

China Steel Corporation
Annual General Meeting
June 21, 2018

Report Items

1. Report on the Operations of 2017.
2. Report on audit committee's review report of 2017.
3. Report on distribution of compensation for employees and remuneration for directors of 2017.

Proposals and Discussion

1. Adoption of the 2017 Business Report and Financial Statements.
2. Adoption of the Proposal for Distribution of 2017 profits.
3. Amendments to Articles of Incorporation.
4. Amendments to Procedures for Acquisition or Disposal of Assets.
5. Proposal to release the prohibition on Chairman, Mr. Chao-Tung, Wong from holding the position of Director of Taiwan High Speed Rail Corporation.
6. Proposal to release the prohibition on Director, Mr. Horng-Nan, Lin from holding the position of Director of China Ecotek Corporation, Formosa Ha Tinh (Cayman) Limited and Formosa Ha Tinh Steel Corporation.
7. Proposal to release the prohibition on Director, Mr. Shyi-Chin, Wang from holding the position of Director of Changzhou China Steel Precision Materials Co., Ltd.
8. Proposal to release the prohibition on Director, Mr. Yi-Lang, Lin from holding the position of Director of China Steel Machinery Corporation and Senergy Wind Power Co Ltd.

Proposals and Discussion

1.

Proposed by the board of directors

Proposal:

Adoption of the 2017 Business Report and Financial Statements

Explanatory Note:

Please refer to Attachment 1 for the financial statements for the year ended December 31st, 2017.

Resolution:

Proposals and Discussion

Attachment 1

China Steel Corporation and Subsidiaries

Consolidated Financial Statements for the
Years Ended December 31, 2017 and 2016 and
Independent Auditors' Report

Proposals and Discussion

INDEPENDENT AUDITORS' REPORT

China Steel Corporation

Opinion

We have audited the accompanying consolidated financial statements of China Steel Corporation (the Corporation) and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the report of other independent auditors (refer to other matter paragraph below), the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation and its subsidiaries as of December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission (FSC) of the Republic of China.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters of the Corporation and its subsidiaries' consolidated financial statements for the year ended December 31, 2017 are stated as follows:

Inventory Valuation

As of December 31, 2017, inventories of the Corporation and its subsidiaries amounted to NT\$87,963,760 thousand, of which the inventories from steel industry amounted to NT\$74,899,633 thousand, representing 11% of the Corporation and its subsidiaries' total assets. Due to the drastic fluctuations in the prices of raw

Proposals and Discussion

materials and finished goods in steel industry and inventory valuation involved critical accounting estimates, inventory valuation is deemed to be a key audit matter. Refer to Notes 4, 5 and 13 to the consolidated financial statements for the related accounting policies and disclosures of inventory valuation.

We focused on inventory valuation and the key audit procedures we performed included:

1. We evaluated the appropriateness of the approach applied to inventory valuation.
2. We verified the completeness of inventory included in inventory valuation.
3. We tested the net realizable value of inventory items on a sample basis, and evaluated the underlying assumptions and supporting documents, re-performed and calculated the appropriateness of net realizable value and the value written - off.

Valuation of Available-For-Sale Financial Assets - Formosa Ha Tinh (Cayman) Limited

As of December 31, 2017, through its subsidiary, China Steel Asia Pacific Holdings Pte Ltd., the Corporation invested in Formosa Ha Tinh (Cayman) Limited the amount of NT\$31,471,200 thousand, representing 5% of the Corporation and its subsidiaries' total assets. Such investment is unlisted investment. The Corporation hired an appraiser who composed the valuation report used as the basis for determining the fair value of the investment. The appraiser adopted income approach, and used as basis the income data of Formosa Ha Tinh Steel Corporation, a wholly-owned subsidiary of Formosa Ha Tinh (Cayman) Limited. The valuation model involved various assumptions and unobservable inputs, including the future profitability, the estimation of future cash flows, revenue growth rate, and rate of return to Formosa Ha Tinh Steel Corporation. As a result, the fair value of the investment in Formosa Ha Tinh (Cayman) Limited is deemed to be a key audit matter. Refer to Note 4 to the consolidated financial statements for the related accounting policies on valuation of financial assets.

The key audit procedures we performed included:

1. We assessed the professional qualifications, competence, objectivity and independence of the appraiser hired by the management.
2. We discussed with the management the scope of work performed by the independent appraiser, reviewed the contract terms and conditions signed by the Corporation and the appraiser, and we identified no concerns over the appraiser's objectivity or any restriction imposed on the scope of the work.
3. We confirmed the valuation method the independent appraiser adopted is complied with IFRSs.
4. We reviewed the reasonableness of financial forecasts the independent appraiser adopted.

We also consulted our internal experts in the assessment of the appropriateness of the appraisal and in verifying the key assumptions and the reasonableness of key inputs, including weighted average cost of capital and discount rate.

Other Matter

Certain investments accounted for using the equity method, in the consolidated financial statements as of December 31, 2016 and for the year then ended were based on financial statements audited by other independent auditors. Such investments accounted for using the equity method amounted to NT\$34,874,658 thousand, representing 5% of the Corporation and its subsidiaries' total assets, as of December 31, 2016, and the share of comprehensive income amounted to loss NT\$875,298 thousand and NT\$969,122 thousand, representing 5% of the Corporation and its subsidiaries' total comprehensive income, for the years ended December 31, 2017 and 2016.

We have also audited the standalone financial statements of China Steel Corporation as of and for the years ended December 31, 2017 and 2016 on which we have issued an unmodified opinion.

Proposals and Discussion

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Corporation and its subsidiaries' 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 Corporation and its subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including the audit committee, are responsible for overseeing the Corporation and its subsidiaries' financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation and its subsidiaries' 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 Corporation and its subsidiaries' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Corporation and its subsidiaries to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Proposals and Discussion

6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Corporation and its subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the Corporation and its subsidiaries audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2017 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Lee-Yuan Kuo and Cheng-Hung Kuo.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 28, 2018

Notice to Readers

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

For the convenience of readers, the independent auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and consolidated financial statements shall prevail. As stated in Note 4 to the consolidated financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.

Proposals and Discussion

CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

ASSETS	December 31, 2017		December 31, 2016		LIABILITIES AND EQUITY	December 31, 2017		December 31, 2016	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 4 and 6)	\$ 12,856,662	2	\$ 15,467,768	2	Short-term borrowings and bank overdraft (Notes 19 and 33)	\$ 35,326,058	5	\$ 35,905,740	5
Financial assets at fair value through profit or loss - current (Notes 4, 5 and 7)	4,910,644	1	3,288,349	1	Short-term bills payable (Note 19)	24,635,582	4	16,632,100	2
Available-for-sale financial assets - current (Notes 4, 5 and 8)	2,186,156	-	2,806,737	-	Financial liabilities at fair value through profit or loss - current (Notes 4 and 7)	247	-	4,941	-
Derivative financial assets for hedging - current (Notes 4 and 10)	54,131	-	36,784	-	Derivative financial liabilities for hedging - current (Notes 4 and 10)	48,218	-	37,609	-
Notes receivable (Notes 4 and 11)	1,797,938	-	1,233,769	-	Notes payable	1,188,154	-	851,631	-
Notes receivable - related parties (Notes 4, 11 and 32)	309,587	-	384,078	-	Accounts payable (Note 21)	13,261,485	2	12,484,269	2
Accounts receivable, net (Notes 4 and 11)	14,311,437	2	11,463,575	2	Accounts payable - related parties (Notes 21 and 32)	37,377	-	536,544	-
Accounts receivable - related parties (Notes 4, 11 and 32)	355,077	-	499,185	-	Amounts due to customers for construction contracts (Notes 4 and 12)	5,426,228	1	3,853,724	1
Amounts due from customers for construction contracts (Notes 4 and 12)	9,400,960	2	8,472,037	1	Other payables (Notes 22 and 32)	23,155,371	3	21,437,649	3
Other receivables (Notes 4 and 32)	1,636,999	-	1,382,410	-	Current tax liabilities (Note 28)	3,127,173	-	2,129,043	-
Current tax assets (Note 28)	181,204	-	139,482	-	Provisions - current (Notes 4 and 23)	4,042,476	-	4,324,106	1
Inventories (Notes 4, 5 and 13)	87,963,760	13	79,489,138	12	Current portion of bonds payable (Notes 4 and 20)	11,198,974	2	5,212,668	1
Non-current assets held for sale (Note 4)	212,780	-	-	-	Current portion of long-term bank borrowings (Notes 19 and 33)	18,549,055	3	16,210,014	2
Other financial assets - current (Notes 4, 16 and 33)	10,752,021	2	11,833,708	2	Other current liabilities	4,323,642	1	3,530,170	1
Other current assets	4,051,059	1	3,558,170	1					
Total current assets	150,980,415	23	140,055,190	21	Total current liabilities	144,320,040	21	123,150,208	18
NONCURRENT ASSETS					NONCURRENT LIABILITIES				
Available-for-sale financial assets - noncurrent (Notes 4, 5 and 8)	58,383,988	9	26,306,913	4	Derivative financial liabilities for hedging - noncurrent (Notes 4 and 10)	210,325	-	36,065	-
Held-to-maturity financial assets - noncurrent (Notes 4 and 9)	129,750	-	222,669	-	Bonds payable (Notes 4 and 20)	83,852,513	13	95,037,294	14
Derivative financial assets for hedging - noncurrent (Notes 4 and 10)	16,237	-	3,354	-	Long-term bank borrowings (Notes 19 and 33)	57,047,876	9	70,329,355	10
Debt investments with no active market - noncurrent (Notes 4 and 14)	1,854,343	-	1,932,814	-	Long-term bills payable (Note 19)	27,613,159	4	36,626,165	6
Investments accounted for using equity method (Notes 4 and 15)	14,729,813	2	49,528,952	7	Provisions - noncurrent (Notes 4 and 23)	835,048	-	815,694	-
Property, plant and equipment (Notes 4, 17 and 33)	413,821,236	62	430,849,587	64	Deferred tax liabilities (Notes 4 and 28)	12,205,775	2	12,261,289	2
Investment properties (Notes 4, 18 and 33)	10,956,078	2	10,316,142	2	Net defined benefit liabilities (Notes 4 and 24)	8,321,780	1	6,901,619	1
Intangible assets (Note 4)	1,938,180	-	2,488,714	-	Other noncurrent liabilities	1,357,376	-	1,384,411	-
Deferred tax assets (Notes 4 and 28)	6,192,780	1	5,372,981	1					
Refundable deposits (Note 4)	700,646	-	566,022	-	Total noncurrent liabilities	191,443,852	29	223,391,892	33
Other financial assets - noncurrent (Notes 4, 16 and 33)	2,623,741	-	3,393,174	-					
Other noncurrent assets	5,388,672	1	5,085,281	1	Total liabilities	335,763,892	50	346,542,100	51
Total noncurrent assets	516,735,464	77	536,066,603	79	EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION (Notes 4 and 25)				
					Share capital				
					Ordinary shares	157,348,610	24	157,348,610	23
					Preference shares	382,680	-	382,680	-
					Total share capital	157,731,290	24	157,731,290	23
					Capital surplus	38,211,082	6	37,807,466	6
					Retained earnings				
					Legal reserve	61,538,216	9	59,934,379	9
					Special reserve	27,655,869	4	29,786,846	4
					Unappropriated earnings	20,033,060	3	17,196,041	3
					Total retained earnings	109,227,145	16	106,917,266	16
					Other equity	7,372,935	1	8,680,706	1
					Treasury shares	(8,532,389)	(1)	(8,576,842)	(1)
					Total equity attributable to owners of the Corporation	304,010,063	46	302,559,886	45
					NON-CONTROLLING INTERESTS	27,941,924	4	27,019,807	4
					Total equity	331,951,987	50	329,579,693	49
TOTAL	\$ 667,715,879	100	\$ 676,121,793	100	TOTAL	\$ 667,715,879	100	\$ 676,121,793	100

