

**Chung Hung Steel Corporation and
Subsidiaries**

**Consolidated Financial Statements for the
Years Ended December 31, 2013 and 2012 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Chung Hung Steel Corporation

We have audited the accompanying consolidated balance sheets of Chung Hung Steel Corporation (the "Corporation") and its subsidiaries as of December 31, 2013, December 31, 2012 and January 1, 2012, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2013 and 2012. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the consolidated financial position of the Corporation and its subsidiaries as of December 31, 2013, December 31, 2012 and January 1, 2012, and their consolidated financial performance and their consolidated cash flows for the years ended December 31, 2013 and 2012, in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, International Financial Reporting Interpretations and Standing Interpretations endorsed by the Financial Supervisory Commission of the Republic of China.

We have also audited the standalone financial statements of Chung Hung Steel Corporation as of and for the years ended December 31, 2013 and 2012 on which we have issued an unqualified report.

March 7, 2014

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 consolidated financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.

CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

ASSETS	December 31, 2013		December 31, 2012		January 1, 2012		LIABILITIES AND EQUITY	December 31, 2013		December 31, 2012		January 1, 2012	
	Amount	%	Amount	%	Amount	%		Amount	%	Amount	%	Amount	%
CURRENT ASSETS							CURRENT LIABILITIES						
Cash and cash equivalents (Notes 4 and 6)	\$ 102,721	-	\$ 73,613	-	\$ 101,410	-	Short-term borrowings (Notes 16 and 29)	\$ 8,611,347	24	\$ 8,483,234	24	\$ 13,271,997	35
Financial assets at fair value through profit or loss - current (Notes 4, 5 and 7)	287,774	1	307,818	1	319,627	1	Short-term bills payable (Note 16)	2,140,920	6	1,688,789	5	1,608,278	4
Available-for-sale financial assets - current (Notes 4, 5 and 8)	876,421	2	-	-	-	-	Financial liabilities at fair value through profit or loss - current (Notes 4, 5 and 7)	3,674	-	4,131	-	-	-
Accounts receivable, net (Note 9)	466,728	1	1,121,219	3	818,103	2	Notes payable (Note 17)	110,111	-	31,920	-	-	-
Accounts receivable from related parties (Notes 9 and 28)	81,754	-	50,915	-	67,965	-	Accounts payable (Note 17)	1,258,346	4	1,215,633	3	1,136,385	3
Other receivables (Note 9)	290,273	1	8,064	-	23,901	-	Accounts payable to related parties (Notes 17 and 28)	70,144	-	246,743	1	138,451	-
Other receivables from related parties (Notes 9 and 28)	33,862	-	180,232	1	47,376	-	Other payables (Note 18)	847,252	2	817,282	2	734,622	2
Current tax assets (Note 23)	628	-	672	-	242	-	Current tax liabilities (Note 23)	-	-	-	-	142	-
Inventories (Notes 4, 5 and 10)	7,125,502	20	6,985,705	20	9,590,885	25	Provisions - current (Notes 4, 5 and 19)	-	-	-	-	574,800	2
Prepayments (Note 15)	897,422	3	977,029	3	908,331	3	Current portion of long-term bank borrowings (Notes 16 and 29)	1,076,923	3	1,076,923	3	-	-
Other financial assets (Notes 12 and 29)	516,000	2	516,000	1	521,940	1	Other current liabilities (Note 18)	1,152,852	3	48,412	-	74,430	-
Other current assets (Note 15)	50,105	-	75,608	-	197,201	1							
Total current assets	10,729,190	30	10,296,875	29	12,596,981	33	Total current liabilities	15,271,569	42	13,613,067	38	17,539,105	46
NONCURRENT ASSETS							NONCURRENT LIABILITIES						
Financial assets at fair value through profit or loss - noncurrent (Notes 4, 5 and 7)	-	-	259	-	23,979	-	Financial liabilities at fair value through profit or loss - noncurrent (Notes 4, 5 and 7)	-	-	1,739	-	-	-
Available-for-sale financial assets - noncurrent (Notes 4, 5 and 8)	56,961	-	1,224,857	3	1,269,710	3	Long-term bank borrowings (Notes 16 and 29)	11,652,678	32	12,773,315	36	7,730,136	20
Investments accounted for using equity method (Notes 4 and 11)	2,324,605	6	2,304,196	7	2,318,687	6	Deferred tax liabilities (Notes 4 and 23)	182,791	1	183,151	-	182,222	1
Property, plant and equipment (Notes 4, 5, 13, 20, 22, 29 and 30)	17,409,648	48	16,669,398	47	17,506,217	46	Accrued pension liabilities (Notes 4, 5 and 20)	163,693	-	188,534	1	177,161	-
Investment properties (Notes 4, 5, 14 and 29)	4,309,575	12	4,303,391	12	4,304,214	11	Guarantee deposits received (Note 25)	35,120	-	35,120	-	35,120	-
Deferred tax assets (Notes 4, 5 and 23)	-	-	929	-	-	-							
Prepayments for equipment (Note 30)	1,393,917	4	868,518	2	167,224	1	Total noncurrent liabilities	12,034,282	33	13,181,859	37	8,124,639	21
Refundable deposits	18,084	-	22,230	-	21,899	-	Total liabilities	27,305,851	75	26,794,926	75	25,663,744	67
Total noncurrent assets	25,512,790	70	25,393,778	71	25,611,930	67	EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION						
							(Note 21)						
							Ordinary shares	14,355,444	40	14,355,444	40	14,355,444	38
							Capital surplus	903	-	903	-	903	-
							Accumulated deficit						
							Legal reserve	-	-	-	-	154,487	-
							Accumulated deficit	(5,281,959)	(15)	(5,415,190)	(15)	(2,066,664)	(5)
							Total accumulated deficit	(5,281,959)	(15)	(5,415,190)	(15)	(1,912,177)	(5)
							Other equity	(138,259)	-	(45,430)	-	100,997	-
							Total equity	8,936,129	25	8,895,727	25	12,545,167	33
TOTAL	\$ 36,241,980	100	\$ 35,690,653	100	\$ 38,208,911	100	TOTAL	\$ 36,241,980	100	\$ 35,690,653	100	\$ 38,208,911	100

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

CHUNG HUNG 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			
	2013		2012	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 4, 28 and 32)				
Sales	\$ 38,092,689	98	\$ 42,790,048	99
Investment revenue	390	-	970	-
Service revenue	713,355	2	408,640	1
Other operating revenue	<u>48,796</u>	<u>-</u>	<u>31,954</u>	<u>-</u>
Total operating revenue	38,855,230	100	43,231,612	100
OPERATING COSTS (Notes 10, 20, 22 and 28)	<u>37,526,651</u>	<u>97</u>	<u>45,436,610</u>	<u>105</u>
GROSS PROFIT (LOSS)	<u>1,328,579</u>	<u>3</u>	<u>(2,204,998)</u>	<u>(5)</u>
OPERATING EXPENSES (Notes 20 and 22)				
Selling and marketing expenses	745,970	2	887,590	2
General and administrative expenses	<u>412,433</u>	<u>1</u>	<u>357,091</u>	<u>1</u>
Total operating expenses	<u>1,158,403</u>	<u>3</u>	<u>1,244,681</u>	<u>3</u>
PROFIT (LOSS) FROM OPERATIONS	<u>170,176</u>	<u>-</u>	<u>(3,449,679)</u>	<u>(8)</u>
NON-OPERATING INCOME AND EXPENSES (Notes 11, 22, 25 and 28)				
Other income	99,931	-	151,657	1
Other gains and losses	126,182	1	22,296	-
Finance costs	(285,041)	(1)	(291,977)	(1)
Share of the profit of associates and joint ventures	<u>28,737</u>	<u>-</u>	<u>92,093</u>	<u>-</u>
Total non-operating income and expenses	<u>(30,191)</u>	<u>-</u>	<u>(25,931)</u>	<u>-</u>
PROFIT (LOSS) BEFORE INCOME TAX	139,985	-	(3,475,610)	(8)
INCOME TAX EXPENSE (BENEFIT) (Notes 4 and 23)	<u>628</u>	<u>-</u>	<u>(28)</u>	<u>-</u>
NET PROFIT (LOSS) FOR THE YEAR	<u>139,357</u>	<u>-</u>	<u>(3,475,582)</u>	<u>(8)</u>
OTHER COMPREHENSIVE LOSS (Notes 4, 11, 20 and 21)				
Unrealized loss on available-for-sale financial assets	(84,502)	-	(39,843)	-
Actuarial loss from defined benefit plans	(6,126)	-	(27,431)	-
Share of the other comprehensive loss of associates and joint ventures	<u>(8,327)</u>	<u>-</u>	<u>(106,584)</u>	<u>-</u>

(Continued)

CHUNG HUNG 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			
	2013		2012	
	Amount	%	Amount	%
Total other comprehensive loss, net of income tax	\$ (98,955)	-	\$ (173,858)	-
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	\$ 40,402	-	\$ (3,649,440)	(8)
NET PROFIT (LOSS) ATTRIBUTABLE TO:				
Owners of the Corporation	\$ 139,357	-	\$ (3,475,582)	(8)
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:				
Owners of the Corporation	\$ 40,402	-	\$ (3,649,440)	(8)
EARNINGS (LOSS) PER SHARE (Note 24)				
Basic	\$ 0.10		\$ (2.42)	

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

(Concluded)

CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (In Thousands of New Taiwan Dollars)

	Issued and Outstanding Common Stock	Capital Surplus	Accumulated Deficit		Other Equity Unrealized Gain (Loss) on Financial Instruments	Total Equity
			Legal Reserve	Deficit		
BALANCE, JANUARY 1, 2012	\$ 14,355,444	\$ 903	\$ 154,487	\$ (2,066,664)	\$ 100,997	\$ 12,545,167
Legal reserve used to offset deficit (Note 21)	-	-	(154,487)	154,487	-	-
Net loss in 2012	-	-	-	(3,475,582)	-	(3,475,582)
Other comprehensive loss for the year ended December 31, 2012, net of income tax	-	-	-	(27,431)	(146,427)	(173,858)
Total comprehensive loss for the year ended December 31, 2012	-	-	-	(3,503,013)	(146,427)	(3,649,440)
BALANCE, DECEMBER 31, 2012	14,355,444	903	-	(5,415,190)	(45,430)	8,895,727
Net profit in 2013	-	-	-	139,357	-	139,357
Other comprehensive loss for the year ended December 31, 2013, net of income tax	-	-	-	(6,126)	(92,829)	(98,955)
Total comprehensive income (loss) for the year ended December 31, 2013	-	-	-	133,231	(92,829)	40,402
BALANCE, DECEMBER 31, 2013	\$ 14,355,444	\$ 903	\$ -	\$ (5,281,959)	\$ (138,259)	\$ 8,936,129

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

CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

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

	For the Year Ended December 31	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit (Loss) before income tax	\$ 139,985	\$ (3,475,610)
Adjustments for:		
Depreciation expense	1,852,735	1,795,082
Net loss on financial assets at fair value through profit or loss	7,313	32,083
Finance costs	285,041	291,977
Interest income	(2,445)	(2,586)
Dividend income	(19,865)	(43,118)
Share of the profit of associates	(28,737)	(92,093)
Loss on disposal of property, plant and equipment	-	22,339
Gain on disposal of investments	(76,897)	-
Decrease in provision for loss on inventories	(220,378)	(888,427)
Recognition of provisions	90,750	846,325
Changes in operating assets and liabilities		
Financial assets held for trading	10,794	9,316
Accounts receivable	654,491	(303,116)
Accounts receivable from related parties	(30,839)	17,050
Other receivables	(793)	15,842
Other receivable from related parties	146,370	(132,856)
Inventories	1,219,306	3,596,878
Prepayments	79,607	(68,698)
Other current assets	(10,626)	18,322
Notes payable	78,191	28,920
Accounts payable	42,713	79,248
Accounts payables to related parties	(176,599)	108,292
Other payables	(40,162)	154,244
Provisions - current	(90,750)	(1,421,125)
Other current liabilities	1,844	(26,018)
Accrued pension liabilities	(30,967)	(16,058)
Cash generated from operations	<u>3,880,082</u>	<u>546,213</u>
Income taxes paid	<u>(15)</u>	<u>(544)</u>
Net cash generated from operating activities	<u>3,880,067</u>	<u>545,669</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the capital reduction on available-for-sale financial assets	2,499	5,010
Acquisition of property, plant and equipment	(3,014,937)	(1,739,374)
Proceeds from disposal of property, plant and equipment	-	1,081
Increase in refundable deposits	-	(331)
Decrease in refundable deposits	4,146	-
Decrease in other financial assets	-	5,940
		(Continued)

CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

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

	For the Year Ended December 31	
	2013	2012
Interest received	\$ 2,401	\$ 2,581
Dividends received from others	<u>19,865</u>	<u>43,118</u>
Net cash used in investing activities	<u>(2,986,026)</u>	<u>(1,681,975)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term borrowings	128,113	-
Decrease in short-term borrowings	-	(4,788,763)
Increase in short-term bills payable	452,131	80,511
Proceeds from long-term bank borrowings	11,450,000	21,272,800
Repayments of long-term bank borrowings	(12,576,923)	(15,164,286)
Interest paid	<u>(318,254)</u>	<u>(291,753)</u>
Net cash generated from (used in) financing activities	<u>(864,933)</u>	<u>1,108,509</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	29,108	(27,797)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>73,613</u>	<u>101,410</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 102,721</u>	<u>\$ 73,613</u>

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

(Concluded)

CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

Chung Hung Steel Corporation (the “Corporation”) was incorporated in September 1983 and started operations in September 1985. It mainly manufactures and sells steel products, such as cold and hot rolled coils and steel pipes.

The Corporation’s shares have been listed on the Taiwan Stock Exchange since February 1992.

China Steel Corporation (“CSC”), the Corporation’s parent and major stockholder (41%), controls the Corporation’s management and operations.

The consolidated financial statements are presented in the Corporation’s functional currency, New Taiwan Dollars.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors and authorized for issue on March 7, 2014.

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

a. New, amended or revised standards and interpretations in issue but not yet effective

The Corporation and entities controlled by the Corporation (collectively referred to as “the Group”) have not applied the following International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), International Financial Reporting Interpretations (IFRIC), and Interpretations of IAS (SIC) (collectively referred to as “IFRSs”) that have been issued by the International Accounting Standards Board (IASB). On January 28, 2014, the Financial Supervisory Commission (“FSC”) announced the framework for the adoption of updated IFRSs version in the ROC. Under this framework, starting January 1, 2015, the previous version of IFRSs endorsed by the FSC (the 2010 IFRSs version) currently applied by companies with shares listed on the Taiwan Stock Exchange or traded on the Taiwan GreTai Securities Market or Emerging Stock Market will be replaced by the updated IFRSs without IFRS 9 (the 2013 IFRSs version). However, as of the date that the consolidated financial statements were authorized for issue, the FSC has not endorsed the following new, amended and revised standards and interpretations issued by the IASB (the “New IFRSs”) included in the 2013 IFRSs version. Furthermore, the FSC has not announced the effective date for the following New IFRSs that are not included in the 2013 IFRSs version.

**Effective Date Announced by
IASB (Note 1)**

The New IFRSs Included in 2013
IFRSs version not yet endorsed by the FSC

Improvements to IFRSs (2009) - amendment to IAS 39	January 1, 2009 or January 1, 2010
Amendment to IAS 39 "Embedded Derivatives"	Effective for annual periods ending on or after June 30, 2009
Improvements to IFRSs (2010)	July 1, 2010 or January 1, 2011, as appropriate
Annual Improvements to IFRSs 2009-2011 Cycle	January 1, 2013
Amendment to IFRS 1 "Limited Exemption from Comparative IFRS 7 Disclosures for First-Time Adopters"	July 1, 2010
Amendment to IFRS 1 "Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters"	July 1, 2011
Amendment to IFRS 1 "Government Loans"	January 1, 2013
Amendment to IFRS 7 "Disclosure - Offsetting Financial Assets and Financial Liabilities"	January 1, 2013
Amendment to IFRS 7 "Disclosure - Transfer of Financial Assets"	July 1, 2011
IFRS 10 "Consolidated Financial Statements"	January 1, 2013
IFRS 11 "Joint Arrangements"	January 1, 2013
IFRS 12 "Disclosure of Interests in Other Entities"	January 1, 2013
Amendments to IFRS 10, IFRS 11 and IFRS 12 "Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance"	January 1, 2013
Amendments to IFRS 10 and IFRS 12 and IAS 27 "Investment Entities"	January 1, 2014
IFRS 13 "Fair Value Measurement"	January 1, 2013
Amendment to IAS 1 "Presentation of Other Comprehensive Income"	July 1, 2012
Amendment to IAS 12 "Deferred tax: Recovery of Underlying Assets"	January 1, 2012
IAS 19 (Revised 2011) "Employee Benefits"	January 1, 2013
IAS 27 (Revised 2011) "Separate Financial Statements"	January 1, 2013
IAS 28 (Revised 2011) "Investments in Associates and Joint Ventures"	January 1, 2013
Amendment to IAS 32 "Offsetting Financial Assets and Financial Liabilities"	January 1, 2014
IFRIC 20 "Stripping Costs in Production Phase of a Surface Mine"	January 1, 2013

The New IFRSs not included in the 2013 IFRSs version

Annual Improvements to IFRSs 2010-2012 Cycle	July 1, 2014 (Note 2)
Annual Improvements to IFRSs 2011-2013 Cycle	July 1, 2014
IFRS 9 "Financial Instruments"	Effective date not determined
Amendments to IFRS 9 and IFRS 7 "Mandatory Effective Date and Transition Disclosures"	Effective date not determined
IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016
Amendment to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014
Amendment to IAS 36 "Recoverable Amount Disclosures for Non-Financial Assets"	January 1, 2014

(Continued)

	<u>Effective Date Announced by IASB (Note 1)</u>
Amendment to IAS 39 “Novation of Derivatives and Continuation of Hedge Accounting”	January 1, 2014
IFRIC 21 “Levies”	January 1, 2014
	(Concluded)

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after the respective effective dates.

Note 2: The amendment to IFRS 2 applies to share-based payment transactions for which the grant date is on or after July 1, 2014; the amendment to IFRS 3 applies to business combinations for which the acquisition date is on or after July 1, 2014; the amendment to IFRS 13 is effective immediately; the remaining amendments are effective for annual periods beginning on or after July 1, 2014.

