Stock Code: 2006

TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements

With Independent Auditors' Report
For the Years Ended December 31, 2018 and 2017

Address: **6F, No. 9, Sec. 1, Chang An East Road, Taipei City**
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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, 2018 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 by the Financial Supervisory Commission, "Consolidated and Separate Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Tung Ho Steel Enterprise Corporation and its subsidiaries do not prepare a separate set of combined financial statements.

Company name: Tung Ho Steel Enterprise Corporation
Chairman: Henry Ho
Date: March 26, 2019

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Independent Auditors' Report

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

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Consolidated Company as of December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended, in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), interpretation as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the "Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants" and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Consolidated Company in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

Other Matter

The Company has prepared its parent-company-only financial statements as of and for the years ended December 31, 2018 and 2017, on which we have issued an unmodified opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements as of and for the year ended December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The key audit matters for the consoldiated financial statements as of and for the year ended Decemeber 31, 2018 are stated as follows:

1. Revenue recognition

   Please refer to Note 4(q) "Revenue recognition" and Note 6(w) "Revenue from contracts with customers" in the consolidated financial statements.

Explanation of the key audit matter:

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

Our principal audit procedures included:

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

2. Valuation of inventories

Please refer to Note 4(h) "Inventories" and Note 6(i) "Inventories" in the consolidated financial statements.

Explanation of the key audit matter:

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

Our principal audit procedures included:

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

3. Construction contracts

Please refer to Note 4(q) "Revenue recognition— Construction contracts", Note 5(a)(b) "Significant accounting assumptions and judgments, and major sources of estimation uncertainty", and Note 6(w) "Revenue from contracts with customers"of the consolidated financial statements.

Explanation of the key audit matter:

Contract accounting is considered to be an audit risk to the Consolidated Company as it requires a high degree of estimation and judgment of matters, such as the costs of the work required to complete the contract, the stage of completion of the contract, as well as the recognition of onerous contract. Different judgments could lead to different outcomes, leading to different profit or loss and revenue being reported in the consolidated financial statements.

Our principal audit procedures included:

- reviewing significant contracts and discussing them with the management to obtain a full understanding of specific terms and risks, to assess whether revenue was appropriately recognized;
- selecting a sample from the ongoing constructions to verify the costs between the estimation and the contracts, discussing with the management about the estimates for total contract costs and forecasted costs, including taking into account the historical accuracy of such estimates;
- selecting a sample from the completed constructions to assess settlement of revenue by examination of external evidence;
- obtaining the estimated warranty costs, vouching internal and external data to assess the rationality of the estimates and whether there are any abnormalities in the provisions estimated by the management;
- assessing whether the loss recognized for onerous contracts appropriately reflect the expected contractual position.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Consolidated Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit.

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

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

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

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

KPMG

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

Notes to Readers

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

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

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	Assets	December 31, 2018 Amount	%	December 31, 2017 Amount	%
	Current assets:				
1100	Cash and cash equivalents (Note 6(a))	$ 1,097,976	2	1,020,460	2
1110	Current financial assets at fair value through profit or loss (Note 6(b))	134,560	-	186,360	1
1140	Current contract assets (Note 6(w))	1,603,030	3	-	-
1150	Notes receivable, net (Notes 6(f) and 7)	328,262	1	236,978	1
1170	Accounts receivable, net (including related parties) (Notes 6(f) and 7)	3,031,813	6	3,277,878	8
1190	Construction contracts receivable (Note 6(h))	-	-	1,087,887	2
1200	Other receivables, net (Notes 6(g) and 7)	79,853	-	185,739	1
1310	Inventories, net (Note 6(i))	15,453,079	32	8,175,732	19
1410	Prepayments	432,024	1	354,148	1
1470	Other current assets (Note 8)	808,355	2	310,171	1
	Total current assets	22,968,952	47	14,835,353	36
	Non-current assets:				
1517	Non-current financial assets at fair value through other comprehensive income (Note 6(c))	566,823	1	-	-
1523	Non-current available-for-sale financial assets, net (Note 6(d))	-	-	1,364,071	3
1543	Non-current financial assets at cost, net (Note 6(e))	-	-	218,711	1
1550	Investments accounted for using the equity method, net (Note 6(j))	1,465,204	3	1,381,834	3
1600	Property, plant and equipment (Notes 6(k) and 8)	20,694,943	43	20,582,554	50
1760	Investment property, net (Notes 6(k) and (l) and 7)	1,870,098	4	1,884,349	4
1780	Intangible assets	186,738	-	190,187	1
1840	Deferred tax assets (Note 6(t))	154,732	-	134,985	-
1900	Other non-current assets (Note 8)	316,027	1	293,083	1
1911	Natural resources (Note 6(z))	39,671	-	62,662	-
1915	Prepayments for equipment	95,236	-	145,173	-
1920	Refundable deposits (Note 8)	200,069	1	204,430	1
	Total non-current assets	25,589,541	53	26,462,039	64
	Total assets	$ 48,558,493	100	41,297,392	100

	Liabilities and equity	December 31, 2018 Amount	%	December 31, 2017 Amount	%
	Current liabilities:				
2100	Short-term loans (Note 6(m))	$ 11,752,724	24	8,294,012	20
2110	Short-term notes and bills payable (Note 6(n))	1,499,369	3	604,095	1
2120	Current financial liabilities at fair value through profit or loss (Note 6(b))	1,745	-	5,875	-
2130	Current contract liabilities (Note 6(w))	483,278	1	-	-
2150	Notes payable(including related parties) (Note 7)	172,020	-	108,197	-
2170	Accounts payable (including related parties) (Note 7)	1,999,344	4	1,864,857	5
2190	Construction contracts payable (Note 6(h))	-	-	437,188	1
2200	Other payables(including related parties) (Notes 6(r) and 7)	1,307,761	3	1,343,829	3
2230	Current tax liabilities	200,510	1	192,573	1
2250	Current provisions	64,118	-	113,822	-
2310	Advance receipts	-	-	301,389	1
2322	Long-term loans, current portion (Note 6(o))	7,143	-	-	-
2399	Other current liabilities, others	1,713	-	2,231	-
	Total current liabilities	17,489,725	36	13,268,068	32
	Non-current liabilities:				
2500	Non-current financial liabilities at fair value through profit or loss (Notes 6(b))	31,200	-	-	-
2530	Bonds payable (Note 6(p))	1,915,729	4	-	-
2540	Long-term loans (Note 6(o))	4,076,466	9	3,000,000	7
2550	Non-current provisions	-	-	2,915	-
2570	Deferred tax liabilities (Note 6(t))	174,488	-	170,171	1
2640	Non-current defined benefit liability, net (Note 6(s))	846,223	2	797,919	2
2645	Guarantee deposits received (Note 7)	13,898	-	25,288	-
	Total non-current liabilities	7,058,004	15	3,996,293	10
	Total liabilities	24,547,729	51	17,264,361	42
	Equity (Notes 6(u)):				
3100	Capital stock	10,040,606	20	10,040,606	25
3200	Capital surplus	6,592,236	14	6,320,178	16
	Retained earnings:				
3310	Legal reserve	3,530,282	7	3,358,789	8
3320	Special reserve	149,309	-	149,309	-
3350	Unappropriated retained earnings	4,237,676	9	3,891,371	9
	Total retained earnings	7,917,267	16	7,399,469	17
3400	Other equity interest	(647,024)	(1)	192,188	-
	Total equity attributable to owners of the parent	23,903,085	49	23,952,441	58
36XX	Non-controlling interests	107,679	-	80,590	-
	Total equity	24,010,764	49	24,033,031	58
	Total liabilities and equity	$ 48,558,493	100	41,297,392	100

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, 2018 and 2017

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

		2018 Amount	2018 %	2017 Amount	2017 %
4000	**Operating revenue (Notes 6(w)(x) and 7)**	$39,769,621	100	31,749,271	100
5000	**Operating costs (Notes 6(h)(i)(s)(y) and 7)**	36,444,939	92	27,947,410	88
5900	**Gross profit from operations**	3,324,682	8	3,801,861	12
6000	**Operating expenses:**				
6100	Selling expenses (Notes 6(s)(y) and 7)	1,002,718	3	711,604	2
6200	Administrative expenses (Notes 6(s)(y) and 7)	1,006,750	2	1,248,267	4
6450	Expected credit loss (Notes 6(f))	39,861	-	-	-
6500	**Total operating expenses**	2,049,329	5	1,959,871	6
6900	**Operating income**	1,275,353	3	1,841,990	6
7000	**Non-operating income and expenses:**				
7010	Other income (Notes 6(z) and 7)	114,165	-	106,278	-
7020	Other gains and losses, net (Notes 6(z) and 7)	31,456	-	(26,457)	-
7050	Finance costs, net (Note 6(z))	(224,550)	-	(98,636)	-
7060	Share of profit of associates accounted for using the equity method, net (Note 6(j))	58,679	-	175,908	-
	Total non-operating income and expenses	(20,250)	-	157,093	-
7900	**Income before income tax**	1,255,103	3	1,999,083	6
7950	Less: Income tax expense (Note 6(t))	(366,164)	(1)	(298,349)	(1)
	Net income	888,939	2	1,700,734	5
8300	**Other comprehensive income:**				
8310	**Items that will not be reclassified to profit or loss**				
8311	Remeasurements of defined benefit plans	(71,970)	-	(63,359)	-
8316	Unrealized losses from investments in equity instruments measured at fair value through other comprehensive income	14,626	-	-	-
8320	Share of other comprehensive income of associates and joint ventures accounted for using equity method, items that will not be reclassified to profit or loss	(3,619)	-	197	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	21,919	-	10,771	-
	Total items that will not be reclassified to profit or loss	(39,044)	-	(52,391)	-
8360	**Items that may be reclassified subsequently to profit or loss**				
8361	Exchange differences on translation of foreign financial statements	(74,516)	-	(379,477)	(1)
8362	Unrealized gains on valuation of available-for-sale financial assets	-	-	358,587	1
8363	Gains (losses) on effective portion of cash flow hedges	-	-	17,385	-
8370	Share of other comprehensive income (loss) of associates accounted for using the equity method be reclassified subsequently to profit or loss (Note 6(j))	(2,125)	-	1,725	-
8399	Income tax related to components of other comprehensive income that may be reclassified to profit or loss	-	-	-	-
	Total items of other comprehensive income that may be reclassified subsequently to profit or loss	(76,641)	-	(1,780)	-
8300	**Other comprehensive income for the period**	(115,685)	-	(54,171)	-
8500	**Total comprehensive income for the period**	$ 773,254	2	1,646,563	5
8600	**Net income attributable to:**				
8610	Owners of the parent	$ 887,932	2	1,714,931	5
8620	Non-controlling interests	1,007	-	(14,197)	-
		$ 888,939	2	1,700,734	5
8700	**Comprehensive income attributable to:**				
8710	Owners of the parent	$ 762,869	2	1,656,764	5
8720	Non-controlling interests	10,385	-	(10,201)	-
		$ 773,254	2	1,646,563	5
9750	**Basic earnings per share (in dollars) (Note 6(v))**	$ 0.88		1.72	
9850	**Diluted earnings per share (in dollars) (Note 6(v))**	$ 0.87		1.71	

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, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent															
	Capital stock				Retained earnings				Total other equity interest							
	Ordinary shares	Certificate of entitlement to new shares from convertible bond	Total stock capital	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Total retained earnings	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	Unrealized gains (losses) on available-for-sale financial assets	Gains (losses) on effective portion of cash flow hedges	Total other equity interest	Total equity attributable to owners of the parent	Non-controlling interests	Total equity
Balance as of January 1, 2017	$ 9,982,215	-	9,982,215	6,247,267	3,210,321	149,309	3,674,987	7,034,617	(197,581)	-	412,930	(17,385)	197,964	23,462,063	90,791	23,552,854
Net income for the period	-	-	-	-	-	-	1,714,931	1,714,931	-	-	-	-	-	1,714,931	(14,197)	1,700,734
Other comprehensive income for the period	-	-	-	-	-	-	(52,391)	(52,391)	(383,473)	-	360,312	17,385	(5,776)	(58,167)	3,996	(54,171)
Total comprehensive income for the period	-	-	-	-	-	-	1,662,540	1,662,540	(383,473)	-	360,312	17,385	(5,776)	1,656,764	(10,201)	1,646,563
Appropriation and distribution of retained earnings:																
Legal reserve appropriated	-	-	-	-	148,468	-	(148,468)	-	-	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	-	-	(1,297,688)	(1,297,688)	-	-	-	-	-	(1,297,688)	-	(1,297,688)
Conversion of convertible bonds	20,026	38,365	58,391	72,911	-	-	-	-	-	-	-	-	-	131,302	-	131,302
Balance at December 31, 2017	10,002,241	38,365	10,040,606	6,320,178	3,358,789	149,309	3,891,371	7,399,469	(581,054)	-	773,242	-	192,188	23,952,441	80,590	24,033,031
Effects of retrospective application	-	-	-	-	-	-	655,429	655,429	-	101,745	(773,242)	-	(671,497)	(16,068)	5,836	(10,232)
Equity as of January 1, 2018 after adjustments	10,002,241	38,365	10,040,606	6,320,178	3,358,789	149,309	4,546,800	8,054,898	(581,054)	101,745	-	-	(479,309)	23,936,373	86,426	24,022,799
Net income for the period	-	-	-	-	-	-	887,932	887,932	-	-	-	-	-	887,932	1,007	888,939
Other comprehensive income for the period	-	-	-	-	-	-	(50,942)	(50,942)	(83,894)	9,773	-	-	(74,121)	(125,063)	9,378	(115,685)
Total comprehensive income for the period	-	-	-	-	-	-	836,990	836,990	(83,894)	9,773	-	-	(74,121)	762,869	10,385	773,254
Appropriation and distribution of retained earnings:																
Legal reserve appropriated	-	-	-	-	171,493	-	(171,493)	-	-	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	-	-	(1,405,685)	(1,405,685)	-	-	-	-	-	(1,405,685)	-	(1,405,685)
Other changes in capital surplus:																
Due to recognition of equity component of convertible bonds issued	-	-	-	81,973	-	-	-	-	-	-	-	-	-	81,973	-	81,973
Changes in equity of associates accounted for using the equity method	-	-	-	190,085	-	-	-	-	-	-	-	-	-	190,085	-	190,085
Conversion of convertible bonds	38,365	(38,365)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	10,868	10,868
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	-	-	431,064	431,064	-	(93,594)	-	-	(93,594)	337,470	-	337,470
Balance as of December 31, 2018	$ 10,040,606	-	10,040,606	6,592,236	3,530,282	149,309	4,237,676	7,917,267	(664,948)	17,924	-	-	(647,024)	23,903,085	107,679	24,010,764

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, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	2018	2017
Cash flows from (used in) operating activities:		
Income before income tax	$ 1,255,103	1,999,083
Adjustments:		
Adjustments to reconcile profit or loss:		
Depreciation expense	1,307,037	1,162,811
Amortization expense	77,763	63,220
Expected credit loss	39,861	846
Net loss on financial assets or liabilities at fair value through profit or loss	64,386	-
Interest expense	224,550	98,636
Interest income	(6,078)	(8,518)
Dividend income	(59,935)	(51,808)
Share of profit of associates accounted for using the equity method	(58,679)	(175,908)
(Gain) Loss from disposal of property, plant and equipment	(979)	40,803
Property, plant and equipment transferred to expenses	447	12,469
Gain on disposal of investment properties	(3,133)	-
Gain from disposal of investments	-	(2,491)
Reversal of impairment loss on financial assets	-	(999)
Impairment loss on non-financial assets	20,811	14,694
Unrealized foreign exchange (gain) loss	(19,809)	8,450
Disposed property, plant and equipment reclassified to inventory	-	10
Total adjustments to reconcile profit or loss	1,586,242	1,162,215
Changes in operating assets and liabilities:		
Decrease in financial assets held for trading	-	439
Increase in contract assets	(515,143)	-
(Increase) decrease in notes receivable	(91,284)	240,135
Decrease (increase) in accounts receivable	206,589	(1,264,009)
Increase in construction contracts receivable	-	(90,392)
Decrease (increase) in other receivable	102,117	(90,707)
Increase in inventories	(6,801,912)	(1,849,987)
Increase in prepayments	(77,576)	(127,520)
Increase in other current assets	(461,700)	(238,511)
Increase in other operating assets	(37,275)	-
Increase in financial liabilities held for trading	-	5,875
Decrease in contract liabilities	(255,299)	-
Increase in notes payable	63,823	13,033
Increase in accounts payable	134,487	305,589
Increase in construction contracts payable	-	139,558
Decrease in other payables	(118,090)	(272,893)
Increase in receipts in advance	-	26,421
Decrease in other current liabilities	(518)	(1,223)
(Decrease) increase in net defined benefit liability	(24,040)	2,582
(Decrease) increase in provisions	(52,619)	82,863
Total adjustments	(6,342,198)	(1,956,532)
Cash (outflow) inflow from operations	(5,087,095)	42,551
Interest received	5,615	10,172
Dividends received	197,060	137,340
Interest paid	(207,205)	(93,831)
Income taxes paid	(347,378)	(224,768)
Net cash flows used in operating activities	(5,439,003)	(128,536)
Cash flows from (used in) investing activities:		
Acquisition of financial assets at fair value through other comprehensive income	(3,628)	-
Proceeds from disposal of financial assets at fair value through other comprehensive income	1,358,531	-
Proceeds from capital reduction of financial assets at fair value through other comprehensive income	2,075	-
Acquisition of financial assets at cost	-	(3,996)
Proceeds from disposal of financial assets at cost	-	4,743
Proceeds from capital reduction of financial assets at cost	-	2,917
Increase in restricted assets	(36,484)	(1,896)
Acquisition of property, plant and equipment	(1,705,982)	(3,491,881)
Proceeds from disposal of property, plant and equipment	8,345	5,582
Decrease (increase) in refundable deposits	4,361	(27,868)
(Increase) decrease in other receivables	-	16,125
Increase in computer software and unamortized expense	-	(6,441)
Acquisition of investment properties	(26,948)	(136,065)
Proceeds from disposal of investment properties	40,788	-
Increase in prepayments for equipment and land	(62,882)	(111,944)
Net cash flows used in investing activities	(421,824)	(3,750,724)
Cash flows from (used in) financing activities:		
Increase in short-term loans	61,414,940	41,214,164
Decrease in short-term loans	(57,973,533)	(35,217,427)
Increase in short-term notes and bills payable	12,730,000	3,575,000
Decrease in short-term notes and bills payable	(11,835,000)	(3,426,758)
Repayments of bonds	-	(1,100)
Proceeds from issuing bonds	2,000,000	-
Proceeds from long-term loans	3,427,413	200,000
Repayments of long-term loans	(2,353,571)	(700,000)
(Decrease) increase in guarantee deposits received	(11,390)	1,172
Cash dividends paid	(1,405,685)	(1,297,688)
Change in non-controlling interests	20,246	3,996
Net cash flows from financing activities	6,013,420	4,351,359
Effect of exchange rate changes on cash and cash equivalents	(75,077)	(1,540,113)
Net increase (decrease) in cash and cash equivalents	77,516	(1,068,014)
Cash and cash equivalents at beginning of period	1,020,460	2,088,474
Cash and cash equivalents at end of period	$ 1,097,976	1,020,460

See accompanying notes to consolidated financial statements.

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TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

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

(1) Company history

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

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

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

(3) New standards, amendments and interpretations adopted

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

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

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

(Continued)

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

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

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

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

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

1) Sales of goods

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

2) Rendering of services

The Consolidated Company is engaged in the collection and disposal services of electric arc furnace dusts (EAF dusts). The revenue is recognized when the services are completed. Under IAS 18, if the services under a single arrangement are rendered in different reporting periods, then the consideration is allocated on a relative fair value basis between the different services. Under IFRS 15, the total consideration in the service contracts will be allocated to all services based on their stand-alone selling prices. The Consolidated Company does not expect significant differences in the timing of revenue recognition for these services.