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

(With Deloitte & Touche audit report dated March 28, 2018)

Proposals and Discussion

CHINA STEEL CORPORATION AND SUBSIDIARIES

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

	For the Year Ended December 31			
	2017		2016	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 4, 26, 32 and 36)	\$ 347,012,002	100	\$ 293,055,804	100
OPERATING COSTS (Notes 13, 27 and 32)	<u>307,672,853</u>	<u>89</u>	<u>253,332,496</u>	<u>87</u>
GROSS PROFIT	<u>39,339,149</u>	<u>11</u>	<u>39,723,308</u>	<u>13</u>
OPERATING EXPENSES				
Selling and marketing expenses	5,407,932	1	4,950,440	2
General and administrative expenses	6,940,039	2	7,165,255	2
Research and development expenses	<u>2,069,549</u>	<u>1</u>	<u>2,175,992</u>	<u>1</u>
Total operating expenses	<u>14,417,520</u>	<u>4</u>	<u>14,291,687</u>	<u>5</u>
PROFIT FROM OPERATIONS	<u>24,921,629</u>	<u>7</u>	<u>25,431,621</u>	<u>8</u>
NON-OPERATING INCOME AND EXPENSES				
Other income (Notes 27 and 32)	1,778,303	1	1,471,380	-
Other gains and losses (Notes 27 and 32)	745,573	-	(523,311)	-
Finance costs (Note 27)	(3,717,893)	(1)	(3,816,641)	(1)
Share of the profit of associates	<u>(324,315)</u>	<u>-</u>	<u>(663,882)</u>	<u>-</u>
Total non-operating income and expenses	<u>(1,518,332)</u>	<u>-</u>	<u>(3,532,454)</u>	<u>(1)</u>
PROFIT BEFORE INCOME TAX	23,403,297	7	21,899,167	7
INCOME TAX (Notes 4 and 28)	<u>2,972,107</u>	<u>1</u>	<u>2,711,843</u>	<u>1</u>
NET PROFIT FOR THE YEAR	<u>20,431,190</u>	<u>6</u>	<u>19,187,324</u>	<u>6</u>
OTHER COMPREHENSIVE INCOME (Notes 4, 24, 25 and 28)				
Items that will not be reclassified subsequently to profit or loss				
Remeasurement of defined benefit plans	(1,500,451)	-	(1,166,886)	-
Income tax benefit relating to items that will not be reclassified subsequently to profit or loss	236,316	-	182,490	-
Items that may be reclassified subsequently to profit or loss				
Exchange differences on translating foreign operations	(2,073,572)	(1)	(1,827,100)	(1)

(Continued)

Proposals and Discussion

CHINA STEEL CORPORATION AND SUBSIDIARIES

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

	For the Year Ended December 31			
	2017		2016	
	Amount	%	Amount	%
Unrealized gains and losses on available-for-sale financial assets	\$ 979,157	-	\$ 1,900,382	1
The effective portion of gains and losses on hedging instruments in a cash flow hedge	(198,511)	-	(164,285)	-
Share of the other comprehensive income (loss) of associates	(828,695)	-	(186,690)	-
Income tax benefit relating to items that may be reclassified subsequently to profit or loss	<u>87,480</u>	<u>-</u>	<u>86,036</u>	<u>-</u>
Other comprehensive loss for the year, net of income tax	<u>(3,298,276)</u>	<u>(1)</u>	<u>(1,176,053)</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 17,132,914</u>	<u>5</u>	<u>\$ 18,011,271</u>	<u>6</u>
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Corporation	\$ 16,905,588	5	\$ 16,038,369	6
Non-controlling interests	<u>3,525,602</u>	<u>1</u>	<u>3,148,955</u>	<u>1</u>
	<u>\$ 20,431,190</u>	<u>6</u>	<u>\$ 19,187,324</u>	<u>7</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Corporation	\$ 14,430,315	4	\$ 15,950,850	5
Non-controlling interests	<u>2,702,599</u>	<u>1</u>	<u>2,060,421</u>	<u>1</u>
	<u>\$ 17,132,914</u>	<u>5</u>	<u>\$ 18,011,271</u>	<u>6</u>
EARNINGS PER SHARE (Note 29)				
Basic	<u>\$ 1.09</u>		<u>\$ 1.04</u>	
Diluted	<u>\$ 1.09</u>		<u>\$ 1.03</u>	

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

(Concluded)

(With Deloitte & Touche audit report dated March 28, 2018)

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CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (In Thousands of New Taiwan Dollars, Except Dividends Per Share)