- b. Significant impending changes in accounting policy that would result from adoption of New IFRSs in issue but not yet effective

Except for the following, the impending initial application of the above New IFRSs, whenever applied, would not have any material impact on the Groups’ accounting policies:

- 1) IFRS 9 “Financial Instruments”

With regards to financial assets, all recognized financial assets that are within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” are subsequently measured at amortized cost or fair value. Specifically, financial assets that are held within a business model whose objective is to collect the contractual cash flows, and have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost. All other financial assets are measured at their fair values at the balance sheet date. However, the Group may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

- 2) New and revised standards on consolidation and associates and disclosure

- a) IFRS 10 “Consolidated Financial Statements”

IFRS 10 replaces IAS 27 “Consolidated and Separate Financial Statements” and SIC 12 “Consolidation - Special Purpose Entities”. The Group considered whether they have control over other entities for consolidation. The Group have control over an investee if and only if they have i) power over the investee; ii) exposure, or rights, to variable returns from their involvement with the investee and iii) the ability to use their power over the investee to affect the amount of their returns. Additional guidance has been included in IFRS 10 to explain when an investor has control over an investee.

- b) IFRS 12 “Disclosure of Interests in Other Entities”

IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries and associates. In general, the disclosure requirements in IFRS 12 are more extensive than in the current standards.

c) Revision to IAS 28 “Investments in Associates and Joint Ventures”

Revised IAS 28 requires when a portion of an investment in an associate meets the criteria to be classified as held for sale, that portion is classified as held for sale. Any retained portion that has not been classified as held for sale is accounted for using the equity method. Under current IAS 28, when a portion of an investment in associate meets the criteria to be classified as held for sale, the entire investment is classified as held for sale and ceases to apply the equity method.

3) IFRS 13 “Fair Value Measurement”

IFRS 13 establishes a single source of guidance for fair value measurements. It defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments measured at fair value only will be extended by IFRS 13 to cover all assets and liabilities within its scope.

4) Amendments to IAS 1 “Presentation of Items of Other Comprehensive Income”

The amendments to IAS 1 require items of other comprehensive income to be grouped into those that (1) will not be reclassified subsequently to profit or loss; and (2) will be reclassified subsequently to profit or loss when specific conditions are met. Income taxes on related items of other comprehensive income are grouped on the same basis. Under current IAS 1, there were no such requirements.

5) Revision to IAS 19 “Employee Benefits”

Revision in 2011

Revised IAS 19 requires the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur and accelerate the recognition of past service costs. The revision requires all actuarial gains and losses to be recognized immediately through other comprehensive income in order for the net pension asset or liability to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in current IAS 19 are replaced with a “net interest” amount, which is calculated by applying the discount rate to the net defined benefit liability or asset.

6) Amendments to IAS 36 “Recoverable Amount Disclosures for Non-Financial Assets”

In issuing IFRS 13 “Fair Value Measurement”, the IASB made consequential amendments to the disclosure requirements in IAS 36 “Impairment of Assets”, introducing a requirement to disclose in every reporting period the recoverable amount of an asset or each cash-generating unit. The amendment clarifies that such disclosure of recoverable amount is required only when an impairment loss has been recognized or reversed during the period. Furthermore, the Group is required to disclose the discount rate used in measurements of the recoverable amount based on fair value less costs of disposal measured using a present value technique.

7) Annual Improvements to IFRSs: 2010-2012 Cycle

Several standards including IFRS 2 “Share-Based Payment”, IFRS 3 “Business Combinations” and IFRS 8 “Operating Segments” were amended in this annual improvement.

The amended IFRS 2 changes the definitions of ‘vesting condition’ and ‘market condition’ and adds definitions for ‘performance condition’ and ‘service condition’. The amendment clarifies that a performance target can be based on the operations (i.e. a non-market condition) of the Group or

another entity in the same group or the market price of the equity instruments of the Group or another entity in the same group (i.e. a market condition); that a performance target can relate either to the performance of the Group as a whole or to some part of it (e.g. a division); and that the period for achieving a performance condition must not extend beyond the end of the related service period. In addition, a share market index target is not a performance condition because it not only reflects the performance of the Group, but also of other entities outside the Group.

IFRS 3 was amended to clarify that contingent consideration should be measured at fair value, irrespective of whether the contingent consideration is a financial instrument within the scope of IAS 39 or IFRS 9. Fair value changes should be recognized in profit or loss.

The amended IFRS 8 requires an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have 'similar economic characteristics'. The amendment also clarifies that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segments' assets are regularly provided to the chief operating decision-maker.

IFRS 13 was amended to clarify that the issuance of IFRS 13 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of not discounting is immaterial.

IAS 24 was amended to clarify that a management entity providing key management personnel services to the Group is a related party of the Group. Consequently, the Group is required to disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

8) Annual Improvements to IFRSs: 2011-2013 Cycle

Several standards including IFRS 13 and IAS 40 "Investment Property" were amended in this annual improvement.

The scope in IFRS 13 of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis was amended to clarify that it includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.

IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required to determine whether the investment property acquired is acquisition of an asset or a business combination.

- c. Significant impending changes in accounting policy that would result from adoption of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers in issue but not yet effective

On December 30, 2013, FSC announced the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers. One of the main amendments is to permit fair value model for subsequent measurement of investment properties. This amendment is effective for annual periods beginning on or after January 1, 2014.

The amendment requires that the fair value of an investment property be measured using the income approach, except for undeveloped lands which are measured using a Land Development Analysis. If the investment property is measured using the income approach, the cash flows are determined by reference to any existing lease, local rents, or market rents for similar comparable subjects, adjusted to exclude those extreme lease subjects, plus the discounted present value of the property at the end of the

analysis period. The discount rate is determined by applying a risk premium approach, and is to be no less than the floating rate for the 2-year time savings deposits of Chunghwa Post Co., Ltd plus 0.75% and any asset-specific risk premium. The amendment requires disclosures in addition to those required by IAS 40, including significant lease terms, cash flows, discount rate, etc.

- d. The impact of the application of New IFRSs and the Regulations Governing the Preparation of Financial Reports by Securities Issuers (the “Regulations”) in issue but not yet effective on the Group’s consolidated financial statements is as follows:

As of the date the consolidated financial statements were authorized for issue by the board of directors, the Group is in the process of estimating the impact of the impending initial application of the Standards and Interpretations on their financial position and results of operations. Disclosures will be provided after a detailed review of the impact has been completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

On May 14, 2009, the FSC announced the “Framework for the Adoption of IFRSs by Companies in the ROC.” In this framework, starting 2013, companies with shares listed on the Taiwan Stock Exchange or traded on the Taiwan GreTai Securities Market or Emerging Stock Market should prepare their consolidated financial statements in accordance with IFRSs approved by the FSC.

The Group’s consolidated financial statements for the year ended December 31, 2013 are their first IFRS consolidated financial statements. The date of transition to IFRSs was January 1, 2012. Refer to Note 33 for the impact of IFRSs conversion on the consolidated financial statements.

For readers’ convenience, the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the ROC. If inconsistencies arise between the English version and the Chinese version or if differences arise in the interpretations between the two versions, the Chinese version of the consolidated financial statements shall prevail. However, the accompanying consolidated financial statements do not include English translation of the additional footnote disclosures that are not required under generally accepted accounting principles but are required by the Securities and Futures Bureau for their oversight purposes.

Statement of Compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs endorsed by the FSC.

Basis of Preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The opening consolidated balance sheet as of the date of transition to IFRSs was prepared in accordance with the recognition and measurement principles required by IFRS 1 “First-time Adoption of International Financial Reporting Standards”. The applicable IFRSs have been applied retrospectively by the Group except for optional exemptions and mandatory exceptions to such retrospective application provided under IFRS 1. The optional exemptions the Group adopted are described in Note 33.

Classification of Current and Noncurrent Assets and Liabilities

Current assets include:

- a. Assets held primarily for the purpose of trading;

- b. Assets expected to be realized within twelve months after the balance sheet date; and
- c. Cash and cash equivalents unless the asset is restricted from being used for an exchange or used to settle a liability for more than twelve months after the balance sheet date.

Current liabilities include:

- a. Liabilities held primarily for the purpose of trading;
- b. Liabilities to be settled within twelve months after the balance sheet date; and
- c. Liabilities without an unconditional right to defer settlement for at least twelve months after the balance sheet date.

Assets and liabilities that are not classified as current are classified as noncurrent.

Basis of Consolidation

- a. Principles for preparing consolidated financial statements

The consolidated financial statements incorporate the financial statements of the Corporation and the entities controlled by the Corporation (its subsidiaries).

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Corporation.

All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation.

- b. Subsidiary included in consolidated financial statements

Investor	Investee	Main Businesses	Percentage of Ownership (%)		
			December 31, 2013	December 31, 2012	January 1, 2012
Chung Hung Steel Corporation	Hung Li Steel Corporation Ltd. (HLSC)	Manufacture of steel product, steel product processing and sale	100	100	100
	Taiwan Steel Corporation (TSC)	Operation not yet started	100	100	100
	Hung Kao Investment Corporation (HKIC)	General investment	100	100	100

Foreign Currencies

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

At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the closing rates. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise except for exchange differences on transactions entered into in order to hedge certain foreign currency risks.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary items are recognized in profit or loss for the year except for exchange difference arising from the retranslation of non-monetary items in respect of which gains and losses are

recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

Inventories

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

Investment in Associates

An associate is an entity over which the Group have significant influence and that is neither a subsidiary nor an interest in a joint venture.

The operating results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognized at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. The Group also recognizes the changes in the share of equity of associates.

When the Group subscribes for additional new shares of the associate, at a percentage different from their existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Group proportionate interest in the associate. The Group records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus. If the Group ownership interest is reduced due to non-subscription to the new shares of associate, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate is reclassified to profit or loss on the same basis as would be required if the investee had directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for using equity method is insufficient, the shortage is debited to retained earnings.

When the Group share of losses of an associate equals or exceeds their interest in that associate (which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinue recognizing their share of further losses. Additional losses and liabilities are recognized only to the extent that the Group have incurred legal obligations, or constructive obligations, or made payments on behalf of that associate.

When impairment loss is evaluated, the entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. An impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment has subsequently increased.

When the Group transact with their associates, profits and losses on these transactions are recognized in the consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Property, Plant, and Equipment

Property, plant and equipment are stated at cost, less subsequent accumulated depreciation and subsequent accumulated impairment loss.

Properties in the course of construction for production, supply or administrative purposes are carried at cost. Cost includes professional fees and borrowing costs eligible for capitalization. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use and depreciated accordingly.

Freehold land is not depreciated.

Except that depreciation of the rollers (spare parts) that belong to the cold rolling departments, the hot rolling departments and subsidiary HLSC is calculated based on their level of wear, other depreciation is recognized so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method; each major part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at each balance sheet date, with the effect of any changes in estimate accounted for on a prospective basis.

Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss in the current year.

Investment Properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties also include land held for a currently undetermined future use.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss. Depreciation is recognized using the straight-line method.

Any gain or loss arising on derecognition of the property is calculated as the difference between the net disposal proceeds and the carrying amount of the asset and is included in profit or loss in the year in which the property is derecognized.

Impairment of Intangible Assets

At each balance sheet date, the Group reviews the carrying amounts of their intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimate the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to the individual cash-generating units; otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount.

When an impairment loss subsequently is reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Financial Instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

a. Measurement category

Financial assets held by the Group include financial assets at fair value through profit or loss, available-for-sale financial assets and loans and receivables.

1) Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial assets are either held for trading or designated as such on initial recognition.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss.

2) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are measured at fair value, and dividends on available-for-sale equity investments are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and reclassified in profit or loss when the investment is disposed of or is determined to be impaired.

Dividends on available-for-sale equity instruments are recognized when the Group right to receive the dividends is established.

3) Loans and receivables

Loans and receivables (including cash and cash equivalents, accounts receivable, other receivables, other financial assets and refundable deposits) are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Cash equivalents include time deposits with original maturity within three months from the date of acquisition, high liquidity, readily convertible to a known amount of cash and subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments.

b. Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the

financial asset, the estimated future cash flows of the investment have been affected.

Financial assets carried at amortized cost, such as accounts receivable, are assessed for impairment on a collective basis even if there is no objective evidence of impairment individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables. The amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For available-for-sale financial assets, a significant or prolonged decline in the fair value of the equity investment below its cost is considered to be objective evidence of impairment. For all other financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, breach of contract, such as a default or delinquency in interest or principal payments, higher probability that the borrower will enter bankruptcy or financial re-organization, or the disappearance of an active market for that financial asset because of financial difficulties.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period. In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss is not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and other receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable and other receivables are considered uncollectible, the uncollectible amount is written off against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectible trade receivables and other receivables that are written off against the allowance account.

c. Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when they transfer the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

Financial liabilities

a. Subsequent measurement

Except the following situation, all the financial liabilities are measured at amortized cost using the effective interest method:

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss when the financial liability is held for trading.

Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss.

b. Derecognition of financial liabilities

The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage their exposure to foreign exchange rate risks, including foreign exchange forward contracts.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognized in profit or loss immediately. When the fair value of derivative financial instruments is positive, the derivative is recognized as a financial asset; when the fair value of derivative financial instruments is negative, the derivative is recognized as a financial liability.

Provisions

Where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract, the present obligations arising under onerous contracts are recognized and measured as provisions.

Revenue Recognition

Sale of goods

Revenue is recognized when the titles to products and evident risks of ownership are transferred to customers, primarily upon shipment. Domestic sales are recognized when products are delivered to and accepted by the customers, and export sales are recognized when products are loaded onto shipping vessels in accordance with the sales terms.

Sales are measured at fair value, which is a price (net of trade discounts and sales discounts) agreed by the Group and customers. However, if the related receivables are due within one year, the differences between their fair values and receivable amounts are immaterial and sales transactions are frequent, the fair values of related receivables are not calculated using the discounted imputed interest rate.

Providing of services

Service revenue is recognized when services are provided.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All borrowing costs other than those stated above are recognized in profit or loss in the period in which they are incurred.

Retirement Benefit Costs

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses on the defined benefit obligation are recognized immediately in other comprehensive income. Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognized in the consolidated balance sheets represents the present value of the defined benefit obligation as adjusted for unrecognized past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to the unrecognized past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Curtailment or settlement gains or losses on the defined benefit plan are recognized when the curtailment or settlement occurs.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

Current tax is the amount of tax at statutory rate calculated on the taxable profit at the balance sheet date. According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused loss carry forward and unused tax credits for purchases of machinery and equipment and technology to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at each balance sheet date and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred taxes for the year

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred taxes are also recognized in other comprehensive income or directly in equity respectively.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Valuation of inventory

Inventories are stated at the lower of cost or net realizable value, and the Group uses judgment and estimate to determine the net realizable value of inventory at the balance sheet date. Since the net realizable value of inventory is mainly determined on the basis of future selling price, it might be adjusted significantly.

Fair value of financial instruments

As described in Note 27, the Group's management uses its judgment in selecting an appropriate valuation technique for financial instruments that do not have quoted market price in an active market. Valuation techniques commonly used by market practitioners are applied by the Group. For derivative financial instruments, assumptions were based on quoted market rates adjusted for specific features of the instruments. The estimation of fair value of instruments traded in emerging market and of unlisted equity instruments included non-observable market prices or rates to support the hypothesis; therefore, the estimates may a significantly change.

Useful lives of property, plant and equipment

The useful lives of property, plant and equipment are determined on the basis of the expected usage of the asset, the expected physical wear and tear, technical or commercial obsolescence, and legal or similar limits on the use of the asset, which may result in significant adjustments.

Evaluation of impairment of investment properties

The Group must subjectively judge the assets' usage patterns and characteristics of the industry during the evaluation process to determine independent cash flows, useful lives and future income and losses of specific asset groups.

Changes in economic conditions and estimates and changes in policy are likely to cause significant impairment in the future.

Realizability of deferred tax assets

The realizability of deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. Considering climate change in the steel industry and unpredictability of future profit, deferred tax assets were not recognized.

Estimate of provisions

Provisions are measured using the cash flows estimated to settle the present obligation. If the future cash flows are more than the expectation, the amount of the provisions may be adjusted significantly.

Recognition and measurement of defined benefit plan

The resulting pension expense and accrued pension liabilities under defined benefit pension plans are calculated using the Projected Unit Credit Method. Actuarial assumptions comprise the discount rate, employee turnover rate and long-term average future salary rate. 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.

6. CASH AND CASH EQUIVALENTS

	December 31, 2013	December 31, 2012	January 1, 2012
Cash on hand	\$ 900	\$ 1,500	\$ 1,500
Checking accounts and demand deposits	9,587	23,928	88,410
Cash equivalents			
Time deposits with original maturities less than three months	<u>92,234</u>	<u>48,185</u>	<u>11,500</u>
	<u>\$ 102,721</u>	<u>\$ 73,613</u>	<u>\$ 101,410</u>

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31, 2013	December 31, 2012	January 1, 2012
<u>Financial assets held for trading - current</u>			
Emerging market shares	\$ 283,883	\$ 304,654	\$ 315,041
Foreign exchange forward contracts	<u>3,891</u>	<u>3,164</u>	<u>4,586</u>
	<u>\$ 287,774</u>	<u>\$ 307,818</u>	<u>\$ 319,627</u>
<u>Financial assets held for trading - noncurrent</u>			
Foreign exchange forward contracts	<u>\$ -</u>	<u>\$ 259</u>	<u>\$ 23,979</u>
<u>Financial liabilities held for trading - current</u>			
Foreign exchange forward contracts	<u>\$ 3,674</u>	<u>\$ 4,131</u>	<u>\$ -</u>
<u>Financial liabilities held for trading - noncurrent</u>			
Foreign exchange forward contracts	<u>\$ -</u>	<u>\$ 1,739</u>	<u>\$ -</u>

The outstanding foreign exchange forward contracts not under hedge accounting of the Group at the balance sheet date were as follows:

	Currency	Maturity Date	Contract Amount (In Thousands)
<u>December 31, 2013</u>			
Buy	NTD/JPY	103.02.27-103.12.30	NTD16,631/JPY46,270
Buy	NTD/USD	103.02.27-103.04.30	NTD154,417/USD5,304
<u>December 31, 2012</u>			
Buy	NTD/JPY	103.02.27-103.12.30	NTD33,145/JPY92,540
Buy	NTD/USD	102.01.02-103.04.30	NTD986,351/USD33,879
Buy	NTD/EUR	102.11.12	NTD70,247/EUR1,906
<u>January 1, 2012</u>			
Buy	NTD/JPY	101.10.30-103.12.30	NTD296,821/JPY832,860
Buy	NTD/USD	101.06.29	NTD30,165/USD1,000

The Group entered into foreign exchange forward contracts during 2013 and 2012 to manage exposures to exchange rate fluctuations of foreign currency denominated liabilities. The Group's forward exchange contracts do not meet the criteria of hedge effectiveness, and therefore were not accounted for by using hedge accounting.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31, 2013	December 31, 2012	January 1, 2012
<u>Current</u>			
Listed shares	<u>\$ 876,421</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Noncurrent</u>			
Listed shares	\$ 26,576	\$ 1,188,406	\$ 1,232,917
Unlisted shares	<u>30,385</u>	<u>36,451</u>	<u>36,793</u>
	<u>\$ 56,961</u>	<u>\$ 1,224,857</u>	<u>\$ 1,269,710</u>

Rise Link Venture Capital Corp. conducted capital reduction and refunded NT\$2,499 thousand and NT\$5,010 thousand in May 2013 and July 2012, respectively.

9. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

	December 31, 2013	December 31, 2012	January 1, 2012
<u>Accounts receivable</u>			
Accounts receivable (including related parties)	<u>\$ 548,482</u>	<u>\$1,172,134</u>	<u>\$ 886,068</u>
<u>Other receivables (including related parties)</u>			
Receivables from disposal of investment	\$ 281,372	\$ -	\$ -
Receivables from disposal of scrap	37,529	43,972	54,120
Discount receivable	2,981	143,518	14,371
Others	<u>2,253</u>	<u>806</u>	<u>2,786</u>
	<u>\$ 324,135</u>	<u>\$ 188,296</u>	<u>\$ 71,277</u>

a. Accounts receivable

The average credit period for sales of goods was 7-30 days. Allowance for impairment loss was recognized by reference to past default experience with counterparties and an analysis of their current financial position. As of December 31, 2013, December 31, 2012 and January 1, 2012, there was no allowance for doubtful accounts.

The amounts of accounts receivable from single customer that exceed 10% of total accounts receivable were as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
A company	\$ 73,224	\$ 47,776	\$ 44,339
B company	-	165,583	-
C company	<u>-</u>	<u>-</u>	<u>126,695</u>
	<u>\$ 73,224</u>	<u>\$ 213,359</u>	<u>\$ 171,034</u>

As of December 31, 2013, December 31, 2012 and January 1, 2012, the Group did not have overdue accounts receivable.

The Corporation entered into accounts receivable factoring contract (without recourse) with Mega International Commercial Bank (“Mega Bank”). Under the contract, the Corporation is authorized to sell accounts receivable to Mega Bank upon the delivery of products to customers and is required to complete related formalities on the next banking day. Under this contract, the Corporation does not bear the risk of the uncollectibility of the accounts receivable. The receivables sold and the related credit lines, which may be used on a revolving basis, were as follows:

Buyer of Accounts Receivable	Advances Received at Year - Beginning	Receivables Sold	Amounts Collected	Advances Received at Year-end	Interest Rates on Advances Received (%)	Credit Line
Year ended December 31, 2013						
Mega Bank	<u>\$ 1,403,842</u>	<u>\$ 3,583,118</u>	<u>\$ 3,625,935</u>	<u>\$ 1,361,025</u>	1.40	NT\$3 billion
Year ended December 31, 2012						
Mega Bank	<u>\$ 1,221,416</u>	<u>\$ 3,753,783</u>	<u>\$ 3,571,357</u>	<u>\$ 1,403,842</u>	1.40	NT\$3 billion

b. Other receivables

Allowance for doubtful accounts is estimated by reference to the historical experience and the current financial position of the counterparties. As of December 31, 2013, December 31, 2012 and January 1, 2012, there was no allowance for doubtful accounts.

10. INVENTORIES

	December 31, 2013	December 31, 2012	January 1, 2012
Raw materials	\$ 2,517,907	\$ 2,859,208	\$ 5,130,523
Supplies	611,819	654,348	631,421
Work in progress	662,107	759,702	736,373
Finished goods	2,702,537	2,110,030	2,759,146
Others	29,520	10,208	7,817
Raw materials and supplies in transit	<u>601,612</u>	<u>592,209</u>	<u>325,605</u>
	<u>\$ 7,125,502</u>	<u>\$ 6,985,705</u>	<u>\$ 9,590,885</u>

As of December 31, 2013, December 31, 2012, January 1, 2012, the allowance for inventory devaluation was NT\$42,469 thousand, NT\$260,968 thousand and NT\$1,131,280 thousand, respectively.

The cost of inventories recognized as operating costs for the years ended December 31, 2013 and 2012 was NT\$37,139,818 thousand and NT\$45,175,222 thousand, respectively.

Movements of provision for loss on inventories (including loss from lending materials, Notes 15) were as follows:

	For the Year Ended December 31	
	2013	2012
Balance, beginning of year	\$ 262,847	\$ 1,151,274
Recognized	494,194	1,842,354
Sold	<u>(714,572)</u>	<u>(2,730,781)</u>
Balance, end of year	<u>\$ 42,469</u>	<u>\$ 262,847</u>

11. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	<u>December 31, 2013</u>		<u>December 31, 2012</u>		<u>January 1, 2012</u>	
	Amount	% of Owner - ship	Amount	% of Owner - ship	Amount	% of Owner - ship
Translory Investment Corp. (TIC)	<u>\$ 2,324,605</u>	<u>40.91</u>	<u>\$ 2,304,196</u>	<u>40.91</u>	<u>\$ 2,318,687</u>	<u>40.91</u>

The summarized financial information in respect of the Group's associates was set out below:

	December 31, 2013	December 31, 2012	January 1, 2012
Total assets	<u>\$ 6,817,292</u>	<u>\$ 6,848,599</u>	<u>\$ 7,120,582</u>
Total liabilities	<u>\$ 1,135,051</u>	<u>\$ 1,216,243</u>	<u>\$ 1,452,805</u>

	For the Year Ended December 31	
	2013	2012
Revenues	<u>\$ 96,225</u>	<u>\$ 251,942</u>
Net profit	<u>\$ 70,241</u>	<u>\$ 225,109</u>
Other comprehensive loss	<u>\$ (20,355)</u>	<u>\$ (260,530)</u>

Investments accounted for by the equity method and the share of profit or loss and other comprehensive loss of those investments were calculated based on the audited financial statements for the same reporting period.

12. OTHER FINANCIAL ASSETS - CURRENT

	December 31, 2013	December 31, 2012	January 1, 2012
Current			
Time deposits with original maturities more than three months	\$ 16,000	\$ 16,000	\$ 21,940
Pledged time deposits	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>
	<u>\$ 516,000</u>	<u>\$ 516,000</u>	<u>\$ 521,940</u>

Refer to Note 29 for information relating to other financial assets pledged as security.

13. PROPERTY, PLANT AND EQUIPMENT

For the year ended December 31, 2013

	Land	Buildings	Machinery and Equipment	Other Equipment	Spare Parts	Construction in Progress and Equipment to be Inspected	Total
<u>Cost</u>							
Balance at January 1, 2013	\$ 3,990,890	\$ 3,041,169	\$ 18,677,027	\$ 3,728,314	\$ 1,630,113	\$ 823,587	\$ 31,891,100
Additions	-	100,917	335,025	86,252	150,385	1,926,590	2,599,169
Disposals	-	-	(98,821)	(9,386)	(147,652)	-	(255,859)
Transfer to investment property	(7,007)	-	-	-	-	-	(7,007)
Balance at December 31, 2013	<u>\$ 3,983,883</u>	<u>\$ 3,142,086</u>	<u>\$ 18,913,231</u>	<u>\$ 3,805,180</u>	<u>\$ 1,632,846</u>	<u>\$ 2,750,177</u>	<u>\$ 34,227,403</u>
<u>Accumulated depreciation</u>							
Balance at January 1, 2013	\$ -	\$ 1,061,513	\$ 11,164,985	\$ 2,488,828	\$ 506,376	\$ -	\$ 15,221,702
Depreciation expense	-	90,617	1,291,728	283,533	186,034	-	1,851,912
Disposals	-	-	(98,821)	(9,386)	(147,652)	-	(255,859)
Balance at December 31, 2013	<u>\$ -</u>	<u>\$ 1,152,130</u>	<u>\$ 12,357,892</u>	<u>\$ 2,762,975</u>	<u>\$ 544,758</u>	<u>\$ -</u>	<u>\$ 16,817,755</u>
Carrying amount at December 31, 2013	<u>\$ 3,983,883</u>	<u>\$ 1,989,956</u>	<u>\$ 6,555,339</u>	<u>\$ 1,042,205</u>	<u>\$ 1,088,088</u>	<u>\$ 2,750,177</u>	<u>\$ 17,409,648</u>

For the year ended December 31, 2012

	Land	Buildings	Machinery and Equipment	Other Equipment	Spare Parts	Construction in Progress and Equipment to be Inspected	Total
<u>Cost</u>							
Balance at January 1, 2012	\$ 3,990,240	\$ 2,865,610	\$ 17,671,090	\$ 3,662,582	\$ 1,621,126	\$ 1,311,898	\$ 31,122,546
Additions	1,727	211,410	1,005,937	80,318	169,779	(488,311)	980,860
Disposals	(1,077)	(34,503)	-	(15,934)	(160,792)	-	(212,306)
Reclassification	-	(1,348)	-	1,348	-	-	-
Balance at December 31, 2012	<u>\$ 3,990,890</u>	<u>\$ 3,041,169</u>	<u>\$ 18,677,027</u>	<u>\$ 3,728,314</u>	<u>\$ 1,630,113</u>	<u>\$ 823,587</u>	<u>\$ 31,891,100</u>
<u>Accumulated depreciation</u>							
Balance at January 1, 2012	\$ -	\$ 988,087	\$ 9,936,511	\$ 2,225,547	\$ 466,184	\$ -	\$ 13,616,329
Depreciation expense	-	85,871	1,228,474	278,930	200,984	-	1,794,259
Disposals	-	(12,178)	-	(15,916)	(160,792)	-	(188,886)
Reclassification	-	(267)	-	267	-	-	-
Balance at December 31, 2012	<u>\$ -</u>	<u>\$ 1,061,513</u>	<u>\$ 11,164,985</u>	<u>\$ 2,488,828</u>	<u>\$ 506,376</u>	<u>\$ -</u>	<u>\$ 15,221,702</u>
Carrying amount at January 1, 2012	<u>\$ 3,990,240</u>	<u>\$ 1,877,523</u>	<u>\$ 7,734,579</u>	<u>\$ 1,437,035</u>	<u>\$ 1,154,942</u>	<u>\$ 1,311,898</u>	<u>\$ 17,506,217</u>
Carrying amount at December 31, 2012	<u>\$ 3,990,890</u>	<u>\$ 1,979,656</u>	<u>\$ 7,512,042</u>	<u>\$ 1,239,486</u>	<u>\$ 1,123,737</u>	<u>\$ 823,587</u>	<u>\$ 16,669,398</u>

Depreciation of the rollers that belong to the cold-rolling departments, the hot rolling department and subsidiary HLSC is calculated based on their level of wear; depreciation of other assets was recognized based on the following useful lives:

Buildings	
Facility	8-20 years
Main structure	35-60 years
Machinery and equipment	
Power equipment	3-18 years
High-temperature equipment	12-18 years
Other equipment	
Computer equipment	3-10 years
Office, air condition and extinguishment equipment	3-12 years
Transportation equipment	3-16 years
Others	3-18 years
Tank	3-18 years

The Group bought farmlands for warehousing at the Jia Xing Section and Bai Mi Section of the Gangshan District in Kaohsiung City. However, certain regulations prohibit the Group from registering the title of these farmlands in the Group's name; thus, the registration was made in the name of an individual person. The individual person consented to fully cooperate with the Group in changing the land title in the future and pledged the land to the Group as collateral. The Kaohsiung City government levied some parts of Jia

Xing Section farmlands in May 2012. As of December 31, 2013, December 31, 2012 and January 1, 2012, the book value of those remaining farmlands recognized as land was NT\$66,753 thousand, NT\$66,753 thousand and NT\$66,823 thousand, respectively.

Refer to Note 29 for the carrying amount of property, plant and equipment that had been pledged by the Group to secure borrowings.

14. INVESTMENT PROPERTIES

For the year ended December 31, 2013

	Land	Buildings	Total
<u>Cost</u>			
Balance at January 1, 2013	\$ 5,963,609	\$ 39,218	\$ 6,002,827
Transfer from property, plant and equipment	<u>7,007</u>	<u>-</u>	<u>7,007</u>
Balance at December 31, 2013	<u>\$ 5,970,616</u>	<u>\$ 39,218</u>	<u>\$ 6,009,834</u>
<u>Accumulated depreciation</u>			
Balance at January 1, 2013	\$ -	\$ 9,823	\$ 9,823
Depreciation expense	<u>-</u>	<u>823</u>	<u>823</u>
Balance at December 31, 2013	<u>\$ -</u>	<u>\$ 10,646</u>	<u>\$ 10,646</u>
<u>Accumulated Impairment</u>			
Balance at January 1, 2013 and December 31, 2013	<u>\$ 1,689,613</u>	<u>\$ -</u>	<u>\$ 1,689,613</u>
Carrying amount at December 31, 2013	<u>\$ 4,281,003</u>	<u>\$ 28,572</u>	<u>\$ 4,309,575</u>

For the year ended December 31, 2012

	Land	Buildings	Total
<u>Cost</u>			
Balance at January 1, 2012 and December 31, 2012	<u>\$ 5,963,609</u>	<u>\$ 39,218</u>	<u>\$ 6,002,827</u>
<u>Accumulated depreciation</u>			
Balance at January 1, 2012	\$ -	\$ 9,000	\$ 9,000
Depreciation expense	<u>-</u>	<u>823</u>	<u>823</u>
Balance at December 31, 2012	<u>\$ -</u>	<u>\$ 9,823</u>	<u>\$ 9,823</u>

(Continued)

	Land	Buildings	Total
<u>Accumulated Impairment</u>			
Balance at January 1, 2012 and December 31, 2012	<u>\$ 1,689,613</u>	<u>\$ -</u>	<u>\$ 1,689,613</u>
Carrying amount at January 1, 2012	<u>\$ 4,273,996</u>	<u>\$ 30,218</u>	<u>\$ 4,304,214</u>
Carrying amount at December 31, 2012	<u>\$ 4,273,996</u>	<u>\$ 29,395</u>	<u>\$ 4,303,391</u>
			(Concluded)

The above buildings of investment properties were depreciated on a straight-line basis over 31-55 years useful lives.

The fair value of the investment properties was arrived at on the basis of valuations carried out on August 30, 2011 and December 31, 2013 by independent appraisers and on the basis of information on Ministry of the Interior's real estate transaction database website. Lands and buildings were both valued under market approach and income approach. The important assumptions and fair value were as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Fair value	<u>\$ 6,810,387</u>	<u>\$ 4,547,690</u>	<u>\$ 4,547,690</u>
Expense rate	10.74%-21.78%	22.40%	22.40%
Depreciation rate	1.9%-2.57%	1.9%	1.9%

Refer to Note 29 for the carrying amount of the investment properties that had been pledged by the Group to secure borrowings.

15. PREPAYMENTS AND OTHER CURRENT ASSETS

	December 31, 2013	December 31, 2012	January 1, 2012
<u>Prepayments</u>			
Overpaid sales tax	\$ 404,993	\$ 472,549	\$ 369,732
Prepayment for purchase	285,967	288,449	226,986
Prepaid sales tax	198,280	201,080	296,041
Others	<u>8,182</u>	<u>14,951</u>	<u>15,572</u>
	<u>\$ 897,422</u>	<u>\$ 977,029</u>	<u>\$ 908,331</u>
<u>Other current assets</u>			
Temporary payments	\$ 30,581	\$ 20,115	\$ 38,531
Receivables from lending of steel slabs (Note 28)	19,084	55,213	158,484
Others	<u>440</u>	<u>280</u>	<u>186</u>
	<u>\$ 50,105</u>	<u>\$ 75,608</u>	<u>\$ 197,201</u>

As of December 31, 2012 and January 1, 2012, the allowance for devaluation of inventory for lending was NT\$1,879 thousand and NT\$19,994 thousand, respectively, recorded as reduction of receivables.

