |
| Short-term notes and bills payable | 1,499,369 | - | - | - | - |
| Notes and accounts payable | 2,171,364 | - | - | - | - |
| Other payables | 1,307,761 | - | - | - | - |
| Subtotal | 22,730,556 | - | 1,914,200 | - | 1,914,200 |
| Total | **$ 22,763,501** | **-** | **1,947,145** | **-** | **1,947,145** |

2) Technique for fair value evaluation of financial instruments not measured at fair value

The Consolidated Company's assumption and technique used to evaluate its financial instruments not measured at fair value are as follows：

a) Financial assets measured at amortized cost

If the quoted prices in active markets are available, the market price is established as the fair value. However, if quoted prices in active markets are not available, the estimated valuation or prices used by competitors are adopted.

b) Financial assets and financial liabilities measured at amortized cost

If there is quoted price generated by transactions, the recent transaction price and quoted price data is used as the basis for fair value measurement. However, if no quoted prices are available, the discounted cash flows are used to estimate fair values.

(Continued)

3) Technique for fair value evaluation of financial instruments measured at fair value

a) Non-derivative financial instrument

If a financial instrument is quoted in an active market, the quoted price is its fair value. Announced prices at major exchanges and market prices of popular government bonds at the Taipei Exchange are bases of fair value for listed equity instruments and other debt investments with an active market.

A financial instrument is regarded as being quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency. If this condition is not met, the market is not active. Generally, if bid-ask spreads are very wide, the spread is increasing, or the transaction volume is low, the market is not active.

Fair value of the Consolidated Company's financial instruments that have an active market is displayed by category and attributed as follows:

Listed stocks are financial assets and liabilities with standard transaction terms and conditions, and are traded on an active market. The fair value of such items is determined in reference to the quoted market price.

Except for the abovementioned financial instruments with an active market price, the fair value of other financial instruments is measured using the valuation techniques. The fair value obtained through valuation techniques can be used as a reference to the current fair value, discounted cash flow, or other valuation techniques for other financial instruments with substantially similar properties and conditions. Fair value calculated using the valuation models and the available market information on the balance sheet date are also accepted by the market.

The fair value and the attributes of a financial instrument without an active market held by the Consolidated Company is listed as follows:

- Equity instruments without an open quoted price: Fair value is estimated using the approach of comparative companies. The main assumptions are the estimated EBITDA of the investee, and the earnings multiplier derived from the quoted price of a comparative publicly listing company. Such estimate has been adjusted by the discount due from the lack of market circulation of the equity securities.

b) Derivative financial instruments

Such items are valued using the valuation models which are widely accepted by the market. Foreign exchange forward contracts normally are valued using the current forward exchange rates. Interest rate structured financial instruments are valued using the option pricing models or other valuation methods.

4) Transfers between Level 1 and Level 2

There were no transfers in either direction in the years ended December 31, 2019 and 2018.

(Continued)

5) Quantified information on significant unobservable inputs (Level 3) used in fair value measurement

The Consolidated Company's financial instruments that use Level 3 inputs to measure fair value include “financial assets measured at fair value through profit or loss – debt investments”.

Multiple unobservable inputs exist with the fair value of the Consolidated Company’s investments in equity instruments. Since the significant unobservable inputs are independent of each other, no interrelationship exists.

Quantified information of significant unobservable inputs was as follows：

| Item | Valuation technique | Significant unobservable inputs | Inter-relationship between significant unobservable inputs and fair value measurement |
|---|---|---|---|
| Financial assets at fair value through other comprehensive income －equity investments without an active market | · Comparative Method<br>· Net Asset Value Method | · Multiplier of P/E ratio (0.62~2.31, 0.60~12.97, as of December 31, 2019 and December 31, 2018)<br>· Discount rate for lack of market circulation (4.92%~33%, 10.00%~34.80% as of December 31, 2019 and December 31, 2018) | ·The higher the multiplier and the control premium, the higher the fair value<br>·The higher the discount rate, the lower the fair value |

6) Fair value measurements in Level 3 – sensitivity analysis of reasonably possible alternative assumptions

The measurement of fair value by the Consolidated Company is considerably reasonable. However, if a different valuation model or assumption is adopted, the result can differ. For fair value measurements in Level 3, changes in the assumptions would have the following effects：

| | Input | Changes in assumptions | Changes in fair value reflected in OCI | |
|---|---|---|---|---|
| | | | Favorable | Unfavorable |
| **December 31, 2019** | | | | |
| Financial assets at fair value through other comprehensive income | | | | |
| Investment in equity instrument without an active market | Discount on circulation 4.92%~33.00% | 5% | $ 9,688 | (9,688) |
| **December 31, 2018** | | | | |
| Financial assets at fair value through other comprehensive income | | | | |
| Investment in equity instrument without an active market | Discount on circulation 10.00%~34.80% | 5% | 12,499 | (12,499) |

(Continued)

The favorable and unfavorable effects represent the changes in fair value, and fair value is based on a variety of unobservable inputs calculated using a valuation technique. The analysis above only reflects the effects of changes in a single input, and it does not include the interrelationships with another input.

(z) Financial risk management

(i) Summary

The Consolidated Company is exposed to the following risks by using financial instruments:

1) Credit risk

2) Liquidity risk

3) Market risk

The following likewise discusses the Consolidated Companys' objectives, policies and processes for measuring and managing the above mentioned risks. For more disclosures about the quantitative effects of these risks exposures, please refer to the respective notes in the accompanying consolidated financial statements

(ii) The structure of risk management

The goal of risk management of the Consolidated Company is to seek balance between risk and revenue, reducing the negative impact of financial risks on consolidated financial performance. Based on that goal, the Consolidated Company has already established risk management policies for identifying and analyzing the risks faced, set appropriate acceptable risk level, and designed corresponding internal control procedures in order to supervise the risk level of the Consolidated Company. The Consolidated Company will review these risk management policies and relevant internal control system periodically to adapt to the market or the changes in operational activities of the Consolidated Company.

(iii) Credit risk

Credit risk is the risk of financial loss to the Consolidated Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Consolidated Company' s receivables from customers and investment securities.

1) Accounts receivable and other receivables

To maintain the credit quality of receivables, a credit risk management policy has been established. Under this policy, each customer is analyzed individually regarding customer' s financial situation, external and internal credit rating, historical trading record, and current economic condition which may affect customer's payment ability. In addition, some methods are adopted to reduce the credit risk for specific customers, such as prepayment and insurance of accounts receivable.

(Continued)

2) Investments

The exposure to credit risk for the bank deposits, fixed income investments, and other financial instruments is measured and monitored by the Consolidated Company's finance department. The Consolidated Company only deals with banks, other external parties, corporate organizations, government agencies and financial institutions with good credit rating. The Consolidated Company does not expect any counterparty above fails to meet its obligations hence there is no significant credit risk arising from these counterparties.