	Equity Attributable to Owners of the Corporation						Other Equity				Total Equity Attributable to Owners of the Corporation	Non-controlling Interests	Total Equity	
	Share Capital			Retained Earnings			Exchange Differences on Translating Foreign Operations	Unrealized Gains and Losses on Available-for-sale Financial Assets	The Effective Portion of Gains and Losses on Hedging Instruments in a Cash Flow Hedge	Total Other Equity				Treasury Shares
	Ordinary Shares	Preference Shares	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings								
BALANCE AT JANUARY 1, 2016	\$ 157,348,610	\$ 382,680	\$ 37,612,027	\$ 59,173,907	\$ 27,132,983	\$ 13,323,848	\$ 1,198,796	\$ 6,573,348	\$ 152,264	\$ 7,924,408	\$ (8,577,644)	\$ 294,320,819	\$ 26,404,014	\$ 320,724,833
Appropriation of 2015 earnings (Note 25)														
Legal reserve	-	-	-	760,472	-	(760,472)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	2,654,116	(2,654,116)	-	-	-	-	-	-	-	-
Cash dividends to ordinary shareholders - NT\$0.5 per share	-	-	-	-	-	(7,867,430)	-	-	-	-	-	(7,867,430)	-	(7,867,430)
Cash dividends to preference shareholders - NT\$1.4 per share	-	-	-	-	-	(53,575)	-	-	-	-	-	(53,575)	-	(53,575)
Reversal of special reserve	-	-	-	-	(253)	253	-	-	-	-	-	-	-	-
Net profit for the year ended December 31, 2016	-	-	-	-	-	16,038,369	-	-	-	-	-	16,038,369	3,148,955	19,187,324
Other comprehensive income for the year ended December 31, 2016, net of income tax	-	-	-	-	-	(843,817)	(1,230,844)	2,077,225	(90,083)	756,298	-	(87,519)	(1,088,534)	(1,176,053)
Total comprehensive income for the year ended December 31, 2016	-	-	-	-	-	15,194,552	(1,230,844)	2,077,225	(90,083)	756,298	-	15,950,850	2,060,421	18,011,271
Adjustment to capital surplus arising from dividends paid to subsidiaries	-	-	159,065	-	-	-	-	-	-	-	-	159,065	96,945	256,010
Adjustment of non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(1,541,573)	(1,541,573)
Adjustment of other equity	-	-	36,374	-	-	12,981	-	-	-	-	802	50,157	-	50,157
BALANCE AT DECEMBER 31, 2016	157,348,610	382,680	37,807,466	59,934,379	29,786,846	17,196,041	(32,048)	8,650,573	62,181	8,680,706	(8,576,842)	302,559,886	27,019,807	329,579,693
Appropriation of 2016 earnings (Note 25)														
Legal reserve	-	-	-	1,603,837	-	(1,603,837)	-	-	-	-	-	-	-	-
Reversal of special reserve	-	-	-	-	(2,130,614)	2,130,614	-	-	-	-	-	-	-	-
Cash dividends to ordinary shareholders - NT\$0.85 per share	-	-	-	-	-	(13,374,632)	-	-	-	-	-	(13,374,632)	-	(13,374,632)
Cash dividends to preference shareholders - NT\$1.4 per share	-	-	-	-	-	(53,575)	-	-	-	-	-	(53,575)	-	(53,575)
Reversal of special reserve	-	-	-	-	(363)	363	-	-	-	-	-	-	-	-
Net profit for the year ended December 31, 2017	-	-	-	-	-	16,905,588	-	-	-	-	-	16,905,588	3,525,602	20,431,190
Other comprehensive income for the year ended December 31, 2017, net of income tax	-	-	-	-	-	(1,167,502)	(2,078,545)	964,290	(193,516)	(1,307,771)	-	(2,475,273)	(823,003)	(3,298,276)
Total comprehensive income for the year ended December 31, 2017	-	-	-	-	-	15,738,086	(2,078,545)	964,290	(193,516)	(1,307,771)	-	14,430,315	2,702,599	17,132,914
Purchase of the Corporation's shares by subsidiaries	-	-	-	-	-	-	-	-	-	-	(19,595)	(19,595)	(19,249)	(38,844)
Disposal of the Corporation's shares held by subsidiaries accounted for as treasury shares	-	-	28,066	-	-	-	-	-	-	-	64,048	92,114	21,905	114,019
Adjustment to capital surplus arising from dividends paid to subsidiaries	-	-	267,245	-	-	-	-	-	-	-	-	267,245	163,931	431,176
Adjustment of non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(1,947,069)	(1,947,069)
Adjustment of other equity	-	-	108,305	-	-	-	-	-	-	-	-	108,305	-	108,305
BALANCE AT DECEMBER 31, 2017	\$ 157,348,610	\$ 382,680	\$ 38,211,082	\$ 61,538,216	\$ 27,655,869	\$ 20,033,060	\$ (2,110,593)	\$ 9,614,863	\$ (131,335)	\$ 7,372,935	\$ (8,532,389)	\$ 304,010,063	\$ 27,941,924	\$ 331,951,987

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

(With Deloitte & Touche audit report dated March 28, 2018)

Proposals and Discussion

CHINA STEEL CORPORATION AND SUBSIDIARIES

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

	For the Year Ended December 31	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	\$ 23,403,297	\$ 21,899,167
Adjustments for:		
Depreciation expense	34,529,292	35,691,883
Amortization expense	346,646	371,594
Net gain on financial assets and liabilities at fair value through profit or loss	(382,240)	(38,984)
Finance costs	3,717,893	3,816,641
Interest income	(290,218)	(317,940)
Dividend income	(586,347)	(574,258)
Share of the profit of associates	254,202	581,025
Gain on disposal of property, plant and equipment	(75,446)	(335,742)
Gain on disposal of intangible assets	(2,741)	(2,741)
Gain on disposal of investments	(1,410,097)	(1,288,242)
Impairment loss recognized on financial assets	784,146	699,784
Impairment loss recognized on nonfinancial assets	829,398	148,168
Reversal of loss on inventories	(880,774)	(3,970,141)
Recognition of provisions	8,948,686	8,665,856
Others	71,743	80,617
Changes in operating assets and liabilities		
Financial instruments held for trading	(92,049)	(296,414)
Notes receivable	(564,169)	(26,983)
Notes receivable - related parties	74,491	(126,073)
Accounts receivable	(2,820,725)	(930,908)
Accounts receivable - related parties	144,252	(50,988)
Amounts due from customers for construction contracts	(928,923)	295,306
Other receivables	(187,347)	38,119
Inventories	(7,729,846)	(6,612,449)
Other current assets	(492,889)	(61,464)
Notes payable	336,523	296,145
Accounts payable	777,216	4,585,809
Accounts payable - related parties	(499,167)	280,413
Amounts due to customers for construction contracts	1,572,504	(261,446)
Other payables	1,946,119	2,591,463
Provisions	(9,237,518)	(7,522,566)
Other current liabilities	793,500	(166,259)
Net defined benefit liabilities	(80,290)	(50,764)
Cash generated from operations	52,269,122	57,407,628
Income taxes paid	(2,797,644)	(2,226,223)
Net cash generated from operating activities	49,471,478	55,181,405

(Continued)

Proposals and Discussion

CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

	For the Year Ended December 31	
	2017	2016
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets designated as at fair value through profit or loss	\$ (4,415,691)	\$ (3,263,329)
Proceeds from disposal of financial assets designated as at fair value through profit or loss	3,188,616	3,714,862
Acquisition of available-for-sale financial assets	(1,466,827)	(2,570,588)
Proceeds from disposal of available-for-sale financial assets	2,634,032	4,266,220
Proceeds from the capital reduction on available-for-sale financial assets	23,728	16,840
Purchases of debt investments with no active market	(18,451)	(24,269)
Proceeds from disposal of debt investments with no active market	20,000	120,419
Acquisition of held-to-maturity financial assets	-	(19,480)
Proceeds from disposal of held-to-maturity financial assets	-	77,236
Acquisition of investments accounted for using equity method	(1,226,596)	(11,100,850)
Proceeds from disposal of investments accounted for using equity method	240,791	178,384
Disposal of subsidiaries	13,021	-
Acquisition of property, plant and equipment	(21,812,961)	(19,618,793)
Proceeds from disposal of property, plant and equipment	336,150	895,675
Increase in refundable deposits	(134,624)	(86,735)
Acquisition of intangible assets	(39,082)	(382,402)
Acquisition of investment properties	(614,852)	(339,112)
Decrease (increase) in other financial assets	1,888,676	(289,219)
Decrease in other noncurrent assets	671,269	392,851
Interest received	297,593	332,908
Dividends received from associates	660,524	289,575
Dividends received from others	601,667	558,902
	(19,153,017)	(26,850,905)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	254,690,716	286,529,045
Repayments of short-term borrowings	(255,597,380)	(283,521,183)
Increase in short-term bills payable	255,688,593	501,168,607
Decrease in short-term bills payable	(247,685,111)	(516,177,793)
Issuance of bonds payable	-	5,400,000
Repayments of bonds payable	(5,213,643)	(4,699,300)
Proceeds from long-term bank borrowings	26,710,000	57,902,133
Repayments of long-term bank borrowings	(34,033,111)	(76,915,897)
Increase in long-term bills payable	7,777,423	179,932,318
Decrease in long-term bills payable	(16,790,429)	(167,766,032)
Increase (decrease) in other noncurrent liabilities	(20,001)	45,656
Dividends paid to owners of the Corporation	(13,264,276)	(7,815,051)
Acquisition of the Corporation's shares by subsidiaries	(38,844)	-

(Continued)

Proposals and Discussion

CHINA STEEL CORPORATION AND SUBSIDIARIES

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

	For the Year Ended December 31	
	2017	2016
Disposal of the Corporation's shares by subsidiaries	\$ 114,019	\$ -
Interest paid	(3,954,803)	(4,032,834)
Decrease in non-controlling interests	<u>(1,947,069)</u>	<u>(1,541,573)</u>
Net cash used in financing activities	<u>(33,563,916)</u>	<u>(31,491,904)</u>
EFFECT OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH AND CASH EQUIVALENTS HELD IN FOREIGN CURRENCIES	<u>(211,212)</u>	<u>(553,340)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,456,667)	(3,714,744)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>13,340,196</u>	<u>17,054,940</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 9,883,529</u>	<u>\$ 13,340,196</u>
Reconciliation of the amounts in the consolidated statements of cash flows with the equivalent items reported in the consolidated balance sheets as of December 31, 2017 and 2016:		
Cash and cash equivalents in the consolidated balance sheets	\$ 12,856,662	\$ 15,467,768
Bank overdraft	<u>(2,973,133)</u>	<u>(2,127,572)</u>
Cash and cash equivalents in the consolidated statements of cash flows	<u>\$ 9,883,529</u>	<u>\$ 13,340,196</u>

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

(Concluded)

(With Deloitte & Touche audit report dated March 28, 2018)

Proposals and Discussion

China Steel Corporation

Standalone Financial Statements for the
Years Ended December 31, 2017 and 2016 and
Independent Auditors' Report

Proposals and Discussion

INDEPENDENT AUDITORS' REPORT

China Steel Corporation

Opinion

We have audited the accompanying standalone financial statements of China Steel Corporation (the Corporation), which comprise the standalone balance sheets as of December 31, 2017 and 2016, and the standalone statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the standalone financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the report of other independent auditors (refer to other matter paragraph below), the accompanying standalone financial statements present fairly, in all material respects, the standalone financial position of the Corporation as of December 31, 2017 and 2016, and its standalone financial performance and its standalone cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the standalone financial statements for the year ended December 31, 2017. These matters were addressed in the context of our audit of the standalone financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters of the Corporation's standalone financial statements for the year ended December 31, 2017 are stated as follows:

Inventory Valuation

As of December 31, 2017, inventories of the Corporation amounted to NT\$48,024,231 thousand, representing 10% of the Corporation's total assets. Due to the drastic fluctuations in the prices of raw materials and finished goods in steel industry and inventory valuation involved critical accounting estimates, inventory valuation is deemed to be a key audit matter. Refer to Notes 4 and 10 to the Corporation's financial statements for the related accounting policies and disclosures of inventory valuation.