16. BORROWINGS

a. Short-term borrowings and bank overdraft

	December 31, 2013	December 31, 2012	January 1, 2012
Unsecured loans - interest at 1.13%-1.22% p.a., 1.05%-1.21% p.a. and 0.95%-1.15% p.a. as of December 31, 2013, December 31, 2012 and January 1, 2012, respectively	\$ 5,185,000	\$ 5,358,000	\$ 8,058,680
Letters of credit - interest at 1.10%-1.30% p.a., 0.55%-1.23% p.a. and 0.95 %-1.15% p.a. as of December 31, 2013, December 31, 2012 and January 1, 2012, respectively	2,965,411	2,707,274	4,809,961
Bank overdraft - interest at 0.62%-0.84% p.a., 0.63%-0.84% p.a. and 0.619%-0.79% p.a. as of December 31, 2013, December 31, 2012 and January 1, 2012, respectively	<u>460,936</u>	<u>417,960</u>	<u>403,356</u>
	<u>\$ 8,611,347</u>	<u>\$ 8,483,234</u>	<u>\$ 13,271,997</u>

b. Short-term bills payable

	December 31, 2013	December 31, 2012	January 1, 2012
Commercial paper - interest at 0.68%-0.95% p.a., 0.775%-0.912% p.a. and 0.762%-0.89% p.a. as of December 31, 2013, December 31, 2012 and January 1, 2012, respectively	\$ 2,142,000	\$ 1,690,000	\$ 1,609,000
Less: Unamortized discounts	<u>1,080</u>	<u>1,211</u>	<u>722</u>
	<u>\$ 2,140,920</u>	<u>\$ 1,688,789</u>	<u>\$ 1,608,278</u>

The above commercial paper was secured by Mega Bills Finance Corporation, China Bills Finance Corporation, International Bills Finance Corporation, Taching Bill Finance Ltd., Grand Bills Finance Corp., Taiwan Finance Corporation and Taiwan Cooperative Bills Finance Corporation, etc.

c. Long-term borrowings

	December 31, 2013	December 31, 2012	January 1, 2012
Syndicated bank loans			
Bank of Taiwan and other banks loan to the Corporation			
Repayable in 13 equal semiannual installments from March 2013 to March 2019, interest both at 1.5856% p.a. as of December 31, 2013 and December 31, 2012	\$ 5,903,077	\$ 6,980,000	\$ -
Repayable in March 2019 with a revolving credit, interest at 1.5888%-1.6025% p.a. and 1.6047%-1.611% p.a. as of December 31, 2013 and December 31, 2012, respectively	4,050,000	4,500,000	-
Mega International Commercial Bank and other banks loan to the Corporation			
Repayable in 14 equal semiannual installments from April 2007 to October 2013 and repaid early in March 2012; interest at 1.4535% p.a.	-	-	1,714,286
Taiwan Cooperative Bank and other banks loan to HLSC			
Repayable in June 2015 with a revolving credit, interest at 1.5074%-1.5581% p.a., 1.5381%-1.5782% p.a., and 1.5021%-1.5455% p.a. as of December 31, 2013, December 31, 2012 and January 1, 2012, respectively	2,300,000	2,400,000	2,400,000
Bank loans			
Industrial Bank of Taiwan loan to the Corporation			
Repayable in December 2015, interest at 1.3668% p.a.	500,000	-	-
Repayable in December 2013, with a revolving credit and repaid early in March 2012; interest at 1.5155% p.a.			
Mega Bank	-	-	825,000
TCB Bank	-	-	825,000
Land Bank	-	-	550,000
Taiwan Business Bank	-	-	550,000
Taipei Fubon Bank	-	-	550,000
Taishin Bank	-	-	330,000
	<u>12,753,077</u>	<u>13,880,000</u>	<u>7,744,286</u>
Less: Current portion	1,076,923	1,076,923	-
Syndicated loan fee	<u>23,476</u>	<u>29,762</u>	<u>14,150</u>
	<u>\$ 11,652,678</u>	<u>\$ 12,773,315</u>	<u>\$ 7,730,136</u>

In September 2006, the Corporation entered into a syndicated credit facility agreement with Mega International Commercial Bank (“Mega Bank”) and 20 other banks, as follows:

- 1) The credit line is NT\$14 billion, which consists of Type A NT\$6 billion, Type B NT\$5 billion and Type C NT\$3 billion. The first drawdown of the Corporation was on October 23, 2006. The Corporation canceled Type C in October 2010 and cancelled Type B in February 2011.
- 2) Type A is a secured loan (non-revolving credit). The loan balance is repayable in 14 installments from April 2007 to October 2013; however, the loan was repaid in advance in March 2012.

In December 2010, the Corporation entered into a medium-term loan agreement with Mega International Commercial Bank and 5 other banks, as follows:

- 1) The credit line is NT\$6.6 billion; the first drawdown of the Corporation was on December 30, 2010.
- 2) The debt instrument is an unsecured revolving credit loan, and the committed minimum amount to use is 25% of the loan amount and the loan term is 90 days. When the committed minimum amount to use is exceeded, the selection of a 60-, 90- or 180- day loan term must be made before every use. On making an application for loan use, the principal plus interest should be paid in full by the due date. The debt was repaid in advance in March 2012.

In December 2011, the Corporation entered into a syndicated credit facility agreement with Taiwan Bank and 11 other banks, as follows:

- 1) The credit line is NT\$16 billion, which consists of Type A NT\$7 billion and Type B NT\$9 billion. The first drawdown of the Corporation was on March 20, 2012.
- 2) Type A is a secured loan (non-revolving credit). The loan balance is repayable in 13 installments from March 2013 to March 2019.
- 3) Type B is an unsecured revolving credit loan, and the committed minimum amount to use is 25% of the loan amount. The selection of a 30-, 60-, 90- or 180-day loan term must be made before every use. On making an application for loan use, the principal plus interest should be paid in full by the due date. Furthermore, the Corporation can notify the bank of the renewal of the loan with the same conditions three business days before the due date. And for the same amount as a previous borrowing, the completed remittance procedures do not have to be required to be completed and repeated again.
- 4) Under the agreement, China Steel Corporation and its related parties should collectively hold at least 30% of the Corporation's issued shares and control the Corporation's operation. From January 1, 2012, the net tangible assets of the Corporation should not be less than half of the capital, and the ratio of financial liabilities to net tangible assets should not exceed 350%.

The amounts referred to in the above restrictions should be based on audited annual financial statements. If the Corporation breaches the agreement, the Corporation should take remedial measures within six months from the next day after the issue date of the financial statements' or adjust the interest rate and the rate of the guarantee fee in accordance with the agreement.

- 5) As of December 31, 2013 and 2012, the Corporation was in compliance with this syndicated credit facility agreement.

In June 2013, the Corporation entered into a medium-term loan agreement with Industrial Bank of Taiwan, as follows:

- 1) The credit line is NT\$5 billion with a non-revolving credit; the first drawdown of the Corporation was on June 18, 2013.
- 2) The bank loan is a medium-term unsecured loan with full, installment or revolving credit. The expiry date of each drawdown should not exceed the agreed credit period. The interest is

calculated monthly based on the borrowed amount and the agreed interest rate, which is determined on the basis of the fixing rate of 90-day commercial papers in the secondary market as appearing on Page 6165 of the Reuters Telerate screen on the last business day before the drawdown day plus 0.43 % and divide by 0.946. The adjusted interest rate is negotiated again every three months; the interest is paid on the eighteenth day of each month, and the principal is repayable in full on maturity of the loan.

In May 2010, the subsidiary HLSC entered into a syndicated credit facility agreement with Taiwan Cooperative Bank and 13 other banks, as follows:

- 1) The credit line is NT\$6 billion, which consists of Type A NT\$3.5 billion and Type B NT\$2.5 billion; the first drawdown of the Corporation was June 21, 2010.
- 2) Type A is secured loan with revolving credit line and should be priority.
- 3) Type B loan is a medium-term revolving loan with five-year credit period started from the day of first drawdown. The credit facility of type B loan should decrease semiannually since the fourth year after the day of first drawdown. For the first to fourth period, the credit facility will decrease by 5% each period, and it will be decreased in full on the fifth period. No loan was used as of December 31, 2013.
- 4) Based on the syndicated credit facility agreement, the Corporation should hold at least 51% of subsidiary HLSC's issued shares and hold over half of the seats in the board of directors and supervisors. The direct ownerships and the seats in the board of directors and supervisors held by China Steel Corporation and its related parties should be combined when calculating the above amounts. The tangible net value of subsidiary HLSC should not be below 50% of the paid-in capital and the ratio of financial liabilities to tangible net value should not exceed 300%.

The amounts referred to in the above financial ratios and criteria should be based on audited annual financial statements. When the subsidiary HLSC does not follow the above agreement, it will be considered as an adjustment factor of the interest rate instead of a breach of agreement.

- 5) As of December 31, 2013 and 2012, the subsidiary HLSC was in compliance with this syndicated credit facility agreement.

17. NOTES PAYABLE AND ACCOUNTS PAYABLE

	December 31, 2013	December 31, 2012	January 1, 2012
<u>Notes payable</u>			
Operating	<u>\$ 110,111</u>	<u>\$ 31,920</u>	<u>\$ -</u>
<u>Accounts payable (including related parties)</u>			
Operating	<u>\$ 1,328,490</u>	<u>\$ 1,462,376</u>	<u>\$ 1,274,836</u>

As of December 31, 2013 and 2012, notes payable to bank were NT\$91,696 thousand and NT\$22,902 thousand, respectively.

The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

18. OTHER LIABILITIES

	December 31, 2013	December 31, 2012	January 1, 2012
<u>Other payables</u>			
Sales discounts	\$ 241,242	\$ 257,609	\$ 163,526
Purchase of equipment	132,519	62,057	134,888
Borrowing of steel slabs (Note 28)	123,985	-	-
Salaries and incentive bonus	78,790	117,484	126,428
Utilities	69,099	74,663	60,172
Outsourced repair and construction	40,679	64,458	-
Delivery pay	34,187	38,760	38,305
Export fee	22,372	70,301	42,463
Processing charge	21,019	38,039	34,596
Others	<u>83,360</u>	<u>93,911</u>	<u>134,244</u>
	<u>\$ 847,252</u>	<u>\$ 817,282</u>	<u>\$ 734,622</u>
<u>Other current liabilities</u>			
Borrowing of steel slabs (Note 28)	\$ 1,102,596	\$ -	\$ -
Unearned receipts	41,644	38,241	67,888
Others	<u>8,612</u>	<u>10,171</u>	<u>6,542</u>
	<u>\$ 1,152,852</u>	<u>\$ 48,412</u>	<u>\$ 74,430</u>

19. PROVISIONS - CURRENT

	December 31, 2013	December 31, 2012	January 1, 2012
Onerous contracts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 574,800</u>
		<u>For the Year Ended December 31</u>	
		2013	2012
Balance, beginning of year		\$ -	\$ 574,800
Recognized for the year		90,750	846,325
Deducted for the year		<u>(90,750)</u>	<u>(1,421,125)</u>
Balance, end of year		<u>\$ -</u>	<u>\$ -</u>

The Group was obligated under non-cancellable onerous operating purchase contracts to recognized loss. As of December 31, 2013, December 31, 2012 and January 1, 2012, unpaid purchase quantities were 200,000 tons, 200,000 tons and 300,000 tons, respectively

20. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Group adopted a pension plan under the Labor Pension Act (the "LPA"), which is a state-managed defined contribution plan. Based on the LPA, the Group makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

The amounts of expenses for the defined contribution plans recognized in the consolidated statements of comprehensive income were NT\$17,796 thousand for 2013 and NT\$16,916 thousand for 2012.

b. Defined benefit plans

The Corporation and its domestic subsidiaries adopted the defined benefit plan under the Labor Standards Law, under which pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Corporation and its domestic subsidiaries make contributions, equal to 12.9% of total monthly salaries, to a pension fund, which is deposited in the Bank of Taiwan in the name of and administered by the pension fund monitoring committee. The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau of Labor Funds, Ministry of Labor or under the mandated management. However, in accordance with Measures for the Regulation of the Income and Expenditure, Investment, and Management of the Workers' Retirement Fund, the minimum return of yearly final appropriation generated through the use of Labor Pension Fund should not be below the return calculated on the interest rate for a 2-year time deposit with local banks.

The most recent present values of plan assets and defined benefit obligations were calculated by licensed actuary. The principal assumptions used for the purposes of the actuarial valuations were as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Discount rate	2.000%	1.625%	1.750%
Expected rate of return on plan assets	2.000%	1.875%	2.000%
Expected rate of salary increase	2.250%	2.000%	2.000%

The overall expected rate of return on plan assets was based on historical return trends and actuaries' predictions of the market for the asset over the life of the related obligation, with the consideration of the plan assets' performance and the effect of the minimum return.

The gains (losses) related to defined benefit plans were recognized as follows:

	For the Year Ended December 31	
	2013	2012
Current service cost	\$ 26,143	\$ 23,784
Interest cost	15,544	16,464
Past service cost	5,257	5,257
Expected return on plan assets	<u>(13,997)</u>	<u>(14,861)</u>
	<u>\$ 32,947</u>	<u>\$ 30,644</u>

(Continued)

	For the Year Ended December 31	
	2013	2012
Analysis by function		
Operating costs	\$ 28,027	\$ 26,413
Operating expenses	4,669	4,231
Recognized in the construction in process	<u>251</u>	<u>-</u>
	<u>\$ 32,947</u>	<u>\$ 30,644</u>
		(Concluded)

For the years ended December 31, 2013 and 2012, the Corporation recognized actuarial losses NT\$6,126 thousand and NT\$27,431 thousand as other comprehensive loss, respectively. As of December 31, 2013 and 2012, the accumulated actuarial losses recognized as other comprehensive loss were NT\$33,557 thousand and NT\$27,431 thousand, respectively.

The amounts included in the consolidated balance sheets in respect of the Corporation's obligations under the defined benefit plans were as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Present value of funded defined benefit obligation	\$ 975,023	\$ 967,112	\$ 940,795
Fair value of plan assets	<u>(774,529)</u>	<u>(736,520)</u>	<u>(716,319)</u>
Deficit	200,494	230,592	224,476
Past service cost not yet recognized	<u>(36,801)</u>	<u>(42,058)</u>	<u>(47,315)</u>
Accrued pension liabilities	<u>\$ 163,693</u>	<u>\$ 188,534</u>	<u>\$ 177,161</u>

Movements in the present value of the defined benefit obligations were as follows:

	For the Year Ended December 31	
	2013	2012
Defined benefit obligation, beginning of year	\$ 967,112	\$ 940,795
Current service cost	26,143	23,784
Interest cost	15,544	16,464
Actuarial losses	1,719	19,596
Benefits paid	<u>(35,495)</u>	<u>(33,527)</u>
Defined benefit obligation, end of year	<u>\$ 975,023</u>	<u>\$ 967,112</u>

Movements in the fair value of the plan assets were as follows:

	For the Year Ended December 31	
	2013	2012
Fair value of plan assets, beginning of year	\$ 736,520	\$ 716,319
Expected return on plan assets	13,997	14,861
Actuarial losses	(4,407)	(7,835)
Contributions from the employer	48,691	45,143
Benefits paid	<u>(20,272)</u>	<u>(31,968)</u>
Fair value of plan assets, end of year	<u>\$ 774,529</u>	<u>\$ 736,520</u>

The percentages of the major categories of plan assets at the balance sheet date were disclosed based on the information announced by Bureau of Labor Funds, Ministry of Labor website:

	December 31, 2013	December 31, 2012	January 1, 2012
Cash equivalents	23	25	24
Equity securities	45	38	41
Debt securities	<u>32</u>	<u>37</u>	<u>35</u>
	<u>100</u>	<u>100</u>	<u>100</u>

The Group chose to disclose the history of experience adjustments as the amounts determined for each accounting period prospectively from the date of transition to IFRSs (Refer to Note 33):

	December 31, 2013	December 31, 2012	January 1, 2012
Present value of defined benefit obligation	<u>\$ 975,023</u>	<u>\$ 967,112</u>	<u>\$ 940,795</u>
Fair value of plan assets	<u>\$ 774,529</u>	<u>\$ 736,520</u>	<u>\$ 716,319</u>
Deficit	<u>\$ 200,494</u>	<u>\$ 230,592</u>	<u>\$ 224,476</u>
Experience adjustments on plan liabilities	<u>\$ (12,622)</u>	<u>\$ 3,583</u>	<u>\$ -</u>
Experience adjustments on plan assets	<u>\$ 4,046</u>	<u>\$ (48,161)</u>	<u>\$ -</u>

The Group expects to make a contribution of NT\$38,400 thousand to the defined benefit plans during the annual period beginning after 2013.

21. EQUITY

a. Ordinary Share

	December 31, 2013	December 31, 2012	January 1, 2012
Numbers of shares authorized (in thousands)	<u>2,043,160</u>	<u>2,043,160</u>	<u>2,043,160</u>
Shares authorized	<u>\$ 20,431,600</u>	<u>\$ 20,431,600</u>	<u>\$ 20,431,600</u>
Numbers of shares issued and fully paid (in thousands)	<u>1,435,544</u>	<u>1,435,544</u>	<u>1,435,544</u>
Shares issued	<u>\$ 14,355,444</u>	<u>\$ 14,355,444</u>	<u>\$ 14,355,444</u>

In June 2009, the Corporation revised the number of its authorized shares to 3,000,000 thousand shares upon obtaining the approval in the stockholders' meeting. However, because the Company Law prohibits the Corporation from revising the number of authorized shares before the full issuance of the original authorized shares, the number of authorized shares remained unchanged.

Fully paid ordinary shares, which have a par value \$10, carry one vote per share and carry a right to dividends.

b. Capital surplus

	December 31, 2013	December 31, 2012	January 1, 2012
Additional paid-in capital	<u>\$ 903</u>	<u>\$ 903</u>	<u>\$ 903</u>

In 2009, CSC had transferred its treasury stocks to its employees and subsidiaries. The Corporation recognized a compensation cost and capital surplus of NT\$743 thousand. In July 2011, CSC issued common shares for cash capital. Under the Company Law, CSC should reserve 10% of the stocks for its employees and subsidiaries. The Corporation recognized NT\$160 thousand of compensation cost and capital surplus.

The capital surplus from shares issued in excess of par (including share premium from issuance of common shares), may be used to offset a deficit; in addition, when the Corporation has no deficit, such capital surplus may be distributed in cash or transferred to capital (limited to a certain percentage of the Corporation's capital surplus and once a year).

c. Retained earnings and dividend policy

Before June 2012, the Corporation's Articles of Incorporation provides that from annual net income less any prior years' deficit, 10% should be set aside as legal reserve and a certain percentage as special reserve based on relevant laws or regulations or as requested by the authorities in charge. The remaining earnings should be appropriated in accordance with the resolution passed at a stockholders' meeting if the dividend per share is not lower than NT\$0.02. The appropriation should include (a) at least 0.3% as bonus to employees and (b) 1% as remuneration to directors and supervisors.

The Corporation is in a mature steel industry. Thus, dividends will be appropriated in cash or in stock at an appropriate ratio, with cash dividends to be at least 50% of total dividends.

The Corporation's revised Articles of Incorporation, proposed and approved in the shareholders' meeting in June 2012, provide that the annual net income, less any deficit, should be appropriated in the following order:

- 1) 10% as legal reserve;
- 2) A certain percentage as special reserve;
- 3) Of the remainder, 1% as remuneration to directors and supervisors and at least 0.3% as bonus to employees;
- 4) The remainder may be declared as dividends or retained as proposed and approved in the shareholders' meetings.

The Corporation is in a mature steel industry. Thus, dividends will be appropriated in cash or in stock at an appropriate ratio, with cash dividends to be at least 50% of total dividends.

The Corporation had accumulated deficits in both 2013 and 2012; thus, the Corporation did not estimate any bonus to employees and remuneration to directors and supervisors. Subsequently, if there will be amounts resolved by the stockholders, the resolved amounts will be recorded in the year of stockholders' resolution as a change in accounting estimate. If a share bonus is resolved to be distributed to employees, the number of shares is determined by dividing the amount of the share bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day immediately preceding the stockholders' meeting.