3) Construction contracts

Under IAS 18, contract revenue included the initial amount agreed in the contract, plus, any variations in contract work, claims and incentive payments, to the extent that it was probable that they would result in revenue and could be measured reliably. When a claim or variation was recognized, the contract completion or contract price would be revised and the cumulative contract position would be reassessed at each reporting date. Under IFRS 15, claims and variations are accounted for when they are approved.

(Continued)

4) Impacts on financial statements

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

Impacted line items on the consolidated balance sheet	December 31, 2018 Balances prior to the adoption of IFRS 15	December 31, 2018 Impact of changes in accounting policies	December 31, 2018 Balance upon adoption of IFRS 15	January 1, 2018 Balances prior to the adoption of IFRS 15	January 1, 2018 Impact of changes in accounting policies	January 1, 2018 Balance upon adoption of IFRS 15
Construction contracts receivable	$ 1,603,030	(1,603,030)	-	1,087,887	(1,087,887)	-
Current contract assets	-	1,603,030	1,603,030	-	1,087,887	1,087,887
Impact on assets		$ -			-	
Construction contracts payable	$ 153,017	(153,017)	-	437,188	(437,188)	-
Advance receipts	330,261	(330,261)	-	301,389	(301,389)	-
Current contract liabilities	-	483,278	483,278	-	738,577	738,577
Impact on liabilities		$ -			-	

Impacted line items on the consolidated statement of cash flows	For the year ended December 31, 2018 Amounts prior to the adoption of IFRS 15	Impact of changes in accounting polices	Amounts with the adoption of IFRS 15
Cash flows from (used in) operating activities:			
Adjustments:			
Increase in contract assets	$ -	(515,143)	(515,143)
(Increase) decrease in construction contracts receivable	(515,143)	515,143	-
Decrease in contract liabilities	-	(255,299)	(255,299)
Increase (decrease) in construction contracts payable	(284,171)	284,171	-
Increase (decrease) in advance receipts	28,872	(28,872)	-
Impact on cash flows from operations		-	
Impact on net cash flows from operating activities		$ -	

(ii) IFRS 9 "Financial Instruments"

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

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

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

1) Classification of financial assets and financial liabilities

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

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

2) Impairment of financial assets

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

3) Transition

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

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

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

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

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

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

TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

	IAS 39		IFRS 9	
	Measurement categories	Carrying Amount	Measurement categories	Carrying Amount
Financial assets				
Cash and equivalents	Loans and receivables	1,020,460	Amortized cost	1,020,460
Equity instruments	Held-for-trading	186,360	Mandatorily at FVTPL	186,360
Equity instruments	Available-for-sale (note 1)	1,582,782	FVOCI	1,572,550
Trade and other receivables	Loans and receivables (note 2)	3,700,595	Amortized cost	3,700,595
Other financial assets (including guarantee deposits)	Loans and receivables	209,210	Amortized cost	209,210

Note 1: These equity securities (including financial assets measured at cost) represent investments that the Consolidated Company intends to hold for the long term for strategic purposes. As permitted by IFRS 9, the Consolidated Company has designated these investments at the date of initial application as measured at FVOCI. Accordingly, a decrease of $10,232 thousand in those assets was recognized, and an increase of $655,429 thousand in the retained earnings, as well as a decrease of $671,497 thousand and an increase of $5,836 thousand in other equity and non-controlling interests were recognized on January 1, 2018.

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

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

	2017.12.31 IAS 39 Carrying Amount	Reclassifications	Remeasurements	2018.1.1 IFRS 9 Carrying Amount	2018.1.1 Retained earnings	2018.1.1 Other equity	2018.1.1 Non-controlling interests
Beginning balance of available-for-sale (including measured at cost) under IAS 39	$ 1,582,782	(1,582,782)	-		-	-	-
Reclassification from available-for-sale to FVOCI	-	1,582,782	(10,232)		655,429	(671,497)	5,836
Total	$ 1,582,782	-	(10,232)	1,572,550	655,429	(671,497)	5,836

(Continued)

(iii) Amendments to IAS 7 "Disclosure Initiative"

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

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

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

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

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

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

(i) IFRS 16 "Leases"

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

IFRS 16 introduces a single and an on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. In addition, the nature of expenses related to those leases will now be changed since IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. There are recognition exemptions for short-term leases and leases of low-value items. The lessor accounting remains similar to the current standard – i.e. the lessors will continue to classify leases as finance or operating leases.

(Continued)

1) Determining whether an arrangement contains a lease

On transition to IFRS 16, the Consolidated Company can choose to apply either of the following:

- apply the IFRS 16 definition of a lease to all its contracts; or
- apply a practical expedient and not reassess whether a contract is, or contains, a lease.

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

2) Transition

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

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

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

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

- apply a single discount rate to a portfolio of leases with similar characteristics.
- adjust the right-of-use assets, based on the amount reflected in IAS 37 onerous contract provision, immediately before the date of initial application, as an alternative to an impairment review.
- apply the exemption not to recognize the right-of-use assets and liabilities to leases with lease term that ends within 12 months of the date of initial application.
- exclude the initial direct costs from measuring the right-of-use assets at the date of initial application.
- use hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

3) So far, the most significant impact identified is that the Consolidated Company will have to recognize the new assets and liabilities for the operating leases of its offices, warehouses, and factory facilities. The Consolidated Company estimated that the right-of-use assets and the lease liabilities to both increase by $209,194 thousand respectively, as well as the retained earnings to decrease by $0 thousand on January 1, 2019. No significant impact is expected for the Consolidated Company's finance leases. Besides, The Consolidated Company does not expect the adoption of IFRS 16 to have any impact on its ability to comply with the revised maximum leverage threshold loan covenant. Also, the Consolidated Company is not required to make any adjustments for leases where the Consolidated Company is the intermediate lessor in a sub-lease.

(ii) IFRIC 23 Uncertainty over Income Tax Treatments

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

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

So far, the Consolidated Company does not expect above change will impact deferred tax liabilities and retained earnings as of January 1, 2019.

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

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

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

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

(4) Summary of significant accounting policies

(a) Statement of compliance

The accompanying consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as the Regulations) and the International Financial Reporting Standards, International Accounting Standards, and IFRIC Interpretations and SIC Interpretations as endorsed by the Financial Supervisory Commissions of the Republic of China (hereinafter referred to IFRSs as endorsed by the FSC).

(b) Basis of preparation

(i) Basis of measurement

The consolidated financial statements have been prepared on historical cost basis, except for the following material items in the consolidated balance sheet.

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

2) Financial assets measured at fair value through OCI (available-for-sale financial assets) measured at fair value;

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

(ii) Functional and presentation currency

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

(c) Basis of consolidation

(i) Principle of preparing consolidated financial statements

The Consolidated Company comprise of the Company and the entities over which it possessed control (its subsidiaries). When the Company is exposed to variable rewards and the right to such rewards of an entity, the Company possesses control over such entities.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Balances, transactions, and any unrealized income and expenses arising from intra-group transactions are eliminated in the preparation of the consolidated financial statements. Attributable comprehensive income to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

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The financial statements of the subsidiaries have been adjusted so that they align with the accounting policies of the Consolidated Company.

Changes in the Consolidated Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Adjustments or differences between purchase consideration and fair value of non-controlling interest are recognized as equity attributable to the owners of the Company.

(ii) A list of subsidiaries included in the consolidated financial statements is as follows:

Investor	The name of subsidiaries	Business activity	Percentage of ownership		Note
			December 31, 2018	December 31, 2017	
The Company	Tung Yuan International Corp.	Investment activities	100.00 %	100.00 %	
The Company	Tung Kang Steel Structure Corp.	Metal structure and manufacture of architectural components	97.48 %	97.48 %	
The Company	Goldham Development Ltd.	Investment activities	100.00 %	100.00 %	
The Company	Katec Creative Resources Corporation	Waste recycling	99.01 %	99.01 %	
The Company	Tung Kang Wind Power Corp.	Electric power generation	100.00 %	100.00 %	
The Company	Fa Da Enterprise Corp.	Waste recycling	100.00 %	100.00 %	
The Company	Tung Ho Steel Vietnam Corp., Ltd. (THSVC)	Steel industry	100.00 %	100.00 %	
Tung Yuan International Corp.	3 Oceans International Inc.	Investment activities	66.67 %	66.67 %	
Tung Yuan International Corp.	Best-Steel Trade Corp. (BST)	Trading	60.00 %	60.00 %	
Tung Kang Steel Structure Corp.	Tung Kang Engineering & Construction Corp.	Civil engineering	100.00 %	100.00 %	
Goldham Development Ltd.	Fujian Tung Kang Steel Co., Ltd.	Manufacture of section steels and steel structures	100.00 %	100.00 %	
Fujian Tung Kang Steel Co., Ltd.	Fujian DongSheng metal processing Co., Ltd.	Metal processing	51.00 %	- %	Note 1

Note 1: Fujian Tung Kang Steel Corp. invested 51% in Fujian Dong Sheng metal processing Corporation which was established in September 2018, and was included into the consolidated financial statement at the same time.

(iii) All of the subsidiaries above were included in consolidation.

(d) Foreign currency

(i) Foreign currency transactions

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

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

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

(ii) Foreign operations

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

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

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

(Continued)

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

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

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

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

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

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

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

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

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

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

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

(f) Cash and cash equivalents

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

(g) Financial instruments

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

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

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

1) Financial assets measured at amortized cost

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

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

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

2) Fair value through other comprehensive income (FVOCI)

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

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

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

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

(Continued)

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

3) Fair value through profit or loss (FVTPL)

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

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent changes that are measured at fair value, which take into account any dividend and interest income, are recognized in profit or loss. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade date accounting.

4) Impairment of financial assets

The Consolidated Company recognizes loss allowances for expected credit losses on financial assets measured at amortized cost (including cash and cash equivalents, financial assets measured at amortized costs, notes and accounts receivable, other receivables, guarantee deposit), debt investments measured at FVOCI, accounts receivable and contract assets.

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

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

Loss allowance for accounts receivable and contract assets are measured at an amount equal to lifetime ECL.

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

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

(Continued)

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

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

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

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

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

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

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- it is probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

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

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

5) Derecognition of financial assets

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

(ii) Financial assets (applicable before January 1, 2018)

Financial assets are categorized into financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets.

1) Financial assets at fair value through profit or loss

Financial assets classified under this category are mainly financial assets held for trading, or designated as at fair value through profit or loss upon initial recognition.

Financial assets are classified as held for trading if they are acquired principally for the purpose of selling in the short term. Financial assets, other than those classified as held for trading, are designated as at fair value through profit or loss upon initial recognition under one of the following situations:

a) Designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on a different basis;

b) Performance of the financial asset is evaluated on a fair value basis;

c) A hybrid instrument contains one or more embedded derivatives.

Upon initial recognition, financial assets in this category are measured at fair value. Attributable transaction costs are recognized through profit or loss as incurred. Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value and changes therein, which take into account any dividend and interest income, are recognized in profit or loss under non-operating income and expenses. Trade-date accounting is applied for purchases and sales of financial assets in the ordinary course of business.

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If such financial instrument is an equity instrument which lacks active market and whose fair value cannot be reliably estimated, it is measured at cost less impairment and recognized as financial assets measured at cost.

2) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other categories of financial assets. Available-for-sale financial assets are recognized initially at fair value, plus any directly attributable transaction cost. Subsequent to initial recognition, and except for impairment losses, effective interest income, dividend income, and foreign currency gain or loss on monetary assets, which are recognized through profit or loss, available-for-sale financial assets are measured at fair value in other comprehensive income and presented under fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss, and is recognized as gain or loss on disposal of investments under non-operating income and expenses. For regular practices of purchases and sales of financial assets in the ordinary course of business, trade date accounting should be applied.

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, are measured at cost less impairment loss, and are included in financial assets measured at cost.

Dividend income is recognized on the date that the Consolidated Company' s right to receive payment is established, which is normally the ex-dividend date. Such dividend income is recognized as other income under non-operating income and expenses.

Interest income from investment in debt securities is recognized as other income.

3) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market which comprise accounts receivable and other receivables. Such assets are recognized initially at fair value, plus any directly attributable transaction costs. Subsequent to initial recognition, receivables are measured at amortized cost using the effective interest method, less any impairment losses, except for short-term receivables in which the effect of discounting is immaterial. For regular practices of purchase and sale of financial assets, trade-date accounting should be applied.

Interest income from receivables is recognized in profit or loss, under other income under non-operating income and expenses.

4) Impairment of financial assets

Except for financial assets at fair value through profit or loss, a financial asset is assessed for impairment at reporting date. A financial asset is impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a loss event) that occurred subsequent to the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial assets which can be estimated reliably.

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Objective evidence that financial assets are impaired includes delinquency or default (such as unpaid or delayed payment of interest or principal) by a debtor, indications that a debtor will enter bankruptcy, financial adversity that results in the disappearance of an active market for a security. In addition, for an available-for-sale investment in an equity security, a significant or prolonged decline in its fair value below its cost is accounted for as objective evidence of impairment.

After individual accounts receivable are assessed as not impaired, accounts receivable are collectively assessed for impairment. Objective evidence that receivables are impaired includes historical experiences of collection, increasing level of overdue receivables which are collected beyond the credit term, and regional or global changes in the economies related to the delay in payments of receivables.

An impairment loss in respect of a financial asset measured at amortized cost is determined based on the excess of its carrying amount over the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

An impairment loss of a financial asset measured at cost is determined based on the excess of its carrying amount over the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversible in subsequent periods.

An impairment loss in respect of a financial asset is written off directly against its carrying amount, except for accounts receivable, in which an impairment loss is credited to an allowance account against the receivables. When a receivable is determined to be uncollectible, it is written off from the allowance account. Any subsequent recovery of receivable written off is charged to the allowance account. Changes in the amount of the allowance accounts are recognized in profit or loss.

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the other equity interest in equity to profit or loss.

If, in subsequent periods, the amount of the impairment loss of a financial assets measured at amortized cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost before impairment was recognized at the reversal date.

Impairment losses originally recognized through profit or loss on available-for-sale equity security cannot be reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income, and accumulated in other equity interest. If the amount of recovery in impairment can be objectively associated to events that occur after the impairment loss is recognized through profit or loss, such recovery can be recognized through profit or loss.

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Impairment losses on receivables are recognized as selling expenses. Recoveries of impairment loss are recognized as other gains and losses under non-operating income and expenses. Impairment losses and recoveries of financial assets other than receivables are recognized in other gains and losses under non-operating income and expenses.

5) Derecognition of financial assets

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

On de-recognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for de-recognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognized and the part that is derecognized, based on the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received for the part derecognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income are recognized in profit or loss as other gains and losses under non-operating income and expenses. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is derecognized, based on the relative fair values of those parts.

(iii) Financial liabilities and equity instruments

1) Classification of debt or equity

Debt or equity instruments issued by the Consolidated Company are classified as financial liabilities or equity in accordance with the substance of the contractual agreement.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Consolidated Company are recognized based on the proceeds received, net of direct issue costs.

Compound financial instruments issued by the Consolidated Company comprise convertible bonds that can be converted to shares of capital at the option of the holder. The number of shares to be issued does not vary with its fair value.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

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Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

Interests, gains and losses related to financial liabilities are recognized in profit or loss as finance costs under non-operating income and expenses.

Financial liabilities are reclassified to equity on conversion, on which no gains or losses are recognized.

2) Financial liabilities at fair value through profit or loss

Financial liabilities classified under this category are mainly financial liabilities held for trading, or designated as at fair value through profit or loss upon initial recognition.

Financial liabilities are classified as held for trading if they are acquired principally for the purpose of selling in the short term. Financial liabilities, other than those held for trading, are designated as at fair value through profit or loss at initial recognition under one of the following situations:

a) Designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on a different basis;

b) Performance of the financial liabilities is evaluated on a fair value basis;

c) A hybrid instrument contains one or more embedded derivatives.

At initial recognition, financial liabilities in this category are measured at fair value. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value and changes therein, which take into account any interest expense, are recognized as other gains and losses under non-operating income and expenses.

Financial liabilities at fair value through profit or loss are measured at cost when the obligations are to deliver equity investments that do not have a quoted price borrowed by a short seller and are recognized as financial liabilities measured at cost.

3) Other financial liabilities

Except for those held for trading or designated as at fair value through profit or loss, financial liabilities, including short-term and long-term loans, accounts payable or other payables, are measured at fair value, plus any directly attributable transaction cost at the time of initial recognition. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method. Interest expense not capitalized is recognized as finance cost under other non-operating income or expenses.

4) Derecognition of financial liabilities

A financial liability is derecognized when the contractual obligation thereon has been discharged or cancelled or has expires.

The difference between the carrying amount of a financial liability derecognized and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss as other gains and losses under non-operating income and expenses.

5) Offsetting of financial assets and liabilities

Financial assets and liabilities are presented on a net basis only when the Consolidated Company has the legal enforceable rights to offset, and the intention to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

(iv) Derivative financial instruments

The Consolidated Company holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Derivatives are initially measured at fair value. Any attributable transaction costs thereof are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss and are included in the line item of non-operating income and expenses in the statement of comprehensive income. When a derivative is designated as, and effective for, a hedging instrument, its timing of recognition in profit or loss is determined based on the nature of the hedging relationship. When the fair value of a derivative instrument is positive, it is classified as a financial asset, whereas when the fair value is negative, it is classified as a financial liability.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the non-financial asset's host contract are not closely related to the embedded derivatives and the host contract is not measured at FVTPL.

(h) Inventories

The cost of inventories shall comprise all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to the location and condition ready for sale or production. The allocation of fixed production overheads to the finished goods and work in process is based on the normal capacity of the production facilities. However, in the case where the practical capacity is larger than the normal capacity, the allocation is based on the practical capacity. Variable production overheads are allocated to each unit of production on the basis of the actual use of the production facilities. Inventories are subsequently measured at the lower of cost or net realizable value. The cost of inventories is based on the monthly weighted-average cost. Net realizable value is the estimated as the selling price in the ordinary course of business at the reporting date, less the estimated costs until completion and selling expenses. If the inventory is reserved for a contract, its net realizable value shall be based on the price of the contract.

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(i) Construction contracts (applicable before January 1, 2018)

Construction contracts represent the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognized to date (see Note 6(h)) less progress billings and recognized losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Consolidated Company's contract activities based on normal operating capacity.

Construction contracts in progress is presented as the amount due from customers for contract work in the statements of financial position for all contracts with costs incurred plus recognized profits exceeding their progress billings. If progress billings exceed costs incurred plus recognized profits, the difference is presented as amount due to customers for contract work in the statement of financial position.

(j) Investment in associates

Associates are those entities in which the Consolidated Company has significant influence, but not control, over the financial and operating policies.

Investments in associates are accounted for using the equity method and are recognized initially at cost, which includes transaction costs. The carrying amount of the investment in associates includes goodwill resulted from the acquisition less any accumulated impairment losses.

The consolidated financial statements included the Consolidated Company's share of the profit or loss and other comprehensive income of investments accounted for under the equity method, after adjustments to align the accounting policies with those of the Consolidated Company, from the date that significant influence commences until the date that significant influence ceases. When changes in items other than profit or loss and other comprehensive income that do not affect the Company's shareholding percentage occur, the Company recognizes its share of changes in equity of the associate under capital surplus.

Unrealized profits resulting from the transactions between the Consolidated Company and an associate are eliminated to the extent of the Consolidated Company's interest in the associate. Unrealized losses on transactions with associates are eliminated in the same way, except to the extent that the underlying asset is impaired.

When the Consolidated Company's share of losses exceeds or equals its share of interest in an associate, the recognition of further losses is discontinued except to the extent that the Consolidated Company has an obligation or has made payments on behalf of the investee.

(k) Investment property

Investment property is the property held either to earn rental income, or for capital appreciation, or for both, but not for sale in the ordinary course of business, for use in the production or supply of goods or services, or for administrative purposes. Investment property is measured at cost upon initial recognition and subsequently at cost less accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of raw materials and direct labor, capitalized borrowing costs, and any other costs directly attributable to bringing the investment property to a working condition for its intended use.

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When the use of an investment property changes such that it is reclassified as property, plant and equipment, its carrying amount at the date of reclassification becomes its cost for subsequent accounting.