Proposals and Discussion

We focused on inventory valuation and the audit procedures we performed included:

1. We evaluated the appropriateness of the approach applied to the inventory valuation.
2. We verified the completeness of inventory included in inventory valuation.
3. We tested the net realizable value of inventory items on a sample basis, and evaluated the underlying assumptions and supporting documents, re-performed and calculated the appropriateness of net realizable value and the value written-off.

Valuation of Available-For-Sale Financial Assets - Formosa Ha Tinh (Cayman) Limited

As of December 31, 2017, through its subsidiary, China Steel Asia Pacific Holdings Pte Ltd., the Corporation invested in Formosa Ha Tinh (Cayman) Limited the amount of NT\$31,471,200 thousand, representing 7% of the Corporation's total assets. Such investment is unlisted investment. The Corporation hired an appraiser who composed the valuation report used as the basis for determining the fair value of the investment. The appraiser adopted income approach, and used as basis the income data of Formosa Ha Tinh Steel Corporation, a wholly - owned subsidiary of Formosa Ha Tinh (Cayman) Limited. The valuation model involved various assumptions and unobservable inputs, including the future profitability, the estimation of future cash flows, revenue growth rate, and rate of return to Formosa Ha Tinh Steel Corporation. As a result, the fair value of the investment in Formosa Ha Tinh (Cayman) Limited is deemed to be a key audit matter. Refer to Note 4 to the Corporation's financial statements for the related accounting policies on valuation of financial assets.

The audit procedures we performed included:

1. We assessed the professional qualifications, competence, objectivity and independence of the appraiser hired by the Corporation.
2. We discussed with the management the scope of work performed by the independent appraiser, reviewed the contract terms and conditions signed by the Corporation and the appraiser, and we identified no concerns over the appraiser's objectivity or any restriction imposed on the scope of the work.
3. We confirmed the valuation method the independent appraiser adopted is complied with IFRSs.
4. We reviewed the reasonableness of financial forecasts the independent appraiser adopted.

We also consulted our internal valuation experts in the assessment of the appropriateness of the appraisal and in verifying the key assumptions and the reasonableness of key inputs, including weighted average cost of capital and discount rate.

Other Matter

Certain investments accounted for using the equity method in the Corporation's financial statements as of December 31, 2016 and for the years ended December 31, 2017 and 2016 were based on financial statements audited by other independent auditors. Such investments accounted for using the equity method amounted to NT\$34,874,658 thousand, representing 7% of the Corporation's total assets, as of December 31, 2016, and the share of comprehensive income amounted to loss NT\$875,298 thousand and NT\$969,122 thousand, representing both 6% of the Corporation's total comprehensive income, for the years ended December 31, 2017 and 2016.

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

Management is responsible for the preparation and fair presentation of the standalone financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and for

Proposals and Discussion

such internal control as management determines is necessary to enable the preparation of the Corporation's financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Standalone Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the standalone 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 Corporation'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 Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the standalone financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the standalone financial statements, including the disclosures, and whether the standalone financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Corporation to express an opinion on the standalone financial statements. We are responsible for the direction, supervision, and performance of the Corporation audit. We remain solely responsible for our audit opinion.

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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 standalone financial statements for the year ended December 31, 2017 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Lee-Yuan Kuo and Cheng-Hung Kuo.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 28, 2018

Notice to Readers

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

For the convenience of readers, the independent auditors' report and the accompanying standalone financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and standalone financial statements shall prevail. Also, as stated in Note 4 to the financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.

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CHINA STEEL CORPORATION

STANDALONE BALANCE SHEETS (In Thousands of New Taiwan Dollars)

ASSETS	December 31, 2017		December 31, 2016		LIABILITIES AND EQUITY	December 31, 2017		December 31, 2016	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 4 and 6)	\$ 2,923,910	1	\$ 2,477,746	1	Short-term borrowings and bank overdraft (Notes 16, 28 and 29)	\$ 10,722,766	2	\$ 8,851,509	2
Available-for-sale financial assets - current (Notes 4 and 7)	111,603	-	780,716	-	Short-term bills payable (Note 16)	6,296,753	1	-	-
Derivative financial assets for hedging - current (Notes 4 and 8)	44,469	-	32,094	-	Derivative financial liabilities for hedging - current (Notes 4 and 8)	20,674	-	8,965	-
Notes receivable (Notes 4 and 9)	681,901	-	472,193	-	Accounts payable	4,145,456	1	4,142,060	1
Notes receivable - related parties (Notes 4, 9 and 28)	223,073	-	324,457	-	Accounts payable - related parties (Note 28)	1,813,858	-	969,388	-
Accounts receivable, net (Notes 4 and 9)	2,246,631	1	1,257,657	-	Other payables (Notes 18 and 28)	16,253,268	3	14,929,164	3
Accounts receivable - related parties (Notes 4, 9 and 28)	2,526,127	1	1,815,399	-	Current tax liabilities (Note 24)	2,103,954	1	1,529,584	-
Other receivables	805,299	-	1,139,592	-	Provisions - current (Notes 4 and 19)	2,239,559	1	2,404,802	1
Other receivables - loans to related parties (Note 28)	7,356,950	2	7,211,809	2	Current portion of bonds payable (Note 17)	7,698,974	2	5,199,253	1
Inventories (Notes 4, 5 and 10)	48,024,231	10	42,506,461	9	Current portion of long-term bank borrowings (Note 16)	9,860,615	2	4,195,825	1
Other financial assets - current (Notes 4, 13 and 29)	6,869,408	1	6,622,457	2	Other current liabilities	3,910,313	1	3,325,849	1
Other current assets	1,889,815	-	818,410	-					
Total current assets	73,703,417	16	65,458,991	14	Total current liabilities	65,066,190	14	45,556,399	10
NONCURRENT ASSETS					NONCURRENT LIABILITIES				
Available-for-sale financial assets - noncurrent (Notes 4, 5 and 7)	16,418,690	3	15,551,376	3	Derivative financial liabilities for hedging - noncurrent (Notes 4 and 8)	8,112	-	6,904	-
Derivative financial assets for hedging - noncurrent (Notes 4 and 8)	12,583	-	2,142	-	Bonds payable (Note 17)	59,967,190	13	67,657,491	15
Debt investments with no active market - noncurrent (Notes 4 and 11)	1,761,421	-	1,837,425	-	Long-term bank borrowings (Note 16)	20,653,020	5	32,950,349	7
Investments accounted for using equity method (Notes 4 and 12)	207,523,641	44	208,545,541	44	Long-term bills payable (Note 16)	5,899,102	1	5,899,355	1
Property, plant and equipment (Notes 4, 14 and 28)	162,042,223	34	167,632,162	36	Deferred tax liabilities (Notes 4 and 24)	10,715,281	2	10,799,579	2
Investment properties (Notes 4 and 15)	7,129,792	2	7,127,220	2	Net defined benefit liabilities (Notes 4 and 20)	6,048,974	1	4,785,826	1
Intangible assets	44,810	-	54,785	-	Other noncurrent liabilities	59,580	-	59,580	-
Deferred tax assets (Notes 4 and 24)	3,371,609	1	2,936,474	1					
Refundable deposits (Note 4)	100,092	-	55,688	-	Total noncurrent liabilities	103,351,259	22	122,159,084	26
Other financial assets - noncurrent (Notes 4 and 13)	319,234	-	1,073,565	-					
Total noncurrent assets	398,724,095	84	404,816,378	86	Total liabilities	168,417,449	36	167,715,483	36
					EQUITY (Notes 4 and 21)				
					Share capital				
					Ordinary shares	157,348,610	33	157,348,610	33
					Preference shares	382,680	-	382,680	-
					Total share capital	157,731,290	33	157,731,290	33
					Capital surplus	38,211,082	8	37,807,466	8
					Retained earnings				
					Legal reserve	61,538,216	13	59,934,379	13
					Special reserve	27,655,869	6	29,786,846	6
					Unappropriated earnings	20,033,060	4	17,196,041	4
					Total retained earnings	109,227,145	23	106,917,266	23
					Other equity	7,372,935	2	8,680,706	2
					Treasury shares	(8,532,389)	(2)	(8,576,842)	(2)
					Total equity	304,010,063	64	302,559,886	64
TOTAL	\$ 472,427,512	100	\$ 470,275,369	100	TOTAL	\$ 472,427,512	100	\$ 470,275,369	100