3) Guarantees

The parties whom the Consolidated Company endorses and guarantees are its subsidiaries and affiliated companies；the items that the Consolidated Company endorses and guarantees are mostly financing and import duties commodity tax. Because the affiliated companies are financially sound and operate stably, the Consolidated Company has never suffered from losses due to endorsements and guarantees.

(iv) Liquidity risk

Liquidity risk is the risk that the Consolidated Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. The Consolidated Company' s approach to managing liquidity is to ensure, as much as possible, that it will always have sufficient current funds, such as cash and cash equivalent, securities with high liquidity, and sufficient credit line from banks, to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Consolidated Company' s reputation. Therefore, the Consolidated Company believes the liquidity risk is low.

The Consolidated Company not only analyzes its debt structure and deadline periodically to maintain sufficient capital, but also consults with financial institutions to maintain its credit lines, thereby, mitigating liquidity risk. The Consolidated Company obtains its credit lines from certain financial institutions, of which the unused credit lines amounted to $23,129,795 thousand as of December 31, 2019. The borrowings that had been used within the credit lines were listed separately in short-term and long-term loans.

(v) Market risk

Market risk is the risk of changes in market prices, such as exchange rates, interest rates and equity prices that will affect the Consolidated Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

1) Exchange rate risk

Exchange rate risks are the risks generated from the fluctuation of fair value or the future cash flows of the financial instruments. The Consolidated Company's exchange rate risks arise from transactions such as sales, purchases and borrowings that are not recognized at the Consolidated Company's functional currency.

Steel bars and sections are the two main products of the Consolidated Company. Sales of steel bars mainly go to domestic clients and are recognized in New Taiwan dollar. The ratio of domestic sales to external sales for sections was about 89 to 11 for the year ended December 31, 2019. The external sales for the year ended December 31, 2019 was about $2,730,000 thousand, which was 1% of the total revenue. Because the functional currency for import and export sales are all recognized in United States dollar ("USD"), sales revenue in USD and payments in USD can offset each other. The Consolidated Company uses foreign exchange forward contracts to avoid the risk of exchange rate fluctuation, recognizing the fluctuation of the fair value of the derivatives in profit or loss and takes the following steps to avoid exchange risk：

a) Collect relevant information about the daily fluctuation in exchange rate in order to know its trend. Decide whether to convert one currency into another specific currency at a proper time or retain foreign currency borrowings.

b) On dispatching foreign funds, the creditor’s rights and debts in foreign currency offset each other through regular external sales and imports, causing the effect of natural hedge.

c) Consult with foreign exchange departments of banks about hedging strategies and decide the foreign position that depends on the actual need of capital and the fluctuation of the exchange rate.

2) Interest rate risk

Interest rate risks are the risks that arise due to fluctuations in fair value or future cash flows of financial instruments because of changes in interest rate.

The Consolidated Company will obtain a more beneficial capital according to the compatibility of corresponding banks and the actual interest rate trends. The ratio of net interest revenue to the net operating revenue is not material; therefore, interest rate fluctuation does not cause any significant impact on the Consolidated Company. Besides, the Consolidated Company maintains a close relationship with certain corresponding banks and is well informed of any changes in the market in order to obtain a much more beneficial borrowing rate. The Consolidated Company continues to observe changes of interest rate on the market and issues convertible bonds to raise capital at proper time, and to fix and reduce interest cost for the Consolidated Company. Material capital expenditure will be evaluated with prudence and will be compared to different fund-raising instruments in order to raise capital with the least cost.

(aa) Capital management

Although business operated by the Consolidated Company has reached the stage of maturity, a sufficient amount of capital is still required to support the operation of investee companies, construction and expand its production facilities and equipment. The Consolidated Company’s policy is to maintain adequate financial resources and operating plan to meet future operating capital, capital expenditure, research and development expenditure, loans reimbursement, and dividend distribution.

**TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES**
**Notes to the Consolidated Financial Statements**

The Consolidated Company uses the debt-to-capital ratio to manage capital. The debt-to-capital ratio is calculated by dividing the net liabilities by the total capital. Net liabilities derive from deducting cash and cash equivalents from total liabilities.

The Consolidated Company reviews the ratio of debt-to-capital periodically to improve stockholders' value. The debt-to-capital ratios as of December 31, 2019 and 2018, were as follows：

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Total liabilities | $ 23,390,092 | 24,547,729 |
| Less: cash and cash equivalents | (976,850) | (1,097,976) |
| Net liabilities | 22,413,242 | 23,449,753 |
| Total equity | 24,301,411 | 24,010,764 |
| Total capital | **$ 46,714,653** | **47,460,517** |
| Debt-to-capital ratio | **47.98 %** | **49.41 %** |

As of December 31, 2019, there were no changes in the Consolidated Company's approach to capital management during the period.

(ab) The investing and financing activities of non-cash transactions

The cash flow of non-cash investing and financing transactions for the years ended December 31, 2019 and 2018, were as follows：

| | For the years ended December 31, 2019 | 2018 |
|---|---|---|
| Reclassification of prepayment of land and equipment to property, plant and equipment | **$ 78,120** | **112,709** |
| Changes in unrealized gain or loss on financial instruments | **$ 65,971** | **14,626** |
| Unrealized gain or loss on financial instruments accounted for using the equity method | **$ -** | **(2,125)** |
| Exchange differences arising from foreign operation | **$ (119,712)** | **(83,894)** |
| Increase in property, plant and equipment | $ 541,810 | 1,783,007 |
| Add: Payable for equipment as of January 1 | 121,401 | 44,376 |
| Less: Payable for equipment as of December 31 | (11,926) | (121,401) |
| Cash paid | **$ 651,285** | **1,705,982** |

# TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
## Notes to the Consolidated Financial Statements

Reconciliation of liabilities arising from financing activities were as follows：

| | January 1, 2019 | Cash flows | | | Non-cash changes | | December 31, 2019 |
|---|---|---|---|---|---|---|---|
| | | Aquisition | Repayment | Other | Foreign exchange | Other | |
| Short-term loans | $ 11,752,724 | 70,957,998 | (73,261,944) | - | 83,448 | - | 9,532,226 |
| Long-term loans (including current portion) | 4,083,609 | 2,617,138 | (1,960,143) | - | (45,691) | - | 4,694,913 |
| Short-term notes and bills payable | 1,500,000 | 9,340,000 | (9,875,000) | - | - | - | 965,000 |
| Refundable deposits | 13,898 | - | - | 1,609 | - | - | 15,507 |
| Lease liabilities | 205,458 | - | - | (62,567) | - | 120,259 | 263,150 |
| Total liabilities from financing activities | $ 17,555,689 | 82,915,136 | (85,097,087) | (60,958) | 37,757 | 120,259 | 15,470,796 |

| | January 1, 2018 | Cash flows | | | Non-cash changes | | December 31, 2018 |
|---|---|---|---|---|---|---|---|
| | | Aquisition | Repayment | Other | Foreign exchange | Other | |
| Short-term loans | $ 8,294,012 | 61,414,940 | (57,973,533) | - | 17,305 | - | 11,752,724 |
| Long-term loans (including current portion) | 3,000,000 | 3,427,413 | (2,353,571) | - | 9,767 | - | 4,083,609 |
| Short-term notes and bills payable | 605,000 | 12,730,000 | (11,835,000) | - | - | - | 1,500,000 |
| Bonds payable | - | 2,000,000 | - | - | - | (84,271) | 1,915,729 |
| Refundable deposits | 25,288 | - | - | (11,390) | - | - | 13,898 |
| Total liabilities from financing activities | $ 11,924,300 | 79,572,353 | (72,162,104) | (11,390) | 27,072 | (84,271) | 19,265,960 |

## (7) Related-party transactions

(a) Names and relationship with related parties

| Name of related party | Relationship with the Consolidated Company |
|---|---|
| Katec R & D Corp. | An associate |
| Taiwan Steel Union Co., Ltd. | An associate |
| Duc Hoa International Joint Stock Company | An associate |
| Fujian Sino-Japan Metal Corp. | An associate |
| Far East Steel Enterprise Corp. | The entity’s chairman is the same as the chairman of the Company |
| Shen Yuan Investment Co., Ltd. | The entity’s chairman is a second immediate family of the chairman of the Company |
| Delta Design Corp. | The entity’s chairman is a second immediate family of the chairman of the Company |
| Directors, general manager and vice general manager | |

**TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES**
**Notes to the Consolidated Financial Statements**

(b) Significant related-party transactions

(i) Sales to related parties

1) Significant sales to related parties and the balance of outstanding accounts receivable were as follows：

| | Sales | | Accounts receivable | |
|---|---|---|---|---|
| | For the years ended December 31, | | December 31, | December 31, |
| | 2019 | 2018 | 2019 | 2018 |
| Associates | $ 21,790 | 20,081 | 5,033 | 2,910 |

The selling price and credit terms for sales to related parties are not significantly different from those to other customers.

2) Construction contract revenue of the Consolidated Company that was determined based on the stage-of-completion method to related parties were as follows：

| | | Construction contract revenue | | |
|---|---|---|---|---|
| | | | For the years ended December 31, | |
| Relationship | Activity | Total | 2019 | 2018 |
| Associates | Construction | $ 39,312 | 676 | 1,359 |

(ii) Purchase from related parties

| | Purchases | | Accounts payable | |
|---|---|---|---|---|
| | For the years ended December 31, | | December 31, | December 31, |
| | 2019 | 2018 | 2019 | 2018 |
| Associates | 43,175 | 34,168 | 1,785 | 1,142 |
| Other related parties | - | 1,412 | - | - |
| | $ 43,175 | 35,580 | 1,785 | 1,142 |

The terms of purchase transactions and the payment terms with related parties were not significantly different from those with other vendors.

(iii) Endorsement/guarantees provided

The details regarding balances of financing endorsement were as follows：

Expressed in thousands of USD

| | December 31, 2019 | | |
|---|---|---|---|
| | Highest balance for current period | Ending amount (Note) | Actual amount usage |
| Associates | USD$ 10,500 | USD 5,250 | USD 5,250 |

| | December 31, 2018 | | |
|---|---|---|---|
| | Highest balance for current period | Ending amount (Note) | Actual amount usage |
| Associates | USD$ 11,485 | USD 5,250 | USD 5,250 |

Note：The credit limit approved by the Board of Directors

(Continued)

**TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES**
**Notes to the Consolidated Financial Statements**

(iv) Others

| | Rental income For the years ended December 31, 2019 | Rental income For the years ended December 31, 2018 |
|---|---|---|
| Associates | $ 3,309 | 3,309 |
| Other related parties | 4,328 | 2,893 |
| | $ 7,637 | 6,202 |

| | Miscellaneous revenue For the years ended December 31, 2019 | Miscellaneous revenue For the years ended December 31, 2018 |
|---|---|---|
| Associates | $ 198 | 218 |

| | Donation expenses For the years ended December 31, 2019 | Donation expenses For the years ended December 31, 2018 |
|---|---|---|
| Other related parties－THSF | $ 4,486 | 3,665 |

| | Operating expenses For the years ended December 31, 2019 | Operating expenses For the years ended December 31, 2018 |
|---|---|---|
| Associates | $ 4,447 | 62,989 |
| Other related parties | 12 | 961 |
| | $ 4,567 | 64,057 |

| | Manufacturing expense For the years ended December 31, | | Notes payables For the years ended December 31, | |
|---|---|---|---|---|
| **Relationship** | **2019** | **2018** | **December 31, 2019** | **December 31, 2018** |
| Associates | $ 27,219 | 22,246 | - | - |
| Other related parties | - | - | - | 640 |
| | $ 27,219 | 22,246 | - | 640 |

| | Other receivables | | Other payables | |
|---|---|---|---|---|
| **Relationship** | **December 31, 2019** | **December 31, 2018** | **December 31, 2019** | **December 31, 2018** |
| Associates | $ 36 | 36 | 3,657 | 10,706 |
| Other related parties | 28 | 21 | - | - |
| | $ 64 | 57 | 3,657 | 10,706 |

(Continued)

**TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES**
**Notes to the Consolidated Financial Statements**

| | Investment property | | Deposits received | |
|---|---|---|---|---|
| **Relationship** | **December 31, 2019** | **December 31, 2018** | **December 31, 2019** | **December 31, 2018** |
| Associates | $ - | - | 304 | 304 |

(c) Compensation of key management personnel

Compensation of key management personnel consists of：

| | For the years ended December 31, | |
|---|---|---|
| | **2019** | **2018** |
| Short-term employee benefits | $ 47,302 | 52,360 |
| Post-employment benefits | 2,291 | 2,552 |
| | **$ 49,593** | **54,912** |

As of years ended December 31, 2019 and 2018, the Consolidated Company provided three cars and four cars that cost $9,306 thousand and $12,453 thousand, respectively, for the key management personnel of the entity.

## (8) Pledged assets

The details of the Consolidated Company's pledged assets were as follows：

| **Pledged assets** | **Pledged to secure** | **December 31, 2019** | **December 31, 2018** |
|---|---|---|---|
| Other current and non-current assets | Customs guarantee and performance guarantee | $ 40,631 | 41,264 |
| Refundable deposits | Performance guarantee | 3,955 | 3,687 |
| Land use right (Listed as other non-current assets and right-of-use assets) | Guarantee for bank loans | - | 6,570 |
| Property, plant and equipment | Guarantee for bank loans | - | 643,810 |
| | | **$ 44,586** | **695,331** |

## (9) Significant Commitments and contingencies

(a) Unrecognized contractual commitments

(i) The guarantees were mainly for securing loans and gave rise to potential off-balance-sheet credit risk, which represents the risk of loss incurred by the default of counterparties or by the devaluation of collateral provided by the counterparties. The Consolidated Company did not ask counterparties for collateral as secure guarantees. The amounts of the Consolidated Company's guarantees were as following：

| | **December 31, 2019** | **December 31, 2018** |
|---|---|---|
| Guarantees securities amounts | **$ 157,395** | **161,280** |

(ii) The amounts of guaranteed notes issued by the Consolidated Company were as follows：

| Nature | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Bank credit limit | $ 13,013,525 | 11,831,879 |
| Leases | 200 | 200 |
| Guaranteed payment for purchases of raw materials | 102,080 | 40,030 |
| Performance guarantee | 637 | - |
| | $ 13,116,442 | 11,872,109 |

(iii) The amount of unused outstanding letters of credit was as follows：

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Unused outstanding letters of credit | $ 1,152,588 | 1,293,171 |

**(10) Losses due to major disasters: None**

**(11) Subsequent events: None**

**(12) Others**

(a) A summary of current-period employee benefits, depreciation, and amortization, by function, is as follows：

| | For the year ended December 31, 2019 | | | For the year ended December 31, 2018 | | |
|---|---|---|---|---|---|---|
| | Classified as operating costs | Classified as operating expenses | Total | Classified as operating costs | Classified as operating expenses | Total |
| Employee benefits | | | | | | |
| Salaries | 1,416,054 | 573,795 | 1,989,849 | 1,247,159 | 501,910 | 1,749,069 |
| Labor and health insurance | 122,184 | 42,459 | 164,643 | 115,087 | 43,217 | 158,304 |
| Pension expenses | 69,485 | 19,909 | 89,394 | 63,123 | 21,136 | 84,259 |
| Remuneration of directors | - | 43,757 | 43,757 | - | 25,692 | 25,692 |
| Other personnel expenses (Note) | 53,726 | 18,515 | 72,241 | 50,877 | 41,334 | 92,211 |
| Depreciation expenses | 1,452,055 | 124,477 | 1,576,532 | 1,213,693 | 93,344 | 1,307,037 |
| Amortization expenses | 102,210 | 16,858 | 119,068 | 61,602 | 16,161 | 77,763 |

**TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES**
**Notes to the Consolidated Financial Statements**

(b) As of December 31, 2019 and 2018, the analysis of the liquidity of the company's assets and libilities was as follow：

| | December 31, 2019 | | |
|---|---|---|---|
| | **Receivables / Payables expected to be realized within twelve months** | **Receivables / Payables expected to be realized after twelve months** | **Total** |
| Assets | | | |
| Cash and cash equivalents | $ 976,850 | - | 976,850 |
| Current financial assets at fair value through profit or loss | 162,959 | - | 162,959 |
| Notes and accounts receivable | 3,082,413 | 114,619 | 3,197,032 |
| Other receivables | 20,835 | - | 20,835 |
| Inventories | 13,819,636 | - | 13,819,636 |
| Contract assets | - | 3,877,575 | 3,877,575 |
| Prepayments and other current assets | 954,381 | - | 954,381 |
| | $ 19,017,074 | 3,992,194 | 23,009,268 |
| Liabilities | | | |
| Short-term loans | $ 9,532,226 | - | 9,532,226 |
| Current financial liabilities at fair value through profit or loss | 7,144 | - | 7,144 |
| Short-term notes and bills payable | 964,495 | - | 964,495 |
| Current contract liabilities | - | 884,406 | 884,406 |
| Notes and accounts payable | 2,290,149 | - | 2,290,149 |
| Other payables | 1,328,612 | - | 1,328,612 |
| Lease liabilities | 40,431 | - | 40,431 |
| Current tax liabilities | 393,281 | - | 393,281 |
| Provisions and other current liabilities | 229,694 | - | 229,694 |
| | $ 14,786,032 | 884,406 | 15,670,438 |

(Continued)

**TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES**
**Notes to the Consolidated Financial Statements**

| | December 31, 2018 | | |
|---|---|---|---|
| | Expected to receive or paid within twelve months | Expected to receive or paid over twelve months | Total |
| Assets | | | |
| Cash and cash equivalents | $ 1,097,976 | - | 1,097,976 |
| Current financial assets at fair value through profit or loss | 134,560 | - | 134,560 |
| Notes and accounts receivable | 3,199,533 | 160,542 | 3,360,075 |
| Other receivables | 79,853 | - | 79,853 |
| Inventories | 15,453,079 | - | 15,453,079 |
| Construction contracts receivable | - | 1,603,030 | 1,603,030 |
| Prepayments and other current assets | 1,240,379 | - | 1,240,379 |
| | $ 21,205,380 | 1,763,572 | 22,968,952 |
| Liabilities | | | |
| Short-term loans | $ 11,752,724 | - | 11,752,724 |
| Current financial liabilities at fair value through profit or loss | 1,745 | - | 1,745 |
| Short-term notes and bills payable | 1,499,369 | - | 1,499,369 |
| Construction contracts payable | - | 483,278 | 483,278 |
| Notes and accounts payable | 2,171,364 | - | 2,171,364 |
| Other payables | 1,307,761 | - | 1,307,761 |
| Current tax liabilities | 200,510 | - | 200,510 |
| Provisions and other current liabilities | 72,974 | - | 72,974 |
| | $ 17,006,447 | 483,278 | 17,489,725 |

(Continued)

# TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
## Notes to Consolidated Financial Statements

**(13) Other disclosures**

(a) Information on significant transactions

The followings were the information on significant transactions required by the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” for the Consolidated Company：

(i) Financing to other parties:

(in thousands of NTD/USD)

| Number | Name of lender | Name of borrower | Account name | Related party | Highest balance of financing to other parties during the period | Ending balance | Actual usage amount during the period | Range of interest rates during the period | Purposes of fund financing for the borrower (Note 2) | Transaction amount for business between two parties | Reasons for short-term financing | Allowance for bad debt | Collateral | | Individual funding loan limits | Maximum limit of fund financing |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | | | Item | Value | | |
| 1 | The company | Tung Ho Steel Vietnam Corp. | Other receivables | Yes | 1,997,976 (USD66,644) | 701,041 (USD23,384) | 701,041 (USD23,384) | 2.031%～2.848% | 2 | - | Operating capital | - | - | - | 2,419,949 | 4,839,898 |

Note 1: Financing to an individual party should not exceed 10% of the net equity on its latest financial statements. The maximum amount allowed for financing should not exceed 20% of the net equity on its latest financial statements.

Note 2: Reasons for short-term financing were as follows:

(1) Those with business contact

(2) Those necessary for short-term fund circulation

Note 3: On June 18, 2019, the board of directors approved the reclassification of accounts receivable to financing to THSVC.

Note 4: The transaction have already been written off in the consolidated financial statements.

(ii) Guarantees and endorsements for other parties:

(in thousands of NTD/USD/CNY)

| No. | Name of guarantor | Counter-party of guarantee and endorsement | | Limitation on amount of guarantees and endorsements for a specific enterprise | Highest balance for guarantees and endorsements during the period | Balance of guarantees and endorsements as of reporting date | Actual usage amount during the period | Property pledged for guarantees and endorsements (amount) | Ratio of accumulated amounts of guarantees and endorsements to net worth of the latest financial statements | Maximum amount for guarantees and endorsements | Parent company endorsements/ guarantees to third parties on behalf of subsidiary | Subsidiary endorsements/ guarantees to third parties on behalf of parent company | Endorsements/ guarantees to third parties on behalf of companies in Mainland China |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Name | Relationship with the Company | | | | | | | | | | |
| 0 | The Company (Note 2, 3) | Fujian Tung Kang Steel Co., Ltd. | 2 | 12,099,746 | 1,219,210 (USD22,000) (CNY130,000) | 614,220 (USD9,000) (CNY80,000) | 204,146 (USD2,655) (CNY28,930) | - | 2.54 % | 12,099,746 | Y | N | Y |
| 0 | The Company (Note 2, 3) | THSVC | 2 | 12,099,746 | 10,328,110 (USD344,500) | 8,019,650 (USD267,500) | 3,208,964 (USD107,037) | - | 33.13 % | 12,099,746 | Y | N | N |
| 1 | Tung Yuan International Corp. (Note 4, 5) | Best-Steel Trade Corp. | 2 | 382,698 (USD12,765) | 125,916 (USD4,200) | 89,940 (USD1,200) | 35,976 (USD1,200) | 35,976 (USD1,200) | 11.75 % | 765,395 (USD25,530) | N | N | N |
| 1 | Tung Yuan International Corp. (Note 4, 5) | Fujian Sino-Japan Metal Corp. | 6 | 382,698 (USD12,765) | 314,790 (USD10,500) | 157,395 (USD5,250) | 157,395 (USD5,250) | - | 20.56 % | 765,395 (USD25,530) | N | N | Y |

Note 1: The Company may provide guarantees or endorsements for its receiving parties under the following conditions:

1 The Company has business with the receiving parties.

2 The Company holds directly more than 50% of the ordinary stock of the subsidiaries.

3 The Company and its subsidiaries hold more than 50% of the investee.

4 The Company holds, directly or indirectly, through its subsidiaries, more than 50% of the investee.

5 The Company is required to make guarantees or endorsements for the construction project based on the contract.

6 The stockholders of the Company may provide guarantees or endorsements for the investee in proportion to their stockholding percentage.

7 The companies in the same industry provide, among themselves, joint and several security for a performance guarantee on sales contracts for pre- construction homes pursuant to the Consumer Protection Act for each other.

Note 2: Guarantees and endorsements for an individual company should not exceed 50% of the net equity of the latest financial statements.

Note 3: The total amount of guarantees and endorsements should not exceed 50% of the net equity of the latest financial statements.

Note 4: Guarantees and endorsements for an individual company should not exceed 50% of the total amount of guarantees and endorsements.

Note 5:The total amount of guarantees and endorsements should not exceed the Company's net worth on its latest financial statements. The amount limited for the current period is USD25,530 thousand. Guarantees and endorsements for an individual company should not exceed 50% of the Company’s net worth on its latest financial statements. Moreover, according to the Company's policy, the total amount of guarantees and endorsements made by the Company should not exceed 50% of the Company's latest financial statement (limit for the current period: $12,099,746 thousand); the total amount of guarantees and endorsements on an individual company should not exceed 50% of the Company's net worth of its latest financial statements (limit for the current period: $12,099,746 thousand.)

# TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
## Notes to Consolidated Financial Statements

(iii) Securities held as of December 31, 2019 (excluding investment in subsidiaries, associates and joint ventures):

(in thousands of NTD)

| Name of holder | Category and name of security | Relationship with company | Account title | Ending balance Shares/Units (thousands) | Carrying value | Percentage of ownership (%) | Fair value | Highest Percentage of ownership (%) | Note |
|---|---|---|---|---|---|---|---|---|---|
| The Company | Stock－Zenitron Corporation | - | (a) | 3,825,000 | 80,707 | 1.79 % | 80,707 | 1.79 % | None |
| The Company | Stock－Adlink | - | (a) | 1,713,577 | 82,252 | 0.79 % | 82,252 | 0.79 % | 〃 |
| The Company | Stock－Shiao Kang Warehousing Corp. | One of its directors | (b) | 2,384,060 | 16,069 | 19.87 % | 16,069 | 19.87 % | 〃 |
| The Company | Stock－Hexawave Photonic System, Inc. | - | (b) | 2,564,023 | 21,794 | 6.39 % | 21,794 | 16.35 % | 〃 |
| The Company | Stock－Overseas Investment & Development Corp. | - | (b) | 1,000,000 | 6,230 | 1.11 % | 6,230 | 1.11 % | 〃 |
| The Company | Stock－Power World Fund, Inc. | One of its directors | (b) | 677,245 | 8,825 | 5.68 % | 8,825 | 5.68 % | 〃 |
| The Company | Stock－Universal Venture Fund, Inc. | One of its directors | (b) | 558,255 | 7,653 | 4.76 % | 7,653 | 4.76 % | 〃 |
| The Company | Stock－Tung Jiang Investment Corp. | One of its directors | (b) | - | 36,523 | 9.13 % | 36,523 | 9.13 % | 〃 |
| The Company | Stock－Taiwan Aerospace Corp. | - | (b) | 1,621,441 | 26,332 | 1.19 % | 26,332 | 1.19 % | 〃 |
| The Company | Stock－Universal Venture Capital Investment Corp. | - | (b) | 2,800,000 | 19,292 | 2.33 % | 19,292 | 2.33 % | 〃 |
| The Company | Stock－IBT | - | (b) | 1,312,993 | 6,328 | 4.17 % | 6,328 | 4.17 % | 〃 |
| The Company | Katec Creative Resources Corporation－preferred stock | Subsidiary of the Company | (b) | 577,031 | - | 65.18 % | - | 65.18 % | Note |
| The Company | Stock－Chien Shing Harbour Service Co., Ltd | One of its directors | (b) | 8,203,800 | 233,808 | 10.11 % | 233,808 | 10.11 % | None |
| The Company | Stock－Taiwan High Speed Rail Corporation | - | (b) | 1,913,376 | 73,474 | 0.04 % | 73,474 | 0.11 % | 〃 |
| Tung Yuan International Corp. | Chinese Products Promotion Center | - | (b) | 2,500 | 229 | 0.66 % | 229 | 0.66 % | 〃 |
| Tung Yuan International Corp. | Pech alliance Corp. | - | (b) | 1,791,562 | 5,195 | 5.69 % | 5,195 | 5.69 % | 〃 |
| Tung Kang Engineering & Construction Corp. | Toko Sanitaryware Trading Development Corp. | - | (b) | 150,000 | 2,982 | 15.00 % | 2,982 | 15.00 % | 〃 |