(l) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment loss. Cost includes expenditures that is directly attributed to the acquisition of the asset, any cost directly attributable to transporting the asset to the location and condition necessary for it to be utilized by the manner intended by management, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, and any borrowing cost eligible for capitalization. Cost of the property, plant and equipment also include the portion transferred from equity of effective cash flow hedges. Purchased software that is integral to the functionality of the related equipment is capitalized as part of the equipment cost.

When a piece of property, plant and equipment consist of different components, each component that is significant to the total cost with different applicable depreciation methods and useful lives should be regarded as a separate item (significant component).

Gain or loss arising from the disposal of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and is recognized as other gains and losses under non-operating income and expenses.

(ii) Subsequent cost

Subsequent expenditure is capitalized only when it is highly probable that the future economic benefits associated with the expenditure and will flow to the Consolidated Company and can be assessed reliably. The carrying amount of those parts that are replaced is derecognized. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

Depreciation of property, plant and equipment is measured over their estimated useful lives using the straight-line method. Each significant part of a property, plant and equipment is evaluated individually and depreciated separately should it possess a different useful life. The depreciation charged for each period is recognized in profit or loss.

Land has an unlimited useful life and therefore is not depreciated.

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

1) Buildings: 3 to 60 years

2) Machinery and equipment: 2.75 to 25 years

3) Miscellaneous equipment: 3 to 30 years

Depreciation methods, useful lives, and residual values are reviewed at each reporting date. If expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

(m) Leases

(i) Lessor

Lease income from an operating lease is recognized in profit or loss using a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income. Incentives granted to the lessee to enter into the operating lease are spread over the lease term on a straight-line basis so that the lease income received is reduced accordingly.

Contingent rents are recognized as income for the period when the lease adjustments are confirmed.

(ii) Lessee

Leases which the Consolidated Company assumes substantially all of the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the lease asset is measured at an amount equal to the lower of its fair value or the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to the asset.

Other leases are operating leases and are not recognized on the Consolidated Company' s balance sheets.

Payments made under operating lease (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense and spread over the term of the lease.

Minimum lease payments made under finance leases are apportioned between financial cost and reduction of the outstanding liability. The finance cost is allocated to each period during the lease term using a fixed periodic rate of interest on the remaining balance of the liability.

Contingent rent is recognized as expense in the periods in which it is incurred.

(n) Impairment of non-financial assets

The Consolidated Company assesses whether impairment has occurred on its non-financial assets other than inventories, deferred tax assets, and assets arising from employee benefit at every reporting date, and estimate the recoverable amounts of asset with indication of impairment. If the Consolidated Company is not able to estimate the recoverable amounts of individual assets, the Consolidated Company estimates the recoverable amount of the cash generating unit (CGU) to which the asset belongs.

The recoverable amount of an individual assets or a CGU is the higher of its fair value less costs of disposal and its value in use. If the recoverable amount of an asset or a CGU is less than its carrying amount, the carrying amount of the asset or CGU should be reduced to its recoverable amount, and that reduction will be accounted for as an impairment loss, which should be recognized immediately in profit or loss.

The Consolidated Company re-assesses whether indications of impairment exist at every reporting date whether previously recognized impairment no longer exists or decreases. If there are any changes in the determination of recoverable amounts, the Consolidated Company reverses the impairment loss to increase the carrying value of the individual asset or the CGU. However, the carrying value should not exceed the amount less depreciation or amortization had it not been impaired.

(o) Provision

A provision for warranties is recognized based on the estimated expenditures that may incur during the warranty period of the contracted projects. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities. Provisions are reversed when actual expenditures incur. If the expenditures exceed the balance of the provisions, they are recognized as expenses for the period. In accordance with the Consolidated Company's policies that require an obligation to be settled, a provision for site demolition is recognized as expense during the period of demolition.

(p) Treasury stock

Repurchased shares are recognized as treasury stocks, a contra-equity account, based on its repurchase price (including all directly attributable costs). Gain on disposal of treasury stocks should be recognized under capital surplus–treasury stocks transactions. If the proceed from the disposal is less than the carrying amount, the difference should be offset against existing capital surplus arising from similar types of treasury stocks transactions. If capital surplus is insufficient for the offset, the deficiency is charged to retained earnings. The carrying value of treasury stocks is calculated using the weighted-average method for different types of repurchased shares.

If treasury stocks are cancelled, capital surplus– share premiums and ordinary stocks are debited proportionately. If the carrying value is higher than the sum of par value and share premium, the difference is debited to capital surplus arising from similar types of treasury stocks transactions. Loss on cancellation of treasury stocks is offset against existing capital surplus arising from similar types of treasury stocks transactions with insufficient amount debited to retained earnings. If the carrying value is lower than the sum of par value and share premium, the difference is credited to capital surplus.

(q) Revenue recognition

(i) Revenue from contracts with customers (applicable since January 1, 2018)

Revenue is measured based on the consideration to which the Consolidated Company expects to be entitled in exchange for transferring goods or services to a customer. The Consolidated Company recognizes revenue when it satisfies a performance obligation by transferring control of a good or a service to a customer. The accounting policies for the Consolidated Company's main types of revenue are explained below.

1) Sale of goods

The Consolidated Company recognizes revenue when control of the products has transferred, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Consolidated Company has objective evidence that all criteria for acceptance have been satisfied.

2) Construction contracts

The Consolidated Company engages in construction contracts. Because its customer controls the asset as it is constructed, the Consolidated Company recognizes revenue over time on the basis of the construction costs incurred to date as a proportion of the total estimated costs of the contract. The customer pays the fixed amount based on a payment schedule. If the Consolidated Company has recognized revenue, but not issued a bill, then the entitlement to consideration is recognized as a contract asset. The contract asset is transferred to receivables when the entitlement to payment becomes unconditional.

If the Consolidated Company cannot reasonably measure its progress towards the completion of a construction contract, the Consolidated Company shall recognize revenue only to the extent of the costs expected to be recovered.

A provision for onerous contracts is recognized when the Consolidated Company expects the unavoidable costs of performing the obligations under a construction contract exceed the economic benefits expected to be received under the contract.

Estimates of revenues, costs, or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

The Consoldiated Company recognizes provisions for its warranty for the agreed specifications of the construction contracts.

3) Rendering of services

The Consolidated Company is engaged in the collection and disposal services of electric arc furnace dusts (EAF dusts). The revenue is recognized when the services are completed. Under IAS 18, if the services under a single arrangement are rendered in different reporting periods, then the consideration is allocated on a relative fair value basis between the different services. Under IFRS 15, the total consideration in the service contracts will be allocated to all services based on their stand-alone selling prices. The Consolidated Company does not expect significant differences in the timing of revenue recognition for these services.

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4) Financing components

The Consolidated Company does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Consolidated Company does not adjust any of the transaction prices for the time value of money.

(ii) Revenue recognition (applicable before January 1, 2018)

1) Goods sold

Revenue from the sale of goods in the ordinary course of business is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume discounts. Revenue is recognized when persuasive evidence exists, usually in the form of a signed sales agreement, that significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue when the sales are recognized.

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreements. For international shipments, transfers usually occur upon loading the goods onto the relevant carrier at the port. For domestic sales, transfers occur upon delivery to the customers' warehouses.

2) Construction contracts revenue

Contract revenue and contract expense is recognized to the extent that the result of the construction contract is probable and can be measured reliably using the percentage of completion method. Completion progress is assessed using the ratio of the contract costs incurred to date to the estimated total contract costs.

If the result of such construction contract cannot be reliably estimated, the construction contract will be treated differently as follows:

a) It is probable that all the expenses incurred are recoverable. Hence, all contract costs shall be recognized as an expense in the period in which they are incurred; the contract revenue is recognized only to the extent of costs incurred that are expected to be recoverable.

b) It is not probable that all the expenses incurred are recoverable. Hence, contract costs are expensed as incurred.

3) Services revenue

After EAF dusts are shipped to and accepted into the warehouse, the Consolidated Company will issue invoices according to the amount of EAF dusts accepted into warehouse to request payments from suppliers and recognize the payments as advance receipts, which will be recognized as revenue after the completion of EAF dusts process.

4) Rental income

Rental income from investment property is recognized on a straight-line basis over the lease term. Incentives granted for entering into the operating lease are spread over the lease term on a straight-line basis, with lease income received reduced accordingly. Revenue generated from leasing properties is recognized as other income under other non-operating income and expenses.

(r) Contract costs (applicable since January 1, 2018)

(i) Incremental costs of obtaining a contract

The Consolidated Company recognizes as an asset the incremental costs of obtaining a contract with a customer if the Consolidated Company expects to recover those costs. The incremental costs of obtaining a contract are those costs that the Consolidated Company incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained shall be recognized as an expense when incurred, unless those costs are explicitly chargeable to the customer regardless of whether the contract is obtained.

The Consolidated Company applies the practical expedient to recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that the entity otherwise would have recognized is one year or less.

(ii) Costs to fulfil a contract

If the costs incurred in fulfilling a contract with a customer are not within the scope of other standards (for example, IAS 2 "Inventories", IAS 16 "Property, Plant and Equipment" or IAS 38 "Intangible Assets"), the Consolidated Company recognizes an asset from the costs incurred to fulfil a contract only if those costs meet all of the following criteria:

- the costs relate directly to a contract or to an anticipated contract that the Consolidated Company can specifically identify;
- the costs generate or enhance resources of the Consolidated Company that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
- the costs are expected to be recovered.

General and administrative costs, costs of wasted materials, labor or other resources to fulfil the contract that were not reflected in the price of the contract, costs that relate to satisfied performance obligations (or partially satisfied performance obligations), and costs for which the Consolidated Company cannot distinguish whether the costs relate to unsatisfied performance obligations or to satisfied performance obligations (or partially satisfied performance obligations), the Consolidated Company recognizes these costs as expenses when incurred.

(s) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss for the period in which services are rendered by employees.

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Consolidated Company's net obligation in respect of a defined benefit pension plan is calculated separately for each plan by estimating the discounted present value of future benefit that employees have earned in return for their service in the current and prior periods. The fair value of any plan assets is deducted from aforementioned net obligation. The discount rate is the yield on the reporting date of government bonds that have maturity dates approximating the terms of the Consolidated Company' s obligations and are denominated in the same currency in which the benefits are expected to be paid.

An actuarial calculation of pension costs and related liabilities are performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Consolidated Company, an asset is recognized but the recognized asset is limited to the total of the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Consolidated Company. An economic benefit is available to the Consolidated Company if it is realizable during the life of the plan, or on settlement of the plan liabilities.

Remeasurement of the net defined benefit assets (liability), comprising (a) actuarial gains and losses, (b) the return on plan assets, excluding the amounts included in the net interest of the net defined benefit liability (asset); and (c) any change of upper limit of assets, excluding the amounts included in the net interest of the net defined benefit liability (asset), is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected in retained earnings and may not be reclassified to profit or loss.

Gains or losses on the curtailment or settlement of a defined benefit plan are also recognized as pension expenses when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets, change in the present value of defined benefit obligation and any related actuarial gains or losses and past service cost that was not previously recognized.

(iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Consolidated Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(t) Income taxes

Tax expense comprises current tax expense and deferred tax expense. Current and deferred taxes are included in profit or loss for the period, except for tax resulted from a business combination or a transaction or event which is recognized directly in equity or other comprehensive income.

Current tax comprises the amount expected to be paid to (recovered from) the tax authorities, using the tax rates that have been enacted or substantively enacted by the reporting date, and any adjustments for tax payables of prior periods.

Deferred tax is recognized at the amount of temporary differences between the carrying amounts and the corresponding tax bases of the assets and liabilities at the reporting date. The temporary differences under the following circumstances are not recognized as deferred tax assets or liabilities:

(i) the initial recognition of an asset or liability in a transaction which is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit (loss); or

(ii) the investments in subsidiaries, branches and associates, and interests in joint ventures, and it is probable that the temporary difference will not reverse in the foreseeable future; or

(iii) the initial recognition of goodwill.

Deferred tax is measured, at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, and tax laws that have been enacted or substantively enacted by the reporting date.

The Consolidated Company offset deferred tax assets and deferred tax liabilities only if:

(i) the Consolidated Company has the legal right to settle tax assets and tax liabilities on a net basis; and

(ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same tax authority on either:

1) the same taxable entity; or

2) different taxable entities which intent either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously; in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

A deferred tax asset is recognized for the carry-forward of unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profit will be available against such amounts. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and limited to the extent that it is probable that the benefit of part or all of that deferred tax asset will be utilized.

(u) Business combination

The Consolidated Company measures goodwill as the fair value of the consideration transferred on the acquisition date, including the amount of any non-controlling interest of the acquiree , net of the amounts of identifiable assets acquired and liabilities assumed (generally at fair value as of the date of acquisition). If the residual balance is negative, the Consolidated Company shall re-assess whether it has correctly identified all of the assets acquired and liabilities assumed, and recognize a gain on the bargain purchase through profit or loss.

The Consolidated Company selects whether to measure non-controlling interest at fair value as of the date of acquisition or at the amount of identifiable net assets in proportion to the shareholding percentage of the non-controlling interest, based on each of the basis of transaction.

In a business combination achieved in stages, the Consolidated Company shall re-measure its previously-held equity interest in the acquiree at fair value as of the date of acquisition and recognize the resulting gain or loss, if any, in profit or loss. In prior reporting periods, the Consolidated Company may have recognized changes in the value of its equity interest in the acquiree in other comprehensive income. If so, the amount that was recognized in other comprehensive income shall be recognized on the same basis as would be required if the Consolidated Company had disposed directly of the previously held equity interest. If the disposal of the equity interest requires a reclassification to profit or loss, such an amount shall be reclassified to profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Consolidated Company shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the Consolidated Company shall retrospectively adjust the provisional amounts recognized at the acquisition date, or recognize additional assets or liabilities to reflect new information obtained about facts and circumstances that exists as of the date of acquisition. The measurement period shall not exceed one year from the date of acquisition.

All transaction costs incurred for the business combination are recognized immediately as the Consolidated Company' s expenses when incurred, except for the issuance of debt or equity instruments.

(v) Earnings per share

The basic earnings per share is calculated based on the profit attributable to the ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding. The diluted earnings per share is calculated based on the profit attributable to ordinary shareholders of the Company, divided by the weighted average number of ordinary shares outstanding after adjustments for the effects of all potentially dilutive ordinary shares, including convertible bonds and employee stock options.

(w) Natural resource

Natural resource is the mining right acquired for a specific area and the necessary cost incurred to acquire the mining right, including developing costs. It is measured at costs less accumulated amortization and accumulated impairment. Natural resource is amortized after the mining license is acquired by production life (20 years) using the straight-line method, with the amortized amount recognized through profit or loss.

Salvage value, amortization period, and amortization method should be inspected at least at every fiscal year-end. If any changes occur, changes should be recognized as changes in accounting estimate.

(x) Operating segments

An operating segment is a component of the Consolidated Company that engages in business activities from which it may incur revenues and incur expenses. Operating results of the operating segment are regularly reviewed by the Consolidated Company's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance.

(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty

The preparation of the consolidated financial statements in conformity with the IFRSs endorsed by the FSC requires management to make judgments, estimates, and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

The management continues to monitor the accounting estimates and assumptions. Any impact from the changes in accounting estimates are recorded in the period in which the changes occur and in future periods.

Information about judgments made in the application of accounting policies that have the risks of significant effects in the next reporting period is as follows:

(a) Recognition and measurement of provisions and contingent liabilities

Provision for construction warranty is estimated when the construction is complete, other provisions are recognized as incurred. The Consolidated Company regularly reviews the basis of the estimate and, if necessary, amends it as appropriate. There could be a significant impact on provision for warranty for any change in the abovementioned basis of the estimate.

(b) Revenue recognition of construction contracts

Contract revenue is recognized by reference to the stage of completion of each contract. The stage of completion of a contract is measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. Estimated total contract costs of contracted items are assessed and determined by the management based on the nature of activities, expected sub-contracting charges, construction periods, processes, methods, etc., for each construction contract. Changes in these estimates might affect the calculation of the percentage of completion and related profits from construction contracts.

(c) Measurement of defined benefit obligations

Defined benefit costs and net defined benefit liabilities under defined benefit pension plans are calculated using the Projected Unit Credit Method. Actuarial assumptions comprise the discount rate, rate of employee turnover, future salary increase rate, etc. Changes in economic circumstances and market conditions will affect these assumptions and may have a material impact on the amount of the expense and the liability. Refer to Note 6(s) for further description of the actuarial assumptions and sensitivity analysis.

The Consolidated Company's accounting policies include measuring financial and non-financial assets and liabilities at fair value through profit or loss. The Consolidated Company financial instrument valuation group conducts independent verification on fair value by using data sources that are independent, reliable, and representative of exercise prices. This financial instrument valuation group also periodically adjusts valuation models, conducts back-testing, renews input data for valuation models, and makes all other necessary fair value adjustments to assure the rationality of fair value. The Consolidated Company strives to use market observable inputs when measuring assets and liabilities. Different levels of the fair value hierarchy to be used in determining the fair value of financial instruments are as follows:

Level 1: quoted prices (unadjusted) in active markets for identifiable assets or liabilities.

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

Level 3: inputs for the assets or liability that are not based on observable market data.

For any transfers between the fair value hierarchies, the impact of the transfer is recognized on the reporting date.

Please refer to the notes listed as below for related information on assumptions used in measuring fair value:

Note 6(l), Investment property

Note 6(ab), Financial instruments

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(6) Explanation of significant accounts

(a) Cash and cash equivalents

		December 31, 2018	December 31, 2017
Cash on hand	$	1,756	1,434
Checking and demand deposits		876,498	792,243
Term deposits		147,768	191,794
Cash equivalents		71,954	34,989
Cash and cash equivalents on the statement of cash flows	$	1,097,976	1,020,460

(i) Please refer to Note 6(ab) for interest rate risk and sensitivity analysis of the financial assets and liabilities of the Consolidated Company.

(ii) As of December 31, 2018 and 2017, certain term deposits were pledged as collateral of performance guarantee, and such term deposits were reclassified to refundable deposits. Please refer to Note 8 for details.

(b) Financial assets and liabilities at fair value through profit or loss

		December 31, 2018	December 31, 2017
Mandatorily measured at fair value through profit or loss:			
Non-derivative financial assets			
Stocks listed on domestic markets	$	134,560	-
Financial assets held-for-trading:			
Derivative instruments not used for hedging		-	-
Non-derivative financial assets			
Stocks listed on domestic markets		-	186,360
Total	$	134,560	186,360

		December 31, 2018	December 31, 2017
Financial liabilities designated as at fair value through profit or loss:			
Derivative instruments not used for hedging			
Foreign exchange forward contracts	$	1,745	5,875
Redemption options on convertible bonds		31,200	-
Total	$	32,945	5,875

(Continued)

The Consolidated Company uses derivative financial instruments to hedge certain foreign exchange and interest rate risks that the Consolidated Company is exposed to arising from its operating, financing, and investing activities. The Consolidated Company held the following derivative financial instruments, which did not meet the criteria for hedge accounting, under financial assets held for trading, were classfied as mandatorily measured at fair value through profit or loss on December 31, 2018 and held-for-trading financial instruments on December 31, 2017:

	December 31, 2018		
	Nominal amount (in thousands)	**Currency**	**Maturity dates**
Foreign exchange forward	USD 19,258	Sell USD/buy TWD	2019.01.07~2019.02.27

	December 31, 2017		
	Nominal amount (in thousands)	**Currency**	**Maturity dates**
Foreign exchange forward	USD 28,655	Sell USD/buy TWD	2018.01.18~2018.05.10

None of the financial assets were pledged as collateral as of December 31, 2018 and 2017, respectively.

(c) Financial assets at fair value through other comprehensive income

	December 31, 2018
Equity investments at fair value through other comprehensive income:	
Publicly listed stocks and stocks listed on emerging markets	$ 377,716
Unlisted stocks	189,107
Total	$ 566,823

(i) The Consolidated Company designated the investments shown above as equity securities as at fair value through other comprehensive income because these equity securities represent those investments that the Consolidated Company intends to hold for long-term for strategic purposes. These investments were classified as available-for-sale financial assets on December 31, 2017.

(ii) The Consolidated Company disposed a part of its shares in Taiwan High Speed Rail Corporation in 2018, where it realized a gain of $429,706 thousand, which was recognized under other comprehensive income, and later on, reclassified to retained earnings.

(Continued)

(iii) The Consolidated Company disposed a part of its shares in Chien Shing Harbour Service Co., Ltd in 2018, where it realized a gain of $1,358 thousand, which was recognized under other comprehensive income, and later on, reclassified to retained earnings.

(iv) For credit risk and market risk, please refer to Note 6(ab).

(v) None of the financial assets were pledged as collateral as of December 31, 2018.

(d) Available-for-sale financial assets

(i) The details were as follows:

		December 31, 2017
Available-for-sale financial assets:		
Publicly listed stocks and stocks listed on emerging markets	$	1,364,071

(ii) Please refer to Note 6(ab) for the credit, currency, and interest exposure on financial instruments of the Consolidated Company.

(iii) None of the available-for-sale financial assets were pledged as collateral as of December 31, 2017.

(e) Financial assets carried at cost

		December 31, 2017
Unlisted ordinary stock	$	218,711

(i) The aforementioned investments held by the Consolidated Company were measured at cost less impairment as of December 31, 2017. These investments were classified as financial assets at fair value through other comprehensive income as of December 31, 2018.

(ii) For the year ended December 31, 2017, the investee companies returned $2,917 thousand, respectively, for reduction of capital.

(iii) An investee company the Consolidated Company held for the year ended December 31, 2017, was listed on the emerging market in March 2017 and was thus reclassified to available-for-sale financial assets at $94,586 thousand. The remaining carrying value which amounted to $2,274 thousand was disposed of with proceeds amounting to $4,743 thousand and a gain on disposal of investment amounting to $2,469 recognized as other gains or losses.

(iv) For credit risk and market risk, please refer to Note 6(ab).

(v) None of the available-for-sale financial assets were pledged as collateral as of December 31, 2017.

(Continued)

TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
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(f) Notes and accounts receivable

	December 31, 2018	December 31, 2017
Notes receivable from operating activities	$ 328,685	237,401
Accounts receivable	3,089,946	3,315,284
Accounts receivable from related parties	2,910	1,154
Overdue receivables	10,020	10,020
Less: loss allowance	(71,486)	(49,003)
	$ 3,360,075	3,514,856

The Consolidated Company applies the simplified approach to provide for its expected credit losses, i.e. the use of lifetime expected loss provision for all receivables as of December 31, 2018. To measure the expected credit losses, notes and accounts receivable have been grouped based on shared credit risk characteristics and the days past due, as well as incorporated forward looking information. The loss allowance provision in the Steel Structure Department in China, in Vietnam Department and the other Departmentas of December 31, 2018 was determined as follows:

	Gross carrying amount	Weighted-average rate of expected credit loss	Loss allowance for expected credit losses
Current	$ 273,137	0	-
Overdue less than 90 days	-		-
More than 90 days past due	-		-
	$ 273,137		-

The analysis of expected credit loss of the notes and accounts receivable of the Consolidated Company, except for the Steel Structure Department in China, the Vietnam Department, and the Other Departments, was as follows:

	Gross carrying amount	Weighted-average rate of expected credit loss	Loss allowance for expected credit losses
With low risk	$ 1,385,884	0.25%	3,430
With moderate risk	1,726,563	1.28%	22,060
With financial difficulties	45,977	100%	45,977
	$ 3,158,424		71,467

As of December 31, 2017, the Consolidated Company applied the incurred loss model to consider the loss allowance provision of notes and accounts receivable.

The aging analysis of notes and accounts receivable, which were past due but not impaired, was as follows:

	December 31, 2018	December 31, 2017
1 to 60 days past due	$ 4,785	-
61 to 90 days past due	-	-
91 to 120 days past due	-	-
	$ 4,785	-

The changes in the allowance for notes and accounts receivable were as follows:

	For the year ended December 31, 2018	For the year ended December 31, 2017	
		Individually assessed impairment	Collectively assessed impairment
Balance as of January 1, 2018 and 2017 per IAS 39	$ 49,003	32,546	21,983
Adjustment on initial application of IFRS 9	-		
Balance on January 1, 2018 per IFRS 9	49,003		
Impairment losses recognized	39,861	846	-
Impairment losses reversed	-	218	-
Amount written off due to uncollectibility	(16,993)	(6,007)	-
Foreign exchange losses	(385)	(147)	-
Balance as of December 31, 2018 and 2017	$ 71,486	27,456	21,983

(g) Other receivables

	December 31, 2018	December 31, 2017
Other receivables	$ 79,796	185,687
Other receivables from related parties	57	52
Less: allowance for impairment	-	-
	$ 79,853	185,739

For the year ended December 31, 2018, no other receivables were impaired resulted from overdue. For credit risk, please refer to Note 6 (ab).

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For the year ended December 31, 2017, the changes in the allowance for impairment of other receivables was as follows:

	Individually assessed impairment	Collectively assessed impairment	Total
Balance as of January 1, 2017	$ 781	-	781
Amount written off	(781)	-	(781)
Balance as of December 31, 2017	$ -	-	-

(h) Construction contracts

(i) For the year ended December 31, 2017,construction contract revenue of the Consolidated Company has been determined based on the stage-of-completion method was as follows:

	December 31, 2017
Accumulated costs incurred	$ 3,537,213
Add: accumulated profit and losses recognized arising from the construction	(424,659)
Accumulated costs and profit recognized	3,112,554
Less: progress billings	(2,737,586)
Amount due from customers for contract work–presented as an asset	$ 771,172
Amount due to customers for contract work–presented as a liability	$ 396,204
Retention payable from construction contract	$ 173,439

(ii) The Consolidated Company is unable to estimate the costs of signed construction contract reliably; however, it is probable that all the expenses incurred are recoverable. Hence, all contract costs shall be recognized as an expense in the period in which they are incurred, and the contract revenue with the same amount is recognized in the same period. At completion, if the total revenue exceeds the aggregate revenue recognized in previous years, the differences should be recognized immediately as contract revenue.

	December 31, 2017
Accumulated costs incurred	$ 1,139,144
Less: progress billings	(863,413)
Amount due from customers for contract work – presented as an asset	$ 316,715
Amount due to customers for contract work – presented as a liability	$ 40,984

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(iii) For the year ended December 31, 2017, construction contract costs recognized was as follows:

		For the years ended December 31, 2017,
Construction contract costs	$	2,603,022

(iv) For the amount of contract balance as of December 31, 2017 and revenue recognized during the year ended December 31, 2017, please see Note 6(w).

(i) Inventories

		December 31, 2018	December 31, 2017
Finished goods (including consigned goods)	$	2,882,305	1,414,631
Work in process (including consigned goods)		2,155,407	1,481,246
Raw materials (including goods in transit)		8,119,784	4,243,757
Material supplies (including goods in transit and consigned goods)		2,295,583	1,036,098
Inventories, net	$	15,453,079	8,175,732

(i) For the years ended December 31, 2018 and 2017, cost of sales recognized were as follows:

	For the years ended December 31,	
	2018	2017
Cost of goods sold	32,752,928	25,094,481
Loss on decline of inventory market price	181,615	-
Unallocated fixed overheads — capacity variance	131,393	93,636
Revenue from sale of materials and scrap	(136,225)	(112,751)
Total	32,929,711	25,075,366

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses. Any changes of competitors' reactions and market condition would impact the estimation which is based on the current market condition and past experience. The management would make evaluation on every reporting date.

None of the inventory was pledged as collateral as of December 31, 2018 and 2017.

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(ii) The Consolidated Company's processing costs recognized for providing services for the years ended December 31, 2018 and 2017, consisted of the following:

	For the years ended December 31, 2018	For the years ended December 31, 2017
Processing costs	$ 357,333	269,022

(j) Investments accounted for using the equity method

(i) The components of the investments accounted for using the equity method were as follows:

	December 31, 2018	December 31, 2017
Associates	$ 1,465,204	1,381,834

(ii) The financial information in aggregate of the individually immaterial components of the investments accounted for using the equity method were as follows:

	December 31, 2018	December 31, 2017
The aggregate carrying amount of associates that were individually immaterial	$ 1,465,204	1,381,834

	For the years ended December 31, 2018	For the years ended December 31, 2017
Attributable to the Consolidated Company:		
Net income from continuing operations	$ 58,679	175,908
Other comprehensive income	(3,804)	1,922
Total	$ 54,875	177,830

(iii) The details of cash dividends paid by the Consolidated Company's associates recognized as deductions of investment accounted for using equity method were as follows:

	For the years ended December 31, 2018	For the years ended December 31, 2017
Katec Research & Development Corp.	$ 2,241	854
Taiwan Steel Union Co., Ltd.	132,835	84,418
Right Investment Corp.	2,049	260
Total	$ 137,125	85,532

(iv) Collateral

None of the investments accounted for using the equity method were pledged for collateral as of December 31, 2018 and 2017.

(Continued)

TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
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(k) Property, plant and equipment

The details of the changes in the property, plant and equipment of the Consolidated Company for the years ended December 31, 2018 and 2017 were as follows:

		Land	Buildings	Machinery equipment	Miscellaneous equipment	Other assets	Construction in progress	Total
Cost or deemed cost:								
Balance as of January 1, 2018	$	2,750,817	8,120,861	25,983,021	328,117	601,150	2,619,614	40,403,580
Additions		-	142,714	266,723	31,660	33,338	1,308,572	1,783,007
Reclassification in (out) (Note 1)		-	1,094,382	2,166,857	28,973	-	(3,715,147)	(424,935)
Disposals		-	(2,229)	(45,095)	(21,917)	(928)	-	(70,169)
Effects of exchange rate and others		-	14,298	29,161	(218)	-	(7,473)	35,768
Balance as of December 31, 2018	$	2,750,817	9,370,026	28,400,667	366,615	633,560	205,566	41,727,251
Balance as of January 1, 2017	$	2,740,419	7,791,795	24,136,138	321,283	454,409	1,344,909	36,788,953
Additions		10,398	211,982	796,161	21,165	146,741	2,317,846	3,504,293
Reclassification in (Note 1)		-	268,631	1,304,003	6,797	-	(629,571)	949,860
Disposals		-	(105,625)	(150,874)	(19,565)	-	-	(276,064)
Effects of exchange rate and others		-	(45,922)	(102,407)	(1,563)	-	(413,570)	(563,462)
Balance as of December 31, 2017	$	2,750,817	8,120,861	25,983,021	328,117	601,150	2,619,614	40,403,580
Depreciation and impairment:								
Balance as of January 1, 2018	$	-	3,393,494	16,243,302	184,230	-	-	19,821,026
Depreciation for the period		-	228,457	1,035,643	35,094	-	-	1,299,194
Reclassification out (Note 1)		-	(23,472)	-	-	-	-	(23,472)
Disposals		-	(1,743)	(39,883)	(21,177)	-	-	(62,803)
Effects of exchange rate and others		-	(554)	(941)	(142)	-	-	(1,637)
Balance as of December 31, 2018	$	-	3,596,182	17,238,121	198,005	-	-	21,032,308
Balance as of January 1, 2017	$	-	3,298,060	15,429,134	173,254	-	-	18,900,448
Depreciation for the period		-	202,635	922,963	29,846	-	-	1,155,444
Impairment for the period		-	-	7,907	-	-	-	7,907
Disposals		-	(104,931)	(106,177)	(18,561)	-	-	(229,669)
Effects of exchange rate and others		-	(2,270)	(10,525)	(309)	-	-	(13,104)
Balance as of December 31, 2017	$	-	3,393,494	16,243,302	184,230	-	-	19,821,026
Carrying value								
Balance as of December 31, 2018	$	2,750,817	5,773,844	11,162,546	168,610	633,560	205,566	20,694,943
Balance as of December 31, 2017	$	2,750,817	4,727,367	9,739,719	143,887	601,150	2,619,614	20,582,554

Note 1: Reclassification to prepayments and investment property and reclassification from prepayments for equipment.

(i) Because some of the Consolidated Company's property, plant and equipment and investment property are agricultural lands, transfer registration could not be undertaken using the Consolidated Company's own title; therefore, the Consolidated Company was registered as a trust registrant temporarily and signed the real estate trust registration contract, which stipulates the rights and obligations of both parties to preserve the ownership of the land. The Consolidated Company is applying successively for registration of change in the category of land from relevant authorities. The details of the abovementioned land was as follows:

Accounts	**December 31, 2018**	**December 31, 2017**
Property, plant and equipment	$ 633,561	601,150
Investment property	483,769	517,327
	$ 1,117,330	1,118,477

(ii) Impairment

For the years ended December 31, 2018 and 2017, the Consolidated Company performed an assessment on the property, plant and equipment that indicated impairment. The recoverable amount was calculated using the value in use. For the year ended December 31, 2018, the carrying value was lower than the value in use. For the year ended December 31, 2017, since the carrying value was higher than the value in use, the Consolidated Company recorded an impairment loss which amounted to $7,907 thousand as other gains or losses under non-operating income.

For the year ended December 31, 2017, the estimated of value in use was determined using a pre-tax discount rate of 8.07%.

(iii) Collateral

Please refer to Note 8 for the details of the property, plant and equipment pledged for collateral for the years ended December 31, 2018 and 2017.

(l) Investment property

	Land and improvements	**Buildings**	**Total**
Cost or deemed cost:			
Balance as of January 1, 2018	$ 1,808,269	224,718	2,032,987
Additions	13,249	13,699	26,948
Disposal	(37,655)	-	(37,655)
Reclassification in	-	27,771	27,771
Balance as of December 31, 2018	$ 1,783,863	266,188	2,050,051

(Continued)

TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
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		Land and improvements	Buildings	Total
Balance as of January 1, 2017	$	1,597,889	225,265	1,823,154
Additions		136,065	-	136,065
Disposal		-	(547)	(547)
Reclassification in		74,315	-	74,315
Balance as of December 31, 2017	$	1,808,269	224,718	2,032,987
Depreciation and impairment:				
Balance as of January 1, 2018	$	-	148,638	148,638
Reclassification in		-	23,472	23,472
Depreciation for the period		-	7,843	7,843
Balance as of December 31, 2018	$	-	179,953	179,953
Balance as of January 1, 2017	$	-	141,818	141,818
Depreciation for the period		-	7,367	7,367
Disposal		-	(547)	(547)
Balance as of December 31, 2017	$	-	148,638	148,638
Carrying amounts:				
Balance as of December 31, 2018	$	1,783,863	86,235	1,870,098
Balance as of December 31, 2017	$	1,808,269	76,080	1,884,349
Fair value:				
Balance as of December 31, 2018				$ 6,502,176
Balance as of December 31, 2017				$ 6,473,770

(i) Investment property includes the investment in Kuo Kong Section, Houlong town, Miaoli County, and several construction sites and factories leased to others; leased objects mentioned above are the factory in Chienchen District of Kaohsiung, the factory in Bade City of Taoyuan, the building in Taichung, and the office in Taipei.

(ii) The investment in Kuo Kong Section, Houlong Town, Miaoli County is in a general industrial zone. The Consolidated Company has planned a wind power generation project and has now established wind generator sets to improve the efficiency of the use of the land. The Consolidated Company has successively invested costs into the land in an effort to make the industrial zone available for use. As of December 31, 2018 and 2017, the carrying value for the above investment amounted to $977,524 thousand and $967,728 thousand, respectively.

(iii) The fair value of investment property is in reference to the appraisal report done by independent professionals (with certificated qualification and recent experience in appraisals of items that are within the same area or of similar items). The valuation technique used is classified as the second and the third hierarchy of input value.

(Continued)

(iv) Please refer to Note 6(k) for relevant information on investment property acquired under the ownership of others.

(v) None of the investment property was for pledged for collateral as of December 31, 2018 and 2017.

(m) Short-term loans

(i) Details of the Consolidated Company's short-term loans were as follows:

	December 31, 2018	December 31, 2017
Letters of credits	$ 1,838,088	613,462
Unsecured bank loans	9,838,612	7,634,900
Secured bank loans	76,024	45,650
	$ 11,752,724	8,294,012
Unused credit lines (including notes and bills payable)	$ 16,543,386	14,287,226
Range of interest rates	0.42%~6.20%	0.42%~5.22%

(ii) For the collateral pledge for short-term loans, please refer to Note 8.

(n) Short-term notes and bills payable

(i) Details of the Consolidated Company's short-term bills payable were as follows:

	December 31, 2018		
	Bank of acceptance	Interest rate	Amount
Commercial papers payable	CBF, Mega Bills, Grand Bills, Ta Ching Bills, IBFC, TFC	0.94%~1.06%	$ 1,500,000
Less: discount on short-term bills payable			(631)
Total			$ 1,499,369

	December 31, 2017		
	Bank of acceptance	Interest rate	Amount
Commercial papers payable	CBF, Grand Bills, Ta Ching Bills, IBFC, TFC	0.45%~0.99%	$ 605,000
Less: discount on short-term bills payable			(905)
Total			$ 604,095

Please refer to Note 6(m) for unused credit lines.

(o) Long-term loans

(i) Details of the Consolidated Company's long-term loans were as follows:

	December 31, 2018			
	Currency	Interest rate	Maturity	Amount
Unsecured bank loans	TWD	0.84%~1.55%	2020.07.31~2022.04.21	$ 3,246,429
Unsecured bank loans	USD	3.81%	2022.04.21	837,180
Less: current portion				(7,143)
Total				$ 4,076,466
Unused credit lines				$ 1,100,000

	December 31, 2017			
	Currency	Interest rate	Maturity	Amount
Unsecured bank loans	TWD	0.81%~0.94%	2019.04.27~2020.03.10	$ 3,000,000
Less: current portion				-
Total				$ 3,000,000
Unused credit lines				$ 1,450,000

(p) Bonds payable

(i) Major conditions of the issuance of unsecured bonds payable were as follows:

Item	The seventh unsecured domestic convertible bond	The sixth unsecured domestic convertible bond
1. Principal amount	$2,000,000 thousand	$2,500,000 thousand
2. Par value	$100 thousand	$100 thousand
3. Original issuance date	2018.05.14~2023.05.14	2012.11.05~2017.11.05
4. Maturity	5 years	5 years
5. Coupon rate	0%	0%
6. Redemption method	(1) Three months after the issuance date and 40 days prior to maturity, the bonds may be redeemed if the closing price of the ordinary shares, for a period of 30 consecutive trading days, is at least 30% of the conversion price then in effect. 30 trading days prior to maturity, the Company may redeem all bonds for cash. (2) If at least 90% in principal amount of the bonds has already been redeemed, repurchased and cancelled, or converted.	(1) 30 days after the issuance date and 40 days prior to maturity, the bonds may be redeemed if the closing price of the ordinary shares, for a period of 30 consecutive trading days, is at least 30% of the conversion price then in effect. 30 trading days prior to maturity, the Company may redeem all bonds for cash. (2) If at least 90% in principal amount of the bonds has already been redeemed, repurchased and cancelled, or converted.

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Item	The seventh unsecured domestic convertible bond	The sixth unsecured domestic convertible bond
7. Redemption option of bondholders	The bondholders could request the Company to redeem the bond at face value plus the interest premium of 0.75% and 1% three and four years after the issue date, respectively (actual yield: 0.25% and 0.25%, respectively).	The bondholders could request the Company to redeem the bond at face value plus the interest premium of 1.51% and 3.04% three and four years after the issue date, respectively (actual yield: 0.5% and 0.75%, respectively).
8. Conversion price and adjustment	The conversion price of NT27.8. dollars at the original issuance date was reduced to NT26.2 dollars as of July 7, 2018, because the ratio of the cash dividends to the current price per share exceeded 1.5% in 2017.	

(ii) Bonds payable as of December 31, 2018 and 2017, were as follows:

	December 31, 2018	December 31, 2017
Originally issued amount of unsecured domestic convertible bonds	$ 2,000,000	2,500,000
Accumulated redeemed and executed convertible bonds	-	(2,500,000)
Adjustment on the equity and liability component from repurchases and conversions	16,715	(124,864)
Capital surplus–stock options	(81,973)	-
Call option, put options, and conversion rights	(31,200)	-
Accumulated interest expenses	12,187	124,864
Total	$ 1,915,729	-

	For the years ended December 31,	
	2018	2017
Interest expense	$ 12,187	1,168

(iii) As of December 31, 2018 and 2017, accumulated repurchase and conversion of the sixth and seventh unsecured domestic convertible bonds were as follows:

Accumulated purchased and redeemed redemption rights	Face value of the seventh domestic unsecured convertible bonds (in thousand)	Face value of the sixth domestic unsecured convertible bonds (in thousand)
December 31, 2018	$ -	-
December 31, 2017	$ -	2,368,500
Accumulated conversion		
December 31, 2018	$ -	-
December 31, 2017	$ -	131,500

(Continued)

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(iv) As of December 31, 2017, all of the transactions related to the sixth domestic unsecured convertible bonds had been completed.

(q) Operating lease

The Consolidated Company leased its investment property under operating leases; please refer to Note 6(l) for related information. The future minimum lease payments receivable under non-cancellable leases were as follows:

	December 31, 2018	December 31, 2017
Less than one year	$ 25,516	24,410
Between one and five years	26,310	34,574
	$ 51,826	58,984

The operating lease revenues for the years ended December 31, 2018 and 2017, were $44,618 thousand and $43,892 thousand, respectively.

(r) Other payables

	December 31, 2018	December 31, 2017
Accrued payroll, year-end bonuses, provisionally estimated bonuses, remuneration of directors and supervisors, and employee benefits	$ 281,106	339,511
Freight payable	201,463	150,496
Utilities payable	215,793	206,325
Sales bonuses payable	182,369	179,984
Waste disposal payable (including to related parties)	46,254	97,146
Cash dividends payable (including from prior years)	38,525	36,124
Taxes payable	479	615
Other operating and manufacturing overhead payable	341,772	333,628
	$ 1,307,761	1,343,829

The above payables are planned to be paid within one year. Please refer Note 6(ab) for the interest rate risk and sensitivity analysis of the aforementioned financial assets and liabilities.

(s) Employee benefits

(i) Defined benefit plan

Reconciliation between the present value of the Company's defined benefit obligation and the fair value of the plan assets were as follows:

	December 31, 2018	December 31, 2017
Present value of the defined benefit obligation	$ 1,595,547	1,528,074
Fair value of the plan assets	(749,324)	(730,155)
Net defined benefit liabilities	$ **846,223**	**797,919**

Reconciliation between the present value of the subsidiaries's defined benefit obligation and the fair value of plan assets were as follows:

	December 31, 2018	December 31, 2017
Present value of defined benefit obligation	$ (635)	(684)
Fair value of plan assets	12,107	11,636
Net defined benefit assets	$ **11,472**	**10,952**

1) Composition of the plan assets

The Labor Pension Fund Supervisory Committee manages the Consolidated Company's pension fund which is being funded according to the Labor Standards Act. Under the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, this fund is required to distribute income of not less than the interest income derived from two-year time deposit with the local banks.

As of December 31, 2018 and 2017, the balance of the Consolidated Company's pension fund at Bank of Taiwan amounted to $761,431 thousand and $741,791 thousand, respectively. Please refer to the related information published on the website of the Labor Pension Supervisory Committee concerning the utilization off the labor pension fund, related yield rate and its asset allocation.

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2) Changes in the present value of the defined benefit obligation

Changes in the present value of the Company' s defined benefit obligation were as follows:

	For the years ended December 31, 2018	2017
Balance as of January 1	$ 1,528,074	1,443,804
Service cost and interest expense for the period	38,600	43,242
Remeasurements of the net defined benefit liabilities (assets):		
—Experience adjustments	93,942	24,022
—Actuarial (gains) losses arising from changes in population statistics assumptions	263	37,536
Benefits paid	(65,332)	(20,530)
Balance as of December 31	$ 1,595,547	1,528,074

Changes in the present value of the subsidiaries' defined benefit obligation were as follows:

	For the years ended December 31, 2018	2017
Balance as of January 1	$ (684)	(656)
Service cost and interest expense for the period	(9)	(10)
Remeasurements of the net defined benefit liabilities (assets):		
Experience adjustments	76	3
Actuarial losses arising from changes in financial assumptions	(18)	(21)
Balance as of December 31	$ (635)	(684)

3) Changes in the fair value of the plan assets

Changes in the Company's fair value of the plan assets were as follows:

	For the years ended December 31, 2018	2017
Balance as of January 1	$ 730,155	701,181
Interest income	7,295	8,776
Remeasurements of the net defined benefit liabilities:		
Return on plan assets (excluding interests for the period)	21,861	(1,877)
Contributions from employer	55,345	42,605
Benefits paid	(65,332)	(20,530)
Balance at December 31	$ 749,324	730,155

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Changes in the subsidiaries' fair value of the plan assets were as follows:

	For the years ended December 31,	
	2018	**2017**
Balance as of January 1	$ 11,636	11,523
Interest income	145	173
Remeasurements of the net defined benefit assets:		
Return on plan assets (excluding interests for the period)	326	(60)
Balance as of December 31	$ 12,107	11,636

The Consolidated Company's pension costs recognized in profit or loss were as follows:

	For the years ended December 31,	
	2018	**2017**
Service cost for the period	$ 23,528	25,431
Net interest expense of net defined benefit liabilities	7,777	9,036
	$ 31,305	34,467

	For the years ended December 31,	
	2018	**2017**
Cost of sales	$ 25,057	27,806
Selling expenses	1,032	1,142
Administrative expenses	5,216	5,519
	$ 31,305	34,467

The subsidiaries' pension costs recognized in profit or loss were as follows:

	For the years ended December 31,	
	2018	**2017**
Net interest expense of net defined benefit liabilities	$ (137)	(163)

	2018	**2017**
Administrative expenses	$ (137)	(163)

(Continued)

4) Changes in the remeasurement of the net defined benefit (assests) liabilities recognized in other comprehensive income

The Company' s cumulated remeasurement of the net defined benefit liabilities recognized in other comprehensive income was as follows:

		For the years ended December 31,	
		2018	2017
Balance at January 1	$	251,085	187,650
Recognized in the current period		72,344	63,435
Balance at December 31	$	323,429	251,085

The subsidiaries' cumulated pretax remeasurement of the net defined benefit liabilities recognized in other comprehensive income was as follows:

		For the years ended December 31,	
		2018	2017
Balance as of January 1	$	(196)	(120)
Recognized in the current period		374	(76)
Balance as of December 31	$	178	(196)

5) Actuarial assumptions

The principal assumptions of the Company's actuarial valuation were as follows:

	For the years ended December 31,	
	2018	2017
Discount rates	1.00 %	1.00 %
Rates of increase in future salary	1.50 %	1.50 %

The Company expects to make a contribution of NT$42,359 thousand to its defined benefit plans in the following year, beginning December 31, 2018. The weighted average duration of the defined benefit obligation is 9 years.

The principal assumptions of the subsidiaries' actuarial valuation were as follows:

	For the years ended December 31,	
	2018	2017
Discount rates	1.00 %	1.25 %
Rates of increase in future salary	2.00 %	2.00 %

The subsidiaries do not expect to make contributions to its defined benefit plans in the following year, beginning December 31, 2018. The weighted average duration of the defined benefit obligation is 11 years.

6) Sensitivity analysis

If the actuarial assumptions had changed, the impact on the present value of the defined benefit obligation shall be as follows:

		Effects on the Company's defined benefit obligations	
		Increase by 0.25%	**Decrease by 0.25%**
December 31, 2018			
Discount rate	$	(37,029)	38,326
Rate of increase in future salary		38,039	(36,939)
December 31, 2017			
Discount rate		(37,419)	38,785
Rate of increase in future salary		38,494	(37,329)

		Effects on the subsidiaries' defined benefit obligations	
		Increase by 0.25%	**Decrease by 0.25%**
December 31, 2018			
Discount rate	$	(18)	19
Rate of increase in future salary		19	(18)
December 31, 2017			
Discount rate		(21)	22
Rate of increase in future salary		22	(21)

The above sensitivity analysis was based on the changes of a single assumption while holding other assumptions constant. In practicality, it is reasonably possible that the changes in different assumptions are linked to one another. The sensitivity analysis adopts the same method for determining the defined benefit assets at the reporting date.

There was no change of method and assumptions used in the sensitivity analysis for 2018 and 2017.

(ii) Defined contribution plan

The Consolidated Company allocates 6% of each employee' s monthly wages to the Labor Pension Personal Accounts at the Bureau of the Labor Insurance in accordance with the provisions of the Labor Pension Act. Under this defined contribution plan, the Consolidated Company does not bear any additional legal or constructive obligations other than the allocation of a fixed amount to the Bureau of the Labor Insurance.

The Consolidated Company's pension costs under the defined contribution plan were $53,091 thousand and $51,486 thousand for 2018 and 2017, respectively. The payment was made to the Bureau of the Labor Insurance and .

(t) Income tax

According to the amendments to the "Income Tax Act" enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, an increase in the corporate income tax rate from 17% to 20% is applicable upon filing the corporate income tax return commencing FY2018.

(i) The details of income tax expense for the years ended December 31,2018 and 2017 were as follows:

	For the years ended December 31, 2018	2017
Income tax expense for the period		
Current tax expense incurred during the period	$ 349,161	294,836
Adjustments for prior years	10,516	(16,273)
	359,677	278,563
Deferred tax expense		
The origination and reversal of temporary differences	6,487	19,786
Income tax expense for continuing operations	**$ 366,164**	**298,349**

The income tax (expense) benefit related to components of other comprehensive income for the years ended December 31, 2018 and 2017, were as follows:

	For the years ended December 31, 2018	2017
Adjuestment in tax rate	$ 7,533	-
Remeasurement of the defined benefit plans	14,386	10,771
	$ 21,919	10,771

The reconciliation of income tax expense and income before income tax for the years ended December 31, 2018 and 2017, was as follows:

	For the years ended December 31, 2018	For the years ended December 31, 2017
Income before income tax	$ 1,255,103	1,999,083
Income tax using the Company's domestic tax rate	$ 251,021	339,844
Adjuestment in tax rate	(33,087)	-
Effect of difference in income tax rates between foreign investees and the Company	69,495	(1,362)
Permanent difference	(2,544)	(20,930)
Tax-exempt income	-	(56,541)
Current investment tax credits used	(6,035)	(5,600)
Previously of unrecognized deferred tax assets used	(2,286)	(17,019)
Changes of unrecognized temporary difference	(28,324)	53,881
Previously of unrecognized deferred tax assets reversed	12,772	-
Losses from current periods of unrecognized deferred tax assets	70,663	12,665
Over-estimation from prior periods	8,352	(21,294)
10% surtax on unappropriated earnings	8,536	6,603
Difference between administrative remedy and assessment by the tax authority	2,165	6,723
Other adjustments	15,436	1,379
Total	$ 366,164	298,349

(ii) Deferred tax assets and liabilities

1) Unrecognized deferred tax liabilities

There was no unrecognized deferred tax liabilities as of December 31, 2018 and 2017.

2) Unrecognized deferred tax assets

The items of unrecognized deferred tax assets were as follows:

	December 31, 2018	December 31, 2017
Tax effect of deductible temporary differences	$ 59,000	78,588
Loss carry-forward	155,059	98,147
	$ 214,059	176,735

(Continued)

The R.O.C. Income Tax Act allows net losses, as assessed by the tax authorities, to offset taxable income over a period of ten years for local tax reporting purposes. No deferred tax assets have been recognized in respect of the losses due to the uncertainty about whether there will be sufficient taxable gains in the future to utilize the temporary differences.

As of December 31, 2018, the Consolidated Company's unused loss carry-forwards that were not recognized as deferred tax assets were as follows:

Year of occurrence	Remaining creditable amount	Expiry year
2009 (assessment)	$ 4,970	2019
2010 (assessment)	50,683	2020
2011 (assessment)	62,295	2021
2012 (assessment)	71,502	2022
2013 (assessment)	80,531	2023
2014 (assessment)	57,551	2024
2015 (assessment)	129,343	2025
2016 (filing)	109,822	2026
2017 (projection)	167,303	2027
2018 (filing)	41,296	2028
	$ 775,296	

3) Recognized deferred tax assets and liabilities

Changes in deferred tax assets and liabilities for the years ended December 31, 2018 and 2017 were as follows:

	Reserve for land appreciation tax	Others	Total
Deferred tax liabilities:			
Balance as of January 1, 2018	$ 167,174	2,997	170,171
Recognized in profit or loss	-	4,232	4,232
Recognized in other comprehensive income	-	85	85
Balance as of December 31, 2018	$ 167,174	7,314	174,488
Balance as of January 1, 2017	$ 167,174	2,930	170,104
Recognized in profit or loss	-	80	80
Recognized in other comprehensive income	-	(13)	(13)
Balance as of December 31, 2017	$ 167,174	2,997	170,171

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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	Loss carry-forward	Others	Total
Deferred tax assets:						
Balance as of January 1, 2018	$ 83,792	890	19,190	15,313	15,800	134,985
Recognized in profit or loss	2,447	(541)	1,482	(9,333)	3,690	(2,255)
Recognized in other comprehensive income	22,002	-	-	-	-	22,002
Balance as of December 31, 2018	$ 108,241	349	20,672	5,980	19,490	154,732
Balance as of January 1, 2017	$ 74,392		20,809	16,651	32,055	143,907
Recognized in profit or loss	(1,384)	890	(1,619)	(1,338)	(16,255)	(19,706)
Recognized in other comprehensive income	10,784	-	-	-	-	10,784
Balance as of December 31, 2017	$ 83,792	890	19,190	15,313	15,800	134,985

As of December 31, 2018, the Consolidated Company's unused loss carry-forwards that were recognized as deferred tax assets were as follows:

Year of occurrence	Remaining creditable amount	Expiry year
2009 (assessment)	$ 1,670	2019
2010 (assessment)	2,110	2020
2011 (assessment)	2,550	2021
2012 (assessment)	2,990	2022
2013 (assessment)	3,430	2023
2014 (assessment)	3,430	2024
2015 (assessment)	3,430	2025
2016 (filing)	3,430	2026
2017 (projection)	3,430	2027
2018 (projection)	3,430	2028
	$ 29,900	

(iii) The Company's income tax returns have been examined by the ROC tax authorities through 2016.

(iv) The Company is entitled to "the Incentive for a Five Year Exemption from Corporate Income Tax on Investments Made by Enterprises in the Manufacturing Industry and the Technical Service Industry between July 1, 2008, and December 31, 2009." Upon the approval by the Industrial Development Bureau, Ministry of Economic Affairs, the Company has chosen the start date of the tax exemption. Details regarding the Five-year Exemption are as follows:

Types of tax exemption	Approval No.	Project	Tax-exemption period
Construction and expansion	No. 09801075640 No. 09901135580	Basic metal manufacturing	2013.01.01~2017.12.31

(u) Capital and other equity

(i) Capital stock

As of December 31, 2018 and 2017, the Company's government-registered total authorized capital amounted to $12,000,000 thousand, with par value per share of $10 (dollars), and total issued ordinary shares amounted to 1,004,061 thousand and 1,000,224 thousand shares, respectively. All issued shares were paid up upon issuance.

The convertible bondholders exercised certain conversion rights in the year ended December 31, 2017; therefore, the Company issued 5,839 thousand shares at par value which totaled $58,391. Among the newly issued shares, the legal registration procedures of 2,003 thousand shares was completed as of December 31, 2017.

The reconciliation for numbers of outstanding shares was as follows:

	For the years ended December 31,	
(in thousands of shares)	2018	2017
Balance as of January 1	$ 1,000,224	998,221
Conversion of convertible bonds	3,837	2,003
Balance as of December 31	$ 1,004,061	1,000,224

On September 22, 1994, the Company issued 6,000 thousand Global Depositary Receipts (GDRs), in the Multilateral Trading Facility (MTF) market of the Luxembourg Stock Exchange (LSE). The details were as follows:

(in shares)	December 31, 2018	December 31, 2017
Total issued shares	68,610,809	68,610,809
Outstanding shares	7,345,128	8,000,728

(ii) Capital surplus

The balances of capital surplus were as follows:

	December 31, 2018	December 31, 2017
Additional paid-in capital	$ 2,289,734	2,289,734
Conversion of bonds	3,840,072	3,840,072
Treasury stock transactions	59,036	59,036
Difference between the acquiring value and the carrying value of subsidiaries	21,274	21,274
Changes in equity of associates accounted for using the equity method	190,445	360
Stock options	81,973	-
Others	109,702	109,702
	$ 6,592,236	6,320,178

According to the Company Act amended in January, 2012, capital surplus cannot be distributed as cash or stock dividends in proportion to the shareholding ratio before covering the accumulated deficit, if any. The aforementioned capital surplus includes the additional paid-in capital from issuance of ordinary stock in excess of the par value and donation from others. The Company's paid-in capital in excess of par value reclassified to ordinary stock each year shall not exceed 10% of total issued and outstanding ordinary stock according to Regulations Governing the Offering and Issuance of Securities by Securities Issuers.

(iii) Retained earnings

Based on the Company's articles of incorporation, the Company's annual earnings should first be used to provide for income tax and to cover accumulated deficits, before being set aside 10% as a legal reserve, or if necessary, a special reserve. The remainder, along with accumulated earnings, is to be distributed as dividends and earnings distribution under the stockholders' resolution.

The Company is at a stable and mature stage, so the dividend plan is that the percentages of cash dividends and stock dividends shall not be less than 80% and more than 20%, respectively, of the total distribution.

1) Legal reserve

According to the Company Act amended in January, 2012, the Company's annual net profit, after providing for income tax, is appropriated for legal reserve at the rate of 10% thereof until the accumulated balance of legal reserve equals the total issued capital. If the Company incurs no accumulated deficit, legal reserve in excess of 25% of paid-in capital can be distributed as new shares or cash under the shareholders' resolution.

2) Special reserve

By choosing to apply exemptions granted under IFRSs 1 First-time Adoption of IFRSs during the Consolidated Company's first-time adoption of the IFRSs as approved by the FSC, unrealized revaluation gains recognized under shareholders' equity and cumulative translation adjustments (gains) shall be reclassified as investment property at the adoption date. According to regulations, retained earnings would be increased by $333,057 thousand, by recognizing the fair value on the adoption date as deemed cost. The increase in retained earnings occurring before the adoption date due to the first-time adoption of the IFRSs amounted to $149,309 thousand. In accordance with Ruling No. 1010012865 issued by the FSC on April 6, 2012, an increase in retained earnings due to the first time adoption of the IFRSs shall be reclassified as a special earnings reserve during earnings distribution, and when the relevant asset were used, disposed of, reclassified, this special earnings reserve shall be reversed as distributable earnings proportionately. The carrying amount of special earnings reserve amounted to $149,309 thousand on December 31, 2018.

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In accordance with the guidelines of the above Ruling, a portion of current-period earnings and unappropriated prior-period earnings shall be reclassified as a special earnings reserve during earnings distribution. The amount to be reclassified should be equal to the difference between the total net current period reduction of special earnings reserve resulting from the first time adoption of IFRSs and the carrying amount of other shareholders' equity as stated above. Similarly, a portion of unappropriated prior period earnings shall be reclassified as a special earnings reserve (which does not qualify for earnings distribution) to account for cumulative changes to other shareholders' equity pertaining to prior periods due to the first-time adoption of IFRSs. Amounts of subsequent reversals pertaining to the net reduction of other shareholders' equity shall qualify for additional distributions.

3) Earnings distribution

The appropriation of earnings of the year ended December 31, 2017 and 2016 were resolved by the shareholders' meeting on June 11, 2018 and June 16, 2017. The amounts of the appropriated dividends per share were as follows:

	For the years ended December 31,	
	2017	**2016**
Dividends per ordinary share (in dollars)		
Cash dividend	$ **1.40**	**1.30**

The abovementioned distribution approved by the shareholders' meeting is consistent with that approved by the Board of Directors. Related information can be found through the Market Observation Post System website.

4) OCI accumulated in reserves, net of tax

	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on available-for-sale financial assets	Cash flow hedge	Unrealized gains (losses) from financial assets measured at fair value through OCI	Total
Balance as of January 1, 2018	$ (581,054)	773,242	-	-	192,188
Effects of retrospective application	-	(773,242)	-	101,745	(671,497)
Balance as of January 1, 2018 after adjustments	(581,054)	-	-	101,745	(479,309)
Exchange differences on translation of foreign operations (net of taxes):					
The Consolidated Company	(83,894)	-	-	-	(83,894)
Disposal of investments in equity instruments designated at fair value through other comprehensive income:					
The Consolidated Company	-	-	-	(93,594)	(93,594)
Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income					
The Consolidated Company	-	-	-	14,626	14,626
Associates	-	-	-	(4,853)	(4,853)
Balance as of December 31, 2018	$ (664,948)	-	-	17,924	(647,024)

(Continued)

TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
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		Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on available-for-sale financial assets	Cash flow hedge	Unrealized gains (losses) from financial assets measured at fair value through OCI	Total
Balance as of January 1, 2017	$	(197,581)	412,930	(17,385)	-	197,964
Exchange differences on translation of foreign operations (net of taxes):						
The Consolidated Company		(383,473)	-	-	-	(383,473)
Effective portion of cash flow hedge (net of taxes):						
The Consolidated Company		-	-	17,385	-	17,385
Unrealized gains (losses) on available-for-sale financial assets:						
The Consolidated Company		-	358,587	-	-	358,587
Associates		-	1,725	-	-	1,725
Balance as of December 31, 2017	$	(581,054)	773,242	-	-	192,188

(v) Earnings per share

(i) Basic earnings per share

The basic earnings per share for the years ended December 31, 2018 and 2017, were calculated on the basis of profit attributable to common shareholders, which were $887,932 thousand and $1,714,931 thousand, respectively, and the weighted-average number of outstanding ordinary shares, which were 1,004,061 thousand and 999,513 thousand, respectively. The calculations were as follows:

1) Profit attributable to ordinary shareholders of the Company (basic)

	For the years ended December 31, 2018	2017
Profit attributable to the Company	$ 887,932	1,714,931
Profit attributable to the ordinary shareholders	$ 887,932	1,714,931

2) Weighted-average number of outstanding ordinary shares (basic) (in thousands of shares)

	For the years ended December 31, 2018	2017
Number of outstanding shares	1,004,061	999,513

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(ii) Diluted earnings per share

The diluted earnings per share for the years ended December 31, 2018 and 2017, were calculated on the basis of profit attributable to ordinary shareholders, which were $913,011 thousand and $1,716,995 thousand, respectively, and the weighted average number of outstanding ordinary shares after adjustments for the effect of any potentially dilutive ordinary shares, which were 1,054,202 thousand and 1,066,188 thousand, respectively. Calculations were as follows:

1) Profit attributable to ordinary shareholders of the Company (diluted):

	For the years ended December 31,	
	2018	**2017**
Profit attributable to the ordinary shareholders of the Company (basic)	$ 887,932	1,714,931
Interest expense after tax and valuation of convertible bonds	25,079	2,064
Profit attributable to the ordinary shareholders of the Company (dilutive)	$ 913,011	1,716,995

2) Weighted-average number of ordinary shares (diluted) (in thousands of shares)

	For the years ended December 31,	
	2018	**2017**
Weighted-average number of outstanding ordinary shares (basic)	1,004,061	999,513
Effects of convertible bonds	47,942	4,234
Effects of employee stock bonus	2,199	2,441
Weighted-average number of outstanding ordinary shares (dilutive)	1,054,202	1,006,188

(w) Revenue from contracts with customers

(i) Disaggregation of revenue

	For the years ended December 31, 2018			
	Sale of goods	**Construction contracts**	**Rendering of services**	**Total**
Primary geographical markets:				
Taiwan	$ 26,873,601	3,866,973	146,452	30,887,026
The United States	1,667,568	-	-	1,667,568
Asia	4,533,070	870,068	-	5,403,138
Others	1,811,889	-	-	1,811,889
	$ 34,886,128	4,737,041	146,452	39,769,621

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	For the years ended December 31, 2018			
	Sale of goods	Construction contracts	Rendering of services	Total
Main product/service line:				
Deformed bars	$ 17,377,738	-	-	17,377,738
Sections	13,057,300	-	-	13,057,300
Billets	4,213,094	-	-	4,213,094
Rendering of services	-	-	146,452	146,452
Steel manufacture	-	4,641,996	-	4,641,996
Civil engineering	-	95,045	-	95,045
Others	237,996	-	-	237,996
	$ 34,886,128	4,737,041	146,452	39,769,621

For details on revenue for the year ended December 31, 2017, please refer to note 6(x).

(ii) Contract balances

	December 31, 2018	January 1, 2018
Notes receivable	$ 328,685	237,401
Accounts receivable	3,092,856	3,316,438
Overdue receivables	10,020	10,020
Less: allowance for impairment	(71,486)	(49,003)
Total	$ 3,360,075	3,514,856

	December 31, 2018	January 1, 2018
Contract assets—construction contract	$ 1,603,030	1,087,887

	December 31, 2018	January 1, 2018
Contract liabilities—advance receipts	$ 153,017	301,389
Contract liabilities—construction contract	330,261	437,188
Total	$ 483,278	738,577

For details on accounts receivable and allowance for impairment for , please refer to note 6(f).

For details on construction contracts, please refer to note 6(h).

The amount of revenue recognized for the year ended December 31, 2018 that was included in the contract liability balance at the beginning of the period was 301,389 thousand.

The major changes in the balance of the contract assets and contract liabilities is the difference between the timing in the performance obligation to be satisfied and the payment to be received.

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(x) Revenue

The details of the components of revenue for the year ended December 31, 2017 were as follows:

		For the years ended December 31, 2017,
Sale of goods	$	28,378,155
Rendering of service		114,764
Construction contract revenue		3,256,352
	$	**31,749,271**

For the revenue for the year ended December 31, 2018, please refer to Note 6(w).

(y) Employee compensation and remuneration of directors

In accordance with the articles of incorporation, the Company should contribute no less than 2.5% of the profit as employee compensation and less than 2% as remuneration of directors when there is profit for the year. However, if the Company has accumulated deficits, the profit should be reserved to offset the deficit.

For the years ended December 31, 2018 and 2017, the Company's estimated employee compensation amounted to $32,115 thousand and $51,969 thousand, and the remuneration of directors amounted to $25,692 thousand and $41,575 thousand, respectively. The estimated amounts mentioned above were calculated based on the net income before tax, excluding the compensation to employees and the remuneration to directors of each period, multiplied by the percentage of compensation employees and remuneration to directors as specified in the Company's articles. These compensation and remuneration were expensed under operating costs or operating expenses for the years ended December 31, 2017 and 2016. Related information is available at the Market Observation Post System website. There amounts, as stated in the financial statements for the years ended December 31, 2017 and 2016, are identical to those of the actual distributions.

(z) Non-operating income and expenses

(i) Other income

The details of other income for the years ended December 31, 2018 and 2017 were as follows:

		For the years ended December 31,	
		2018	**2017**
Interest income	$	6,078	8,518
Dividend income		59,935	51,808
Rental income		48,152	45,952
	$	**114,165**	**106,278**

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(ii) Other gains and losses

The details of other gains and losses for the years ended December 31, 2018 and 2017 were as follows:

		For the years ended December 31,	
		2018	**2017**
Foreign exchange loss	$	(15,661)	(9,851)
Net gain (loss) on disposal of property, plant and equipment		4,112	(40,803)
Net gain on disposal of investments		-	2,491
Gain (loss) on disposal of financial assets and liabilities carried at fair value through profit or loss		3,391	(41,916)
Impairment loss		(20,811)	(14,694)
Others		60,425	78,316
	$	31,456	(26,457)

The Consolidated Company performed an assessmemt on natural resources, which indicated an impairment loss. The recoverable ampunt was calculated using the value-in-use. Since the carring value was higher than the value-in-use, the Consolidated Company recognized an impairment loss amounting to $20,811 thousand as other gains and losses under non-oparating income for the year ended December 31, 2018.

(iii) Finance cost

The details of financial costs for the years ended December 31, 2018 and 2017 were as follows:

		For the years ended December 31,	
		2018	**2017**
Interest expense			
Bank borrowings	$	212,244	106,222
Amortized interest of domestic corporate bond		8,246	1,168
Interest on domestic commercial paper		12,187	2,327
Less: interest capitalization		(8,127)	(11,081)
	$	224,550	98,636

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(aa) Reclassification adjustments of the components of other comprehensive income

The details of reclassification of the components of comprehensive income for the years ended December 31, 2018 and 2017 were as follows:

	For the years ended December 31, 2018	2017
Cash flow hedges：		
Less: Adjustments to the original carrying value of the hedged item	$ -	17,385
Available-for-sale financial assets		
Net change in fair value in the current period	-	358,587
Net change recognized in other comprehensive income	$ -	358,587

(ab) Financial instruments

(i) Credit risk

1) Exposure to credit risk

The carrying amount of financial assets excluding cash and cash equivalents represents the Consolidated Company's maximum credit exposure. As of December 31, 2018 and 2017, the maximum exposure to credit risk amounted to $4,382,644 thousand and $5,678,947 thousand, respectively.

2) Concentration of credit risk

Credit risk, which is mainly generated from operating activities, is the risk that counterparties default. The Consolidated Company only deals with counterparties that are reputable. Therefore, it is not expected to generate any material credit risk. Moreover, the Consolidated Company has numerous clients and does not make any concentrative transactions with any single client. Therefore, there is no concentration of credit risk for account receivables.

(ii) Liquidity risk

The following are the dates of contractual maturities of financial liabilities, including estimated interest payments but excluding the impact of netting agreements.

	Carrying amount	Contractual cash flows	Within 6 months	6-12 months	1-2 years	2-5 years	Over 5 years
December 31, 2018							
Non-derivative financial liabilities							
Secured bank loans	$ 76,024	76,405	76,405	-	-	-	-
Unsecured bank loans	15,760,309	15,961,813	11,126,297	697,557	4,110,690	27,269	-
Commercial papers payable	1,499,369	1,499,369	1,499,369	-	-	-	-
Accounts and notes payable	2,171,364	2,171,364	2,171,364	-	-	-	-
Other payables	1,307,761	1,307,761	1,307,761	-	-	-	-
	$ 20,814,827	21,016,712	16,181,196	697,557	4,110,690	27,269	-

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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, 2017								
Non-derivative financial liabilities								
Secured bank loans	$	45,650	45,650	45,650	-	-	-	-
Unsecured bank loans		11,248,362	11,328,134	6,463,030	1,849,911	3,015,193	-	-
Commercial paper payable		604,095	605,000	604,095	-	-	-	-
Accounts and notes payable		1,973,054	1,973,054	1,973,054	-	-	-	-
Other payables		1,343,829	1,343,829	1,343,829	-	-	-	-
	$	15,214,990	15,295,667	10,429,658	1,849,911	3,015,193	-	-

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

(iii) Exchange rate risk

1) Exposure to exchange rate risk

The Consolidated Company's financial assets and liabilities exposed to significant exchange rate risk were as follows:

	December 31, 2018			December 31, 2017		
	Foreign currency	Exchange rate (in dollars)	TWD	Foreign currency	Exchange rate (in dollars)	TWD
Financial assets						
Monetary items						
USD	$ 76,365	30.72	2,345,933	29,974	29.76	892,026
EUR	2	35.20	70	2	35.57	71
JPY	472	0.2782	131	176,439	0.2642	46,615
CNY	22	4.472	98	22	4.565	100
Financial liabilities						
Monetary items						
USD	$ 174,832	30.72	5,370,839	109,006	29.76	3,244,019
EUR	1,884	35.20	66,317	1,059	35.57	37,669
JPY	47,607	0.2782	13,244	232,363	0.2642	61,390

Due to the variety of functional currencies, the Consolidated Company disclosed the aggregated information on foreign exchange gains or losses. The realized and unrealized exchange loss amounted to $15,661 thousand and $9,851 thousand for the months ended December 31, 2018 and 2017, respectively.

2) Sensitivity analysis

The Consolidated Company's exposure to exchange rate risk arises from the foreign currency exchange fluctuations on cash and cash equivalents, accounts receivable, and loans and borrowings, which were denominated in different foreign currencies. The overall effects to net income before tax for the months ended December 31, 2018 and 2017 assuming the TWD appreciate or depreciate by 1% against the USD, EUR, JPY, and CNY, while other factors remain constant, as of December 31, 2018 and 2017 were as follows:

	Effect of appreciation on net income after tax	Effect of depreciation on net income after tax
December 31, 2018		
USD (appreciation/depreciation of 1%)	$ (24,199)	24,199
EUR (appreciation/depreciation of 1%)	(530)	530
JPY (appreciation/depreciation of 1%)	(105)	105
CNY (appreciation/depreciation of 1%)	1	(1)
	$ (24,833)	24,833
December 31, 2017		
USD (appreciation/depreciation of 1%)	$ (19,522)	19,522
EUR (appreciation/depreciation of 1%)	(312)	312
JPY (appreciation/depreciation of 1%)	(123)	123
CNY (appreciation/depreciation of 1%)	1	(1)
	$ (19,956)	19,956

(iv) Interest rate analysis

The Consolidated Company's financial assets and liabilities exposed to interest rate risk are described in liquidity analysis within this Note.

The following sensitivity analysis is based on the risk exposure to interest rates of the derivative and non-derivative financial instruments on the reporting date. For variable rate instruments, the sensitivity analysis assumes the liabilities bearing variable interest rates are outstanding for the whole year. A 1% increase or decrease in interest rate is assessed by management to be a reasonably possible change in interest rate.

If the interest rate increases by 1%, the Company's net income will decrease by $158,363 thousand and $112,940 thousand for the years ended December 31, 2018 and 2017 respectively, assuming all other variable factors remain constant.

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(v) Other market price risk:

The impact of hypothetical changes in prices of equity securities on other comprehensive income on the reporting date was as follows:

	For the years ended December 31,	
	2018	2017
Security price on reporting date	Other comprehensive income (after tax)	Other comprehensive income (after tax)
Increase 1%	$ 3,777	13,641
Decrease 1%	$ (3,777)	(13,641)

(vi) Information on fair value

1) Types and fair value of financial instruments

The carrying and fair value of the Consolidated Company's financial assets and liabilities, including fair value hierarchy, wherein, disclosures are not required for financial instruments not measured at fair value with a carrying value approximating its fair value; and those equity investments in which the fair value cannot be reliably measured and without any quoted price in the open market, are listed as follows:

	December 31, 2018				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss					
Non-derivative financial asset mandatorily measured at fair value through profit or loss	$ 134,560	134,560	-	-	134,560
Financial assets at fair value through other comprehensive income					
Publicly listed stocks and stocks listed on emerging markets	377,716	377,716	-	-	377,716
Equity instruments measured at fair value with no publicly quoted price	189,107	-	-	189,107	189,107
Subtotal	566,823	377,716	-	189,107	566,823
Financial assets measured at amortized cost					
Cash and cash equivalents	1,097,976	-	-	-	-
Notes and accounts receivable	3,360,075	-	-	-	-
Other receivables	79,853	-	-	-	-
Refundable deposits and pledged deposits	241,333	-	-	-	-
Subtotal	4,779,237	-	-	-	-
Total	$ 5,480,620	512,276	-	189,107	701,383
Financial liabilities at fair value through profit or loss					
Derivative financial liabilities—foreign exchange forward contracts	$ 1,745	-	1,745	-	1,745
Redemption options on convertible bonds	31,200	-	31,200	-	31,200
Subtotal	32,945	-	32,945	-	32,945

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	December 31, 2018				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial liabilities measured at amortized cost					
Short-term loans	$ 11,752,724	-	-	-	-
Long-term loans (including current portion)	4,083,609	-	-	-	-
Bonds payable	1,915,729	-	1,914,200	-	1,914,200
Short-term notes and bills payable	1,499,369	-	-	-	-
Notes and accounts payable	2,171,364	-	-	-	-
Other payables	1,307,761	-	-	-	-
Subtotal	22,730,556	-	1,914,200	-	1,914,200
Total	$ 22,763,501	-	1,947,145	-	1,947,145

	December 31, 2017				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss					
Non-derivative financial asset held for trading—publicly listed domestic stocks	$ 186,360	186,360	-	-	186,360
Financial assets carried at cost					
Unlisted domestic/foreign stocks	218,711	-	-	-	-
Available-for-sale financial assets					
Publicly listed stocks	1,364,071	1,364,071	-	-	1,364,071
Loans and receivables					
Cash and cash equivalents	1,020,460	-	-	-	-
Notes and accounts receivable	3,514,856	-	-	-	-
Other receivables	185,739	-	-	-	-
Refundable deposits and pledged deposits	209,210	-	-	-	-
Subtotal	4,930,265	-	-	-	-
Total	$ 6,699,407	1,550,431	-	-	1,550,431
Financial liabilities at fair value through profit or loss					
Derivative financial liabilities—foreign exchange forward contracts	$ 5,875	-	5,875	-	5,875
Financial liabilities measured at amortized cost					
Short-term loans	8,294,012	-	-	-	-
Long-term loans (including current portion)	3,000,000	-	-	-	-
Short-term bills payable	604,096	-	-	-	-
Notes and accounts payable	1,973,055	-	-	-	-
Other payables	1,343,829	-	-	-	-
Total	$ 15,220,867	-	5,875	-	5,875

(Continued)

2) Technique for fair value evaluation of financial instruments not measured at fair value

The Consolidated Company's assumption and technique used to evaluate its financial instruments not measured at fair value are as follows:

a) Financial assets measured at amortized cost (Financial assets held to maturity)

If the quoted prices in active markets are available, the market price is established as the fair value. However, if quoted prices in active markets are not available, the estimated valuation or prices used by competitors are adopted.

b) Financial assets measured at amortized cost (debt investments with no active market) and financial liabilities measured at amortized cost

If the information on the quoted price of the market deals and market manipulation is available, the latest price of the transaction and quotation information should be used as the basis for evaluating its fair value. If no market information is available for reference, the evaluation method should be adopted. Estimates and assumptions of the evaluation method should be used to assess the fair value of the discounted cash flows.

3) Technique for fair value evaluation of financial instruments measured at fair value

a) Non-derivative financial instrument

If a financial instrument is quoted in an active market, the quoted price is its fair value. Announced prices at major exchanges and market prices of popular government bonds at the Taipei Exchange are bases of fair value for listed equity instruments and other debt investments with an active market.

A financial instrument is regarded as being quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency. If this condition is not met, the market is not active. Generally, if bid-ask spreads are very wide, the spread is increasing, or the transaction volume is low, the market is not active.

Fair value of the Consolidated Company's financial instruments that have an active market is displayed by category and attributed as follows:

Listed stocks are financial assets and liabilities with standard transaction terms and conditions, and are traded on an active market. The fair value of such items is determined in reference to the quoted market price.

Except for the abovementioned financial instruments with an active market price, the fair value of other financial instruments is measured using the valuation techniques. The fair value obtained through valuation techniques can be used as a reference to the current fair value, discounted cash flow, or other valuation techniques for other financial instruments with substantially similar properties and conditions. Fair value calculated using the valuation models and the available market information on the balance sheet date are also accepted by the market.

(Continued)

The fair value and the attributes of a financial instrument without an active market held by the Consolidated Company is listed as follows:

- Equity instruments without an open quoted price: Fair value is estimated using the approach of comparative companies. The main assumptions are the estimated EBITDA of the investee, and the earnings multiplier derived from the quoted price of a comparative publicly listing company. Such estimate has been adjusted by the discount due from the lack of market circulation of the equity securities.

b) Derivative financial instruments

Such items are valued using the valuation models which are widely accepted by the market. Foreign exchange forward contracts normally are valued using the current forward exchange rates. Interest rate structured financial instruments are valued using the option pricing models or other valuation methods.

4) Transfers between Level 1 and Level 2

There were no transfers in either direction in the years ended December 31, 2018 and 2017.

5) Quantified information on significant unobservable inputs (Level 3) used in fair value measurement

The Consolidated Company's financial instruments that use Level 3 inputs to measure fair value include "financial assets measured at fair value through profit or loss – debt investments".

Multiple unobservable inputs exist with the fair value of the Consolidated Company's investments in equity instruments. Since the significant unobservable inputs are independent of each other, no interrelationship exists.

Quantified information of significant unobservable inputs was as follows:

Item	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Financial assets at fair value through other comprehensive income －equity investments without an active market	Comparative method	·Multiplier of P/E ratio (0.60~12.97 as of December 31, 2018) ·Discount rate for lack of market circulation (10.00%~34.80% as of December 31, 2018)	·The higher the multiplier and the control premium, the higher the fair value ·The higher the discount rate, the lower the fair value

6) Fair value measurements in Level 3 – sensitivity analysis of reasonably possible alternative assumptions

The measurement of fair value by the Consolidated Company is considerably reasonable. However, if a different valuation model or assumption is adopted, the result can differ. For fair value measurements in Level 3, changes in the assumptions would have the following effects:

	Input	Changes in assumptions	Changes in fair value reflected in OCI	
			Favorable	Unfavorable
December 31, 2018				
Financial assets at fair value through other comprehensive income				
Investment in equity instrument without an active market	Discount on circulation 10.66%~34.79%	5%	12,449	(12,449)

The favorable and unfavorable effects represent the changes in fair value, and fair value is based on a variety of unobservable inputs calculated using a valuation technique. The analysis above only reflects the effects of changes in a single input, and it does not include the interrelationships with another input.

(ac) Financial risk management

(i) Summary

The Consolidated Company is exposed to the following risks by using financial instruments:

1) Credit risk

2) Liquidity risk

3) Market risk

This disclosure contains the information of the risk exposure, the objectives, policies and procedures of the measurement and management of those risks. Detailed quantified information has been disclosed in related notes to the financial statements.

(ii) The structure of risk management

The goal of risk management of the Consolidated Company is to seek balance between risk and revenue, reducing the negative impact of financial risks on consolidated financial performance. Based on that goal, the Consolidated Company has already established risk management policies for identifying and analyzing the risks faced, set appropriate acceptable risk level, and designed corresponding internal control procedures in order to supervise the risk level of the Consolidated Company. The Consolidated Company will review these risk management policies and relevant internal control system periodically to adapt to the market or the changes in operational activities of the Consolidated Company.

(iii) Credit risk

Credit risk is the risk of financial loss to the Consolidated Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Consolidated Company' s receivables from customers and investment securities.

1) Accounts receivable and other receivables

To maintain the credit quality of receivables, a credit risk management policy has been established. Under this policy, each customer is analyzed individually regarding customer' s financial situation, external and internal credit rating, historical trading record, and current economic condition which may affect customer's payment ability. In addition, some methods are adopted to reduce the credit risk for specific customers, such as prepayment and insurance of accounts receivable.

2) Investments

The credit risk exposure on bank deposits, fixed income investments and other financial instruments are measured and monitored by the Consolidated Company' s finance department. As the Consolidated Company's transactions are done with the banks and other external parties with good credit standing, management is not aware of any non-compliance issues and is not expecting significant credit risk.

3) Endorsements and guarantees

The parties whom the Consolidated Company endorses and guarantees are its subsidiaries and affiliated companies; the items that the Consolidated Company endorses and guarantees are mostly financing and import duties commodity tax. Because the affiliated companies are financially sound and operate stably, the Consolidated Company has never suffered from losses due to endorsements and guarantees.

(iv) Liquidity risk

Liquidity risk is the risk that the Consolidated Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. The Consolidated Company' s approach to managing liquidity is to ensure, as much as possible, that it will always have sufficient current funds, such as cash and cash equivalent, securities with high liquidity, and sufficient credit line from banks, to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Consolidated Company' s reputation. Therefore, the Consolidated Company believes the liquidity risk is low.

The Consolidated Company not only analyzes its debt structure and deadline periodically to maintain sufficient capital, but also consults with financial institutions to maintain its credit lines, thereby, mitigating liquidity risk. The Consolidated Company obtains its credit lines from certain financial institutions, of which the unused credit lines amounted to $17,643 thousand as of December 31, 2018. The borrowings that had been used within the credit lines were listed separately in short-term and long-term loans.

(v) Market risk

Market risk is the risk of changes in market prices, such as foreign exchange rates, interest rates and equity prices that will affect the Consolidated Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

1) Exchange rate risk

Exchange rate risks are the risks generated from the fluctuation of fair value or the future cash flows of the financial instruments. The Consolidated Company's exchange rate risks arise from transactions such as sales, purchases and borrowings that are not recognized at the Consolidated Company's functional currency.

Steel bars and sections are the two main products of the Consolidated Company. Sales of steel bars mainly go to domestic clients and are recognized in New Taiwan dollar. The ratio of domestic sales to external sales for sections was about 83 to 17 for the year ended December 31, 2018. The external sales for the year ended December 31, 2018 was about $80,100,000 thousand which was 23% of the total revenue. Because the functional currency for import and export sales are all recognized in United States dollar ("USD"), sales revenue in USD and payments in USD can offset each other. The Consolidated Company uses foreign exchange forward contracts to avoid the risk of exchange rate fluctuation, recognizing the fluctuation of the fair value of the derivatives in profit or loss and takes the following steps to avoid exchange risk.

a) Collect relevant information about the daily fluctuation in exchange rate in order to know its trend. Decide whether to convert one currency into another specific currency at a proper time or retain foreign currency borrowings.

b) On dispatching foreign funds, the creditor's rights and debts in foreign currency offset each other through regular external sales and imports, causing the effect of natural hedge.

c) Consult with foreign exchange departments of banks about hedging strategies and decide the foreign position that depends on the actual need of capital and the fluctuation of the exchange rate.

2) Interest rate risk

Interest rate risks are the risks that arise due to fluctuations in fair value or future cash flows of financial instruments because of changes in interest rate.

The Consolidated Company will obtain a more beneficial capital according to the compatibility of corresponding banks and the actual interest rate trends. The ratio of net interest revenue to the net operating revenue is not material; therefore, interest rate fluctuation does not cause any significant impact on the Consolidated Company. Besides, the Consolidated Company maintains a close relationship with certain corresponding banks and is well informed of any changes in the market in order to obtain a much more beneficial borrowing rate. The Consolidated Company continues to observe changes of interest rate on the market and issues convertible bonds to raise capital at proper time, and to fix and reduce interest cost for the Consolidated Company. Material capital expenditure will be evaluated with prudence and will be compared to different fund-raising instruments in order to raise capital with the least cost.

(ad) Capital management

Although business operated by the Consolidated Company has reached the stage of maturity, a sufficient amount of capital is still required to support the operation of investee companies, construction and expand its production facilities and equipment. The Consolidated Company' s policy is to maintain adequate financial resources and operating plan to meet future operating capital, capital expenditure, research and development expenditure, loans reimbursement, and dividend distribution.

The Consolidated Company uses the debt-to-capital ratio to manage capital. The debt-to-capital ratio is calculated by dividing the net liabilities by the total capital. Net liabilities derive from deducting cash and cash equivalents from total liabilities.

The Consolidated Company reviews the ratio of debt-to-capital periodically to improve stockholders' value. The debt-to-capital ratios as of December 31, 2018 and 2017, were as follows:

	December 31, 2018	December 31, 2017
Total liabilities	$ 24,547,729	17,264,361
Less: cash and cash equivalents	(1,097,976)	(1,020,460)
Net liabilities	23,449,753	16,243,901
Total equity	24,010,763	24,033,031
Total capital	$ 47,460,516	40,276,932
Debt-to-capital ratio	49.41 %	40.33 %

As of December 31, 2018, there were no changes in the Consolidated Company's approach to capital management during the period.

(ae) The investing and financing activities of non-cash transactions

The cash flow of non-cash investing and financing transactions for the years ended December 31, 2018 and 2017, were as follows:

	For the years ended December 31, 2018	2017
Reclassification of financial assets carried at cost to available-for-sale financial assets	$ -	94,586
Conversion of convertible bonds payable to ordinary shares (including share premium)	$ -	131,302
Reclassification of prepayment of land and equipment to property, plant and equipment	$ 112,709	981,795
Reclassification of prepayment of land and equipment to investment property	$ -	74,315
Changes in unrealized gain or loss on financial instruments	$ 14,626	358,587
Unrealized gain or loss on financial instruments accounted for using the equity method	$ 148,531	1,725
Change in related companies recognized by the equity method	(83,894)	(383,473)
Increase in property, plant and equipment	$ 1,783,007	3,504,293
Add: Payable for equipment as of January 1	44,376	49,349
Less: Payable for equipment as of December 31	(121,401)	(44,376)
Less: Loss on hedging instrument transferred to property, plant and equipment	-	(17,385)
Cash paid	$ 1,705,982	3,491,881

Reconciliation of liabilities arising from financing activities were as follows:

		Cash flows			Non-cash changes		
	January 1.2018	Proceeds from loans	Repayment	Other	Foreign exchange	Other	December 31, 2018
Short-term loans	$ 8,294,012	61,414,940	(57,973,533)	-	17,305	-	11,752,724
Long-term loans (including current portion)	3,000,000	3,427,413	(2,353,571)	-	9,767	-	4,083,609
Short-term notes and bills payable	605,000	12,730,000	(11,835,000)	-	-	-	1,500,000
Bonds payable	-	2,000,000	-	-	-	(84,271)	1,915,729
Refundable deposits	25,288	-	-	(11,390)	-	-	13,898
Total liabilities from financing activities	$ 11,924,300	79,572,353	(72,162,104)	(11,390)	27,072	(84,271)	19,265,960

TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
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(7) Related-party transactions

(a) Names and relationship with related parties

Name of related party	Relationship with the Consolidated Company
Katec R & D Corp.	An associate
Taiwan Steel Union Co., Ltd.	An associate
Duc Hoa International Joint Stock Company	An associate
Fujian Sino-Japan Metal Corp.	An associate
Far East Steel Enterprise Corp.	The entity's chairman is the same as the chairman of the Company
Shen Yuan Investment Co., Ltd.	The entity's chairman is a second immediate family of the chairman of the Company
Delta Design Corp.	The entity's chairman is a second immediate family of the chairman of the Company

Directors, general manager and vice general manager

(b) Significant related-party transactions

(i) Sales to related parties

1) Significant sales to related parties and the balance of outstanding accounts receivable were as follows:

	Sales		Accounts receivable	
	For the years ended December 31,		December 31,	December 31,
	2018	2017	2018	2017
Associates	$ 20,081	22,679	2,910	1,154

The selling price and credit terms for sales to related parties are not significantly different from those to other customers.

2) Construction contract revenue of the Consolidated Company that was determined based on the stage-of-completion method to related parties was as follows:

			Construction contract revenue	
			For the years ended December 31,	
Relationship	Activity	Total	2018	2017
Associates	Construction	$ 38,930	1,359	32,992

(Continued)

TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Purchase from related parties

	Purchases		Accounts payable	
	For the years ended December 31,		December 31,	December 31,
	2018	2017	2018	2017
Associates	$ 34,168	49,256	1,142	4,336
Other related parties	1,412	227	-	-
	$ 35,580	49,483	1,142	4,336

The terms of purchase transactions and the payment terms with related parties were not significantly different from those with other vendors.

(iii) Financing to related parties

Interest income incurred by financing was as follows:

	Interest income		
	For the years ended December 31,		Interest
	2018	2017	rates
Associates	$ 264	160	3.0%

(iv) Endorsement/guarantees provided

The details regarding balances of financing endorsement were as follows:

Expressed in thousands of USD

	December 31, 2018		
	Highest balance for current period	Ending amount (Note)	Actual amount provided
Associates	USD$ 11,485	USD 5,250	USD 5,250

	December 31, 2017		
	Highest balance for current period	Ending amount (Note)	Actual amount provided
Associates	USD$ 12,667	USD 6,235	USD 6,235

Note: The credit limit approved by the Board of Directors

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TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(v) Others

	Rental income		Miscellaneous revenue		Manufacturing expenses	
	For the years ended December 31,		For the years ended December 31,		For the years ended December 31,	
Relationship	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Associates	$ 3,309	3,304	218	762	22,246	27,255
Other related parties	2,893	23	-	-	-	-
	$ 6,202	3,327	218	762	22,246	27,255

	Other operation expenses		Donation expenses	
	For the years ended December 31		For the years ended December 31	
Relationship	**2018**	**2017**	**2018**	**2017**
Associates	$ 62,989	72,112	-	-
Other related parties	961	1,346	-	-
Other related parties −THSF	-	-	3,558	8,344
	$ 63,950	73,458	3,558	8,344

	Notes payable	
Relationship	**December 31, 2018**	**December 31, 2017**
Other related parties	$ 640	705

	Other receivables		Other payables	
Relationship	**December 31, 2018**	**December 31, 2017**	**December 31, 2018**	**December 31, 2017**
Associates	$ 36	52	10,706	17,248
Other related parties	21	-	-	-
	$ 57	52	10,706	17,248

	Investment property		Deposits received	
Relationship	**December 31, 2018**	**December 31, 2017**	**December 31, 2018**	**December 31, 2017**
Associates	$ -	115,617	304	304

(c) Compensation of key management personnel

Compensation of key management personnel consists of:

	For the years ended December 31,	
	2018	**2017**
Short-term employee benefits	$ 52,360	49,022
Post-employment benefits	2,552	1,764
	$ 54,912	50,786

As of December 31, 2018 and 2017, the Consolidated Company provided three cars and four cars that cost $12,453 thousand and $11,918 thousand, respectively, for the key management personnel of the entity.

(8) Pledged assets

The details of the Consolidated Company's pledged assets were as follows:

Pledged assets	Pledged to secure	December 31, 2018	December 31, 2017
Other current and non-current assets	Guarantee for bank loans and performance guarantee	$ 41,264	4,780
Refundable deposits	Performance guarantee	3,687	3,670
Land use right (Listed as other non-current assets)	Guarantee for bank loans	6,570	6,988
Property, plant and equipment	Guarantee for bank loans	643,810	658,442
		$ 695,331	673,880

(9) Commitments and contingencies

(a) Commitments

(i) The guarantees were mainly for securing loans and gave rise to potential off-balance-sheet credit risk, which represents the risk of loss incurred by the default of counterparties or by the devaluation of collateral provided by the counterparties. The Consolidated Company did not ask counterparties for collateral as secure guarantees. The amounts of the Consolidated Company's guarantees were as following:

	December 31, 2018	December 31, 2017
Guarantees securities amounts	$ 161,280	185,554

(Continued)

TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) The amounts of guaranteed notes issued by the Consolidated Company were as follows:

Nature	December 31, 2018	December 31, 2017
Bank credit limit	$ 11,831,879	7,603,364
Leases	200	200
Guaranteed payment for purchases of raw materials	40,030	28,780
	$ 11,872,109	7,632,344

(iii) The amount of unused outstanding letters of credit for the importation of raw materials was as follows:

	December 31, 2018	December 31, 2017
Unused outstanding letters of credit	$ 1,293,171	1,590,390

(10) Losses due to major disasters: None

(11) Subsequent events:None

(12) Others

(a) The Consolidated Company's employee benefit, depreciation, and amortization expenses, categorized by function, were as follows:

	For the year ended December 31, 2018			For the year ended December 31, 2017		
	Classified as operating costs	Classified as operating expenses	Total	Classified as operating costs	Classified as operating expenses	Total
Employee benefits						
Salaries	1,247,159	501,910	1,749,069	1,197,243	540,726	1,737,969
Labor and health insurance	115,087	43,217	158,304	111,905	42,378	154,283
Pension expenses	63,123	21,136	84,259	64,091	21,862	85,953
Other personnel expenses (Note)	50,877	41,334	92,211	43,089	54,740	97,829
Depreciation expenses	1,213,693	93,344	1,307,037	1,082,043	80,768	1,162,811
Amortization expenses	61,602	16,161	77,763	52,166	11,054	63,220

Note: Included remuneration of directors $35,292 thousand and $41,575 thousand for the years ended December 31, 2018 and 2017 respectively.

TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(b) As of December 31,2018 and 2017, the analysis of the liquidity of the Company's assets and liabilities was as follows:

	December 31, 2018		
	Receivables / Payables expected to be realized within twelve months	Receivables / Payables expected to be realized after twelve months	Total
Assets			
Cash and cash equivalents	$ 1,097,976	-	1,097,976
Current financial assets at fair value through profit or loss	134,560	-	134,560
Notes and accounts receivable	3,199,533	160,542	3,360,075
Other receivables	79,853	-	79,853
Inventories	15,453,079	-	15,453,079
Contract assets	-	1,603,030	1,603,030
Prepayments and other current assets	1,240,379	-	1,240,379
	$ 21,205,380	1,763,572	22,968,952
Liabilities			
Short-term loans	$ 11,752,724	-	11,752,724
Current financial liabilities at fair value through profit or loss	1,745	-	1,745
Short-term notes and bills payable	1,499,369	-	1,499,369
Current contract liabilities	-	483,278	483,278
Notes and accounts payable	2,171,364	-	2,171,364
Other payables	1,307,761	-	1,307,761
Current tax liabilities	200,510	-	200,510
Provisions and other current liabilities	72,974	-	72,974
	$ 17,006,447	483,278	17,489,725

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TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	December 31, 2017		
	Expected to receive or paid within twelve months	Expected to receive or paid over twelve months	Total
Assets			
Cash and cash equivalents	$ 1,020,460	-	1,020,460
Current financial assets at fair value through profit or loss	186,360	-	186,360
Notes and accounts receivable	3,424,721	90,135	3,514,856
Other receivables	185,739	-	185,739
Inventories	8,175,732	-	8,175,732
Construction contracts receivable	-	1,087,887	1,087,887
Prepayments and other current assets	664,319	-	664,319
	$ 13,657,331	1,178,022	14,835,353
Liabilities			
Short-term loans	$ 8,294,012	-	8,294,012
Current financial liabilities at fair value through profit or loss	5,875	-	5,875
Short-term notes and bills payable	604,095	-	604,095
Construction contracts payable	-	437,188	437,188
Notes and accounts payable	1,973,054	-	1,973,054
Other payables	1,343,829	-	1,343,829
Current tax liabilities	192,573	-	192,573
Provisions and other current liabilities	314,075	103,367	417,442
	$ 12,727,513	540,555	13,268,068

(Continued)

TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(13) Other disclosures

(a) Information on significant transactions

The following is the information on significant transactions of the Consolidated Company required by the Regulations:

(i) Financing to other parties:

(in thousands of NTD/USD)

Number	Name of lender	Name of borrower	Account name	Related party	Highest balance of financing to other parties during the period	Ending balance	Actual usage amount during the period	Range of interest rates during the period	Purposes of fund financing for the borrower (Note 2)	Transaction amount for business between two parties	Reasons for short-term financing	Allowance for bad debt	Collateral Item	Collateral Value	Individual funding loan limits	Maximum limit of fund financing
1	Tung Yuan International Corp.	Duc Hoa International Joint Stock Company	Other receivables from related parties	Yes	30,720 (USD1,000)	-	-	3%~3.5%	2	-	Operating capital	-	-	-	80,517 (USD2,621)	161,034 (USD5,242)

Note 1: Financing to an individual party should not exceed 10% of the net equity on its latest financial statements. The maximum amount allowed for financing should not exceed 20% of the net equity on its latest financial statements.

Note 2: Reasons for short-term financing were as follows:

(1) Those with business contact

(2) Those necessary for short-term fund circulation

(ii) Guarantees and endorsements for other parties:

(in thousands of NTD/USD)

No.	Name of guarantor	Counter-party of guarantee and endorsement: Name	Counter-party of guarantee and endorsement: Relationship with the Company	Limitation on amount of guarantees and endorsements for a specific enterprise	Highest balance for guarantees and endorsements during the period	Balance of guarantees and endorsements as of reporting date	Actual usage amount during the period	Property pledged for guarantees and endorsements (amount)	Ratio of accumulated amounts of guarantees and endorsements to net worth of the latest financial statements	Maximum amount for guarantees and endorsements	Parent company endorsements/ guarantees to third parties on behalf of subsidiary	Subsidiary endorsements/ guarantees to third parties on behalf of parent company	Endorsements/ guarantees to third parties on behalf of companies in Mainland China
0	The Company (Note 2, 3)	Fujian Tung Kang Steel Co., Ltd.	2	9,561,234	1,083,760 (USD28,000) (CNY50,000)	899,440 (USD22,000) (CNY50,000)	196,279 (USD2,100) (CNY29,465)	-	3.76 %	9,561,234	Y	N	Y
0	The Company (Note 2, 3)	THSVC	2	9,561,234	8,524,800 (USD277,500)	7,142,400 (USD232,500)	3,874,406 (USD126,120)	-	29.88 %	9,561,234	Y	N	N
1	Tung Yuan International Corp. (Note 4, 5)	Best-Steel Trade Corp.	2	402,616 (USD13,106)	36,864 (USD1,200)	36,864 (USD1,200)	36,864 (USD1,200)	36,864 (USD1,200)	4.58 %	805,202 (USD26,211)	N	N	N
1	Tung Yuan International Corp. (Note 4, 5)	Fujian Sino-Japan Metal Corp.	6	402,616 (USD13,106)	322,560 (USD10,500)	161,280 (USD5,250)	161,280 (USD5,250)	-	20.03 %	805,202 (USD26,211)	N	N	Y
1	Tung Yuan International Corp (Note 4, 5)	Duc Hoa International Joint Stock Company	6	402,616 (USD13,106)	30,259 (USD985)	- (USD0)	- (USD0)	-	- %	805,202 (USD26,211)	N	N	N

Note 1: There are seven kinds of conditions in which the Company may have guarantees or endorsements for the receiving parties.

1 The Company has business with the receiving parties.

2 In aggregate, the Company and its subsidiaries hold more than 50% of the investee.

3 The Company is held more than 50% by the investor.

4 .In aggregate, the Company and its subsidiaries hold more than 90% of the investee.

5 The Company is required to make guarantees or endorsements for the construction project based on the construction contract.

Note 2: Not exceeding 40% of the net equity of the latest financial statements. Net equity is determined using the latest financial statements audited or reviewed by an independent accountant.

Note 3: Not exceeding 40% of the net equity of the latest financial statements. Net equity is determined using the latest financial statements audited or reviewed by an independent accountant.

Note 4: Not exceeding 50% of the net equity on the latest financial statements.

Note 5: The total amount of guarantees and endorsements should not exceed the Company's net equity on its latest financial statements. The limitation amount for the current period is USD 26,211 thousand. Guarantees and endorsements for an individual company should not exceed 50% of the company's net equity on its latest financial statements. Moreover, according to the Company's policy, the total amount of guarantees and endorsements made by the Company should not exceed 45% of the company's latest financial statement (limit as of the current period: 10,756,388 thousand); the total amount of guarantees and endorsements on an individual company should not exceed 40% of the Company's net worth of its latest financial statements (limit of the current period: 9,561,234 thousand).

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(iii) Securities held as of December 31, 2018 (excluding investment in subsidiaries, associates and joint ventures):

(in thousands of NTD)

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Highest	Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value	Percentage of ownership (%)	
The Company	Stock Zenitron Corporation	-	(a)	3,825,000	80,325	1.79 %	80,325	1.79 %	None
The Company	Stock Adlink	-	(a)	1,713,577	54,235	0.79 %	54,235	0.79 %	〃
The Company	Stock Shiao Kang Warehousing Corp.	One of its directors	(b)	2,384,060	16,927	19.87 %	16,927	19.87 %	〃
The Company	Stock Hexawave Photonic System, Inc.	One of its directors	(b)	11,687,916	50,492	16.35 %	50,492	16.35 %	〃
The Company	Stock Overseas Investment & Development Corp.	-	(b)	1,000,000	6,360	1.11 %	6,360	1.11 %	〃
The Company	Stock Power World Fund, Inc.	One of its directors	(b)	677,245	9,597	5.68 %	9,597	5.68 %	〃
The Company	Stock Universal Venture Fund, Inc.	One of its directors	(b)	558,255	7,257	4.76 %	7,257	4.76 %	〃
The Company	Stock Tung Jiang Investment Corp.	One of its directors	(b)	-	31,407	9.13 %	31,407	9.13 %	〃
The Company	Stock Taiwan Aerospace Corp.	-	(b)	1,621,441	30,694	1.19 %	30,694	1.19 %	〃
The Company	Stock Universal Venture Capital Investment Corp.	-	(b)	2,800,000	21,084	2.33 %	21,084	2.33 %	〃
The Company	Stock IBT	-	(b)	1,312,993	6,381	4.17 %	6,381	4.17 %	〃
The Company	Katec Creative Resources Corporation preferred stock	Subsidiary of the Company	(b)	577,031	-	65.18 %	-	65.18 %	Note 1
The Company	Stock Chien Shing Harbour Service Co., Ltd	One of its directors	(b)	8,203,800	187,867	10.11 %	187,867	11.38 %	None
The Company	Stock Taiwan High Speed Rail Corporation	-	(b)	6,214,376	189,849	0.11 %	189,849	0.88 %	〃
Tung Yuan International Corp.	Chinese Products Promotion Center	-	(b)	2,500	227	0.66 %	227	0.66 %	〃
Tung Yuan International Corp.	Pech alliance Corp.	-	(b)	1,791,562	4,953	5.69 %	4,953	5.69 %	〃
Tung Kang Engineering & Construction Corp.	Toko Sanitaryware Trading Development Corp.	-	(b)	150,000	3,728	15.00 %	3,728	15.00 %	〃

Note: (a) Current financial assets at fair value through profit or loss

(b) Non-current financial assets at fair value through other comprehensive income

Note 1: Intercompany transactions of the above have already been eliminated during the preparation of the consolidated financial statements.

(iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT$300 million or 20% of the capital stock:

(In Thousands of New Taiwan Dollars)

Name of company	Category and name of security	Account name	Name of counter-party	Relationship with the company	Beginning Balance		Purchases		Sales				Ending Balance	
					Shares	Amount	Shares	Amount	Shares	Price	Cost	Gain (loss) on disposal	Shares	Amount
The Company	Tung Ho Steel Vietnam Corp., Ltd	Note 1	Note 2	Non-related	49,505,376	1,163,376	-	-	43,291,000	1,355,418	426,084	Note 3 -	6,214,376	189,849

Note 1: Non-current financial assets at fair value through other comprehensive income.

Note 2: Non-related.

Note 3: The book cost has been adjusted at fair value before disposed and has been adjusted to retained earnings.

(Continued)

TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(v) Acquisition of individual real estate with amount exceeding the lower of NT$300 million or 20% of the capital stock: None

(vi) Disposal of individual real estate with amount exceeding the lower of NT$300 million or 20% of the capital stock: None

(vii) Related-party transactions for purchases and sales with amounts exceeding the lower of NT$100 million or 20% of the capital stock:

(in thousands of NTD)

Name of company	Related party	Nature of relationship	Transaction details				Transactions with terms different from others		Notes/Accounts receivable (payable)		Note
			Purchase/Sale	Amount	Percentage of total purchases/sales	Payment terms	Unit price	Payment terms	Ending balance	Percentage of total notes/accounts receivable (payable)	
The Company	Tung Kang Steel Structure Corp.	Subsidiary of the Company	Sale	(1,331,164)	(3.84)%	Receivable within 60 days	-	-	401,438	7.95%	
The Company	THSVC	Subsidiary of the Company	Sale	(2,238,824)	(6.45)%	330 days after B/L	-	-	1,465,747	29.04%	
The Company	BST	Subsidiary of the Company	Sale	(1,637,176)	(4.19)%	110 days after B/L	-	-	650,273	12.88%	
Tung Kang Steel Structure Corp.	The Company	Subsidiary of the Company	Purchase	1,331,164	54.70%	Payable within 60 days	-	-	(391,155)	(51.33)%	
THSVC	The Company	Subsidiary of the Company	Purchase	2,338,814	95.00%	330 days after B/L	-	-	(1,502,688)	(94.57)%	
BST	The Company	Subsidiary of the Company	Purchase	1,637,176	100.00%	110 days after B/L	-	-	(650,273)	(100)%	

Note1: The transactions have already been written off in the consolidated financial statements.

(viii) Receivables from related parties with amounts exceeding the lower of NT$100 million or 20% of the capital stock:

(in thousands of NTD)

Name of company	Counter-party	Nature of relationship	Ending balance	Turnover rate	Overdue		Amounts received in subsequent period	Allowance for bad debts
					Amount	Action taken		
The Company	Tung Kang Steel Structure Corp.	Subsidiary of the Company	401,438 (Accounts receivable—related parties)	4.40	-		401,438	-
			406 (Other receivables—related parties)	-	-		-	-
The Company	THSVC	Subsidiary of the Company	1,465,747 (Accounts receivables—related parties)	2.04	-		154,999	-
The Company	BST	Subsidiary of the Company	650,273 (Accounts receivables—related parties)	4.44	-		171,618	-

Note : The transactions have already been written off in the consolidated financial statements.

(ix) Trading in derivative instruments: Please refer to Note 6(b).

(x) Business relationships and significant intercompany transactions:

(in thousands of NTD)

No.	Name of company	Name of counter-party	Nature of relationship	Intercompany transactions			
				Account name	Amount	Trading terms	Percentage of the consolidated net revenue or total assets
0	The Company	Tung Kang Steel Structure Corp. and subsidiaries	1	Sales	1,375,147	General conditions	3.46%
0	The Company	Tung Kang Steel Structure Corp. and subsidiaries	1	Accounts receivable	409,748	OA60	0.84%
0	The Company	THSVC	1	Sales	2,238,824	General conditions	5.63%
0	The Company	THSVC	1	Accounts receivable	1,465,747	330 days after B/L	3.02%
0	The Company	Tung Yuan International Corp. and subsidiaries	1	Sales	1,637,176	General conditions	4.12%

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No.	Name of company	Name of counter-party	Nature of relationship	Intercompany transactions			
				Account name	Amount	Trading terms	Percentage of the consolidated net revenue or total assets
0	The Company	Tung Yuan International Corp. and subsidiaries	1	Accounts receivable	650,273	110 days after B/L	1.34%
1	Tung.Kang Steel Structure Corp. and its subsidiaries	The Company	2	Sales	189,060	OA30	0.48%

Note 1: The numbers represent the following:

1. 0 represents the parent company.
2. Subsidiaries are numbered from 1.

Note 2: Transactions are categorized as follows：

1. Parent company to subsidiary.
2. Subsidiary to parent company.
3. Subsidiary to subsidiary.

For significant intercompany transactions, only information regarding sales, funding and finances, and accounts receivables were disclosed; the opposing items of the transactions were not disclosed.

(b) Information on investees:

The following is the information on investees for the year ended December 31, 2018 (excluding information on investees in Mainland China):

(in thousands of NTD/USD)

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2018			Highest Percentage of ownership	Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2018	December 31, 2017	Shares (thousands)	Percentage of ownership	Carrying value				
The Company	Tung Yuan International Corp.	British Virgin Islands	Investment activities	800,984	800,984	82	100.00 %	790,234	82	(120,080)	(120,080)	Subsidiary (Note 1)
〃	Tung Kang Steel Structure Corp.	Taiwan	Steel manufacture and manufacture of architectural components	1,775,138	1,775,138	197,565,134	97.48 %	2,011,688	197,565,134	93,585	59,708	Subsidiary (Note 1)
〃	Katec R & D Corp.	Taiwan	Waste recycling	35,352	35,352	4,705,332	46.19 %	52,588	4,705,332	5,858	2,706	Associate
〃	Goldham Development Ltd.	British Virgin Islands	Investment activities	460,800	460,800	15,000,000	100.00 %	404,855	15,000,000	(14,271)	(37,221)	Subsidiary (Note 1)
〃	Taiwan Steel Union Co., Ltd.	Taiwan	Waste disposal	113,291	113,291	24,829,009	22.31 %	801,561	25,208,009	785,480	175,265	Associate
〃	Katec Creative Resources Corporation	Taiwan	Waste recycling	1,211,442	1,211,442	95,724,402	99.01 %	730,094	95,724,402	(38,739)	(38,356)	Subsidiary (Note 1)
〃	Right Investment Corp.	Taiwan	Investment activities	189,827	189,827	499,800	49.00 %	11,384	499,800	155	76	Associate
〃	Fa Da Enterprise Corp.	Taiwan	Waste recycling	90,000	100,000	9,000,000	100.00 %	89,689	10,000,000	(69)	(69)	Subsidiary (Note 1)
〃	Tung Kang Wind Power Corp.	Taiwan	Electric power generation	155,000	155,000	15,500,000	100.00 %	91,350	15,500,000	(16,879)	(16,879)	Subsidiary (Note 1)
〃	THSVC	Vietnam	Steel industry	5,016,935	3,847,738	-	100.00 %	4,098,293	-	(461,484)	(461,484)	Subsidiary (Note 1)
Tung Yuan International Corp.	3 Oceans International Inc.	Samoa	Investment activities	56,525	56,525	1,840,000	66.67 %	26,570	1,840,000	(24,728)	(16,486)	Subsidiary (Note 1)
Tung Yuan International Corp.	Duc Hoa International Joint Stock Company	Vietnam	Quicklime factory	67,584	67,584	-	49.25 %	46,400	-	7,508	3,698	Associate
Tung Yuan International Corp.	BST	U.S.A.	Trading	9,216	9,216	-	60.00 %	22,211	-	25,076	15,046	Subsidiary (Note 1)
Tung Kang Steel Structure Corp.	Tung Kang Engineering & Construction Corp.	Taiwan	Civil engineering	359,340	359,340	25,000,000	100.00 %	265,000	25,000,000	11,637	34,800	Subsidiary (Note 1)

1 USD=30.72 TWD, 1 CNY=4.472 TWD.

Note1: The transactions were written off in the consolidated financial statements.

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(c) Information on investment in Mainland China:

(i) The names of investees in Mainland China, the main businesses and products, and other information:

(in thousands of NTD/USD/CNY)

Name of investee	Main businesses and products	Total amount of paid-in capital	Method of investment (Note 1)	Accumulated outflow of investment from Taiwan as of January 1, 2018	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2018	Net income (losses) of the investee	Percentage of ownership	Highest Percentage of ownership	Investment income (losses) (Note 3)	Book value (Note 2)	Accumulated remittance of earnings in current period
					Outflow	Inflow							
Fujian Sino-Japan Metal Corp.	Tin-coated plate	1,597,440 (USD52,000)	(2)	564,234 (USD18,367)	-	-	564,234 (USD18,367)	(349,101)	35.00%	35.00 %	(122,185)	553,271	-
Fujian Tung Kang Steel Co., Ltd.	Manufacture of section steels and steel structures	460,800 (USD15,000)	(2)	409,498 (USD13,330)	-	-	409,498 (USD13,330)	(14,271)	100.00%	100.00 %	(37,221)	404,855	-
Fujian Dong Sheng Metul Processing Co., Ltd.	Manufacturo of Steel	22,360 (CNY5,000)	(3)	-	-	-	-	(3,740)	51.00%	51.00 %	(1,907)	14,095	-

Note 1: List of the method of investment

(1) Direct investment

(2) Indirect investment

(3) Others

Note 2: On December 31, 2018, 1 USD=30.72 TWD, 1 CNY=4.472 TWD.

Note 3: For the year ended December 31, 2018, 1 USD= 30.15 TWD, 1 CNY =4.56 TWD.

(ii) Limitation on investment in Mainland China:

(in thousands of NTD/USD)

Accumulated Investment in Mainland China as of December 31, 2018	Investment amounts authorized by Investment Commission, MOEA	Upper limit on investment (Noted)
1,035,172 (USD33,697)	1,035,172 (USD33,697)	14,341,851

Note: 60% of net equity.

(iii) Significant transactions:

For direct or indirect significant transactions between the Company and its investees in Mainland China, please refer to the illustrations in "Related information on Significant Transactions".

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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, 2018 and 2017, were as follows:

	For the year ended December 31, 2018								
	Kaohsiung	Taoyuan	Miaoli	Taipei	Steel Structure	Vietnam	Others	Adjustments and eliminations	Total
Revenue:									
Net revenue from external customers	$ 4,989,298	13,875,542	8,642,715	-	4,781,352	3,588,782	3,891,932	-	39,769,621
Inter-segment revenue	388,924	44,176	2,581,228	2,246,037	449,164	-	17,362	(5,726,891)	-
Total revenues	$ 5,378,222	13,919,718	11,223,943	2,246,037	5,230,516	3,588,782	3,909,294	(5,726,891)	39,769,621
Interest expense	$ -	-	-	(140,441)	(9,717)	(65,879)	(8,513)	-	(224,550)
Interest revenue	-	-	-	861	1,662	1,234	2,321	-	6,078
Reportable segment profit or loss	$ 42,449	375,341	1,093,918	(278,141)	95,407	(461,484)	(145,356)	532,969	1,255,103
Reportable segment assets	$ 2,021,425	14,373,219	7,585,727	17,881,720	4,759,063	9,016,398	4,231,890	(11,310,949)	48,558,493
Reportable segment liabilities	$ 281,328	1,012,097	894,026	16,619,520	2,138,229	4,918,105	1,525,858	(2,841,434)	24,547,729

TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
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	For the year ended December 31, 2017								
	Kaohsiung	Taoyuan	Miaoli	Taipei	Steel Structure	Vietnam	Others	Adjustments and eliminations	Total
Revenue:									
Net revenue from external customers	4,082,237	9,751,827	7,281,875	-	3,383,165	5,910,153	1,340,014	-	31,749,271
Inter-segment revenue	24,926	73,370	703,400	1,823,679	334,106	-	15,443	(2,974,924)	-
Total revenues	$ 4,107,163	9,825,197	7,985,275	1,823,679	3,717,271	5,910,153	1,355,457	(2,974,924)	31,749,271
Interest expense	$ -	-	-	(65,274)	(3,020)	(20,221)	(10,121)	-	(98,636)
Interest revenue	-	-	-	2,511	2,478	1,900	1,629	-	8,518
Reportable segment profit or loss	$ 432,916	881,022	1,757,664	(1,138,985)	(273,430)	129,468	(31,722)	242,150	1,999,083
Reportable segment assets	$ 1,952,536	12,356,562	6,425,654	17,320,570	4,430,546	6,917,862	2,956,041	(11,062,379)	41,297,392
Reportable segment liabilities	$ 602,556	1,192,956	929,638	11,622,184	1,895,101	3,470,012	703,834	(3,151,920)	17,264,361

(c) Products information

Revenue from the external customers of the Consolidated Company was as follows:

Product Name	2018	2017
Deformed bars	$ 17,377,738	11,426,428
Sections	13,057,300	10,546,446
Billets	4,213,094	6,096,243
Construction Contracts	4,737,041	3,256,352
Others	384,448	423,802
	$ 39,769,621	31,749,271

(d) Geographic information

The Consolidated Company' s revenue from continuing operations from external customers by location of operations and information about its non-current assets by location were as follows:

Geographic information	2018	2017
Net revenue from external customers:		
Taiwan	$ 30,860,367	22,639,182
China	894,914	810,671
Vietnam	3,588,782	5,910,153
Others	4,425,558	2,389,265
	$ 39,769,621	31,749,271

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Geographic information		December 31, 2018	December 31, 2017
Non-current assets:			
Taiwan	$	18,191,882	18,775,032
China		175,781	175,139
Vietnam		4,995,004	4,349,465
Others		40,115	62,802
	$	23,402,782	23,362,438

Non-current assets include property, plant and equipment, investment property, and other non-current assets, not including financial instruments, investments accounted for using the equity method, deferred tax assets, and post-employment benefit assets.

(e) Information about major customers

		2018	2017
Customer A	$	2,361,564	1,899,633
Customer B	$	1,613,402	1,133,647