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

(With Deloitte & Touche audit report dated March 28, 2018)

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CHINA STEEL CORPORATION

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

	For the Year Ended December 31			
	2017		2016	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 4, 22 and 28)	\$ 207,098,630	100	\$ 168,927,075	100
OPERATING COSTS (Notes 10 and 28)	<u>187,568,805</u>	<u>90</u>	<u>147,174,784</u>	<u>87</u>
GROSS PROFIT	19,529,825	10	21,752,291	13
REALIZED (UNREALIZED) GAIN ON TRANSACTIONS WITH SUBSIDIARIES AND ASSOCIATES	<u>147,162</u>	<u>-</u>	<u>(384,546)</u>	<u>(1)</u>
REALIZED GROSS PROFIT	<u>19,676,987</u>	<u>10</u>	<u>21,367,745</u>	<u>12</u>
OPERATING EXPENSES				
Selling and marketing expenses	2,836,946	1	2,725,816	2
General and administrative expenses	3,544,812	2	3,716,730	2
Research and development expenses	<u>1,720,185</u>	<u>1</u>	<u>1,844,055</u>	<u>1</u>
Total operating expenses	<u>8,101,943</u>	<u>4</u>	<u>8,286,601</u>	<u>5</u>
PROFIT FROM OPERATIONS	<u>11,575,044</u>	<u>6</u>	<u>13,081,144</u>	<u>7</u>
NON-OPERATING INCOME AND EXPENSES				
Other income (Notes 23 and 28)	1,383,476	1	1,322,937	1
Other gains and losses (Notes 23 and 28)	268,918	-	(34,229)	-
Finance costs (Notes 23 and 28)	(1,919,054)	(1)	(1,990,052)	(1)
Share of profit of subsidiaries and associates	<u>7,212,280</u>	<u>3</u>	<u>5,653,411</u>	<u>3</u>
Total non-operating income and expenses	<u>6,945,620</u>	<u>3</u>	<u>4,952,067</u>	<u>3</u>
PROFIT BEFORE INCOME TAX	18,520,664	9	18,033,211	10
INCOME TAX EXPENSE (Notes 4 and 24)	<u>1,615,076</u>	<u>1</u>	<u>1,994,842</u>	<u>1</u>
NET PROFIT FOR THE YEAR	<u>16,905,588</u>	<u>8</u>	<u>16,038,369</u>	<u>9</u>
OTHER COMPREHENSIVE INCOME (LOSS) (Notes 4, 20, 21 and 24)				
Items that will not be reclassified subsequently to profit or loss				
Remeasurement of defined benefit plans	(1,179,124)	-	(657,109)	-

(Continued)

Proposals and Discussion

CHINA STEEL CORPORATION

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

	For the Year Ended December 31			
	2017		2016	
	Amount	%	Amount	%
Share of the other comprehensive income of subsidiaries and associates	\$ (188,829)	-	\$ (298,416)	-
Income tax benefit relating to items that will not be reclassified subsequently to profit or loss	200,451	-	111,708	-
Items that may be reclassified subsequently to profit or loss				
Exchange differences on translating foreign operations	(1,726,614)	(1)	(867,506)	(1)
Unrealized gain and losses on available-for-sale financial assets	895,527	-	2,933,162	2
The effective portion of gains and losses on hedging instruments in a cash flow hedge	(30,552)	-	(69,360)	-
Share of the other comprehensive income of subsidiaries and associates	(451,326)	-	(1,251,789)	(1)
Income tax benefit relating to items that may be reclassified subsequently to profit or loss	<u>5,194</u>	<u>-</u>	<u>11,791</u>	<u>-</u>
Other comprehensive loss for the year, net of income tax	<u>(2,475,273)</u>	<u>(1)</u>	<u>(87,519)</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 14,430,315</u>	<u>7</u>	<u>\$ 15,950,850</u>	<u>9</u>
EARNINGS PER SHARE (Note 25)				
Basic	<u>\$ 1.09</u>		<u>\$ 1.04</u>	
Diluted	<u>\$ 1.09</u>		<u>\$ 1.03</u>	

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

(With Deloitte & Touche audit report dated March 28, 2018)

(Concluded)

Proposals and Discussion

CHINA STEEL CORPORATION

STANDALONE STATEMENTS OF CHANGES IN EQUITY (In Thousands of New Taiwan Dollars, Except Dividends Per Share)

	Share Capital		Capital Surplus	Retained Earnings			Other Equity			Treasury Shares	Total Equity	
	Ordinary Shares	Preference Shares		Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized Gains and Losses on Available-for-sale Financial Assets	The Effective Portion of Gains and Losses on Hedging Instruments in a Cash Flow Hedge			Total Other Equity
BALANCE AT JANUARY 1, 2016	\$ 157,348,610	\$ 382,680	\$ 37,612,027	\$ 59,173,907	\$ 27,132,983	\$ 13,323,848	\$ 1,198,796	\$ 6,573,348	\$ 152,264	\$ 7,924,408	\$ (8,577,644)	\$ 294,320,819
Appropriation of 2015 earnings (Note 21)												
Legal reserve	-	-	-	760,472	-	(760,472)	-	-	-	-	-	-
Special reserve	-	-	-	-	2,654,116	(2,654,116)	-	-	-	-	-	-
Cash dividends to ordinary shareholders - NT\$0.5 per share	-	-	-	-	-	(7,867,430)	-	-	-	-	-	(7,867,430)
Cash dividends to preference shareholders - NT\$1.4 per share	-	-	-	-	-	(53,575)	-	-	-	-	-	(53,575)
Reversal of special reserve	-	-	-	-	(253)	253	-	-	-	-	-	-
Net profit for the year ended December 31, 2016	-	-	-	-	-	16,038,369	-	-	-	-	-	16,038,369
Other comprehensive income (loss) for the year ended December 31, 2016, net of income tax	-	-	-	-	-	(843,817)	(1,230,844)	2,077,225	(90,083)	756,298	-	(87,519)
Total comprehensive income (loss) for the year ended December 31, 2016	-	-	-	-	-	15,194,552	(1,230,844)	2,077,225	(90,083)	756,298	-	15,950,850
Adjustment to capital surplus arising from dividends paid to subsidiaries	-	-	159,065	-	-	-	-	-	-	-	-	159,065
Adjustment from changes in equity of subsidiaries and associates	-	-	36,374	-	-	12,981	-	-	-	-	802	50,157
BALANCE AT DECEMBER 31, 2016	157,348,610	382,680	37,807,466	59,934,379	29,786,846	17,196,041	(32,048)	8,650,573	62,181	8,680,706	(8,576,842)	302,559,886
Appropriation of 2016 earnings (Note 21)												
Legal reserve	-	-	-	1,603,837	-	(1,603,837)	-	-	-	-	-	-
Reversal of special reserve	-	-	-	-	(2,130,614)	2,130,614	-	-	-	-	-	-
Cash dividends to ordinary shareholders - NT\$0.85 per share	-	-	-	-	-	(13,374,632)	-	-	-	-	-	(13,374,632)
Cash dividends to preference shareholders - NT\$1.4 per share	-	-	-	-	-	(53,575)	-	-	-	-	-	(53,575)
Reversal of special reserve	-	-	-	-	(363)	363	-	-	-	-	-	-
Net profit for the year ended December 31, 2017	-	-	-	-	-	16,905,588	-	-	-	-	-	16,905,588
Other comprehensive income (loss) for the year ended December 31, 2017, net of income tax	-	-	-	-	-	(1,167,502)	(2,078,545)	964,290	(193,516)	(1,307,771)	-	(2,475,273)
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	-	15,738,086	(2,078,545)	964,290	(193,516)	(1,307,771)	-	14,430,315
Purchase of the Corporation's shares by subsidiaries	-	-	-	-	-	-	-	-	-	-	(19,595)	(19,595)
Disposal of the Corporation's shares held by subsidiaries	-	-	28,066	-	-	-	-	-	-	-	64,048	92,114
Adjustment to capital surplus arising from dividends paid to subsidiaries	-	-	267,245	-	-	-	-	-	-	-	-	267,245
Adjustment from changes in equity of subsidiaries and associates	-	-	108,305	-	-	-	-	-	-	-	-	108,305
BALANCE AT DECEMBER 31, 2017	\$ 157,348,610	\$ 382,680	\$ 38,211,082	\$ 61,538,216	\$ 27,655,869	\$ 20,033,060	\$ (2,110,593)	\$ 9,614,863	\$ (131,335)	\$ 7,372,935	\$ (8,532,389)	\$ 304,010,063

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

(With Deloitte & Touche audit report dated March 28, 2018)