Based on a directive issued by the Securities and Futures Bureau, an amount equal to the net debit balance of certain stockholders' equity accounts (including unrealized gain or loss on financial instruments and net loss not recognized as pension cost) shall be transferred from unappropriated earnings to a special reserve. Any special reserve appropriated may be reversed to the extent of the decrease in the net debit balance.

Under the Company Law, legal reserve should be appropriated from retained earnings until its balance equals the Corporation's paid-in capital. Legal reserve may be used to offset a deficit. Under the

revised Company Law issued on January 4, 2012, when the Corporation incurs no loss and the legal reserve has exceeded 25% of the Corporation's paid-in capital, the excess may be transferred to capital or distributed in cash.

The use of NT\$154,487 thousand of legal reserve to offset the 2011 deficit was proposed by the board of directors in March 2012 and approved in the stockholders' meeting in June 2012.

Information on earnings appropriation, bonus to employees, directors and supervisors, and offsetting of deficit is available on the Market Observation Post System on the Web site of the Taiwan Stock Exchange Corporation.

d. Special reserves appropriated following first-time adoption of IFRSs

The Corporation has accumulated deficits as of the conversion date; therefore, no special reserve was appropriated.

e. Unrealized gain and loss on available-for-sale financial assets

	For the Year Ended December 31	
	2013	2012
Balance, beginning of year	\$ (45,430)	\$ 100,997
Unrealized loss on available-for-sale financial assets	(7,605)	(39,843)
Cumulative gain and loss reclassified to profit or loss on sale of available-for-sale financial assets	(76,897)	-
Share of unrealized loss on available-for-sale financial assets of associates accounted for using the equity method	<u>(8,327)</u>	<u>(106,584)</u>
Balance, end of year	<u>\$ (138,259)</u>	<u>\$ (45,430)</u>

22. PROFIT (LOSS) BEFORE INCOME TAX

Profit (Loss) before income tax consisted of following items:

a. Other income

	For the Year Ended December 31	
	2013	2012
Rental income	\$ 72,018	\$ 75,026
Interest income	2,445	2,586
Dividend income	19,865	43,118
Others	<u>5,603</u>	<u>30,927</u>
	<u>\$ 99,931</u>	<u>\$ 151,657</u>

b. Other gains and losses

	For the Year Ended December 31	
	2013	2012
Gain on disposal of investments	\$ 76,897	\$ -
Net foreign exchange gain	64,173	83,204
Loss arising on financial assets at fair value through profit or loss	(7,313)	(32,083)
Fees	(6,712)	(4,920)

(Continued)

	For the Year Ended December 31	
	2013	2012
Loss on disposal of property, plant and equipment	\$ -	\$ (22,339)
Other losses	<u>(863)</u>	<u>(1,566)</u>
	<u>\$ 126,182</u>	<u>\$ 22,296</u> (Concluded)

The components of net foreign exchange gain (loss) were as follows:

	For the Year Ended December 31	
	2013	2012
Foreign exchange gain	\$ 134,094	\$ 180,270
Foreign exchange loss	<u>(69,921)</u>	<u>(97,066)</u>
Net exchange gain	<u>\$ 64,173</u>	<u>\$ 83,204</u>

c. Finance costs

	For the Year Ended December 31	
	2013	2012
Interest on bank overdrafts and loans	\$ 324,210	\$ 304,588
Less: Amounts included in the cost of qualifying assets	<u>(39,169)</u>	<u>(12,611)</u>
	<u>\$ 285,041</u>	<u>\$ 291,977</u>

Information about capitalized interest was as follows:

	For the Year Ended December 31	
	2013	2012
Capitalized amounts	\$ 39,169	\$ 12,611
Capitalized annual rates (%)	1.3354-1.4894	1.1610-1.4927

d. Depreciation

	For the Year Ended December 31	
	2013	2012
Property, plant and equipment	\$ 1,851,912	\$ 1,794,259
Investment properties	<u>823</u>	<u>823</u>
	<u>\$ 1,852,735</u>	<u>\$ 1,795,082</u>
Analysis of depreciation by function		
Operating costs	\$ 1,736,204	\$ 1,697,378
Operating expenses	115,708	96,881
Others	<u>823</u>	<u>823</u>
	<u>\$ 1,852,735</u>	<u>\$ 1,795,082</u>

e. Operating expenses directly related to investment properties

	For the Year Ended December 31	
	2013	2012
Direct operating expenses of investment properties that generated rental income	\$ 10,308	\$ 7,416
Direct operating expenses of investment properties that did not generate rental income	<u>1,362</u>	<u>1,002</u>
	<u>\$ 11,670</u>	<u>\$ 8,418</u>

f. Employee benefits

	For the Year Ended December 31	
	2013	2012
Short-term employee benefits		
Salaries	\$ 829,035	\$ 689,020
Labor and health insurance	73,024	66,756
Others	<u>181,813</u>	<u>221,441</u>
	<u>1,083,872</u>	<u>977,217</u>
Post-employment benefits (Note 20)		
Defined contribution plans	17,796	16,916
Defined benefit plans	<u>32,947</u>	<u>30,644</u>
	<u>50,743</u>	<u>47,560</u>
	<u>\$ 1,134,615</u>	<u>\$ 1,024,777</u>
An analysis of employee benefits expense by function		
Operating costs	\$ 866,482	\$ 822,656
Operating expenses	235,800	202,121
Recognized in the construction in process	<u>32,333</u>	<u>-</u>
	<u>\$ 1,134,615</u>	<u>\$ 1,024,777</u>

23. INCOME TAX

a. Income tax recognized in profit or loss

The major components of income tax expense (benefit) were as follows:

	For the Year Ended December 31	
	2013	2012
Current tax		
In respect of the current year	\$ -	\$ 20
Income tax expense of unappropriated earnings	-	14
In respect of prior years	59	(62)
Deferred tax		
In respect of the current year	<u>569</u>	<u>-</u>
Income tax expense (benefit) recognized in profit or loss	<u>\$ 628</u>	<u>\$ (28)</u>

The reconciliation of accounting profit and income tax expense (benefit) was as follows:

	For the Year Ended December 31	
	2013	2012
Profit (loss) before income tax	\$ <u>139,985</u>	\$ <u>(3,475,610)</u>
Income tax expense (benefit) at the statutory rate	\$ 23,797	\$ (590,854)
Permanent differences	(6,568)	(15,859)
Unrecognized deductible temporary differences	(59,378)	(242,096)
Loss carryforwards	(3,166)	(34)
Unrecognized loss carry forwards	45,884	848,863
Additional income tax on unappropriated earnings	-	14
Adjustments to prior years' tax	<u>59</u>	<u>(62)</u>
Income tax expense (benefit) recognized in profit or loss	\$ <u>628</u>	\$ <u>(28)</u>

- b. No income tax was recognized directly in equity.
- c. No income tax was recognized in other comprehensive loss.
- d. Current tax assets and liabilities

	December 31, 2013	December 31, 2012	January 1, 2012
Current tax assets			
Tax refund receivable	\$ <u>628</u>	\$ <u>672</u>	\$ <u>242</u>
Current tax liabilities			
Income tax payable	\$ <u>-</u>	\$ <u>-</u>	\$ <u>142</u>

- e. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities were as follows:

For the year ended December 31, 2013

	Balance, beginning of year	Recognized in Profit or Loss	Balance, end of year
<u>Deferred Tax Assets</u>			
Temporary differences			
Others	\$ <u>929</u>	\$ <u>(929)</u>	\$ <u>-</u>
<u>Deferred Tax Liabilities</u>			
Temporary differences			
Unrealized foreign exchange loss (gain)	\$ (929)	\$ 400	\$ (529)
Others	<u>-</u>	<u>(40)</u>	<u>(40)</u>
	<u>(929)</u>	<u>360</u>	<u>(569)</u>

(Continued)

	Balance, beginning of year	Recognized in Profit or Loss	Balance, end of year
Land value increment tax	\$ (182,222)	\$ _____ -	\$ (182,222)
	<u>\$ (183,151)</u>	<u>\$ _____ 360</u>	<u>\$ (182,791)</u> (Concluded)

For the year ended December 31, 2012

	Balance, beginning of year	Recognized in Profit or Loss	Balance, end of year
<u>Deferred Tax Assets</u>			
Temporary differences			
Others	\$ _____ -	\$ _____ 929	\$ _____ (929)
<u>Deferred Tax Liabilities</u>			
Temporary differences			
Unrealized foreign exchange loss (gain)	\$ _____ -	\$ _____ (929)	\$ _____ (929)
Land value increment tax	<u>(182,222)</u>	<u>_____ -</u>	<u>(182,222)</u>
	<u>\$ (182,222)</u>	<u>\$ _____ (929)</u>	<u>\$ (183,151)</u>

f. Items for which no deferred tax assets have been recognized

	December 31, 2013	December 31, 2012	January 1, 2012
Loss carry forwards			
2014 maturity	\$ 3,703	\$ 3,760	\$ 3,958
2015 maturity	3,023	3,023	3,023
2016 maturity	119	119	119
2019 maturity	1,385,980	1,404,546	1,404,546
2020 maturity	245,194	245,194	245,194
2021 maturity	2,169,464	2,169,464	2,375,384
2022 maturity	4,750,662	4,993,309	-
2023 maturity	<u>269,908</u>	<u>_____ -</u>	<u>_____ -</u>
	<u>\$ 8,828,053</u>	<u>\$ 8,819,415</u>	<u>\$ 4,032,224</u>
Investment credits			
Purchase of machinery and equipment	<u>\$ _____ -</u>	<u>\$ _____ 1,030</u>	<u>\$ _____ 1,044</u>
Deductible temporary differences			
Gain on disposal of nonperforming loans	\$ 904,560	\$ 986,702	\$ 1,068,845
Impairment loss on assets	447,663	447,663	447,663
Sales discount payable	236,851	259,049	162,532
Purchase contracts loss	-	-	574,800

(Continued)

	December 31, 2013	December 31, 2012	January 1, 2012
Provision for inventory loss (including lending materials)	\$ 42,469	\$ 262,847	\$ 1,151,274
Others	<u>228,380</u>	<u>246,821</u>	<u>194,631</u>
	<u>\$ 1,859,923</u>	<u>\$ 2,203,082</u>	<u>\$ 3,599,745</u> (Concluded)

The unrecognized investment credits expired in 2013.

g. Integrated income tax - The Corporation

	December 31, 2013	December 31, 2012	January 1, 2012
Imputation credit account ("ICA")	<u>\$ 966,665</u>	<u>\$ 908,782</u>	<u>\$ 898,438</u>

As of December 31, 2013, the Corporation had accumulated deficits, the imputation credits will be allocated when there is retained earnings in the future.

h. Income tax assessments

The Corporation's and the subsidiaries' income tax returns through 2011 have been assessed by the tax authorities.

24. EARNINGS (LOSS) PER SHARE

The net profit (loss) and weighted average number of ordinary shares outstanding in the computation of earnings (loss) per share were as follows:

Net profit (loss) for the year

	<u>For the Year Ended December 31</u>	
	2013	2012
Profit (Loss) for the year attributable to owners of the Corporation	<u>\$ 139,357</u>	<u>\$ (3,475,582)</u>

Weighted average number of ordinary shares outstanding (in thousand shares)

	<u>For the Year Ended December 31</u>	
	2013	2012
Weighted average number of ordinary shares in computation of basic earnings (loss) per share	<u>1,435,544</u>	<u>1,435,544</u>

25. OPERATING LEASE ARRANGEMENTS

The Corporation as lessor leased a building on June 30, 2010 for 20 years under an operating lease agreement; the Corporation collects rental monthly. The rental revenues for the years ended December 31, 2013 and 2012 were both NT\$71,048 thousand, and were included in other revenues. Based on the lease contract, as of December 31, 2013, December 31, 2012 and January 1, 2012, the Corporation obtained the same amount of deposit of NT\$35,000 thousand which was recognized as guaranteed deposits received.

As of December 31, 2013, December 31, 2012 and January 1, 2012, notes receivable and advance rental were as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Notes receivable	\$ 74,121	\$ 43,237	\$ 93,237
Less: Advance rental	<u>(74,121)</u>	<u>(43,237)</u>	<u>(93,237)</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The future minimum rentals to be received under non-cancellable operating lease commitments were as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Not later than 1 year	\$ 78,056	\$ 76,706	\$ 78,065
Later than 1 year and not later than 5 years	382,371	295,373	296,659
Later than 5 years	<u>1,059,020</u>	<u>1,217,280</u>	<u>1,292,640</u>
	<u>\$ 1,519,447</u>	<u>\$ 1,589,359</u>	<u>\$ 1,667,364</u>

26. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue their operations while maximizing the return to stakeholders through the optimization of the debt and equity balance.

27. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments

1) Fair value of financial instruments not carried at fair value

Management of the Group considers the carrying amount of financial assets and liabilities not carried at fair value approximates fair value.

2) Fair value measurements recognized in the consolidated balance sheets

The financial assets and financial liabilities measured at fair value were grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- a) Level 1 fair value measurements are those derived from listed prices (unadjusted) in active markets for identical assets or liabilities;
- b) Level 2 fair value measurements are those derived from inputs other than listed prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- c) Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
<u>December 31, 2013</u>				
Financial assets at fair value through profit or loss				
Emerging market shares	\$ -	\$ -	\$ 283,883	\$ 283,883
Foreign exchange forward contracts	<u>-</u>	<u>3,891</u>	<u>-</u>	<u>3,891</u>
	<u>\$ -</u>	<u>\$ 3,891</u>	<u>\$ 283,883</u>	<u>\$ 287,774</u>
Available-for-sale financial assets				
Domestic listed shares	\$ 902,997	\$ -	\$ -	\$ 902,997
Domestic unlisted shares	<u>-</u>	<u>-</u>	<u>30,385</u>	<u>30,385</u>
	<u>\$ 902,997</u>	<u>\$ -</u>	<u>\$ 30,385</u>	<u>\$ 933,382</u>
Available-for-sale financial liabilities				
Foreign exchange forward contracts	<u>\$ -</u>	<u>\$ 3,674</u>	<u>\$ -</u>	<u>\$ 3,674</u>
<u>December 31, 2012</u>				
Financial assets at fair value through profit or loss				
Emerging market shares	\$ -	\$ -	\$ 304,654	\$ 304,654
Foreign exchange forward contracts	<u>-</u>	<u>3,423</u>	<u>-</u>	<u>3,423</u>
	<u>\$ -</u>	<u>\$ 3,423</u>	<u>\$ 304,654</u>	<u>\$ 308,077</u>
Available-for-sale financial assets				
Domestic listed shares	\$ 1,188,406	\$ -	\$ -	\$ 1,188,406
Domestic unlisted shares	<u>-</u>	<u>-</u>	<u>36,451</u>	<u>36,451</u>
	<u>\$ 1,188,406</u>	<u>\$ -</u>	<u>\$ 36,451</u>	<u>\$ 1,224,857</u>
Financial liabilities at fair value through profit or loss				
Foreign exchange forward contracts	<u>\$ -</u>	<u>\$ 5,870</u>	<u>\$ -</u>	<u>\$ 5,870</u>
<u>January 1, 2012</u>				
Financial assets at fair value through profit or loss				
Emerging market shares	\$ -	\$ -	\$ 315,041	\$ 315,041
Foreign exchange forward contracts	<u>-</u>	<u>28,565</u>	<u>-</u>	<u>28,565</u>
	<u>\$ -</u>	<u>\$ 28,565</u>	<u>\$ 315,041</u>	<u>\$ 343,606</u>
Available-for-sale financial assets				
Domestic listed shares	\$ 1,232,917	\$ -	\$ -	\$ 1,232,917
Domestic unlisted shares	<u>-</u>	<u>-</u>	<u>36,793</u>	<u>36,793</u>
	<u>\$ 1,232,917</u>	<u>\$ -</u>	<u>\$ 36,793</u>	<u>\$ 1,269,710</u>

There was no transfer between Level 1 and Level 2 for the years ended December 31, 2013 and 2012.

3) Reconciliation of Level 3 fair value measurements of financial assets

	Financial Assets at Fair Value Through Profit or Loss	Available-for- sale Financial Assets	Total
<u>For the year ended December 31, 2013</u>			
Balance, beginning of year	\$ 304,654	\$ 36,451	\$ 341,105
Recognized in profit or loss	(20,771)	-	(20,771)
Recognized in other comprehensive income	-	(3,567)	(3,567)
Capital reduction refunded	<u>-</u>	<u>(2,499)</u>	<u>(2,499)</u>
Balance, end of year	<u>\$ 283,883</u>	<u>\$ 30,385</u>	<u>\$ 314,268</u>
<u>For the year ended December 31, 2012</u>			
Balance, beginning of year	\$ 315,041	\$ 36,793	\$ 351,834
Recognized in profit or loss	(10,387)	-	(10,387)
Recognized in other comprehensive income	-	4,668	4,668
Capital reduction refunded	<u>-</u>	<u>(5,010)</u>	<u>(5,010)</u>
Balance, end of year	<u>\$ 304,654</u>	<u>\$ 36,451</u>	<u>\$ 341,105</u>

4) Valuation techniques and assumptions applied for the purpose of measuring fair value

The fair values of financial assets and financial liabilities were determined as follows:

- a) The fair values of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets were determined with reference to listed market prices (includes domestic and foreign listed shares). If market prices are not available, the Group uses estimates and assumptions and evaluation methods apply by market participants to price financial instruments.
- b) The fair values of derivative instruments were calculated using listed prices. Where such prices were not available, a discounted cash flow analysis was performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. The estimates and assumptions used by the Group were consistent with those that market participants would use in setting a price for the financial instrument.

The Group uses valuation technique when foreign exchange futures derivative financial instruments do not have reference for market price.

The Group uses estimates and assumptions and evaluation methods applied by market participants to price financial instruments. The Group obtains information from financial institutions.