Note: (a) Financial assets at fair value through profit or loss －current

(b) Financial assets at fair value through other comprehensive income －non-current

(iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT$300 million or 20% of the capital stock: None

(v) Acquisition of individual real estate with amount exceeding the lower of NT$300 million or 20% of the capital stock: None

(vi) Disposal of individual real estate with amount exceeding the lower of NT$300 million or 20% of the capital stock: None

(vii) Related-party transactions for purchases and sales with amounts exceeding the lower of NT$100 million or 20% of the capital stock:

(in thousands of NTD)

| Name of company | Related party | Nature of relationship | Transaction details Purchase/Sale | Amount | Percentage of total purchases/sales | Payment terms | Transactions with terms different from others Unit price | Payment terms | Notes/Accounts receivable (payable) Ending balance | Percentage of total notes/accounts receivable (payable) | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| The Company | Tung Kang Steel Structure Corp. | Subsidiary | Sale | (2,595,346) | (7.36)% | Receivable within 60 days | - | - | 992,664 | 25.63% | |
| The Company | THSVC | 〃 | Purchase | 1,532,495 | 5.76% | Payment at the end of the month | - | - | - | -% | |
| The Company | THSVC | 〃 | Sale | (1,121,694) | (3.18)% | 330 and 120 days after B/L | - | - | 224,949 | 5.81% | |
| The Company | BST | 〃 | Sale | (618,598) | (1.76)% | 110 days after B/L | - | - | 46,292 | 1.20% | |
| Tung Kang Steel Structure Corp. | The Company | Parent Company | Purchase | 2,595,346 | 62.92% | Payable within 60 days | - | - | (992,644) | (61.22)% | |
| THSVC | The Company | 〃 | Sale | (1,532,495) | (31.44)% | Payment at the end of the month | - | - | - | -% | |
| THSVC | The Company | 〃 | Purchase | 1,121,694 | 35.30% | 330 and 120 days after B/L | - | - | (224,949) | (21.22)% | |
| BST | The Company | 〃 | Purchase | 618,598 | 100.00% | 110 days after B/L | - | - | (46,292) | (100.00)% | |

Note1: The transactions have already been written off in the consolidated financial statements.

# TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
## Notes to Consolidated Financial Statements

(viii) Receivables from related parties with amounts exceeding the lower of NT$100 million or 20% of the capital stock:

(in thousands of NTD)

| Name of company | Counter-party | Nature of relationship | Ending balance | Turnover rate | Overdue | | Amounts received in subsequent period | Allowance for bad debts |
|---|---|---|---|---|---|---|---|---|
| | | | | | Amount | Action taken | | |
| The Company | Tung Kang Steel Structure Corp. | Subsidiary | 992,644(Accounts receivable—related parties) | 3.72 | - | | 307,147 | - |
| | | | 359(Other receivables—related parties) | - | - | | 359 | - |
| The Company | THSVC | Subsidiary | 224,949(Accounts receivable—related parties) | 1.33 | - | | 59,043 | - |
| The Company | BST | Subsidiary | 702,409(Other receivables—related parties) | - | - | | 217,985 | - |
| | | | 46,292(Accounts receivable—related parties) | 1.78 | - | | - | - |

Note ：The transactions have already been written off in the consolidated financial statements.

(ix) Trading in derivative instruments: Please refer to Note 6(b).

(x) Business relationships and significant intercompany transactions:

(in thousands of NTD)

| No. | Name of company | Name of counter-party | Nature of relationship | Intercompany transactions | | | |
|---|---|---|---|---|---|---|---|
| | | | | Account name | Amount | Trading terms | Percentage of the consolidated net revenue or total assets |
| 0 | The Company | Tung Kang Steel Structure Corp. and subsidiaries | 1 | Sales | 2,630,347 | General conditions | 5.86% |
| 0 | The Company | Tung Kang Steel Structure Corp. and subsidiaries | 1 | Accounts receivable | 1,003,487 | OA60 | 2.10% |
| 0 | The Company | THSVC | 1 | Sales | 1,121,694 | General conditions | 2.50% |
| 0 | The Company | THSVC | 1 | Other receivables | 702,409 | 330 days after B/L | 1.47% |
| 0 | The Company | THSVC | 1 | Accounts receivable | 224,949 | 120 days after B/L | 0.47% |
| 0 | The Company | Tung Yuan International Corp. and subsidiaries | 1 | Sales | 618,598 | General conditions | 1.38% |
| 0 | The Company | Tung Yuan International Corp. and subsidiaries | 1 | Accounts receivable | 46,292 | 110 days after B/L | 0.10% |
| 1 | Tung Kang Steel Structure Corp. and its subsidiaries | The Company | 2 | Sales | 293,892 | General conditions | 0.66% |
| 1 | Tung Kang Steel Structure Corp. and its subsidiaries | The Company | 2 | Accounts receivable | 18,276 | Receive within 30 days | 0.04% |
| 2 | THSVC | The Company | 2 | Sales | 1,532,495 | General conditions | 3.42% |

Note 1: The numbers represent the following:

1. 0 represents the parent company.
2. Subsidiaries are numbered from 1.

Note 2: Transactions are categorized as follows：

1. Parent company to subsidiary.
2. Subsidiary to parent company.
3. Subsidiary to subsidiary.

For significant intercompany transactions, only information regarding sales, funding and finances, and accounts receivables were disclosed; the opposing items of the transactions were not disclosed.

(b) Information on investees:

The following is the information on investees for the year ended December 31, 2019 (excluding information on investees in Mainland China)：

(in thousands of NTD)

| Name of investor | Name of investee | Location | Main businesses and products | Original investment amount | | Balance as of December 31, 2019 | | | Highest Percentage of ownership | Net income (losses) of investee | Share of profits/losses of investee | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | December 31, 2019 | December 31, 2018 | Shares | Percentage of ownership | Carrying value | | | | |
| The Company | Tung Yuan International Corp. | British Virgin Islands | Investment activities | 814,955 | 814,955 | 82 | 100.00 % | 765,395 | 82 | (13,804) | (13,898) | Subsidiary (Note 1) |
| 〃 | Tung Kang Steel Structure Corp. | Taiwan | Construction | 1,775,138 | 1,775,138 | 197,565,134 | 97.48 % | 2,232,486 | 197,565,134 | 238,906 | 219,082 | Subsidiary (Note 1) |
| 〃 | Katec R & D Corp. | Taiwan | Waste recycling | 35,352 | 35,352 | 4,705,332 | 46.19 % | 56,184 | 4,705,332 | 10,999 | 5,080 | Associate |
| 〃 | Goldham Development Ltd. | British Virgin Islands | Investment activities | 449,700 | 449,700 | 15,000,000 | 100.00 % | 380,904 | 15,000,000 | (9,297) | (7,016) | Subsidiary (Note 1) |
| 〃 | Taiwan Steel Union Co., Ltd. | Taiwan | Waste disposal | 113,291 | 113,291 | 24,829,009 | 22.31 % | 767,104 | 25,208,009 | 398,825 | 89,000 | Associate |

(Continued)

# TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
## Notes to Consolidated Financial Statements

| Name of investor | Name of investee | Location | Main businesses and products | Original investment amount December 31, 2019 | Original investment amount December 31, 2018 | Balance as of December 31, 2019 Shares | Balance as of December 31, 2019 Percentage of ownership | Balance as of December 31, 2019 Carrying value | Highest Percentage of ownership | Net income (losses) of investee | Share of profits/losses of investee | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| The Company | Katec Creative Resources Corporation | Taiwan | Waste recycling | 1,211,442 | 1,211,442 | 95,724,402 | 99.01 % | 715,204 | 95,724,402 | (15,039) | (14,890) | Subsidiary (Note 1) |
| 〃 | Right Investment Corp. | Taiwan | Investment activities | - | 189,827 | - | - % | - | 499,800 | 328 | 2,390 | Associate (Note 2) |
| 〃 | Fa Da Enterprise Corp. | Taiwan | Waste recycling | 90,000 | 90,000 | 9,000,000 | 100.00 % | 89,491 | 10,000,000 | (17,685) | (198) | Subsidiary (Note 1) |
| 〃 | Tung Kang Wind Power Corp. | Taiwan | Electric power generation | 155,000 | 155,000 | 15,500,000 | 100.00 % | 91,726 | 15,500,000 | 287 | 376 | Subsidiary (Note 1) |
| 〃 | THSVC | Vietnam | Steel industry | 5,016,935 | 5,016,935 | - | 100.00 % | 3,207,944 | - | (814,154) | (814,154) | Subsidiary (Note 1) |
| 〃 | Tung Tang Energy Corp. | Taiwan | Fertilizer producing and self-used equipment of renewable electric power | 15,000 | - | 1,500,000 | 100.00 % | 14,832 | 1,500,000 | (177) | (177) | Subsidiary (Note 1) |
| Tung Yuan International Corp. | 3 Oceans International Inc. | Samoa | Investment activities | 55,163 | 55,163 | 1,840,000 | 66.67 % | 24,037 | 1,840,000 | (2,927) | (1,952) | Subsidiary (Note 1) |
| Tung Yuan International Corp. | Duc Hoa International Joint Stock Company | Vietnam | Quicklime factory | 65,956 | 65,956 | 4,183,380 | 49.25 % | 48,443 | 4,183,380 | 6,756 | 3,327 | Associate |
| Tung Yuan International Corp. | BST | U.S.A. | Trading | 8,994 | 8,994 | 600 | 60.00 % | 3,970 | 600 | (30,425) | (18,255) | Subsidiary (Note 1) |
| Tung Kang Steel Structure Corp. | Tung Kang Engineering & Construction Corp. | Taiwan | Civil engineering | 359,340 | 359,340 | 25,000,000 | 100.00 % | 257,323 | 25,000,000 | 3,405 | 3,405 | Subsidiary (Note 1) |

1 USD＝29.98 TWD, 1 CNY＝4.305 TWD.

Note1: The transactions were written off in the consolidated financial statements.

Note2: The company was dissolved and liquidated on August 15, 2019 by the resolution of the Board of Directors and dissolution date was set on September 4, 2019.

(c) Information on investment in Mainland China:

(i) The names of investees in Mainland China, the main businesses and products, and other information:

(in thousands of NTD/USD/CNY)

| Name of investee | Main businesses and products | Total amount of paid-in capital | Method of investment (Note 1) | Accumulated outflow of investment from Taiwan as of January 1, 2019 | Investment flows Outflow | Investment flows Inflow | Accumulated outflow of investment from Taiwan as of December 31, 2019 | Net income (losses) of the investee | Percentage of ownership | Highest Percentage of ownership | Investment income (losses) (Note 3) | Book value (Note 2) | Accumulated remittance of earnings in current period |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fujian Sino-Japan Metal Corp. | Tin-coated plate | 1,558,960 (USD52,000) | ( 2 ) | 550,643 (USD18,367) | - | - | 550,643 (USD18,367) | 3,756 | 35.00% | 35.00 % | 1,314 | 533,792 | - |
| Fujian Tung Kang Steel Co., Ltd. | Processing of section steels and steel structures | 449,700 (USD15,000) | ( 2 ) | 399,633 (USD13,330) | - | - | 399,633 (USD13,330) | (9,297) | 100.00% | 100.00 % | (7,016) | 380,904 | - |
| Fujian Dong Sheng Metul Processing Co., Ltd. | Metal processing | 38,745 (CNY9,000) | ( 3 ) | - | - | - | - | (1,115) | 51.00% | 51.00 % | (569) | 17,412 | - |

Note 1: List of the method of investment

(1) Direct investment

(2) Indirect investment

(3) Others

Note 2: On December 31, 2019, 1 USD＝29.98 TWD, 1 CNY＝4.305 TWD.

Note 3: For the year ended December 31, 2019, 1 USD＝30.91 TWD, 1 CNY ＝4.472 TWD.

(ii) Limitation on investment in Mainland China:

(in thousands of NTD/USD)

| Accumulated Investment in Mainland China as of December 31, 2019 | Investment amounts authorized by Investment Commission, MOEA | Upper limit on investment (Noted) |
|---|---|---|
| 1,010,236 (USD33,697) | 1,010,236 (USD33,697) | 14,519,695 |

Note: 60% of net equity.

(iii) Significant transactions:

For direct or indirect significant transactions between the Company and its investees in Mainland China, please refer to the illustrations in “Related information on Significant Transactions.”

**TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES**
**Notes to the Consolidated Financial Statements**

## (14) Segment information

(a) General information

There are six reportable segments in the Consolidated Company, namely, Kaohsiung, Taoyuan, Miaoli, Taipei, Vietnam, and Steel Structure. The Kaohsiung Department manufactures steel bars for construction and civil engineering, and H beams for steel-structured buildings and basic civil engineering, universal plates, and tampered and parallel flange channel; the Taoyuan Department only produces steels for building structures and steel bars for construction and civil engineering; the Miaoli Department manufactures H beams, universal plates, and tampered and parallel flange channel for steel-structured buildings and basic civil engineering; the Taipei Department manages the Consolidated Company and evaluates investment activities; the Vietnam Department manufactures and sells various types of billets and steel bars for construction and civil engineering; the Steel Structure department exclusively assembles H beams and others.

(b) Information about reportable segments and their measurement and reconciliations

The reportable segments are the Consolidated Company's strategic divisions. They offer different products and services, and are managed separately because they require different technology and marketing strategies. Most of the strategic divisions were acquired separately. The management of the acquired divisions remains employed by the Consolidated Company.

Tax expenses are not able to be allocated to each reportable segment. In addition, not all reportable segments include depreciation and amortization of significant non-cash items. The reportable amount is similar to that in the report used by the chief operating decision maker.

The operating segment accounting policies are similar to the ones described in Note 4 “Significant Accounting Policies.” The Consolidated Company treated intersegment sales and transfers as third-party transactions. They are measured at market price.

The operating segments of the Consolidated Company for the years ended December 31, 2019 and 2018, were as follows：

| | For the year ended December 31, 2019 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Kaohsiung | Taoyuan | Miaoli | Taipei | Steel Structure | Vietnam | Others | Adjustments and eliminations | Total |
| Revenue: | | | | | | | | | |
| Net revenue from external customers | $ 4,777,732 | 16,079,219 | 8,138,556 | - | 8,628,366 | 3,341,401 | 3,898,326 | - | 44,863,600 |
| Inter-segment revenue | 102,933 | 35,203 | 3,111,010 | 1,121,695 | 255,781 | 1,532,496 | 5,881 | (6,164,999) | - |
| **Total revenues** | **$ 4,880,665** | **16,114,422** | **11,249,566** | **1,121,695** | **8,884,147** | **4,873,897** | **3,904,207** | **(6,164,999)** | **44,863,600** |
| Interest expense | $ - | - | - | (147,540) | (10,874) | (145,045) | (7,373) | 14,629 | (296,203) |
| Interest revenue | - | - | - | 14,714 | 1,513 | 330 | 3,048 | (14,122) | 5,483 |
| **Reportable segment profit or loss** | **$ (50,553)** | **963,412** | **1,576,137** | **(439,354)** | **265,359** | **(814,154)** | **(15,109)** | **636,394** | **2,122,132** |
| **Reportable segment assets** | **$ 1,651,451** | **15,471,921** | **7,031,344** | **16,281,867** | **6,430,572** | **7,211,407** | **3,305,406** | **(9,692,465)** | **47,691,503** |
| **Reportable segment liabilities** | **$ 282,112** | **1,163,404** | **872,322** | **14,899,108** | **3,594,942** | **4,003,462** | **635,820** | **(2,061,078)** | **23,390,092** |

# TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
## Notes to the Consolidated Financial Statements

| | For the year ended December 31, 2018 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Kaohsiung | Taoyuan | Miaoli | Taipei | Steel Structure | Vietnam | Others | Adjustments and eliminations | Total |
| Revenue: | | | | | | | | | |
| Net revenue from external customers | 4,989,298 | 13,875,542 | 8,642,715 | - | 4,781,352 | 3,588,782 | 3,891,932 | - | 39,769,621 |
| Inter-segment revenue | 388,924 | 44,176 | 2,581,228 | 2,246,037 | 449,164 | - | 17,362 | (5,726,891) | - |
| **Total revenues** | $ 5,378,222 | 13,919,718 | 11,223,943 | 2,246,037 | 5,230,516 | 3,588,782 | 3,909,294 | (5,726,891) | 39,769,621 |
| Interest expense | $ - | - | - | (140,441) | (9,717) | (65,879) | (8,513) | - | (224,550) |
| Interest revenue | - | - | - | 861 | 1,662 | 1,234 | 2,321 | - | 6,078 |
| **Reportable segment profit or loss** | $ 42,449 | 375,341 | 1,093,918 | (278,141) | 95,407 | (461,484) | (145,356) | 532,969 | 1,255,103 |
| **Reportable segment assets** | $ 2,021,425 | 14,373,219 | 7,585,727 | 17,881,720 | 4,759,063 | 9,016,398 | 4,231,890 | (11,310,949) | 48,558,493 |
| **Reportable segment liabilities** | $ 281,328 | 1,012,097 | 894,026 | 16,619,520 | 2,138,229 | 4,918,105 | 1,525,858 | (2,841,434) | 24,547,729 |

(c) Products information

Revenue from the external customers of the Consolidated Company was as follows：

| | For the years ended December 31, | |
|---|---|---|
| **Product Name** | **2019** | **2018** |
| Deformed bars | $ 21,568,313 | 17,377,738 |
| Sections | 12,717,253 | 13,057,300 |
| Billets | 1,522,152 | 4,213,094 |
| Construction Contracts | 8,438,521 | 4,737,041 |
| Others | 617,361 | 384,448 |
| | **$ 44,863,600** | **39,769,621** |

(d) Geographic information

The Consolidated Company’ s revenue from continuing operations from external customers by location of operations and information about its non-current assets by location were as follows：

| | For the years ended December 31, | |
|---|---|---|
| **Geographic information** | **2019** | **2018** |
| Net revenue from external customers： | | |
| Taiwan | $ 38,002,705 | 30,860,367 |
| China | 928,965 | 894,914 |
| Vietnam | 3,341,402 | 3,588,782 |
| Others | 2,590,528 | 4,425,558 |
| | **$ 44,863,600** | **39,769,621** |

**TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES**
**Notes to the Consolidated Financial Statements**

| Geographic information | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Non-current assets： | | |
| Taiwan | $ 17,529,871 | 18,191,882 |
| China | 188,552 | 175,781 |
| Vietnam | 4,892,509 | 4,995,004 |
| Others | 36,510 | 40,115 |
| | $ 22,647,442 | 23,402,782 |

Non-current assets include property, plant and equipment, investment property, and other non-current assets, not including financial instruments, investments accounted for using the equity method, deferred tax assets, and post-employment benefit assets.

(e) Information about major customers

| | For the years ended December 31, 2019 | For the years ended December 31, 2018 |
|---|---|---|
| Customer A from sections department | $ 2,341,627 | 2,361,564 |
| Customer B from sections department | $ 829,945 | 1,613,402 |
| Customer C from sections department | $ 1,373,191 | 1,169,371 |