Proposals and Discussion

CHINA STEEL CORPORATION

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

	For the Year Ended December 31	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	\$ 18,520,664	\$ 18,033,211
Adjustments for:		
Depreciation	17,394,877	18,409,717
Amortization	9,975	10,951
Finance costs	1,919,054	1,990,052
Interest income	(146,636)	(124,145)
Dividend income	(335,909)	(350,156)
Share of profit of subsidiaries and associates	(7,212,280)	(5,653,411)
Loss on disposal of property, plant and equipment	9,721	21,862
Gain on disposal of investments	(771,464)	(603,519)
Impairment loss recognized on financial assets	532,792	488,299
Impairment loss recognized on nonfinancial assets	40,311	-
Reversal of loss on inventories	(551,871)	(2,919,280)
Unrealized (realized) gain on the transactions with subsidiaries and associates	(147,162)	384,546
Recognition of provisions	7,190,968	7,252,605
Others	49,800	4,461
Changes in operating assets and liabilities		
Notes receivable	(209,708)	(28,817)
Notes receivable - related parties	101,384	(126,058)
Accounts receivable	(988,974)	(354,531)
Accounts receivable - related parties	(710,728)	(1,128,653)
Other receivables	321,472	(516,076)
Inventories	(4,988,766)	(1,913,314)
Other current assets	(1,071,405)	170,378
Accounts payable	3,396	2,084,866
Accounts payable - related parties	844,470	611,935
Other payables	1,377,976	2,647,544
Provisions	(7,356,211)	(6,547,481)
Other current liabilities	584,464	382,509
Net defined benefit liabilities	84,024	71,415
Other noncurrent liabilities	-	340
Cash generated from operations	<u>24,494,234</u>	<u>32,299,250</u>
Income taxes paid	<u>(1,355,517)</u>	<u>(821,131)</u>
Net cash generated from operating activities	<u>23,138,717</u>	<u>31,478,119</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of available-for-sale financial assets	-	(193,268)
Proceeds from disposal of available-for-sale financial assets	841,250	649,443
Proceeds from the capital reduction on available-for-sale financial assets	1,284	2,267

(Continued)

Proposals and Discussion

CHINA STEEL CORPORATION

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

	For the Year Ended December 31	
	2017	2016
Proceeds from the capital reduction on investment accounted for using equity method	\$ -	\$ 999,968
Acquisition of investments accounted for using equity method	(779,498)	(11,426,350)
Acquisition of property, plant and equipment	(11,701,039)	(10,152,877)
Proceeds from disposal of property, plant and equipment	419	-
Increase in refundable deposits	(44,404)	(11,605)
Increase in other receivables - loans to related parties	(145,141)	(1,321,809)
Decrease (increase) in other financial assets	466,929	(941,687)
Interest received	144,903	124,587
Dividends received from subsidiaries and associates	4,963,105	4,993,852
Other dividends received	<u>350,463</u>	<u>335,602</u>
Net cash used in investing activities	<u>(5,901,729)</u>	<u>(16,941,877)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	17,971,900	15,500,000
Repayments of short-term borrowings	(16,590,000)	(16,725,401)
Increase in share-term bills payable	122,646,753	142,052,986
Decrease in short-term bills payable	(116,350,000)	(154,900,000)
Proceeds from long-term bills payable	-	5,899,355
Repayments of bonds payable	(5,200,000)	(4,650,000)
Proceeds from long-term borrowings	-	14,817,064
Repayments of long-term borrowings	(4,242,113)	(10,139,862)
Dividends paid	(13,428,207)	(7,911,996)
Interest paid	<u>(2,088,514)</u>	<u>(2,129,360)</u>
Net cash used in financing activities	<u>(17,280,181)</u>	<u>(18,187,214)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(43,193)	(3,650,972)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>872,415</u>	<u>4,523,387</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u><u>\$ 829,222</u></u>	<u><u>\$ 872,415</u></u>
Reconciliation of the amounts in the standalone statements of cash flows with the equivalent items reported in the standalone balance sheets as of December 31, 2017 and 2016:		
Cash and cash equivalents in the standalone balance sheets	\$ 2,923,910	\$ 2,477,746
Bank overdraft	<u>(2,094,688)</u>	<u>(1,605,331)</u>
Cash and cash equivalents in the standalone statements of cash flows	<u><u>\$ 829,222</u></u>	<u><u>\$ 872,415</u></u>

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

(With Deloitte & Touche audit report dated March 28, 2018)

(Concluded)

Proposals and Discussion

2.

Proposed by the board of directors

Proposal:

Adoption of the Proposal for Distribution of 2017 Profits

Explanatory Note:

(1) The Company's earnings distribution, as shown below, is proposed in accordance with the provisions in Article 6 of the Articles of Incorporation of the Company:

Undistributed earnings from previous years	NT\$ 4,294,612,445.81
Reverse of special reserve: disposal of fixed assets	362,213.00
Actuarial gains(losses) from defined benefit pension plans (included in retained earnings)	(978,672,808.00)
Effects resulting from changes in long-term equity investment	(188,829,023.00)
Add: After-tax earnings of 2017 (A)	16,905,588,134.86
Deduct: Legal reserve = (A) *10%	(1,690,558,813.00)
Deduct: Reverse of special reserve to undistributed earnings	5,992,689.00
Subtotal of distributable earnings	<u>18,348,494,838.67</u>
Distributable Items:	
Dividends for preferred shares	(53,575,199.00)
Dividends for common shares	(13,846,677,677.00)
Subtotal of distributable items	<u>(13,900,252,876.00)</u>
Undistributed earnings	<u><u>NT\$ 4,448,241,962.67</u></u>

(2) The proposed dividend appropriation for preferred shares totaled NT\$1.4 per share in cash. The proposed dividend appropriation for common shares totaled NT\$0.88 per share in cash.

(3) Upon approval of this earnings appropriation plan by resolution of the meeting of shareholders, Chairman of the Board will be authorized to set the record date for cash dividend distribution. When distributing cash dividends, the total amount paid to each shareholder shall be in whole NT dollars and any fractional amount less than a NT dollar shall be rounded up to the next NT dollar. The resulting difference shall be recognized as a Company expense.

Resolution:

Proposals and Discussion

3.

Proposed by the board of directors

Proposal:

Amendments to Articles of Incorporation

Explanatory Note:

1. 5 amendments to Articles of Incorporation of the Company are proposed:
 - (1) As the audit committee has been set up, the Company proposed to delete the wording of Supervisor(s) in Paragraph 1 of Article 6.
 - (2) For the avoidance of doubt, the Company proposed to merge Paragraph 5 into Paragraph 4 of Article 25 and amend the wording.
 - (3) In compliance with Answer 11 of “FAQ of Corporate Governance— Regulations Governing Procedure for Board of Directors Meetings”, the Company proposed to amend the wording of Subparagraph 4 of Article 30. In addition, the Company proposed to merge Subparagraph 7 into Subparagraph 5, amend the wording of Subparagraph 5 and move the original Subparagraph 8 to Subparagraph 18 forward to Subparagraph 7 to Subparagraph 17.
 - (4) As the audit committee has been set up, the Company proposed to amend the wording of Article 30-1.
 - (5) Amendment to Article 42 is to revise the date of amendment and cardinal number.
2. A comparison table of drafted clause and the clause in force is attached.

Resolution:

Proposals and Discussion

Attachment 2

Comparison Table of Drafted Amendments to Articles of Incorporation of China Steel Corporation

Revised clause	Clause in force	Explanation
<p>Article 6</p> <p>If there is profit in any given fiscal year, the Company shall set aside no less than 0.1% as the remuneration in stock or cash for employees, and no more than 0.15% as the remuneration for Directors under the resolution of the Meeting of the Board of Directors and shall be reported in the shareholders' meeting. Nevertheless, accumulated losses shall be offset in advance.</p> <p>(Omitted)</p>	<p>Article 6</p> <p>If there is profit in any given fiscal year, the Company shall set aside no less than 0.1% as the remuneration in stock or cash for employees, and no more than 0.15% as the remuneration for Directors <u>and Supervisors</u> under the resolution of the Meeting of the Board of Directors and shall be reported in the shareholders' meeting. Nevertheless, accumulated losses shall be offset in advance.</p> <p>(Omitted)</p>	<p>To delete the wording of Supervisor(s) in Paragraph 1 as the audit committee has been set up.</p>
<p>Article 25</p> <p>(Omitted)</p> <p>When convening a Board meeting, members of the Board of Directors shall be notified of the date, location, agenda of the meeting and sufficient meeting materials seven days in advance. In the event of an emergency, such a meeting may be convened at any time.</p> <p>The notice set forth in the preceding paragraph may be effected by means of writing or electronic transmission. In the event of an emergency, such a meeting may be notified by any other appropriate means. Any member of the Board of Directors may declare a waiver of the notice in writing.</p>	<p>Article 25</p> <p>(Omitted)</p> <p>When convening a Board meeting, members of the Board of Directors shall be notified of the date, location, agenda of the meeting and sufficient meeting materials seven days in advance. In the event of an emergency, such a meeting may be convened at any time.</p> <p>The notice set forth in the preceding paragraph may be effected by means of writing or electronic transmission. In the event of an emergency, such a meeting may be notified by any other appropriate means.</p> <p>Any member of the Board of Directors may declare a waiver of the notice <u>in the preceding 2 paragraphs</u> in writing <u>prior or subsequent to a meeting</u>.</p>	<p>To merge Paragraph 5 into Paragraph 4 and amend the wording for the avoidance of doubt.</p>