- c) The consolidated financial statements include the fair value measurement of unquoted shares. The fair value of unlisted stocks was estimated base on the recent transaction prices. Fair value of emerging stocks in an active market is based on the closing price on the balance sheet date adjusted for liquidity risk premium.

b. Categories of financial instruments

	December 31, 2013	December 31, 2012	January 1, 2012
<u>Financial assets</u>			
Fair value through profit or loss			
Held for trading	\$ 287,774	\$ 308,077	\$ 343,606
Available-for-sale financial assets (including noncurrent)	933,382	1,224,857	1,269,710
Loans and receivables (see 1 below)	1,509,422	1,972,273	1,602,594
<u>Financial liabilities</u>			
Fair value through profit or loss			
Held for trading	3,674	5,870	-
Measured at amortized cost (see 2 below)	25,802,841	26,368,959	24,654,989

- 1) The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, accounts receivable (including related parties), other receivables (including related parties), other financial assets and refundable deposits.
- 2) The balances included financial liabilities measured at amortized cost, which comprise short-term borrowings, short-term bills payable, notes payable, accounts payable (including related parties), other payables, long-term borrowings (including current portion), and guarantee deposits received.

c. Financial risk management objectives and policies

The Group's major financial instruments include accounts receivable, investments accounted for using equity method, other financial assets, notes payable, accounts payable, short-term borrowings, short-term bills payable and long-term borrows (including current portion of long-term bank borrowings). The Group's financial management department provides service to the business units, coordinates domestic and international financial operations, prepares and analyzes internal risk reports to monitor and manage financial risks related to the operation of the Group. These risks include market risk (including exchange rate risk, interest rate risk and other price risk), credit risk and liquidity risk.

The Group uses derivative financial instruments to circumvent exposure and mitigate the impact of these risks. The use of derivative financial instruments is regulated by the policy approved by the Board of the Group which covers principles of foreign exchange risk, interest rate risk, credit risk, and use of derivative financial instruments and non-derivative financial instruments and liquidity surplus. Internal auditors regularly review compliance with the policies and exposure limits. The Group did not carry out financial instruments transactions for speculative purposes (including derivative financial instruments).

1) Market risk

The main financial risks arising from operating activities are to the risk of change in foreign exchange rates (see (a) below), and the risk of changes in interest rates (see (b) below), the Group entered into forward exchange contracts to manage their exposure to foreign currency exchange rate

risk.

There had been no change to the Group's exposure to market risks or the manner in which these risks were managed and measured.

a) Foreign currency risk

The Group was exposed to foreign currency risk due to sales and purchases, denominated in foreign currencies. Exchange rate exposures were managed within approved policy parameters utilizing foreign exchange forward contracts.

The carrying amounts of exchange rate risk exposure of derivatives at balance sheet were as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Assets			
JPY	\$ -	\$ -	\$ 28,564
USD	3,891	259	1
EUR	-	3,164	-
Liabilities			
JPY	3,557	1,906	-
USD	117	3,964	-

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities and of the derivatives exposed foreign currency risk at the end of the reporting period are set out in Note 31.

Sensitivity analysis

The Group was mainly exposed to the currency USD. The following table details the Group's sensitivity to a 1% increase and decrease in New Taiwan dollars (the functional currency) against the relevant foreign currencies. The sensitivity rate of 1% is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates.

The Sensitivity analysis included only the outstanding foreign currency denominated monetary items set out in Note 31. A positive number below indicates an increase in profit or loss when New Taiwan dollars strengthen by 1% against the relevant currency.

	USD Impact (Note)	
	For the Year Ended December 31	
	2013	2012
Profit or loss	\$ 7,832	\$ 8,354

Note: This was mainly attributable to the exposure of outstanding USD cash and cash equivalents, accounts receivables, short-term borrowings, accounts payable and other payables, which were not hedged at the balance sheet date.

b) Interest rate risk

The Group was exposed to interest rate risk because the Group borrowed funds at both fixed and floating interest rates.

The carrying amounts of the Group's financial assets and liabilities with exposure to interest rates at the balance sheet date were as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Fair value interest rate risk			
Financial assets	\$ 90,338	\$ 48,685	\$ 12,000
Financial liabilities	2,140,920	1,668,789	1,608,278
Cash flow interest rate risk			
Financial assets	526,302	537,327	596,172
Financial liabilities	21,340,948	22,333,472	21,002,133

If interest rates had been 1% higher and all other variables were held constant, the Group's pre-tax profit for the years ended December 31, 2013 and 2012 would have been lower by NT\$208,146 thousand and NT\$217,961 thousand, respectively.

c) Other price risk

The Group was exposed to equity price risk through their investments in domestic listed shares.

If equity prices of available-for-sale financial assets had been lower by one dollar, the pre-tax profit, for the years ended December 31, 2013 and 2012 would have been lower by NT\$33,444 thousand and NT\$43,452 thousand, respectively.

2) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. As at the balance sheet date, the Group's maximum exposure to credit risk is the carrying amount of the financial assets on the consolidated balance sheets and the amount of contingent liabilities in relation to financial guarantee issued by the Corporation and its subsidiaries.

The Group made transactions only with the parties with good credit. The goods were delivered after the cash or L/C was received, and the Group did not provide financial guarantee to any company. Accounts receivable were due to time differences of L/C negotiation and there were no bad debt in the recent years; therefore, the credit risk is very low.

3) Liquidity risk

The Group manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group relies on bank borrowings as a significant source of liquidity. The management monitors the utilization of bank borrowings and ensures compliance with loan covenants. As of December 31, 2013, the current liabilities of the Group exceed current assets by NT\$ 4,542,379 thousand and the unutilized credit facility of the Group was NT\$ 29,575,890 thousand; therefore, there is no liquidity risk or incapacity of financing capital to meet contractual obligations.

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

	Less Than 1 Year	2-5 Years	Over 5 Years	Total
<u>December 31, 2013</u>				
Short-term borrowings	\$ 8,690,704	\$ -	\$ -	\$ 8,690,704
Short-term bills payable	2,142,000	-	-	2,142,000
Notes payable	110,111	-	-	110,111
Accounts payable (including related parties)	1,328,490	-	-	1,328,490
Other payables	847,252	-	-	847,252
Long-term bank borrowings	<u>1,200,157</u>	<u>7,456,120</u>	<u>4,596,734</u>	<u>13,253,011</u>
	<u>\$ 14,318,714</u>	<u>\$ 7,456,120</u>	<u>\$ 4,596,734</u>	<u>\$ 26,371,568</u>
<u>December 31, 2012</u>				
Short-term borrowings	\$ 8,559,901	\$ -	\$ -	\$ 8,559,901
Short-term bills payable	1,690,000	-	-	1,690,000
Notes payable	31,920	-	-	31,920
Accounts payable (including related parties)	1,462,376	-	-	1,462,376
Other payables	817,282	-	-	817,282
Long-term bank borrowings	<u>1,191,087</u>	<u>7,102,246</u>	<u>6,282,243</u>	<u>14,575,576</u>
	<u>\$ 13,752,566</u>	<u>\$ 7,102,246</u>	<u>\$ 6,282,243</u>	<u>\$ 27,137,055</u>
<u>January 1, 2012</u>				
Short-term borrowings	\$ 13,389,353	\$ -	\$ -	\$ 13,389,353
Short-term bills payable	1,609,000	-	-	1,609,000
Accounts payable (including related parties)	1,274,836	-	-	1,274,836
Other payables	734,622	-	-	734,622
Long-term bank borrowings	<u>27,819</u>	<u>7,834,568</u>	<u>-</u>	<u>7,862,387</u>
	<u>\$ 17,035,630</u>	<u>\$ 7,834,568</u>	<u>\$ -</u>	<u>\$ 24,870,198</u>

28. TRANSACTIONS WITH RELATED PARTIES

Balances and transactions between the Corporation and its subsidiaries, which are related parties of the Corporation, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

	<u>For the Year Ended December 31</u>	
	<u>2013</u>	<u>2012</u>
a. Sale of goods		
Parent entity	\$ 20,539	\$ 11,954
Fellow subsidiaries related to others	240,250	285,603
Others	<u>47</u>	<u>-</u>
	<u>\$ 260,836</u>	<u>\$ 297,557</u>

(Continued)

For the Year Ended December 31
2013 **2012**

b. Purchase of goods

Parent entity	\$ 3,890,678	\$ 3,776,199
Fellow subsidiaries related to others	<u>4,063,833</u>	<u>3,013,037</u>
	<u>\$ 7,954,511</u>	<u>\$ 6,789,236</u>

(Concluded)

The selling prices of steel products for related parties were similar to those for third parties.

The parent and some fellow subsidiaries related to others paid by telegraphic transfers (T/T) within 7 days from product shipment, monthly billing T/T after acceptance, steel pipe products collected at the beginning of next month; these payment terms differed from those for third parties, from whom payments were collected in advance. Purchases from related parties, mainly slabs and hot-rolling coil, were made under normal terms.

	December 31, 2013	December 31, 2012	January 1, 2012
c. Accounts receivable from related parties			
Parent entity	\$ 73,224	\$ 47,776	\$ 44,339
Fellow subsidiaries related to others	<u>8,530</u>	<u>3,139</u>	<u>23,626</u>
	<u>\$ 81,754</u>	<u>\$ 50,915</u>	<u>\$ 67,965</u>
Other receivable from related parties			
Parent entity	\$ 5,091	\$ 144,245	\$ 9,079
Fellow subsidiaries related to others	<u>28,771</u>	<u>35,987</u>	<u>38,297</u>
	<u>\$ 33,862</u>	<u>\$ 180,232</u>	<u>\$ 47,376</u>

No guarantee had been received for accounts receivable from related parties. No expense had been recognized for the years ended December 31, 2013 and 2012 for allowance for impairment of accounts receivable in respect of the amounts owed by related parties.

d. Accounts payable to related parties

Parent entity	\$ 49,938	\$ 236,158	\$ 136,348
Fellow subsidiaries related to others	8,679	618	2,103
Others	<u>11,527</u>	<u>9,967</u>	<u>-</u>
	<u>\$ 70,144</u>	<u>\$ 246,743</u>	<u>\$ 138,451</u>

The outstanding accounts payable to related parties were unsecured.

e. Loans from related parties

The Corporation borrowed NT\$1,200,000 thousand from the parent entity in July 2013. The amount borrowed was the interest rate was based on average daily short-term interest the parent entity financed for the same currency from financial institutions in the last 30 days and adjusted monthly. The loan was fully repaid in December 2013.

The loans from the parent entity were unsecured loans with interest expense of NT\$3,767 thousand for 2013.

f. Other transactions with related parties

1) Service revenue

The Corporation and its subsidiary entered into agreements with parent entity to do certain processing work and charged based on the formula stated in the agreements. For the years ended December 31, 2013 and 2012, the processing revenue were NT\$711,289 thousand and NT\$405,945 thousand, respectively. The Corporation bills the parent entity within one month after approval of delivery.

2) Sale of supplies (recorded in other operating revenues)

For the years ended December 31, 2013 and 2012, the sale of supplies to fellow subsidiaries related to others amounted to NT\$46,393 thousand and NT\$31,906 thousand, respectively. There was not significant gain on disposal.

3) Authorization fees

In May 2003, CSC, Sumitomo Metal Industries, Ltd. (SMI) and Sumitomo Corporation (SC) entered into a joint venture agreement and established a holding company named East Asia United Steel Corporation (EAUS) in July 2003. CSC will have a stable supply of good quality slab through this joint venture. CSC then signed a contract with the Corporation, transferring to the Corporation the right to buy slab from EAUS. The Corporation should pay authorization fees to CSC under the contract. These fees (included in the purchase cost of materials) were NT\$206,913 thousand in 2013 and NT\$315,590 thousand in 2012. As of December 31, 2013 and 2012, authorization fees payable (included in payables to related parties) were NT\$42,222 thousand and NT\$82,328 thousand, respectively. The calculation of slab purchase prices was based on the formula stated in the agreement.

4) Lending and returning of steel slabs

To maintain steel slabs for production, the Corporation entered into a contract with CSC and DSC, under which the Corporation can borrow slabs from CSC and DSC when the Corporation needs more production materials and then return the slabs to CSC and DSC when the Corporation has a surplus of materials. The borrowing and returning of steel slabs in 2013 and 2012 are summarized as follows:

(Unit: Ton)

	The parent entity	Fellow subsidiaries related to others	Total
<u>2013</u>			
Balance, beginning of year	3,635	-	3,635
Lending for the year	-	99,209	99,209
Returns for the year	(77,286)	(97,887)	(175,173)
Allowance for inventory loss	<u>(972)</u>	<u>-</u>	<u>(972)</u>
Balance, end of year	<u>(74,623)</u>	<u>1,322</u>	<u>(73,301)</u>

(Continued)

	The parent entity	Fellow subsidiaries related to others	Total
<u>2012</u>			
Balance, beginning of year	9,252	-	9,252
Lending for the year	59,871	74,593	134,464
Returns for the year	(59,394)	(73,781)	(133,175)
Allowance for inventory loss	<u>(6,094)</u>	<u>(812)</u>	<u>(6,906)</u>
Balance, end of year	<u>3,635</u>	<u>-</u>	<u>3,635</u> (Concluded)

As of December 31, 2013, the above payables of NT\$1,102,596 thousand are classified as other current liabilities. As of December 31, 2013, December 31, 2012 and January 1, 2012, the above receivables classified as other current assets were NT\$19,084 thousand, NT\$55,213 thousand and NT\$158,484 thousand, respectively.

According to the contracts with fellow subsidiaries related to others, the Corporation should pay fellow subsidiaries related to others when it borrows steel slabs from fellow subsidiaries related to others. As of December 31, 2013, the NT\$123,985 thousand of payables were classified as other current liabilities which included refund NT\$104,901 thousand and NT\$19,084 thousand of advance payment to be returned.

5) Leases

- a) In September, 2010, HLSC entered into a contract with fellow subsidiaries related to others on the lease of the HLSC's part of the land and warehouse in Xiaogang Er Ciao Section. Lease period is until August 2014. The rental revenue for the years ended December 31, 2013 and 2012 was both NT\$1,441 thousand.
- b) HLSC entered into a contract with parent entity on the lease of the HLSC's part of the land, the rental revenue for the years ended December 31, 2013 and 2012 was both NT\$6,003 thousand.
- c) In October, 2013, HLSC entered into a contract with fellow subsidiaries related to the others on the lease of the HLSC's part of the land in Xiaogang Er Ciao Section and Xiaogang Shuei Ku Section. Lease period is until September 2018. The rental revenue for the year ended December 31, 2013 was NT\$30 thousand.

6) Construction in progress and other expenditures

Other expenditures paid to related parties, which pertained to construction or maintenance, were as follows:

	For the Year Ended December 31	
	2013	2012
a) Other expenditures		
Parent entity	\$ 119,058	\$ 117,081
Fellow subsidiaries related to others	147,793	149,166
Others	<u>139,663</u>	<u>172,842</u>
	<u>\$ 406,514</u>	<u>\$ 439,089</u> (Continued)

	For the Year Ended December 31	
	2013	2012
b) Capital expenditure		
Parent entity	\$ 87,873	\$ 6,138
Fellow subsidiaries related to others	<u>1,338,391</u>	<u>528,742</u>
	<u>\$ 1,426,264</u>	<u>\$ 534,880</u> (Concluded)

7) Income from supplies and scrap

	For the Year Ended December 31	
	2013	2012
Parent entity	\$ -	\$ 5,310
Fellow subsidiaries related to others	<u>466,765</u>	<u>541,805</u>
	<u>\$ 466,765</u>	<u>\$ 547,115</u>

g. Compensation of key management personnel

The remuneration to directors and other members of key management personnel were as follows:

	For the Year Ended December 31	
	2013	2012
Short-term employee benefits	\$ 25,491	\$ 23,357
Post-employment benefits	<u>656</u>	<u>589</u>
	<u>\$ 26,147</u>	<u>\$ 23,946</u>

29. ASSETS PLEDGED AS COLLATERAL OR SECURITY

The Group's assets mortgaged or pledged as collateral for long-term borrowings and short-term borrowings were as follows (listed based on their carrying amounts):

	December 31, 2013	December 31, 2012	January 1, 2012
Time deposits (included in other financial assets - current)	\$ 500,000	\$ 500,000	\$ 500,000
Net property, plant and equipment	9,790,313	11,012,499	11,840,616
Investment properties, net	<u>141,796</u>	<u>135,068</u>	<u>135,347</u>
	<u>\$ 10,432,109</u>	<u>\$ 11,647,567</u>	<u>\$ 12,475,963</u>

30. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Group as of December 31, 2013 were as follows:

- a. Unused letters of credit for purchases of raw materials and machinery and equipment amounted to about NT\$3,565,272 thousand.
- b. The Group had signed agreements to buy equipment for NT\$4,165,092 thousand, of which NT\$3,252,474 thousand had been paid (included in construction-in-progress and prepayments for equipment).
- c. The Corporation had signed contracts with foreign suppliers to buy slabs to ensure sufficiency of production materials. As of December 31, 2013, purchase commitments were 200,000 tons of slabs for NT\$2.8 billion of which NT\$3,029,114 thousand were included in the above unused letters of credit.

31. EXCHANGE RATE OF FINANCIAL ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The significant financial assets and liabilities denominated in foreign currencies were as follows:

	Foreign Currencies (In Thousands)	Exchange Rate	Carrying Amount (In Thousands of New Taiwan Dollars)
<u>December 31, 2013</u>			
Monetary financial assets			
USD	\$ 11,643	29.805	\$ 347,020
EUR	1,907	41.09	78,354
Monetary financial liabilities			
USD	37,922	29.805	1,130,261
<u>December 31, 2012</u>			
Monetary financial assets			
USD	27,593	29.04	801,313
Monetary financial liabilities			
USD	56,361	29.04	1,636,742
<u>January 1, 2012</u>			
Monetary financial assets			
USD	19,295	30.275	584,158
Monetary financial liabilities			
USD	38,572	30.275	1,167,791

32. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. Reportable segments of the Group were as follows:

- The Corporation – manufacture, process and sell steel products.

- Hung Li Steel Corporation Ltd. (HLSC) – manufacture, process and sell steel products.
- Other corporations – Hung Kao Investment Corporation engaged in general investment, and Taiwan Steel Corporation which has not yet started is operation.

a. Segment revenues and operating results

The following is an analysis of the Group revenues and results of operations by reportable segment.

	The Corporation	HLSC	Others	Adjustment and Elimination	Total
<u>For the year ended December 31, 2013</u>					
Revenues from external customers	\$ 36,196,865	\$ 2,655,996	\$ 2,369	\$ -	\$ 38,855,230
Inter-segment revenues	<u>2,042,996</u>	<u>324,349</u>	<u>-</u>	<u>(2,367,345)</u>	<u>-</u>
Segment revenues	<u>\$ 38,239,861</u>	<u>\$ 2,980,345</u>	<u>\$ 2,369</u>	<u>\$ (2,367,345)</u>	<u>\$ 38,855,230</u>
Segment profit (loss)	\$ 7,226	\$ 76,634	\$ (2,383)	\$ 88,699	\$ 170,176
Other income	179,929	8,389	312	(88,699)	99,931
Other income and expenses	127,066	(884)	-	-	126,182
Finance costs	(250,058)	(34,983)	-	-	(285,041)
Share of the profit of associates and joint ventures	<u>75,768</u>	<u>-</u>	<u>-</u>	<u>(47,031)</u>	<u>28,737</u>
Profit (loss) before income tax	139,931	49,156	(2,071)	(47,031)	139,985
Income tax expense	<u>(574)</u>	<u>(1)</u>	<u>(53)</u>	<u>-</u>	<u>(628)</u>
Net profit (loss) for the year	<u>\$ 139,357</u>	<u>\$ 49,155</u>	<u>\$ (2,124)</u>	<u>\$ (47,031)</u>	<u>\$ 139,357</u>
Identifiable assets	\$ 29,215,677	\$ 5,614,387	\$ 55,657	\$ (968,346)	\$ 33,917,375
Investments accounted for using equity method	<u>4,158,998</u>	<u>-</u>	<u>-</u>	<u>(1,834,393)</u>	<u>2,324,605</u>
Total assets	<u>\$ 33,374,675</u>	<u>\$ 5,614,387</u>	<u>\$ 55,657</u>	<u>\$ (2,802,739)</u>	<u>\$ 36,241,980</u>
Total liabilities	<u>\$ 24,438,546</u>	<u>\$ 2,929,878</u>	<u>\$ 1,213</u>	<u>\$ (63,786)</u>	<u>\$ 27,305,851</u>
<u>For the year ended December 31, 2012</u>					
Revenues from external customers	\$ 39,413,658	\$ 3,816,300	\$ 1,654	\$ -	\$ 43,231,612
Inter-segment revenues	<u>2,744,823</u>	<u>368,196</u>	<u>-</u>	<u>(3,113,019)</u>	<u>-</u>
Segment revenues	<u>\$ 42,158,481</u>	<u>\$ 4,184,496</u>	<u>\$ 1,654</u>	<u>\$ (3,113,019)</u>	<u>\$ 43,231,612</u>
Segment profit (loss)	\$ (3,378,871)	\$ (104,696)	\$ 37	\$ 33,851	\$ (3,449,679)
Other income	230,347	9,272	311	(88,273)	151,657
Other income and expenses	25,898	(58,025)	-	54,423	22,296
Finance costs	(252,754)	(39,222)	(1)	-	(291,977)
Share of the profit of associates and joint ventures	<u>(100,262)</u>	<u>-</u>	<u>-</u>	<u>192,355</u>	<u>92,093</u>
Profit (loss) before income tax	(3,475,642)	(192,671)	347	192,356	(3,475,610)
Income tax (loss) benefit (expense)	<u>60</u>	<u>-</u>	<u>(32)</u>	<u>-</u>	<u>28</u>
Net profit for the year	<u>\$ (3,475,582)</u>	<u>\$ (192,671)</u>	<u>\$ 315</u>	<u>\$ 192,356</u>	<u>\$ (3,475,582)</u>
Identifiable assets	\$ 28,921,419	\$ 5,497,852	\$ 58,022	\$ (1,090,836)	\$ 33,386,457
Investments accounted for using equity method	<u>4,010,143</u>	<u>-</u>	<u>-</u>	<u>(1,705,947)</u>	<u>2,304,196</u>
Total assets	<u>\$ 32,931,562</u>	<u>\$ 5,497,852</u>	<u>\$ 58,022</u>	<u>\$ (2,796,783)</u>	<u>\$ 35,690,653</u>
Total liabilities	<u>\$ 24,035,835</u>	<u>\$ 2,862,499</u>	<u>\$ 762</u>	<u>\$ (104,170)</u>	<u>\$ 26,794,926</u>

Segment profit represented the profit before tax earned by each segment without allocation of central administration costs and directors' salaries, rental revenue, interest income, gain or loss on disposal of property, plant and equipment, gain or loss on disposal of financial instruments, exchange gain or loss, finance costs and income tax expense. This was the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

b. Other segment information

For the year ended December 31, 2013

	The Corporation	HLSC	Total
<u>Included in segment profit or loss</u>			
Additions to non-current assets	\$ 2,847,918	\$ 276,650	\$ 3,124,568
Depreciation	<u>1,641,893</u>	<u>210,842</u>	<u>1,852,735</u>
	<u>\$ 4,489,811</u>	<u>\$ 487,492</u>	<u>\$ 4,977,303</u>

For the year ended December 31, 2012

	The Corporation	HLSC	Total
<u>Included in segment profit or loss</u>			
Additions to non-current assets	\$ 1,490,644	\$ 191,510	\$ 1,682,154
Depreciation	<u>1,604,659</u>	<u>190,423</u>	<u>1,795,082</u>
	<u>\$ 3,095,303</u>	<u>\$ 381,933</u>	<u>\$ 3,477,236</u>

c. Revenues from major products and services

Revenues from major products and services of the Group were as follows:

	<u>For the Year Ended December 31</u>	
	2013	2012
Sales		
Hot Rolled Steel	\$ 24,213,013	\$ 26,473,018
Cold Rolled Steel	7,947,012	8,642,586
Galvanized Steel	3,461,768	6,027,575
Steel Pipe	2,469,555	1,646,869
Iron Oxide Powder	1,040	-
Slab	301	-
Service revenue	713,355	408,640
Investments revenue	390	970
Other operating revenue	<u>48,796</u>	<u>31,954</u>
	<u>\$ 38,855,230</u>	<u>\$ 43,231,612</u>

d. Geographical information

The Group operates in Taiwan.

The Group's revenues from external customers and information about its non-current assets by geographical location were detailed below.

	Revenues from External Customers		Non-current Assets		
	For the Year Ended		December	December	January 1,
	December 31	December 31	31, 2013	31, 2012	2012
	2013	2012			
Taiwan	\$ 25,751,078	\$ 26,220,089	\$ 23,113,140	\$ 21,841,307	\$ 21,977,655
Asia	11,407,774	14,333,017	-	-	-
America	871,591	1,111,418	-	-	-
Europe	222,599	275,362	-	-	-
Others	<u>602,188</u>	<u>1,291,726</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 38,855,230</u>	<u>\$ 43,231,612</u>	<u>\$ 23,113,140</u>	<u>\$ 21,841,307</u>	<u>\$ 21,977,655</u>

Non-current assets excluded those classified as held for sale, financial instruments, deferred tax assets, retirement benefit assets and assets arising from insurance contracts.

e. Information about major customers

	For the Year Ended December 31	
	2013	2012
Sales revenue		
A Company	\$ 4,224,784	\$ 3,920,334
B Company	3,914,272	3,861,602
C Company	<u>3,903,588</u>	<u>4,353,891</u>
	<u>\$ 12,042,644</u>	<u>\$ 12,135,827</u>

33. FIRST-TIME ADOPTION OF IFRSs

a. Basis of the preparation of financial information under IFRSs

The Group's consolidated financial statements for the year ended December 31, 2013 were the first IFRS financial statements. The Group not only follows the significant accounting policies stated in Note 4 but also applies the requirements under IFRS 1 "First-time Adoption of International Financial Reporting Standards" as the basis for the preparation.

b. Effects of transition to IFRSs

The effects of transition to IFRSs on the Group's consolidated balance sheet and consolidated statement of comprehensive income were shown in the following:

- 1) Reconciliation of consolidated balance sheet as of January 1, 2012 (Table 1).
- 2) Reconciliation of consolidated balance sheet as of December 31, 2012 (Table 2).
- 3) Reconciliation of consolidated statement of comprehensive income for the year ended December 31, 2012 (Table 3).
- 4) Exemptions from IFRS 1

IFRS 1, "First-time Adoption of International Financial Reporting Standards", establishes the procedures for the Group's first consolidated financial statements prepared in accordance with IFRSs. According to IFRS 1, the Group is required to determine the accounting policies under IFRSs and retrospectively apply those accounting policies in their opening consolidated balance sheet at the date of transition to IFRSs (January 1, 2012), except for optional exemptions and mandatory exceptions to such retrospective application provided under IFRS 1. The main optional

exemptions the Group adopted are summarized as follows:

Share-based payment transactions

The Group elected the exemption from applying IFRS 2, “Share-based Payment”, retrospectively for the share-based payment transactions granted and vested before the date of transition to IFRSs.

Deemed cost

For certain freehold lands, the Group elected to use the ROC GAAP revalued amount at the date of transition to IFRSs as their deemed cost under IFRSs. For investment properties, the Group elected to use the ROC GAAP revalued amount at the date of transition to IFRSs as their deemed cost under IFRSs. All other property, plant and equipment were valued under cost valuation and applied IFRSs retrospectively.

Employee benefits

The Group elected to recognize all cumulative actuarial gains and losses relating to employee benefits in retained earnings at the date of transition to IFRSs.

Designation of previously recognized financial assets and financial liabilities

The Group elected to designate previously recognized financial assets carried at cost as financial assets at fair value through profit or loss and available-for-sale financial assets at the date of transition to IFRSs.

The effects arising from the above exemptions are stated in 5) Notes to the significant reconciliation items of transition to IFRSs.

5) Notes to the significant reconciliation items of transition to IFRSs:

The material differences between the accounting policies under ROC GAAP and the accounting policies under IFRSs were as follows:

A. Time deposits with deposit terms of over three months

Under ROC GAAP, time deposits that can be withdrawn at any moment without detriment to the principal are classified as cash.

Under IFRSs, cash equivalents are defined as investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Therefore, only short-term investments, such as those with maturity of three months or less from the date of acquisition, normally qualify for classification as cash equivalents. Under IFRSs, time deposits with deposit terms of over three months are reclassified as other financial assets.

As of December 31, 2012 and January 1, 2012, the amounts reclassified from cash to other financial assets were NT\$16,000 thousand and NT\$21,940 thousand, respectively.

B. Reserve for land value increment tax

Under current Regulations Governing the Preparation of Financial Reports by Securities Issuers, reserve for land value increment tax recognized due to revaluation of land is classified as long-term liabilities.

Under IFRSs, ROC GAAP revaluation values are selected as deemed cost for the designated land at the date of transition to IFRSs; thus, the related reserve for land value increment tax is

reclassified to deferred income tax liabilities - land value increment tax.

As of December 31, 2012 and January 1, 2012, the amounts reclassified from reserve for land value increment tax to deferred income tax liabilities - land value increment tax were both NT\$182,272 thousand. The amount adjusted from unrealized revaluation increment to retained earnings was NT\$356,897 thousand.

C. Deferred income tax assets/liabilities

Under ROC GAAP, deferred tax assets or liabilities are classified as current or noncurrent in accordance with the classification of their related assets or liabilities. However, if deferred income tax assets or liabilities do not relate to assets or liabilities in the financial statements, they are classified as either current or noncurrent based on the expected length of time before they are realized or settled.

Under IFRSs, deferred tax assets or liabilities are classified as noncurrent assets or liabilities.

Under ROC GAAP, valuation allowance is provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized.

Under IFRSs, deferred income tax assets are only recognized to the extent that it is probable that there will be sufficient taxable profits, and valuation allowance account is not used.

As of December 31, 2012 and January 1, 2012, allowance for deferred income tax assets (included current and noncurrent) were eliminated; thus, the allowance decreased by NT\$1,864,222 thousand and NT\$1,291,146 thousand, respectively.

Under ROC GAAP, the current deferred income tax liabilities and assets of the same taxable entity should be offset against each other and presented as a net amount; the same for the noncurrent deferred income tax liabilities and assets.

Under the Regulations, an entity should offset deferred income tax assets and deferred income tax liabilities only if:

- a) The entity has a legally enforceable right to set off current tax assets against current tax liabilities; and,
- b) The deferred income tax assets and the deferred income tax liabilities related to income taxes levied by the same taxation authority on either:
 - i. The same taxable entity; or
 - ii. Different taxable entities which intend 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 income tax liabilities or assets are expected to be settled or recovered.

As of January 1, 2012, the Group's adjustment increased deferred income tax assets and liabilities by NT\$929 thousand.

D. Measurement basis of property, plant and equipment

Under ROC GAAP, when land is revalued, land revaluation increment recognized in equity is the amount of land revaluation increment minus land tax revaluation increment provision, a liability.

Under IFRSs, measurement basis adopted is cost model and land is not revalued.

E. Financial assets carried at cost

Under current Regulations Governing the Preparation of Financial Reports by Securities Issuers, shares that are not listed on the Taiwan Stock Exchange Corporation or Taiwan GreTai Securities Market and of which the holder has no significant influence over the investee should be classified as financial assets carried at cost.

Under IFRSs, financial assets should be classified as financial assets at fair value through profit or loss and measured at fair value if they meet the definition of held for trading. Equity instruments that are designated as available-for-sale financial assets or are not designated as at fair value through profit or loss should be classified as available-for-sale financial assets and measured at fair value.

As of December 31, 2012 and January 1, 2012, the amounts reclassified from financial assets carried at cost to financial assets at available-for-sale financial assets were NT\$28,025 thousand and NT\$33,035 thousand, respectively; financial assets at fair value through profit or loss were adjusted for an increase of NT\$257,600 thousand; available-for-sale financial assets were adjusted for an increase of NT\$8,426 thousand and NT\$3,758 thousand, respectively; fair value through profit or loss financial assets were adjusted for an increase of NT\$47,054 thousands and NT\$57,440 thousand, respectively; and listed in unrealized gain and loss on available-for-sale financial assets. The loss at fair value through profit or loss for an increase of NT\$10,386 thousand in the year ended of 2012.

F. Associates/Subsidiaries issue new shares. The accounting method for the purchase of new shares by the investors and by parent entity if there are changes in percentage of stock shares.

Under ROC GAAP, the capital reserve and long-term investment amounts are adjusted by the variance between the investment cost and equity in net assets of the investee company due to the disproportionate acquisition of shares in connection with capital increases by investee companies.

In addition, the IFRS FAQ issued by the Taiwan Stock Exchange Corporation reclassify capital surplus- long-term investment to retained earnings.

As of December 31, 2012, January 1, 2012, the Group adjustment to decrease additional paid-in capital from investee under equity method were NT\$342,007 thousand and NT\$342,052 thousand, respectively. And adjustment to increase share of the other comprehensive income of associates and joint ventures were NT\$342,007 thousand and NT\$342,052 thousand for the year ended December 31, 2012.

G. Reclassification of prepayments for equipment

Under ROC GAAP, prepayments for equipment are classified as property, plant and equipment.

Under IFRSs, prepayments for equipment should be classified as prepaid equipment- noncurrent assets.

As of December 31, 2012 and January 1, 2012, the amounts reclassified from prepayments for equipment to other noncurrent assets were NT\$868,518 thousand and NT\$167,224 thousand, respectively.

H. Defined benefit pension plans

Under ROC GAAP, actuarial gains and losses should be accounted for under the corridor approach which results in the deferral of gains and losses. When using the corridor approach, actuarial gains and losses should be amortized in profit or loss over the average remaining service period of those employees who are still in service and expect to receive pension benefits.

Under IFRSs, the Group should carry out actuarial valuation on defined benefit plans in accordance with IAS No. 19, "Employee Benefits," and recognize actuarial gains and losses immediately in full in the period in which they occur, as other comprehensive income. The actuarial gains and losses recognized in other comprehensive income are recognized immediately in retained earnings in the statement of changes in equity. Subsequent reclassification to profit or loss is not permitted.

Under ROC GAAP, minimum pension liability is the minimum amount of pension liability that is required to be recognized on the balance sheets. If the accrued pension liability recorded on the books is less than the minimum amount, the difference shall be recognized.

Under IFRSs, there is no requirement for minimum pension liability.

Under ROC GAAP, unrecognized net transition obligation, resulting from first-time adoption of SFAS No. 18, "Accounting for Pensions," should be amortized in pension cost by the straight-line method over the average remaining service period of those employees who are still in service and expected to receive pension benefits.

Due to no transition application under IAS No. 19, "Employee Benefits," unrecognized net transition obligation and related amounts should be all recognized in retained earnings at the date of transition to IFRSs.

At the date of transition to IFRSs, the Group performed the actuarial valuation on defined benefit plans under IAS No. 19, "Employee Benefits," and recognized the valuation difference under the requirement of IFRS 1. As of December 31, 2012 and January 1, 2012, accrued pension cost was adjusted for an increase of NT\$62,550 thousand and NT\$43,134 thousand, respectively;

Pension cost for the year ended December 31, 2012 was also adjusted for a decrease of NT\$8,015 thousand, and recognized actuarial loss from define benefit plans was NT\$27,431 thousand for the year ended December 31, 2012.

I. Investment properties

Under ROC GAAP, properties for lease operations are classified as property, plant and equipment/ other assets.

Under the Regulations, the above properties for the purpose of earning rental revenues or increasing in value should be classified as investment properties.

As of December 31, 2012, and January 1, 2012, the amounts reclassified from assets leased to others to property were NT\$2,861,448 thousand and NT\$2,862,271 thousand, respectively. The amounts reclassified from non-operating property to investment properties were both NT\$1,441,943 thousand. As of January 1, 2012, the amount of assets leased to subsidiaries reclassified to property, plant and equipment was NT\$27,534 thousand.

J. Land held in the name of others.

Under current Regulations Governing the Preparation of Financial Report by Securities Issuers, the land held in the name of others was classified as other assets.

Under IFRSs, the land held in the name of others is classified as property, plant and equipment / investment properties.

As of December 31, 2012, and January 1, 2012, the amounts reclassified from other assets to property, plant and equipment were NT\$66,753 thousand and NT\$66,753 thousand, respectively.

K. Reclassification of idle assets

Under current Regulations Governing the Preparation of Financial Report by Securities Issuers, the idle assets are classified as other assets.

Under IFRSs, the idle assets are classified as property, plant and equipment.

As of December 31, 2012, and January 1, 2012, the amounts reclassified from idle assets to property, plant and equipment were NT\$1,265,999 thousand and NT\$670,018 thousand, respectively. The amount reclassified from depreciation of idle assets to operating expenses was NT\$86,010 thousand for the year ended December 31, 2012.

6) Notes to the significant adjustments of consolidated statements of cash flows

Time deposits that can be readily cancelled without eroding the principal and negotiable certificates of deposit that can be readily sold without eroding the principal meet the definition of cash in accordance with ROC GAAP. However, under IAS 7 "Statement of Cash Flow", cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. An investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Therefore, time deposits with a carrying amount of NT\$16,000 thousand and NT\$21,940 thousand as of December 31, 2012 and January 1, 2012, respectively, held by the Group was for investment purposes and thus no longer classified as cash under IFRSs.

According to ROC GAAP, interest paid and received and dividends received are classified as operating activities while dividends paid are classified as financing activities. Additional disclosure is required for interest expenses when reporting cash flow using indirect method. However, under IAS 7 "Statement of Cash Flows", cash flows from interest and dividends received and paid shall each be disclosed separately. Each shall be classified in a consistent manner from period to period as operating, investing or financing activities. Therefore, interests received and paid and dividends received by the Group of NT\$2,581 thousand, NT\$291,753 thousand and NT\$43,118 thousand, respectively, for the year ended December 31, 2012 were presented separately at the date of transition to IFRSs.

Except for the above differences, there are no other significant differences between ROC GAAP and IFRSs in the consolidated statements of cash flows.

Chung Hung Steel Corporation

**RECONCILIATION OF CONSOLIDATED BALANCE SHEET
AS OF JANUARY 1, 2012
(In Thousands of New Taiwan Dollars)**

Assets					Liabilities and Shareholders' Equity										
ROC GAAP		Effects of Transition to IFRSs		Amount	IFRSs	Item	Reference (Note 1)	ROC GAAP		Effects of Transition to IFRSs		Amount	IFRSs	Item	Reference (Note 1)
Item	Amount	Presentation Difference	Recognition and Measurement Difference					Presentation Difference	Recognition and Measurement Difference	Item	Amount				
CURRENT ASSETS					CURRENT ASSETS					CURRENT LIABILITIES					
Cash and cash equivalents	\$ 123,350	\$ (21,940)	\$ -	\$ 101,410	Cash and cash equivalents	A		Short-term loans	\$ 13,271,997	\$ -	\$ -	\$ 13,271,997	Short-term loans		
Financial assets at fair value through profit or loss - current	4,587	257,600	57,440	319,627	Financial assets at fair value through profit or loss - current	E		Short-term bills payable	1,608,278	-	-	1,608,278	Short-term bills payables		
Accounts receivable	818,103	-	-	818,103	Accounts receivable			Accounts payable	1,136,385	-	-	1,136,385	Accounts payable		
Accounts receivable - related parties	67,965	-	-	67,965	Accounts receivable - related parties			Accounts payable - related parties	138,451	-	-	138,451	Accounts payable - related parties		
Other receivable	71,277	-	-	71,277	Other receivable			Current tax assets	142	-	-	142	Current tax assets		
Inventories	9,590,885	-	-	9,590,885	Inventories			Accrued expenses	424,228	(424,228)	-	-	-	-	Note 2
Other financial assets - current	-	521,940	-	521,940	Other financial assets - current	A		Other payables	310,394	424,228	-	-	734,622	Other payables	Note 2
Restricted assets - current	500,000	(500,000)	-	-	Restricted assets - current			Accrued contractual loss	574,800	-	-	574,800	Provisions - current		
Deferred income tax assets - current	322,248	(322,248)	-	-	Deferred income tax assets - current	C		Others	74,430	-	-	74,430	Other current liabilities		
Allowance for deferred income tax assets - current	(322,248)	322,248	-	-	Allowance for defer income tax assets	C		Total current liabilities	17,539,105	-	-	17,539,105	Total current liabilities		
Others	1,105,774	-	-	1,105,774	Others			LONG-TERM LIABILITIES	7,730,136	-	-	7,730,136	LONG-TERM LIABILITIES		
Total current assets	12,281,941	257,600	57,440	12,596,981	Total current assets			Provision for land value incremental tax	182,222	(182,222)	-	-	-	-	B
INVESTMENTS					INVESTMENTS					DEFERRED INCOME TAX LIABILITIES					
Financial assets at fair value through profit or loss - noncurrent	23,979	-	-	23,979	Financial assets at fair value through profit or loss - noncurrent			Other provision	182,222	-	-	182,222	Deferred income tax liabilities - provision for land value incremental tax		B
Available-for-sale financial assets - noncurrent	1,232,917	33,035	3,758	1,269,710	Available-for-sale financial assets - noncurrent	E		OTHER LIABILITIES							
Financial assets carried at cost - noncurrent	290,635	(290,635)	-	-	Financial assets carried at cost - noncurrent	E		Accrued pension liabilities	134,027	-	43,134	177,161	Accrued pension liabilities		H
Investments accounted for by the equity method	2,318,687	-	-	2,318,687	Investments accounted for using equity method			Guarantee deposit receivable	35,120	-	-	35,120	Guarantee deposit receivable		
Total investments	3,866,218	(257,600)	3,758	3,612,376	Total investments			Total other liabilities	169,147	-	43,134	212,281	Total other liabilities		
PROPERTY, PLANT AND EQUIPMENT					PROPERTY, PLANT AND EQUIPMENT					TOTAL LIABILITIES					
Cost	28,446,620	824,909	-	29,271,529	Cost	D, I, J, K		Total liabilities	25,620,610	-	43,134	25,663,744	Total liabilities		
Revaluation increment	539,119	-	-	539,119	Revaluation increment			STOCKHOLDERS' EQUITY							
Accumulated depreciation	13,555,795	60,534	-	13,616,329	Accumulated depreciation	D		Common stock	14,355,444	-	-	14,355,444	Common stock		
Construction in progress	15,429,944	764,375	-	16,194,319	Construction in progress			Additional paid - in capital	903	-	-	903	Additional paid - in capital		
Prepayments for equipment	1,311,898	-	-	1,311,898	Prepayments for equipment			Excess of per common stock	342,052	-	(342,052)	-	Excess over par value of common stock		
Net property, plant and equipment	16,909,066	597,151	-	17,506,217	Net property, plant and equipment	G		Long - term investments at equity	342,955	-	(342,052)	903	Long - term investments at equity method		F
OTHER ASSETS					OTHER ASSETS					ACCUMULATED DEFICIT					
Deferred income tax assets - noncurrent	968,898	(968,898)	-	-	Deferred income tax assets - noncurrent	C		Accumulated deficit	154,487	-	-	154,487	Legal reserve		
Allowance for deferred income tax assets-noncurrent	(968,898)	968,898	-	-	Allowance for deferred income tax assets-noncurrent	C		Accumulated deficit	(2,437,867)	-	371,203	(2,066,664)	Accumulated deficit		B, E, H
Rental assets	2,889,805	(2,889,805)	-	-	Rental assets	I		Total accumulated deficit	(2,283,380)	-	371,203	(1,912,177)	Total accumulated deficit		
Non-operating assets	2,111,961	(2,111,961)	-	-	Non-operating assets	I, K		Other equity adjustments					Other equity		
Refundable deposits	21,899	-	-	21,899	Refundable deposits			Unrealized gain on financial instruments	(244,813)	614,278	3,758	373,223	Unrealized gain (loss) on available - for - sale financial assets		E
Others	66,823	100,401	-	167,224	Others	G, J		Unrealized revaluation increment	356,897	-	(356,897)	-	Share of other comprehensive income of associates and joint ventures		F
Total other assets	5,090,488	(4,901,365)	-	189,123	Total other assets			Total other equity adjustments	112,084	-	(11,087)	100,997	Total other equity		
TOTAL					TOTAL					TOTAL					
TOTAL	\$ 38,147,713	\$ -	\$ 61,198	\$ 38,208,911	TOTAL			Total stockholders' equity of parent company	12,527,103	-	18,064	12,545,167	Total equity attributable to owner of the Corporation		
								Total stockholders' equity	12,527,103	-	18,064	12,545,167	Total equity		
								TOTAL	\$ 38,147,713	\$ -	\$ 61,198	\$ 38,208,911	TOTAL		

Note 1: The reference refers to Note 33 b.

Note 2: Accrued expenses should be classified as other payables in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers in the Republic of China, as amended on December 22, 2011.

Chung Hung Steel Corporation

**RECONCILIATION OF CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2012
(In Thousands of New Taiwan Dollars)**

Assets					Liabilities and Shareholders' Equity									
ROC GAAP		Effects of Transition to IFRSs			IFRSs		ROC GAAP		Effects of Transition to IFRSs			IFRSs		
Item	Amount	Presentation Difference	Recognition and Measurement Difference	Amount	Item	Reference (Note 1)	Item	Amount	Presentation Difference	Recognition and Measurement Difference	Amount	Item	Reference (Note 1)	
CURRENT ASSETS					CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents	\$ 89,613	\$ (16,000)	\$ -	\$ 73,613	Cash and cash equivalents	A	Financial liabilities at fair value through profit or loss	\$ 4,131	\$ -	\$ -	\$ 4,131	Financial liabilities at fair value through profit or loss		
Financial assets at fair value through profit or loss - current	3,164	257,600	47,054	307,818	Financial assets at fair value through profit or loss - current	E	Short-term loans	8,483,234	-	-	8,483,234	Short-term loans		
Accounts receivable	1,121,219	-	-	1,121,219	Accounts receivable		Short-term bills payable	1,688,789	-	-	1,688,789	Short-term bills payable		
Accounts receivable - related parties	50,915	-	-	50,915	Accounts receivable - related parties		Bills payable	31,920	-	-	31,920	Bills payable		
Tax refund receivable	672	-	-	672	Current tax assets		Accounts payable	1,215,633	-	-	1,215,633	Accounts payable		
Other receivable	188,296	-	-	188,296	Other receivable		Accounts payable - related parties	246,743	-	-	246,743	Accounts payable - related parties		
Inventories	6,985,705	-	-	6,985,705	Inventories		Accrued expenses	492,690	(492,690)	-	-	-		
Other financial assets - current	-	516,000	-	516,000	Other financial assets - current	A	Other payables	324,592	-	-	817,282	Other payables	Note 2	
Restricted assets - current	500,000	(500,000)	-	-	Restricted assets - current		Current portion of long-term bank borrowings	1,076,923	-	-	1,076,923	Current portion of long-term bank borrowings	Note 2	
Deferred income tax assets - current	97,866	(97,866)	-	-	Deferred income tax assets - current	C	Others	48,412	-	-	48,412	Others		
Allowance for deferred income tax assets	(97,866)	97,866	-	-	Allowance for deferred income tax assets	C	Total current liabilities	13,613,067	-	-	13,613,067	Total current liabilities		
Others	1,052,637	-	-	1,052,637	Others									
Total current assets	9,992,221	257,600	47,054	10,296,875	Total current assets									
INVESTMENTS					INVESTMENTS					LONG-TERM LIABILITIES				
Financial assets at fair value through profit or loss - noncurrent	259	-	-	259	Financial assets at fair value through profit or loss - noncurrent		Financial liabilities at fair value through profit or loss	1,739	-	-	1,739	Financial liabilities at fair value through profit or loss		
Available-for-sale financial assets - noncurrent	1,188,406	28,025	8,426	1,224,857	Available-for-sale financial assets - noncurrent	E	Long-term borrowings	12,773,315	-	-	12,773,315	Long-term borrowings		
Financial assets carried at cost - noncurrent	285,625	(285,625)	-	-	Financial assets carried at cost - noncurrent	E	Total long-term liabilities	12,775,054	-	-	12,775,054	Total long-term liabilities		
Investments accounted for by the equity method	2,304,196	-	-	2,304,196	Investments accounted for using equity method		Provision for the land value incremental tax	182,222	(182,222)	-	-	-		
Total investments	3,778,486	(257,600)	8,426	3,529,312	Total investments		Total investments	-	182,222	-	182,222	Deferred income tax liabilities - provision for land value incremental tax	B	
PROPERTY, PLANT AND EQUIPMENT					PROPERTY, PLANT AND EQUIPMENT					OTHER LIABILITIES				
Cost	29,049,098	1,479,296	-	30,528,394	Cost	D, I, J, K	Other provision	182,222	-	-	182,222	Accrued pension liabilities	H	
Revaluation increment	539,119	-	-	539,119	Revaluation increment		Accrued pension liabilities	125,984	-	62,550	188,534	Guarantee deposit receivable		
Accumulated depreciation	15,075,158	146,544	-	15,221,702	Accumulated depreciation	D	Guarantee deposit receivable	35,120	-	-	35,120	Defer income tax liabilities		
Construction in progress	14,513,059	1,332,752	-	15,845,811	Construction in progress		Defer income tax liabilities	-	929	-	929	Total other liabilities		
Prepayments for equipment	823,587	-	-	823,587	Prepayments for equipment		Total other liabilities	161,104	929	62,550	224,583	Total liabilities		
Net property, plant and equipment	16,205,164	464,234	-	16,669,398	Net property, plant and equipment	G	Total liabilities	26,731,447	929	62,550	26,794,926	Total liabilities		
	-	4,303,391	-	4,303,391		I								
OTHER ASSETS					OTHER ASSETS					STOCKHOLDERS' EQUITY				
Deferred income tax assets - noncurrent	1,766,356	(1,765,427)	-	929	Deferred income tax assets - noncurrent	C	Common stock	14,355,444	-	-	14,355,444	Common stock		
Allowance for deferred income tax assets-noncurrent	(1,766,356)	1,766,356	-	-	Allowance for deferred income tax assets-noncurrent	C	Additional paid - in capital	-	-	-	-	Additional paid - in capital		
Rental assets	2,861,448	(2,861,448)	-	-	Rental assets	I	Excess of per common stock	903	-	-	903	Excess over par value of common stock		
Non-operating assets	2,707,942	(2,707,942)	-	-	Non-operating assets	I, K	Long-term investments at equity	342,007	-	(342,007)	-	Long-term investments at equity method	F	
Refundable deposits	22,230	-	-	22,230	Refundable deposits		Total additional paid - in capital	342,910	-	(342,007)	903	Total additional paid - in capital		
Others	66,753	801,765	-	868,518	Others	G, J	Accumulated deficit	(5,756,591)	-	341,401	(5,415,190)	Accumulated deficit	B, E, H	
Total other assets	5,658,373	(4,766,696)	-	891,677	Total other assets		Accumulated deficit					Accumulated deficit		
							Other equity adjustments					Other equity		
							Unrealized gain (loss) on financial instruments	(395,863)	720,817	8,426	333,380	Unrealized gain (loss) on available-for-sale financial assets	E	
								-	(720,817)	342,007	(378,810)	Share of other comprehensive income of associates and joint ventures	F	
							Unrealized revaluation increment	356,897	-	(356,897)	-	Total other equity	B	
							Total other equity adjustments	(38,966)	-	(6,464)	(45,430)	Total equity attributable to owner of the Corporation		
							Total stockholders' equity of parent company	8,902,797	-	(7,070)	8,895,727	Total equity		
							Total stockholders' equity	8,902,797	-	(7,070)	8,895,727	Total equity		
TOTAL	\$ 35,634,244	\$ 929	\$ 55,480	\$ 35,690,653	TOTAL		TOTAL	\$ 35,634,244	\$ 929	\$ 55,480	\$ 35,690,653	TOTAL		

Note 1: The reference refers to Note 33 b.

Note 2: Accrued expenses should be classified as other payables in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers in the Republic of China, as amended on December 22, 2011.

Chung Hung Steel Corporation

**RECONCILIATION OF CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2012
(In Thousands of New Taiwan Dollars)**

ROC GAAP		Effects of Transition to IFRSs		IFRSs		Reference (Note)
Item	Amount	Presentation Difference	Recognition and Measurement Difference	Amount	Item	
Operating revenues					Operating revenues	
Sales revenue	\$ 42,790,048	\$ -	\$ -	\$ 42,790,048	Sales revenue	
Investments revenue	970	-	-	970	Investments revenue	
Service revenue	408,640	-	-	408,640	Service revenue	
Other operating revenue	31,954	-	-	31,954	Other operating revenue	
Operating revenue, net	43,231,612	-	-	43,231,612	Operating revenue, net	
Operating costs	45,436,610	-	-	45,436,610	Operating costs	
Gross profit	(2,204,998)	-	-	(2,204,998)	Gross profit	
Operating expenses					Operating expenses	
Selling	(887,590)	-	-	(887,590)	Selling	
General and administrative	(279,096)	(86,010)	8,015	(357,091)	General and administrative	H · K
Total operating expenses	(1,166,686)	(86,010)	8,015	(1,244,681)	Total operating expenses	
Operating loss	(3,371,684)	(86,010)	8,015	(3,449,679)	Loss from operations	
Nonoperating income and gains					Non-operating income and gains	
Interest income	2,586	-	-	2,586	Interest income	
Investment gain recognized under equity method, net	92,093	-	-	92,093	Share of the gain of associates and joint ventures	
Dividend income	43,118	-	-	43,118	Dividend income	
Exchange gain, net	83,204	-	-	83,204	Net foreign exchange gains	
Rental income	75,026	-	-	75,026	Rental income	
Others	30,927	-	-	30,927	Others	
Total nonoperating income and gains	326,954	-	-	326,954	Total non-operating income and gains	
Nonoperating expenses and losses					Non-operating expenses and losses	
Interest expense	(291,977)	-	-	(291,977)	Interest expense	
Valuation loss on financial assets	(11,586)	-	(10,386)	(21,972)	Loss on financial assets at fair value through profit and loss	E
Valuation loss on financial liabilities	(10,111)	-	-	(10,111)	Loss on financial liabilities at fair value through profit and loss	
Loss on disposal of property, plant and equipment's	(22,339)	-	-	(22,339)	Loss on disposal of property, plant and equipment	
Others	(92,496)	86,010	-	(6,486)	Others	K
Total nonoperating expenses and losses	(428,509)	86,010	(10,386)	(352,885)	Total non-operating expenses and losses	
Income before income tax	(3,473,239)	-	(2,371)	(3,475,610)	Profit before income tax	
Income tax benefit	28	-	-	28		
Net income	\$ (3,473,211)	\$ -	\$ (2,371)	(3,475,582)	Net profit for the year	
				(39,843)	Unrealized loss on available-for-sale financial assets	
				(27,431)	Actuarial gain and loss from defined benefit plans	H
				(106,584)	Share of the other comprehensive income of associates and joint ventures	
				(173,858)	Total other comprehensive income, net of income tax	
				\$ (3,649,440)	Total comprehensive income for the year	

Note: The reference refers to Note 40 b.