Proposals and Discussion

<p>Article 30</p> <p>The powers of the Board of Directors are listed as follows:</p> <p>(Omitted)</p> <p>(4) To review and approve the <u>annual directives and operational budgets</u>;</p> <p>(5) To review and approve the annual <u>Business Report and Financial Reports</u>;</p> <p>(6) To review and approve the project-type capital expenditure budget;</p> <p>(Deleted)</p> <p><u>(7)</u> To appropriate the earnings or make up the loss;</p> <p><u>(8)</u> To approve the borrowing money from domestic or foreign loans of which the amount and term are over the delegated power of the Board of Directors;</p> <p><u>(9)</u> To approve the offering, issuance or private placement of any equity-type securities as well as the issuance of non equity-type corporate bonds;</p> <p><u>(10)</u> To adopt or amend the handling procedures for financial or operational actions of material significance, such as acquisition or disposal of assets, derivatives trading, extension of monetary loans to others, and endorsements 8 or guarantees for others, and the internal control system as well as to approve other important by-laws;</p> <p><u>(11)</u> To approve the primary rights and obligation of important agreements;</p> <p><u>(12)</u> To approve the appointment or discharge of Vice President and higher position, and financial, accounting and internal audit officers;</p> <p><u>(13)</u> To approve the standards of</p>	<p>Article 30</p> <p>The powers of the Board of Directors are listed as follows:</p> <p>(Omitted)</p> <p>(4) To review and approve the <u>long term, midterm and annual plans</u>;</p> <p>(5) To review and approve the annual <u>operational budgets and the final audits</u>;</p> <p>(6) To review and approve the project-type capital expenditure budget;</p> <p><u>(7)</u> To review and approve the <u>annual financial reports</u>;</p> <p><u>(8)</u> To appropriate the earnings or make up the loss;</p> <p><u>(9)</u> To approve the borrowing money from domestic or foreign loans of which the amount and term are over the delegated power of the Board of Directors;</p> <p><u>(10)</u> To approve the offering, issuance or private placement of any equity-type securities as well as the issuance of non equity-type corporate bonds;</p> <p><u>(11)</u> To adopt or amend the handling procedures for financial or operational actions of material significance, such as acquisition or disposal of assets, derivatives trading, extension of monetary loans to others, and endorsements 8 or guarantees for others, and the internal control system as well as to approve other important by-laws;</p> <p><u>(12)</u> To approve the primary rights and obligation of important agreements;</p> <p><u>(13)</u> To approve the appointment or discharge of Vice President and higher position, and financial, accounting and internal audit officers;</p> <p><u>(14)</u> To approve the standards of</p>	<p>1. To amend the wording of Subparagraph 4 of Article 30 in compliance with Answer 11 of “FAQ of Corporate Governance – Regulations Governing Procedure for Board of Directors Meetings”.</p> <p>2. To merge the original Subparagraph 7 into Subparagraph 5 and amend the wording.</p> <p>3. To move the original Subparagraph 8 to Subparagraph 18 forward to Subparagraph 7 to Subparagraph 17.</p>
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Proposals and Discussion

<p>salary for employees; <u>(14)</u> To approve investments and other equity interests; <u>(15)</u> To approve endorsement and guaranty within the Company's operation procedure of endorsement and guaranty; <u>(16)</u> To approve loaning of funds to other parties within the Company's procedures for loaning of funds to other parties; and <u>(17)</u> To review and approve the authorities which are empowered by other statutes.</p>	<p>salary for employees; <u>(15)</u> To approve investments and other equity interests; <u>(16)</u> To approve endorsement and guaranty within the Company's operation procedure of endorsement and guaranty; <u>(17)</u> To approve loaning of funds to other parties within the Company's procedures for loaning of funds to other parties; and <u>(18)</u> To review and approve the authorities which are empowered by other statutes.</p>	
<p>Article 30-1</p> <p>The company shall establish an audit committee in accordance with Article 14-4 of the Securities and Exchange Act. The audit committee shall be composed of the entire number of independent directors. It shall not be fewer than three persons in number, one of whom shall be convener, and at least one of whom shall have accounting or financial expertise. Other matters not mentioned in Article shall be handled in accordance with Company Act, Securities Exchange Act, other relevant laws or regulations, and procedures of the Company.</p> <p>The provisions regarding the power of supervisors in the Securities and Exchange Act, the Company Act, <u>and</u> other laws and regulations shall apply to the audit committee, except the provisions listed in Paragraph 4 of Article 14-4 of the Securities and Exchange Act. A resolution of the audit committee shall have the concurrence of one-half or more of all members; the convener of audit committee shall externally on</p>	<p>Article 30-1</p> <p><u>Starting from the 16th term of board of directors</u>, the company shall establish an audit committee in accordance with Article 14-4 of the Securities and Exchange Act. The audit committee shall be composed of the entire number of independent directors. It shall not be fewer than three persons in number, one of whom shall be convener, and at least one of whom shall have accounting or financial expertise. Other matters not mentioned in Article shall be handled in accordance with Company Act, Securities Exchange Act, other relevant laws or regulations, and procedures of the Company.</p> <p><u>After the company established an audit committee</u>, the provisions regarding the power of supervisors in the Securities and Exchange Act, the Company Act, other laws and regulations, <u>and this Articles of Incorporation</u> shall apply to the audit committee, except the provisions listed in Paragraph 4 of Article 14-4 of the Securities and Exchange Act. A resolution of the audit committee shall have the concurrence of one-half or more of</p>	<p>To amend the wording as the audit committee has been set up.</p>

Proposals and Discussion

<p>behalf of the committee.</p>	<p>all members; the convener of audit committee shall externally on behalf of the committee.</p>	
<p>Article 42</p> <p>This Articles of Incorporation are agreed and signed on Nov. 2, 1971, firstly amended on Dec. 28, 1973, (Omitted), forty-fourthly amended on June 23rd, 2016, <u>and forty-fifthly amended on June 21st, 2018.</u></p>	<p>Article 42</p> <p>This Articles of Incorporation are agreed and signed on Nov. 2, 1971, firstly amended on Dec. 28, 1973, (Omitted), <u>and</u> forty-fourthly amended on June 23rd, 2016.</p>	<p>To revise the date of amendment and cardinal number.</p>

Proposals and Discussion

4. **Proposed by the board of directors**

Proposal:

Amendments to Procedures for Acquisition or Disposal of Assets

Explanatory Note:

1. Amendments are made in compliance with the “FAQ of Regulations Governing the Acquisition and Disposal of Assets by Public Companies” issued by Securities and Futures Bureau, regulations of the order no. Financial-Supervisory-Securities-Corporate-1050044504 and practical needs.
2. A comparison table of drafted clause and the clause in force is attached.

Resolution:

Proposals and Discussion

Attachment 3

Comparison Table of Drafted Amendments to Procedures for Acquisition or Disposal of Assets of China Steel Corporation

Revised clause	Clause in force	Explanation
<p>Article 9</p> <p>The Company acquiring or disposing of securities shall, before the date of occurrence of the event, obtain the most recent financial statement from the issuing company, audited and attested by a certified public accountant, for reference in appraising the transaction price. In any of the following circumstances where the transaction amount reaches NT\$300 million or more, the Company shall engage a certified public accountant to render an opinion on the reasonableness of the transaction price before the date of occurrence of the event. If the certified public accountant needs to use the report of an expert as evidence, he shall do so in accordance with the provisions of Statement of Auditing Standards No. 20 published by the ARDF. However, securities with quoted prices in an active market or covered by other regulations of the FSC are not subject to this restriction.</p> <p>Exceptions in the preceding paragraph refer to the following:</p> <ol style="list-style-type: none"> Securities acquired by means of cash subscriptions when establishing a company by founders or by offering public shares <u>in accordance with the Company Act, with the further requirement that the rights represented by the acquired securities be commensurate with the proportion of capital</u> 	<p>Article 9</p> <p>The Company acquiring or disposing of securities shall, before the date of occurrence of the event, obtain the most recent financial statement from the issuing company, audited and attested by a certified public accountant, for reference in appraising the transaction price. In any of the following circumstances where the transaction amount reaches NT\$300 million or more, the Company shall engage a certified public accountant to render an opinion on the reasonableness of the transaction price before the date of occurrence of the event. If the certified public accountant needs to use the report of an expert as evidence, he shall do so in accordance with the provisions of Statement of Auditing Standards No. 20 published by the ARDF. However, securities with quoted prices in an active market or covered by other regulations of the FSC are not subject to this restriction.</p> <p>Exceptions in the preceding paragraph refer to the following:</p> <ol style="list-style-type: none"> Securities acquired by means of cash subscriptions when establishing a company by founders or by offering public shares. 	<ol style="list-style-type: none"> Amendments are made in compliance with the “FAQ of Regulations Governing the Acquisition and Disposal of Assets by Public Companies” issued by Securities and Futures Bureau and regulations of the order no. Financial-Supervisory-Securities-Corporate-1050044504. To merge Subparagraph 10 into Subparagraph 9.

Proposals and Discussion

<p><u>contributed.</u></p> <ol style="list-style-type: none"> 2. Acquisition of securities issued by the object company based on par value in order to increase cash capital by relevant laws. 3. Acquisition of securities issued by wholly-owned subsidiary for the purpose of increasing cash capital. 4. Listed, traded and emerging securities traded in stock exchanges or by brokers. 5. Government bonds, or bonds traded with repurchase or resell agreements. 6. <u>Onshore or offshore publicly offered funds.</u> 7. Listed(or over-the-counter) stocks acquired or disposed in accordance with rules promulgated by a stock exchange or securities market for tender offer or auction of listed(or over-the-counter) stocks. 8. Participation in subscription to shares issued by a public company for a cash capital increase <u>or domestic subscription to corporate bonds (including financial debentures),</u> where the securities acquired are not privately placed securities. 9. Subscription to domestic privately placed fund prior to the establishment of the funds in accordance with Paragraph 1, Article 11 of the Securities Investment Trust and Consulting Act, <u>or subscription to or redemption of a domestic privately placed fund, provided that the trust agreement for the</u> 	<ol style="list-style-type: none"> 2. Acquisition of securities issued by the object company based on par value in order to increase cash capital by relevant laws. 3. Acquisition of securities issued by wholly-owned subsidiary for the purpose of increasing cash capital. 4. Listed, traded and emerging securities traded in stock exchanges or by brokers. 5. Government bonds, or bonds traded with repurchase or resell agreements. 6. <u>Domestic and overseas funds.</u> 7. Listed(or over-the-counter) stocks acquired or disposed in accordance with rules promulgated by a stock exchange or securities market for tender offer or auction of listed(or over-the-counter) stocks. 8. Participation in subscription to shares issued by a public company for a cash capital increase, where the securities acquired are not privately placed securities. 9. Subscription to domestic privately placed fund prior to the establishment of the funds in accordance with Paragraph 1, Article 11 of the Securities Investment Trust and Consulting Act <u>and the order numbered Chin Cheng Four Tzu No. 0930005249 issued by the FSC on November 1, 2004.</u> 	
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Proposals and Discussion

<p><u>fund specifies an investment strategy in which, aside from securities margin transactions and open positions held in securities-related products, the investment scope of the remaining portion is the same as that of a publicly offered fund.</u> (Deleted)</p> <p>10. Other situations regulated by the FSC.</p>	<p><u>10. For the subscription or redemption of domestic privately placed funds, if the investment strategy has already been indicated in the trust contract, except for securities on credit and securities of uncovered interest arbitrage related product positions being held, the remainder will be within the same range of investment as for publicly offered funds.</u></p> <p>11. Other situations regulated by the FSC.</p>	
<p>Article 17</p> <p>The Company shall take the following principles and strategies for risk management and auditing matters when engaging in derivatives trading:</p> <p>1. Trading principles and strategies: (Omitted)</p> <p>(5) Total value of contracts and the maximum loss limit:</p> <p>A. The total value of foreign exchange forward and currency swap contracts must be limited to <u>the estimated net foreign exchange position generated from operations at the time of conducting the contract, while the total value of foreign exchange forward and currency</u></p>	<p>Article 17</p> <p>The Company shall take the following principles and strategies for risk management and auditing matters when engaging in derivatives trading:</p> <p>1. Trading principles and strategies: (Omitted)</p> <p>(5) Total value of contracts and the maximum loss limit:</p> <p>A. The total value of foreign exchange forward and currency swap contracts must be limited to <u>the net position of estimated trades of the Company in long-term and short-term foreign exchange.</u></p> <p>The total value of interest rate swap contracts must be limited to</p>	<p>Derivatives trading engaged by the Company is limited to hedging purpose. The amendment is made to revise the limit to total value of foreign exchange forward and currency swap contracts and add the regulation on hedge against capital expenditure and investments in compliance with practical needs.</p>

Proposals and Discussion

<p><u>swap contracts conducted to hedge against capital expenditure and investments must be limited to the total value of the hedged items.</u></p> <p>The total value of interest rate swap contracts must be limited to the total value of long-term debt of the Company.</p> <p>B. When engaging in derivatives trading, the maximum losses for all contracts or for individual contract must not exceed 20% of the value of all contracts or of individual contract.</p> <p>2. Risk management measures: (Omitted)</p>	<p>the total value of long-term debt of the Company.</p> <p>B. When engaging in derivatives trading, the maximum losses for all contracts or for individual contract must not exceed 20% of the value of all contracts or of individual contract.</p> <p>2. Risk management measures: (Omitted)</p>	
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Proposals and Discussion

5.

Proposed by the board of directors

Proposal:

Proposal to release the prohibition on Chairman, Mr. Chao-Tung, Wong from holding the position of Director of Taiwan High Speed Rail Corporation.

Explanatory note:

(1) The agenda is proposed in compliance with Paragraph 1, Article 209 of the Company Act : A director who does anything for himself or on behalf of another person that is within the scope of the Company's business, shall explain to the meeting of shareholders the essential contents of such an act and secure its approval.

(2) Mr. Chao-Tung, Wong is holding the following position:

Invested Company	Concurrent Post	Business Relationship with CSC
Taiwan High Speed Rail Corporation	Director	Machinery installation

(3) Although the Company is related to Taiwan High Speed Rail Corporation in part of its business, products and services provided by the two companies belong to different market segments. The Company may thereby protect its investment rights and benefit from Mr. Chao-Tung, Wong's serving in the board of Taiwan High Speed Rail Corporation by participating in important operating decisions and monitor the execution of business strategies.

Resolution:

Proposals and Discussion

6. Proposed by the board of directors

Proposal:

Proposal to release the prohibition on Director, Mr. Horng-Nan, Lin from holding the position of Director of China Ecotek Corporation, Formosa Ha Tinh (Cayman) Limited and Formosa Ha Tinh Steel Corporation.

Explanatory note:

(1) The agenda is proposed in compliance with Paragraph 1, Article 209 of the Company Act : A director who does anything for himself or on behalf of another person that is within the scope of the Company's business, shall explain to the meeting of shareholders the essential contents of such an act and secure its approval.

(2) Mr. Horng-Nan, Lin is holding the following position:

Invested Company	Concurrent Post	Business Relationship with CSC
China Ecotek Corporation	Director	Engineering of environmental protection and steel construction
Formosa Ha Tinh (Cayman) Limited	Director	The holding company of Formosa Ha Tinh Steel Corporation, an integrated steel mill
Formosa Ha Tinh Steel Corporation	Director	Integrated steel mill

(3) Although the Company is related to the aforesaid three companies in part of its business, products and services provided by these companies belong to different market segments. The Company may thereby protect its investment rights and benefit from Mr. Horng-Nan, Lin's serving in the board of these three companies by participating in important operating decisions and monitor the execution of business strategies.

Resolution:

Proposals and Discussion

7. **Proposed by the board of directors**

Proposal:

Proposal to release the prohibition on Director, Mr. Shyi-Chin, Wang from holding the position of Director of Changzhou China Steel Precision Materials Co., Ltd.

Explanatory note:

(1) The agenda is proposed in compliance with Paragraph 1, Article 209 of the Company Act : A director who does anything for himself or on behalf of another person that is within the scope of the Company's business, shall explain to the meeting of shareholders the essential contents of such an act and secure its approval.

(2) Mr. Shyi-Chin, Wang is holding the following positions:

Invested Company	Concurrent Post	Business Relationship with CSC
Changzhou China Steel Precision Materials Co., Ltd.	Director	Iron and steel rolling, drawing, and extruding

(3) Although the Company is related to Changzhou China Steel Precision Materials Co., Ltd. in part of its business, products and services provided by the two companies belong to different market segments. The Company may thereby protect its investment rights and benefit from Mr. Shyi-Chin, Wang's serving in the board of Changzhou China Steel Precision Materials Co., Ltd. by participating in important operating decisions and monitor the execution of business strategies.

Resolution:

Proposals and Discussion

8. Proposed by the board of directors

Proposal:

Proposal to release the prohibition on Director, Mr. Yi-Lang, Lin from holding the position of Director of China Steel Machinery Corporation and Senergy Wind Power Co Ltd.

Explanatory note:

(4) The agenda is proposed in compliance with Paragraph 1, Article 209 of the Company Act : A director who does anything for himself or on behalf of another person that is within the scope of the Company's business, shall explain to the meeting of shareholders the essential contents of such an act and secure its approval.

(5) Mr. Yi-Lang, Lin is holding the following position:

Invested Company	Concurrent Post	Business Relationship with CSC
China Steel Machinery Corporation	Director	Steel casting; Iron and steel rolling, drawing, and extruding; Metal heat treating; Metal surface treating; Machinery and equipment manufacturing; Electric power supply, electric transmission and power distribution machinery manufacturing
Senergy Wind Power Co Ltd.	Director	Machinery and equipment manufacturing; Electric power supply, electric transmission and power distribution Machinery manufacturing; Machinery installation construction

(6) Although the Company is related to the aforesaid two companies in part of its business, products and services provided by these companies belong to different market segments. The Company may thereby protect its investment rights and benefit from Mr. Yi-Lang, Lin's serving in the board of these two companies by participating in important operating decisions and monitor the execution of business strategies.

Resolution: