

**Chung Hung Steel Corporation and
Subsidiaries**

**Consolidated Financial Statements for the
Years Ended December 31, 2014 and 2013 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, 2014 and 2013, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2014 and 2013. 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, 2014 and 2013, and their consolidated financial performance and their consolidated cash flows for the years ended December 31, 2014 and 2013, 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, 2014 and 2013 on which we have issued an unqualified report.



March 24, 2015

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, 2014		December 31, 2013		LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 2014		December 31, 2013	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 4 and 6)	\$ 19,604	-	\$ 102,721	-	Short-term borrowings (Notes 16 and 29)	\$ 7,837,538	23	\$ 8,611,347	24
Financial assets at fair value through profit or loss - current (Notes 4, 5 and 7)	283,979	1	287,774	1	Short-term bills payable (Note 16)	2,401,665	7	2,140,920	6
Available-for-sale financial assets - current (Notes 4, 5 and 8)	870,773	3	876,421	2	Financial liabilities at fair value through profit or loss - current (Notes 4, 5 and 7)	-	-	3,674	-
Accounts receivable (Note 9)	760,663	2	466,728	1	Notes payable (Note 17)	17,386	-	110,111	-
Accounts receivable from related parties (Notes 9 and 28)	59,097	-	81,754	-	Accounts payable (Note 17)	692,615	2	1,258,346	4
Other receivables (Note 9)	137,966	-	290,273	1	Accounts payable to related parties (Notes 17 and 28)	65,055	-	70,144	-
Other receivables from related parties (Notes 9 and 28)	119,089	-	33,862	-	Other payables (Note 18)	650,234	2	847,252	2
Current tax assets (Note 23)	550	-	628	-	Current tax liabilities (Note 23)	57	-	-	-
Inventories (Notes 4, 5 and 10)	7,095,557	20	7,125,502	20	Current portion of long-term bank borrowings (Notes 16 and 29)	1,076,923	3	1,076,923	3
Prepayments (Note 15)	615,361	2	897,422	3	Other current liabilities (Note 18)	45,543	-	1,152,852	3
Other financial assets (Notes 12 and 29)	525,500	2	516,000	2					
Other current assets (Note 15)	43,054	-	50,105	-	Total current liabilities	12,787,016	37	15,271,569	42
Total current assets	10,531,193	30	10,729,190	30	NONCURRENT LIABILITIES				
NONCURRENT ASSETS					Long-term bank borrowings (Notes 16 and 29)	11,383,040	32	11,652,678	32
Available-for-sale financial assets - noncurrent (Notes 4, 5 and 8)	83,707	-	56,961	-	Long-term bills payable (Note 16)	1,299,251	4	-	-
Investments accounted for using equity method (Notes 4 and 11)	2,369,107	7	2,324,605	6	Deferred tax liabilities (Notes 4 and 23)	184,132	-	182,791	1
Property, plant and equipment (Notes 4, 5, 13, 20, 22, 29 and 30)	16,429,842	47	17,409,648	48	Accrued pension liabilities (Notes 4, 5 and 20)	215,391	1	163,693	-
Investment properties (Notes 4, 5, 14 and 29)	4,308,752	12	4,309,575	12	Guarantee deposits received (Note 25)	35,120	-	35,120	-
Prepayments for equipment (Note 30)	1,251,659	4	1,393,917	4	Total noncurrent liabilities	13,116,934	37	12,034,282	33
Refundable deposits	5,734	-	18,084	-	Total liabilities	25,903,950	74	27,305,851	75
Total noncurrent assets	24,448,801	70	25,512,790	70	EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION (Note 21)				
TOTAL	\$ 34,979,994	100	\$ 36,241,980	100	Ordinary shares	14,355,444	41	14,355,444	40
					Capital surplus	903	-	903	-
					Accumulated deficit				
					Accumulated deficit	(5,147,873)	(15)	(5,281,959)	(15)
					Other equity	(132,430)	-	(138,259)	-
					Total equity	9,076,044	26	8,936,129	25
					TOTAL	\$ 34,979,994	100	\$ 36,241,980	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			
	2014		2013	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 4, 28 and 33)				
Sales	\$ 36,242,931	98	\$ 38,092,689	98
Investment revenue	689	-	390	-
Service revenue	774,338	2	713,355	2
Other operating revenue	<u>114,711</u>	<u>-</u>	<u>48,796</u>	<u>-</u>
Total operating revenue	37,132,669	100	38,855,230	100
OPERATING COSTS (Notes 10, 20, 22 and 28)	<u>35,838,297</u>	<u>97</u>	<u>37,526,651</u>	<u>97</u>
GROSS PROFIT	<u>1,294,372</u>	<u>3</u>	<u>1,328,579</u>	<u>3</u>
OPERATING EXPENSES (Notes 20 and 22)				
Selling and marketing expenses	705,777	2	745,970	2
General and administrative expenses	<u>322,529</u>	<u>1</u>	<u>412,433</u>	<u>1</u>
Total operating expenses	<u>1,028,306</u>	<u>3</u>	<u>1,158,403</u>	<u>3</u>
PROFIT FROM OPERATIONS	<u>266,066</u>	<u>-</u>	<u>170,176</u>	<u>-</u>
NON-OPERATING INCOME AND EXPENSES (Notes 11, 13, 22, 25 and 28)				
Other income	106,959	-	99,931	-
Other gains and losses	36,514	-	126,182	1
Finance costs	(261,758)	-	(285,041)	(1)
Share of the profit of associates and joint ventures	<u>62,020</u>	<u>-</u>	<u>28,737</u>	<u>-</u>
Total non-operating income and expenses	<u>(56,265)</u>	<u>-</u>	<u>(30,191)</u>	<u>-</u>
PROFIT BEFORE INCOME TAX	209,801	-	139,985	-
INCOME TAX EXPENSE (Notes 4, 5 and 23)	<u>1,404</u>	<u>-</u>	<u>628</u>	<u>-</u>
NET PROFIT FOR THE YEAR	<u>208,397</u>	<u>-</u>	<u>139,357</u>	<u>-</u>
OTHER COMPREHENSIVE INCOME (LOSS) (Notes 4, 11, 20 and 21)				
Unrealized gain (loss) on available-for-sale financial assets	23,347	-	(84,502)	-
Actuarial loss from defined benefit plans	(74,311)	-	(6,126)	-

(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			
	2014		2013	
	Amount	%	Amount	%
Share of the other comprehensive loss of associates and joint ventures	\$ (17,518)	-	\$ (8,327)	-
Total other comprehensive loss, net of income tax	(68,482)	-	(98,955)	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	\$ 139,915	-	\$ 40,402	-
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Corporation	\$ 208,397	1	\$ 139,357	-
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Corporation	\$ 139,915	-	\$ 40,402	-
EARNINGS PER SHARE (Note 24)				
Basic	\$ 0.15		\$ 0.10	-

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	<u>Other Equity Unrealized Gain (Loss) on Financial assets</u>	Total Equity
BALANCE, JANUARY 1, 2013	\$ 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	<u>14,355,444</u>	<u>903</u>	<u>(5,281,959)</u>	<u>(138,259)</u>	<u>8,936,129</u>
Net profit in 2014	-	-	208,397	-	208,397
Other comprehensive income (loss) for the year ended December 31, 2014, net of income tax	-	-	(74,311)	5,829	(68,482)
Total comprehensive income for the year ended December 31, 2014	-	-	134,086	5,829	139,915
BALANCE, DECEMBER 31, 2014	<u>\$ 14,355,444</u>	<u>\$ 903</u>	<u>\$ (5,147,873)</u>	<u>\$ (132,430)</u>	<u>\$ 9,076,044</u>

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	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	\$ 209,801	\$ 139,985
Adjustments for:		
Depreciation expense	1,901,870	1,852,735
Net loss (profit) on financial assets and liabilities at fair value through profit or loss	(8,727)	7,313
Finance costs	261,758	285,041
Interest income	(4,057)	(2,445)
Dividend income	(23,397)	(19,865)
Share of the profit of associates	(62,020)	(28,737)
Loss on disposal of property, plant and equipment	685	-
Gain on disposal of investments	(13,417)	(76,897)
Impairment loss on non-financial assets	42,987	-
Decrease in provision for loss on inventories	-	(220,378)
Recognition of provisions	-	90,750
Other non-cash items	(2,983)	-
Changes in operating assets and liabilities		
Financial assets held for trading	8,848	10,794
Accounts receivable	(293,935)	654,491
Accounts receivable from related parties	22,657	(30,839)
Other receivables	6,133	(793)
Other receivable from related parties	(85,227)	146,370
Inventories	(1,125,198)	1,219,306
Prepayments	282,061	79,607
Other current assets	21,155	(10,626)
Notes payable	(92,725)	78,191
Accounts payable	(565,731)	42,713
Accounts payables to related parties	(5,089)	(176,599)
Other payables	(79,063)	(40,162)
Provisions - current	-	(90,750)
Other current liabilities	(4,713)	1,844
Accrued pension liabilities	(22,613)	(30,967)
Cash generated from operations	369,060	3,880,082
Income taxes refund (paid)	72	(15)
Net cash generated from operating activities	<u>369,132</u>	<u>3,880,067</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of available-for-sale financial assets	281,372	-
Proceeds from the capital reduction on available-for-sale financial assets	15,666	2,499
Acquisition of property, plant and equipment	(982,636)	(3,014,937)
Decrease in refundable deposits	12,350	4,146
Increase in other financial assets	(9,500)	-

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CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

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

	For the Year Ended December 31	
	2014	2013
Interest received	\$ 3,872	\$ 2,401
Dividends received from others	<u>23,397</u>	<u>19,865</u>
Net cash used in investing activities	<u>(655,479)</u>	<u>(2,986,026)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term borrowings	-	128,113
Decrease in short-term borrowings	(773,809)	-
Increase in short-term bills payable	260,745	452,131
Proceeds from long-term bank borrowings	12,350,000	11,450,000
Repayments of long-term bank borrowings	(12,626,923)	(12,576,923)
Increase in long-term bills payable	1,299,251	-
Interest paid	<u>(306,034)</u>	<u>(318,254)</u>
Net cash generated from (used in) financing activities	<u>203,230</u>	<u>(864,933)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(83,117)	29,108
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>102,721</u>	<u>73,613</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 19,604</u>	<u>\$ 102,721</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, 2014 AND 2013 (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 24, 2015.

3. APPLICATION OF NEW AND AMENDED STANDARDS AND INTERPRETATIONS

- a. The Regulations Governing the Preparation of Financial Reports by Securities Issuers and the 2013 version of the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) endorsed by the Financial Supervisory Commission (“FSC”) not yet effective.

Rule No. 1030029342 and Rule No. 1030010325 issued by the FSC, the Corporation and entities controlled by the Corporation (collectively referred to as “the Group”) should apply the 2013 version of IFRS, IAS, IFRIC and SIC (the “IFRSs”) announced by the International Accounting Standards Board (IASB) and endorsed by the FSC and the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers starting January 1, 2015.

<u>New, Amended and Revised Standards and Interpretations</u>	<u>Effective Date Announced by IASB (Note)</u>
Improvements to IFRSs (2009)-amendment to IAS 39	January 1, 2009 or January 1, 2010, as appropriate
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

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New, Amended and Revised Standards and Interpretations	Effective Date Announced by IASB (Note)
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

(Concluded)

Note: Unless stated otherwise, the above new, amended and revised standards and interpretations are effective for annual periods beginning on or after the respective effective dates.

Except for the following, whenever applied, the initial application of the 2013 version of the IFRSs and the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers would not have any material impact on the Groups’ accounting policies:

1) 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.

2) 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.

3) 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.

4) 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.

The fair value measurement under IFRSs 13 will be applied prospectively from January 1, 2015.

5) 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) may be reclassified subsequently to profit or loss. Income taxes on related items of other comprehensive income are grouped on the same basis. Under current IAS 1, there were no such requirements.

The Group will retrospectively apply the above amendments starting from 2015. Items not expected to be reclassified to profit or loss are remeasurements of the defined benefit plans. Items expected to be reclassified to profit or loss are the unrealized gains (loss) on available-for-sale financial assets and share of the other comprehensive income of associates accounted for using the equity method (except share of remeasurements of the defined benefit plans). However, the application of the above amendments will not result in any impact on the net profit for the year, other comprehensive income for the year (net of income tax), and total comprehensive income for the year.

6) Revision to IAS 19 “Employee Benefits”

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 remeasurements of the defined benefit plans 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. In addition, the revised IAS 19 introduces certain changes in the presentation of the defined benefit cost, and also includes more extensive disclosures.

In addition, revised IAS 19 changes the definition of short-term employee benefits. The revised definition is “employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service”. The Group’s unused annual leave, which can be carried forward within 24 months after the end of the annual period in which the employee renders service and which is currently classified as short-term employee benefits, will be classified as other long-term employee benefits under revised IAS 19. Related defined benefit obligation of such other long-term benefit is calculated using the Projected Unit Credit Method. However, this change

does not affect unused annual leave to be presented as a current liability in the consolidated balance sheet.

On initial application of the revised IAS 19 in 2015, the changes in cumulative employee benefit costs as of December 31, 2013 resulting from the retrospective application are adjusted to the accrued pension liabilities and retained earnings, the carrying amounts of inventories is not adjusted. In addition, in preparing the consolidated financial statements for the year ended December 31, 2015, the Group would elect not to present 2014 comparative information about the sensitivity of the defined benefit obligation.

The anticipated impact of the initial application of the revised IAS 19 is detailed as follows:

	Carrying Amount	Adjustments Arising from Initial Application	Adjusted Carrying Amount
<u>Impact on assets, liabilities and equity</u>			
<u>December 31, 2014</u>			
Accrued pension liabilities	\$ 215,391	\$ 31,544	\$ 246,935
Retained earnings	\$ (5,147,873)	\$ (31,544)	\$ (5,179,417)
<u>January 1, 2014</u>			
Accrued pension liabilities	\$ 163,693	\$ 36,801	\$ 200,494
Retained earnings	\$ (5,281,959)	\$ (36,801)	\$ (5,318,760)
<u>Impact on total comprehensive income for the year ended December 31, 2014</u>			
Operating cost	\$ 35,838,297	\$ (5,514)	\$ 35,832,783
Operating expense	\$ 1,028,306	\$ (866)	\$ 1,027,440
Net profit for the year	\$ 208,397	\$ 6,380	\$ 214,777
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit plan	\$ (74,311)	\$ (1,123)	\$ (75,434)
Total effect on total comprehensive income for the year	\$ 139,915	\$ (5,527)	\$ 145,172

7) Amendments to IFRS 7 “Disclosure - Offsetting Financial Assets and Financial Liabilities”

The amendments to IFRS 7 require disclosure of information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under enforceable master netting arrangements and similar arrangements.

8) Amendments to IAS 32 “Offsetting Financial Assets and Financial Liabilities”

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of “currently has a legally enforceable right of set-off” and “simultaneous realization and settlement”.

9) Annual Improvements to IFRSs: 2009-2011 Cycle

Several standards including IFRS 1 “First-time Adoption of International Financial Reporting Standards”, IAS 1 “Presentation of Financial Statements”, IAS 16 “Property, Plant and Equipment”, IAS 32 “Financial Instruments: Presentation” and IAS 34 “Interim Financial Reporting” were amended in this annual improvement.

The amendments to IAS 1 clarify that an entity is required to present a balance sheet as at the beginning of the preceding period when a) it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassifies items in its financial statements, and b) the retrospective application, restatement or reclassification has a material effect on the information in the balance sheet at the beginning of the preceding period. The amendments also clarify that related notes are not required to accompany the balance sheet at the beginning of the preceding period.

The amendments to IAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be recognized in accordance with IAS 16 when they meet the definition of property, plant and equipment and otherwise as inventory.

The amendments to IAS 32 clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 “Income Taxes”.

The amendments to IAS 34 clarify that a measure of total liabilities for a reportable segment would be disclosed in interim financial reporting when such amounts are regularly provided to the chief operating decision maker of the Group and there has been a material change from the amounts disclosed in the last annual financial statements for that reportable segment.

The initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the 2013 version of IFRSs in 2015 is expected not to have material effect on the consolidated balance sheet as of January 1, 2014.

b. IFRSs announced by the IASB but not yet endorsed by the FSC

The Group has not applied the following IFRSs announced by the IASB but not yet endorsed by the FSC. As of the date the consolidated financial statements were authorized for issue, the FSC has not announced their effective dates.

<u>New, Amended and Revised Standards and Interpretations</u>	<u>Effective Date Announced by IASB (Note 1)</u>
Annual Improvements to IFRSs 2010-2012 Cycle	July 1, 2014 (Note 2)
Annual Improvements to IFRSs 2011-2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016 (Note 4)
IFRS 9 “Financial Instruments”	January 1, 2018
Amendments to IFRS 9 and IFRS 7 “Mandatory Effective Date of IFRS 9 and Transition Disclosures”	January 1, 2018
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	January 1, 2016 (Note 3)
Amendment to IFRS 11 “Accounting for Acquisitions of Interests in Joint Operations”	January 1, 2016
IFRS 14 “Regulatory Deferral Accounts”	January 1, 2016
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2017
Amendment to IAS 1 “Disclosure Initiative”	January 1, 2016

(Continued)

<u>New, Amended and Revised Standards and Interpretations</u>	<u>Effective Date Announced by IASB (Note 1)</u>
Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization”	January 1, 2016
Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plants”	January 1, 2016
Amendment to IAS 19 “Defined Benefit Plans: Employee Contributions”	July 1, 2014
Amendment to IAS 27 “Equity Method in Separate Financial Statements”	January 1, 2016
Amendment to IAS 36 “Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets”	January 1, 2014
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, amended and revised standards and interpretations are effective for annual periods beginning on or after their respective effective dates.

Note 2: The amendment to IFRS 2 applies to share-based payment transactions with grant date on or after July 1, 2014; the amendment to IFRS 3 applies to business combinations with acquisition date 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.

Note 3: Prospectively applicable to transactions occurring in annual periods beginning on or after January 1, 2016.

Note 4: The amendment to IFRS 5 is applied prospectively to changes in a method of disposal that occur in annual periods beginning on or after January 1, 2016; the remaining amendments are effective for annual periods beginning on or after January 1, 2016.

The initial application of the above new, amended and revised standards and interpretations, whenever applied, would not have any material impact on the Group’s accounting policies, except for the following:

1) IFRS 9 “Financial Instruments”

Recognition and measurement of financial assets

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. Under IFRS 9, the requirement for the classification of financial assets is stated below.

For the Group’s debt instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, their classification and measurement are as follows:

- a) For debt instruments, if they are held within a business model whose objective is to collect the contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with impairment loss recognized in profit or loss, if any. Interest revenue is recognized in profit or loss by using the effective interest method;

- b) For debt instruments, if they are held within a business model whose objective is achieved by both the collecting of contractual cash flows and the selling of financial assets, the financial assets are measured at fair value through other comprehensive income (FVTOCI) and are assessed for impairment. Interest revenue is recognized in profit or loss by using the effective interest method, and other gain or loss shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the debt instruments are derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

Except for above, all other financial assets are measured at fair value through profit or loss. 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. No subsequent impairment assessment is required, and the cumulative gain or loss previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

The impairment of financial assets

IFRS 9 requires that impairment loss on financial assets is recognized by using the “Expected Credit Losses Model”. The credit loss allowance is required for financial assets measured at amortized cost, financial assets mandatorily measured at FVTOCI, lease receivables, contract assets arising from IFRS 15 “Revenue from Contracts with Customers”, certain written loan commitments and financial guarantee contracts. A loss allowance for the 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since initial recognition. A loss allowance for full lifetime expected credit losses is required for a financial asset if its credit risk has increased significantly since initial recognition and is not low. However, a loss allowance for full lifetime expected credit losses is required for trade receivables that do not constitute a financing transaction.

For purchased or originated credit-impaired financial assets, the Group takes into account the expected credit losses on initial recognition in calculating the credit-adjusted effective interest rate. Subsequently, any changes in expected losses are recognized as a loss allowance with a corresponding gain or loss recognized in profit or loss.

2) Amendment to IAS 36 “Recoverable Amount Disclosures for Non-financial Assets”

In issuing IFRS 13 “Fair Value Measurement”, the IASB made consequential amendment 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 amounts 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.

3) Annual Improvements to IFRSs: 2010-2012 Cycle

Several standards including IFRS 3 “Business Combinations” and IFRS 8 “Operating Segments” were amended in this annual improvement.

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 IFRS 9 or IAS 39. Changes in fair value 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.

4) Annual Improvements to IFRSs: 2011-2013 Cycle

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

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.

5) Amendments to IAS 16 "Clarification of Acceptable Methods of Depreciation"

The entity should use appropriate depreciation method to reflect the pattern in which the future economic benefits of the property, plant and equipment are expected to be consumed by the entity.

The amended IAS 16 "Property, Plant and Equipment" requires that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate. The amended standard does not provide any exception from this requirement.

An entity should apply the aforementioned amendments prospectively for annual periods beginning on or after the effective date.

6) IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersede IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations from January 1, 2017.

When applying IFRS 15, an entity shall recognize revenue by applying the following steps:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts; and
- Recognize revenue when the entity satisfies a performance obligation.

When IFRS 15 is effective, an entity may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application.

7) Amendment to IAS 1 “Disclosure Initiative”

The amendment clarifies that the consolidated financial statements should be prepared for the purpose of disclosing material information. To improve the understandability of its consolidated financial statements, the Group should disaggregate the disclosure of material items into their different natures or functions, and disaggregate material information from immaterial information.

The amendment further clarifies that the Group should consider the understandability and comparability of its consolidated financial statements to determine a systematic order in presenting its footnotes.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

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.

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	
			2014	2013
Chung Hung Steel Corporation	Hung Li Steel Corporation Ltd. (HLSC)	Manufacture of steel product, steel product processing and sale	100	100
	Taiwan Steel Corporation (TSC)	Operation not yet started	100	100
	Hung Kao Investment Corporation (HKIC)	General investment	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 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 discontinues 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. If the fair value increases in a subsequent period and the increase can objectively connect to the event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss.

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.

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

	<u>December 31</u>	
	2014	2013
Cash on hand	\$ 900	\$ 900
Checking accounts and demand deposits	18,704	9,587
Cash equivalents		
Time deposits with original maturities less than three months	<u>-</u>	<u>92,234</u>
	<u>\$ 19,604</u>	<u>\$ 102,721</u>

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>December 31</u>	
	2014	2013
<u>Financial assets held for trading - current</u>		
Emerging market shares	\$ 276,613	\$ 283,883
Foreign exchange forward contracts	<u>7,366</u>	<u>3,891</u>
	<u>\$ 283,979</u>	<u>\$ 287,774</u>
<u>Financial liabilities held for trading - current</u>		
Foreign exchange forward contracts	<u>\$ -</u>	<u>\$ 3,674</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, 2014</u>			
Buy	NTD/USD	2015.01.20-2015.11.04	NTD309,014/USD10,000
<u>December 31, 2013</u>			
Buy	NTD/JPY	2014.02.27-2014.12.30	NTD16,631/JPY46,270
Buy	NTD/USD	2014.02.27-2014.04.30	NTD154,417/USD5,304

The Group entered into foreign exchange forward contracts during 2014 and 2013 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

	<u>December 31</u>	
	2014	2013
<u>Current</u>		
Domestic listed shares	<u>\$ 870,773</u>	<u>\$ 876,421</u>
<u>Noncurrent</u>		
Domestic listed shares	\$ 26,405	\$ 26,576
Domestic unlisted shares	<u>57,302</u>	<u>30,385</u>
	<u>\$ 83,707</u>	<u>\$ 56,961</u>

- Rise Link Venture Capital Corp. conducted capital reduction and refunded NT\$2,249 thousand and NT\$2,499 thousand in June 2014 and May 2013, respectively.
- Taiwan Vespa conducted capital reduction and refunded NT\$13,417 thousand in June 2014. The Group had recognized impairment loss on the investment for its total carrying amount, so the refund was recognized as gain on disposal of investment. As of December 31, 2014, the above refund was received.

9. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

	<u>December 31</u>	
	2014	2013
<u>Accounts receivable</u>		
Accounts receivable (including related parties)	<u>\$ 819,760</u>	<u>\$ 548,482</u>

(Continued)

	December 31	
	2014	2013
<u>Other receivables (including related parties)</u>		
Receivables from business tax refund	\$ 135,013	\$ -
Discount receivable	95,980	2,981
Receivables from disposal of scrap	21,603	37,529
Receivables from disposal of investment	-	281,372
Others	<u>4,459</u>	<u>2,253</u>
	<u>\$ 257,055</u>	<u>\$ 324,135</u> (Concluded)

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, 2014 and 2013, 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	
	2014	2013
A company	\$ 94,948	\$ -
B company	<u>52,864</u>	<u>73,224</u>
	<u>\$ 147,812</u>	<u>\$ 73,224</u>

As of December 31, 2014 and 2013, 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
<u>For the year ended December 31, 2014</u>						
Mega Bank	<u>\$ 1,361,025</u>	<u>\$ 3,807,186</u>	<u>\$ 3,746,930</u>	<u>\$ 1,421,281</u>	1.40	NT\$3 billion
<u>For the year ended December 31, 2013</u>						
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

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, 2014 and 2013, there was no allowance for doubtful accounts.

10. INVENTORIES

	December 31	
	2014	2013
Raw materials	\$ 3,346,310	\$ 2,517,907
Supplies	502,680	611,819
Work in progress	683,755	662,107
Finished goods	2,113,415	2,702,537
Others	110,893	29,520
Raw materials and supplies in transit	<u>338,504</u>	<u>601,612</u>
	<u>\$ 7,095,557</u>	<u>\$ 7,125,502</u>

As of December 31, 2014 and 2013, the allowance for inventory devaluation was NT\$80,912 thousand and NT\$42,469 thousand, respectively.

The cost of inventories recognized as operating costs for the years ended December 31, 2014 and 2013 was NT\$35,327,600 thousand and NT\$37,139,818 thousand, respectively.

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

	For the Year Ended December 31	
	2014	2013
Balance, beginning of year	\$ 42,469	\$ 262,847
Recognized	231,099	494,194
Sold	<u>(192,656)</u>	<u>(714,572)</u>
Balance, end of year	<u>\$ 80,912</u>	<u>\$ 42,469</u>

11. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31			
	2014		2013	
	Amount	%of Owner -ship	Amount	%of Owner -ship
Translory Investment Corp. (TIC)	<u>\$ 2,369,107</u>	<u>40.91</u>	<u>\$ 2,324,605</u>	<u>40.91</u>

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

	December 31	
	2014	2013
Total assets	<u>\$ 6,832,764</u>	<u>\$ 6,817,292</u>
Total liabilities	<u>\$ 1,041,742</u>	<u>\$ 1,135,051</u>

For the Year Ended December 31

	2014	2013
Revenues	<u>\$ 177,575</u>	<u>\$ 96,225</u>
Net profit	<u>\$ 151,601</u>	<u>\$ 70,241</u>
Other comprehensive loss	<u>\$ (42,820)</u>	<u>\$ (20,355)</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	
	2014	2013
Current		
Time deposits with original maturities more than three months	\$ 25,500	\$ 16,000
Pledged time deposits	<u>500,000</u>	<u>500,000</u>
	<u>\$ 525,500</u>	<u>\$ 516,000</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, 2014

	Land	Buildings	Machinery and Equipment	Other Equipment	Spare Parts	Construction in Progress and Equipment to be Inspected	Total
Cost							
Balance at January 1, 2014	\$ 3,983,883	\$ 3,142,086	\$ 18,913,231	\$ 3,805,180	\$ 1,632,846	\$ 2,750,177	\$ 34,227,403
Additions	-	151,806	872,667	140,109	118,043	(224,125)	1,058,500
Disposals	-	-	-	(3,400)	(136,798)	-	(140,198)
Business tax refund	-	(15,550)	(110,287)	(6,193)	-	-	(132,030)
Balance at December 31, 2014	<u>\$ 3,983,883</u>	<u>\$ 3,278,342</u>	<u>\$ 19,675,611</u>	<u>\$ 3,935,696</u>	<u>\$ 1,614,091</u>	<u>\$ 2,526,052</u>	<u>\$ 35,013,675</u>
Accumulated depreciation							
Balance at January 1, 2014	\$ -	\$ 1,152,130	\$ 12,357,892	\$ 2,762,975	\$ 544,758	\$ -	\$ 16,817,755
Depreciation expense	-	92,306	1,339,311	285,834	183,596	-	1,901,047
Disposals	-	-	-	(2,715)	(136,798)	-	(139,513)
Balance at December 31, 2014	<u>\$ -</u>	<u>\$ 1,244,436</u>	<u>\$ 13,697,203</u>	<u>\$ 3,046,094</u>	<u>\$ 591,556</u>	<u>\$ -</u>	<u>\$ 18,579,289</u>
Accumulated impairment							
Balance at January 1, 2014	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Impairment losses	-	-	4,544	-	-	-	4,544
Balance at December 31, 2014	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,544</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,544</u>
Carrying amount at December 31, 2014	<u>\$ 3,983,883</u>	<u>\$ 2,033,906</u>	<u>\$ 5,973,864</u>	<u>\$ 889,602</u>	<u>\$ 1,022,535</u>	<u>\$ -</u>	<u>\$ 16,429,842</u>

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>

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. As of December 31, 2014 and 2013, the book value of those remaining farmlands recognized as land were both NT\$66,753 thousand.

In November 2014, National Taxation Bureau of Kaohsiung approved HLSC's application of business tax refund of the properties acquired by participating in the court enforced auction for NT\$135,013 thousand. HLSC deducted the business tax refund from original cost of properties in the amount of NT\$132,030 thousand and recognized the business tax refund of NT\$2,983 as other gains because some of the properties have been disposed. As of December 31, 2014, HLSC has not received the business tax refund and the business tax refund was recognized in the other receivables.

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, 2014

	Land	Buildings	Total
<u>Cost</u>			
Balance at January 1, 2014 and December 31, 2014	<u>\$ 5,970,616</u>	<u>\$ 39,218</u>	<u>\$ 6,009,834</u>
<u>Accumulated depreciation</u>			
Balance at January 1, 2014	\$ -	\$ 10,646	\$ 10,646
Depreciation expense	<u>-</u>	<u>823</u>	<u>823</u>
Balance at December 31, 2014	<u>\$ -</u>	<u>\$ 11,469</u>	<u>\$ 11,469</u>
<u>Accumulated Impairment</u>			
Balance at January 1, 2014 and December 31, 2014	<u>\$ 1,689,613</u>	<u>\$ -</u>	<u>\$ 1,689,613</u>
Carrying amount at December 31, 2014	<u>\$ 4,281,003</u>	<u>\$ 27,749</u>	<u>\$ 4,308,752</u>

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>

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 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	
	2014	2013
Fair value	<u>\$ 6,810,387</u>	<u>\$ 6,810,387</u>
Expense rate (%)	10.74-21.78	10.74-21.78
Depreciation rate (%)	1.90-2.57	1.90-2.57

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	
	2014	2013
<u>Prepayments</u>		
Overpaid sales tax	\$ 335,460	\$ 404,993
Prepaid sales tax	208,184	198,280
Prepayment for purchase	61,851	285,967
Others	<u>9,866</u>	<u>8,182</u>
	<u>\$ 615,361</u>	<u>\$ 897,422</u>
<u>Other current assets</u>		
Receivables from lending of steel slabs (Note 28)	\$ 33,188	\$ 19,084
Temporary payments	9,549	30,581
Others	<u>317</u>	<u>440</u>
	<u>\$ 43,054</u>	<u>\$ 50,105</u>

16. BORROWINGS

a. Short-term borrowings and bank overdraft

	December 31	
	2014	2013
Unsecured loans - interest at 1.15%-1.42% p.a. and 1.13%-1.22% p.a. as of December 31, 2014 and 2013, respectively	\$ 5,059,000	\$ 5,185,000
Letters of credit - interest at 1.15%-1.25% p.a. and 1.10%-1.30% p.a. as of December 31, 2014 and 2013, respectively	2,330,978	2,965,411
Bank overdraft - interest at 0.62%-0.84% p.a. and 0.62%-0.84% p.a. as of December 31, 2014 and 2013, respectively	<u>447,560</u>	<u>460,936</u>
	<u>\$ 7,837,538</u>	<u>\$ 8,611,347</u>

b. Short-term bills payable

	<u>December 31</u>	
	2014	2013
Commercial paper		
China Bills Finance Corporation	\$ 693,000	\$ 585,000
Mega Bills Finance Corporation	550,000	535,000
International Bills Finance Corporation	380,000	310,000
Grand Bills Finance Corp.	280,000	212,000
Ta Ching Bills Finance Corporation	200,000	200,000
Taiwan Finance Corp.	200,000	200,000
Taiwan Cooperative Bills Finance Corporation	<u>100,000</u>	<u>100,000</u>
	2,403,000	2,142,000
	<u>1,335</u>	<u>1,080</u>
Less: Unamortized discounts	<u>\$ 2,401,665</u>	<u>\$ 2,140,920</u>
Interest rate (%)	0.70-0.94	0.68-0.95

c. Long-term borrowings

	<u>December 31</u>	
	2014	2013
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 at 1.5789% p.a. and 1.5856% p.a. as of December 31, 2014 and 2013, respectively	\$ 4,826,154	\$ 5,903,077
Repayable in March 2019 with a revolving credit, interest at 1.5789%-1.5968% p.a. and 1.5888%-1.6025% p.a. as of December 31, 2014 and 2013, respectively	5,850,000	4,050,000
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.	-	2,300,000
Industrial Bank of Taiwan loan to the Corporation		
Repaid in December 2014, interest at 1.3668% p.a.	-	500,000
Repayable in December 2016, interest at 1.4082% p.a.	500,000	-
Bank loans		
Bank of Taiwan		
Repayable in November 2017, interest at 1.503% p.a.	500,000	-
Chang Hwa Bank		
Repayable in November 2017, interest at 1.5229% p.a.	500,000	-
CTBC Bank Co., Ltd.		
Repayable in November 2017, interest at 1.5293% p.a.	<u>300,000</u>	<u>-</u>
	12,476,154	12,753,077
Less: Current portion	1,076,923	1,076,923
Syndicated loan fee	<u>16,191</u>	<u>23,476</u>
	<u>\$ 11,383,040</u>	<u>\$ 11,652,678</u>

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, 2014 and 2013, 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\$0.5 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 November 2014, the Corporation entered into a medium-term loan agreement with Industrial Bank of Taiwan, as follows:

- 1) The credit line is NT\$0.5 billion with a non-revolving credit; the first drawdown of the Corporation was on December 18, 2014.
- 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 Taiwan Bills Index Rate 02 plus 0.49 %. 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; however, the loan was repaid in advance in November 2014.
- 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, 2014.
- 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, the subsidiary HLSC was in compliance with this syndicated credit facility agreement.

c. Long-term bills payable

	December 31, 2014
Commercial paper -interest at 0.944% p.a.	\$ 1,3000,000
Less: Unamortized discount	<u>749</u>
	<u>\$ 1,299,251</u>

The Corporation entered into a fixed rate commercial paper contract with Mega Bills Finance Corporation secured by Mega International Commercial Bank. The credit line of the contract is NT\$1.3 billion and the duration of the contract is four years, during which the Corporation and its subsidiaries only have to pay service fees and interests. In the fourth year, the contracts can only be issued after negotiating with counterparties. The cycle of issuance is in one hundred and eighty, during which the Corporation only has to pay service fees and interests. Therefore, the Corporation recorded those commercial papers issued as long-term bills payable.

17. NOTES PAYABLE AND ACCOUNTS PAYABLE

	<u>December 31</u>	
	<u>2014</u>	<u>2013</u>
<u>Notes payable</u>		
Operating	\$ <u>17,386</u>	\$ <u>110,111</u>
<u>Accounts payable (including related parties)</u>		
Operating	\$ <u>757,670</u>	\$ <u>1,328,490</u>

As of December 31, 2014 and 2013, notes payable to bank were NT\$17,210 thousand and NT\$91,696 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

	<u>December 31</u>	
	<u>2014</u>	<u>2013</u>
<u>Other payables</u>		
Sales discounts	\$ 216,306	\$ 241,242
Salaries and incentive bonus	96,296	78,790
Utilities	70,664	69,099
Export fee	53,796	22,372
Delivery pay	34,365	34,187
Borrowing of steel slabs (Note 28)	32,727	123,985
Outsourced repair and construction	27,339	40,679
Purchase of equipment	13,755	132,519
Processing charge	6,461	21,019
Others	<u>98,525</u>	<u>83,360</u>
	<u>\$ 650,234</u>	<u>\$ 847,252</u>
<u>Other current liabilities</u>		
Unearned receipts	\$ 35,307	\$ 41,644
Borrowing of steel slabs (Note 28)	-	1,102,596
Others	<u>10,236</u>	<u>8,612</u>
	<u>\$ 45,543</u>	<u>\$ 1,152,852</u>

19. PROVISIONS - CURRENT

As of December 31, 2014 and 2013, the Group has no provision for onerous contracts.

	For the Year Ended December 31, 2013
Balance, beginning of year	\$ -
Recognized for the year	90,750
Deducted for the year	<u>(90,750)</u>
Balance, end of year	<u>\$ -</u>

The Group was obligated under non-cancellable onerous operating purchase contracts to recognized loss.

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.

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	
	2014	2013
Discount rate (%)	1.875	2.000
Expected rate of return on plan assets (%)	2.000	2.000
Expected rate of salary increase (%)	2.000	2.250

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	
	2014	2013
Current service cost	\$ 25,398	\$ 26,143
Interest cost	15,315	15,544
Expected return on plan assets	(14,689)	(13,997)
Past service cost	<u>5,257</u>	<u>5,257</u>
	<u>\$ 31,281</u>	<u>\$ 32,947</u>
Analysis by function		
Operating costs	\$ 26,637	\$ 28,027
Operating expenses	4,247	4,669
Recognized in the construction in process	<u>397</u>	<u>251</u>
	<u>\$ 31,281</u>	<u>\$ 32,947</u>

For the years ended December 31, 2014 and 2013, the Corporation recognized actuarial losses NT\$74,311 thousand and NT\$6,126 thousand as other comprehensive loss, respectively. As of December 31, 2014 and 2013, the accumulated actuarial losses recognized as retained earnings (through other comprehensive loss) were NT\$107,868 thousand and NT\$33,557 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	
	2014	2013
Present value of funded defined benefit obligation	\$ 1,059,561	\$ 975,023
Fair value of plan assets	<u>(812,626)</u>	<u>(774,529)</u>
Deficit	246,935	200,494
Past service cost not yet recognized	<u>(31,544)</u>	<u>(36,801)</u>
Accrued pension liabilities	<u>\$ 215,391</u>	<u>\$ 163,693</u>

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

	For the Year Ended December 31	
	2014	2013
Defined benefit obligation, beginning of year	\$ 975,023	\$ 967,112
Current service cost	25,398	26,143
Interest cost	15,315	15,544
Actuarial losses	77,948	1,719
Benefits paid	<u>(34,123)</u>	<u>(35,495)</u>
Defined benefit obligation, end of year	<u>\$ 1,059,561</u>	<u>\$ 975,023</u>

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

	For the Year Ended December 31	
	2014	2013
Fair value of plan assets, beginning of year	\$ 774,529	\$ 736,520
Expected return on plan assets	14,689	13,997
Actuarial gains (losses)	3,637	(4,407)
Contributions from the employer	47,075	48,691
Benefits paid	<u>(27,304)</u>	<u>(20,272)</u>
Fair value of plan assets, end of year	<u>\$ 812,626</u>	<u>\$ 774,529</u>

The actual return on plan assets were NT\$18,326 thousand and NT\$9,590 thousand for the years ended December 31, 2014 and 2013, respectively.

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	
	2014	2013
Cash	19	23
Equity securities	53	45
Debt securities	<u>28</u>	<u>32</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 (January 1, 2012):

	December 31, 2014	December 31, 2013	December 31, 2012	January 1, 2012
Present value of defined benefit obligation	<u>\$ 1,059,561</u>	<u>\$ 975,023</u>	<u>\$ 967,112</u>	<u>\$ 940,795</u>
Fair value of plan assets	<u>\$ 812,626</u>	<u>\$ 774,529</u>	<u>\$ 736,520</u>	<u>\$ 716,319</u>
Deficit	<u>\$ 246,935</u>	<u>\$ 200,494</u>	<u>\$ 230,592</u>	<u>\$ 224,476</u>
Experience adjustments on plan liabilities	<u>\$ 104,231</u>	<u>\$ (12,622)</u>	<u>\$ 3,583</u>	<u>\$ -</u>
Experience adjustments on plan assets	<u>\$ 3,637</u>	<u>\$ (4,407)</u>	<u>\$ (7,835)</u>	<u>\$ -</u>

The Group expects to make a contribution of NT\$47,476 thousand and NT\$38,400 thousand to the defined benefit plans during the annual period beginning after 2014 and 2013, respectively.

21. EQUITY

a. Ordinary Share

	<u>December 31</u>	
	<u>2014</u>	<u>2013</u>
Numbers of shares authorized (in thousands)	<u>2,043,160</u>	<u>2,043,160</u>
Shares authorized	<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>
Shares issued	<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

	<u>December 31</u>	
	<u>2014</u>	<u>2013</u>
Additional paid-in capital	<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

The Corporation's Articles of Incorporation 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 2014 and 2013; 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. If the Corporation has no deficit 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\$139,357 thousand of net profit for 2013 to offset the accumulated deficit was proposed by the board of directors on March 7, 2014 and approved in the stockholders' meeting on June 23, 2014. The use of NT\$208,397 thousand of net profit for 2014 to offset the accumulated deficit was proposed by the board of directors on March 24, 2015 and will be resolved by the stockholders' in their meeting scheduled for June 26, 2015.

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

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

	<u>For the Year Ended December 31</u>	
	2014	2013
Balance, beginning of year	\$ (138,259)	\$ (45,430)
Unrealized gain or loss on available-for-sale financial assets	36,764	(7,605)
Cumulative gain and loss reclassified to profit or loss on sale of available-for-sale financial assets	(13,417)	(76,897)
Share of unrealized loss on available-for-sale financial assets of associates accounted for using the equity method	<u>(17,518)</u>	<u>(8,327)</u>
Balance, end of year	<u>\$ (132,430)</u>	<u>\$ (138,259)</u>

22. PROFIT BEFORE INCOME TAX

Profit before income tax consisted of following items:

a. Other income

	For the Year Ended December 31	
	2014	2013
Rental income	\$ 71,970	\$ 72,018
Interest income	4,057	2,445
Dividend income	23,397	19,865
Others	<u>7,535</u>	<u>5,603</u>
	<u>\$ 106,959</u>	<u>\$ 99,931</u>

b. Other gains and losses

	For the Year Ended December 31	
	2014	2013
Gain on disposal of investments	\$ 13,417	\$ 76,897
Net foreign exchange gain	29,772	64,173
Gain (Loss) arising on financial assets at fair value through profit or loss	8,727	(7,313)
Fees	(14,190)	(6,712)
Loss on disposal of property, plant and equipment	(685)	-
Other losses	<u>(527)</u>	<u>(863)</u>
	<u>\$ 36,514</u>	<u>\$ 126,182</u>

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

	For the Year Ended December 31	
	2014	2013
Foreign exchange gain	\$ 114,519	\$ 134,094
Foreign exchange loss	<u>(84,747)</u>	<u>(69,921)</u>
Net exchange gain	<u>\$ 29,772</u>	<u>\$ 64,173</u>

c. Finance costs

	For the Year Ended December 31	
	2014	2013
Interest on bank overdrafts and loans	\$ 299,708	\$ 320,443
Interest on loans from related parties (Note 28)	<u>14,420</u>	<u>3,767</u>
Total interest expense financial liabilities measured at amortized cost	314,128	324,210
Less: Amounts included in the cost of qualifying assets	<u>52,370</u>	<u>39,169</u>
	<u>\$ 261,758</u>	<u>\$ 285,041</u>

Information about capitalized interest was as follows:

	<u>For the Year Ended December 31</u>	
	2014	2013
Capitalized amounts	\$ 52,370	\$ 39,169
Capitalized annual rates (%)	1.2720-1.5061	1.3354-1.4894
d. Depreciation		
	<u>For the Year Ended December 31</u>	
	2014	2013
Property, plant and equipment	\$ 1,901,047	\$ 1,851,912
Investment properties	<u>823</u>	<u>823</u>
	<u>\$ 1,901,870</u>	<u>\$ 1,852,735</u>
Analysis of depreciation by function		
Operating costs	\$ 1,832,693	\$ 1,736,204
Operating expenses	68,354	115,708
Deduction of other income	<u>823</u>	<u>823</u>
	<u>\$ 1,901,870</u>	<u>\$ 1,852,735</u>
e. Operating expenses directly related to investment properties		
	<u>For the Year Ended December 31</u>	
	2014	2013
Direct operating expenses of investment properties that generated rental income	\$ 10,359	\$ 10,308
Direct operating expenses of investment properties that did not generate rental income	<u>1,364</u>	<u>1,362</u>
	<u>\$ 11,723</u>	<u>\$ 11,670</u>
f. Employee benefits		
	<u>For the Year Ended December 31</u>	
	2014	2013
Short-term employee benefits		
Salaries	\$ 810,522	\$ 829,035
Labor and health insurance	72,901	73,024
Others	<u>147,020</u>	<u>181,813</u>
	<u>1,030,443</u>	<u>1,083,872</u>
Post-employment benefits		
Defined contribution plans	18,111	17,796
Defined benefit plans (Note 20)	<u>31,281</u>	<u>32,947</u>
	<u>49,392</u>	<u>50,743</u>
	<u>\$ 1,079,835</u>	<u>\$ 1,134,615</u>

(Continued)

	For the Year Ended December 31	
	2014	2013
Analysis of employee benefits expense by function		
Operating costs	\$ 807,767	\$ 866,482
Operating expenses	204,185	235,800
Recognized in the construction in process	<u>67,883</u>	<u>32,333</u>
	<u>\$ 1,079,835</u>	<u>\$ 1,134,615</u>
		(Concluded)

As of December 31, 2014 and 2013, the Group's number of employees were both 1,233.

23. INCOME TAX

a. Income tax recognized in profit or loss

The major components of income tax expense were as follows:

	For the Year Ended December 31	
	2014	2013
Current tax		
In respect of the current year	\$ 57	\$ -
Income tax expense of unappropriated earnings	5	-
In respect of prior years	<u>1</u>	<u>59</u>
	63	59
Deferred tax		
In respect of the current year	<u>1,341</u>	<u>569</u>
Income tax expense recognized in profit or loss	<u>\$ 1,404</u>	<u>\$ 628</u>

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

	For the Year Ended December 31	
	2014	2013
Profit before income tax	<u>\$ 209,801</u>	<u>\$ 139,985</u>
Income tax expense at the statutory rate (17%)	\$ 35,666	\$ 23,797
Permanent differences		
Loss on investments under equity method	(10,543)	(4,885)
Others	(2)	(1,683)
Unrecognized deductible temporary differences	(15,226)	(59,378)
Loss carryforwards	(14,430)	(3,166)
Unrecognized loss carry forwards	5,933	45,884
Additional income tax on unappropriated earnings	5	-
Adjustments to prior years' tax	<u>1</u>	<u>59</u>
Income tax expense recognized in profit or loss	<u>\$ 1,404</u>	<u>\$ 628</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	
	2014	2013
Current tax assets		
Tax refund receivable	<u>\$ 550</u>	<u>\$ 628</u>
Current tax liabilities		
Income tax payable	<u>\$ 57</u>	<u>\$ -</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, 2014

	Balance, beginning of year	Recognized in Profit or Loss	Balance, end of year
<u>Deferred Tax Liabilities</u>			
Temporary differences			
Unrealized foreign exchange gain	\$ (529)	\$ (129)	\$ (658)
Others	<u>(40)</u>	<u>(1,212)</u>	<u>(1,252)</u>
	<u>(569)</u>	<u>(1,341)</u>	<u>(1,910)</u>
Land value increment tax	<u>(182,222)</u>	-	<u>(182,222)</u>
	<u>\$ (182,791)</u>	<u>\$ (1,341)</u>	<u>\$ (184,132)</u>

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>
Land value increment tax	<u>(182,222)</u>	-	<u>(182,222)</u>
	<u>\$ (183,151)</u>	<u>\$ 360</u>	<u>\$ (182,791)</u>

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

	December 31	
	2014	2013
Loss carry forwards		
2014 maturity	\$ -	\$ 3,703
2015 maturity	3,023	3,023
2016 maturity	119	119
2019 maturity	1,380,064	1,385,980
2020 maturity	167,461	245,194
2021 maturity	2,169,464	2,169,464
2022 maturity	4,750,612	4,750,662
2023 maturity	187,880	269,908
2024 maturity	<u>34,901</u>	<u>-</u>
	<u>\$ 8,693,524</u>	<u>\$ 8,828,053</u>
Deductible temporary differences		
Gain on disposal of nonperforming loans	\$ 822,418	\$ 904,560
Impairment loss on assets	452,207	447,663
Sales discount payable	203,814	236,851
Accrued pension liabilities	215,391	163,693
Provision for inventory loss	80,912	42,469
Others	<u>69,930</u>	<u>64,687</u>
	<u>\$ 1,844,672</u>	<u>\$ 1,859,923</u>

g. Integrated income tax - The Corporation

	December 31	
	2014	2013
Imputation credit account ("ICA")	<u>\$ 976,470</u>	<u>\$ 966,665</u>

As of December 31, 2014, 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 2012 have been assessed by the tax authorities.

24. BASIC EARNINGS PER SHARE

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

<u>Net profit for the year</u>	For the Year Ended December 31	
	2014	2013
Profit for the year attributable to owners of the Corporation	<u>\$ 208,397</u>	<u>\$ 139,357</u>

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

	<u>For the Year Ended December 31</u>	
	<u>2014</u>	<u>2012</u>
Weighted average number of ordinary shares in computation of basic earnings 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, 2014 and 2013 were NT\$72,293 thousand and NT\$71,048 thousand, respectively, and were included in other income. Based on the lease contract, as of December 31, 2014 and 2013, the Corporation obtained the same amount of deposit of NT\$35,000 thousand which was recognized as guaranteed deposits received.

As of December 31, 2014 and 2013, notes receivable and advance rental were as follows:

	<u>December 31</u>	
	<u>2014</u>	<u>2013</u>
Notes receivable	\$ 45,399	\$ 74,121
Less: Advance rental	<u>(45,399)</u>	<u>(74,121)</u>
	<u>\$ -</u>	<u>\$ -</u>

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

	<u>December 31</u>	
	<u>2014</u>	<u>2013</u>
Not later than 1 year	\$ 81,054	\$ 78,056
Later than 1 year and not later than 5 years	402,609	382,371
Later than 5 years	<u>977,504</u>	<u>1,059,020</u>
	<u>\$ 1,461,167</u>	<u>\$ 1,519,447</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, 2014</u>				
Financial assets at fair value through profit or loss				
Emerging market shares	\$ -	\$ -	\$ 276,613	\$ 276,613
Foreign exchange forward contracts	<u>-</u>	<u>7,366</u>	<u>-</u>	<u>7,366</u>
	<u>\$ -</u>	<u>\$ 7,366</u>	<u>\$ 276,613</u>	<u>\$ 283,979</u>
Available-for-sale financial assets				
Domestic listed shares	\$ 897,178	\$ -	\$ -	\$ 897,178
Domestic unlisted shares	<u>-</u>	<u>-</u>	<u>57,302</u>	<u>57,302</u>
	<u>\$ 897,178</u>	<u>\$ -</u>	<u>\$ 57,302</u>	<u>\$ 954,480</u>
<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>
Financial liabilities at fair value through profit or loss				
Foreign exchange forward contracts	<u>\$ -</u>	<u>\$ 3,674</u>	<u>\$ -</u>	<u>\$ 3,674</u>

There was no transfer between Level 1 and Level 2 for the years ended December 31, 2014 and 2013.

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

	Financial Assets at Fair Value Through Profit or Loss - Held for Trading	Available-for- sale Financial Assets - Equity Investments Without Active Market	Total
<u>For the year ended December 31, 2014</u>			
Balance, beginning of year	\$ 283,883	\$ 30,385	\$ 314,268
Recognized in profit or loss	(7,270)	13,417	6,147
Recognized in other comprehensive income	-	29,166	29,166
Capital reduction refunded	<u>-</u>	<u>(15,666)</u>	<u>(15,666)</u>
Balance, end of year	<u>\$ 276,613</u>	<u>\$ 57,302</u>	<u>\$ 333,915</u>
<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>

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	
	2014	2013
Financial assets		
<hr/>		
Fair value through profit or loss		
Held for trading	\$ 283,979	\$ 287,774
Available-for-sale financial assets (including noncurrent)	954,480	933,382
Loans and receivables (see 1 below)	1,492,640	1,509,422
<hr/>		
Financial liabilities		
<hr/>		
Fair value through profit or loss		
Held for trading	-	3,674
Measured at amortized cost (see 2 below)	25,458,827	25,802,841

- 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, excluding receivables from business tax refund), 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), long-term bills payable, 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	
	2014	2013
Assets		
USD	\$ 7,366	\$ 3,891
Liabilities		
JPY	-	3,557
USD	-	117

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	
	2014	2013
Profit	\$ 1,255	\$ 7,832

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	
	2014	2013
Fair value interest rate risk		
Financial assets	\$ -	\$ 90,338
Financial liabilities	3,700,916	2,140,920
Cash flow interest rate risk		
Financial assets	542,775	526,302
Financial liabilities	20,297,501	21,340,948

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, 2014 and 2013 would have been lower by NT\$197,547 thousand and NT\$208,146 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, 2014 and 2013 would have been lower by NT\$34,113 thousand and NT\$33,444 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, 2014, the current liabilities of the Group exceed current assets by NT\$2,255,823 thousand and the unutilized credit facility of the Group was NT\$ 24,446,558 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, 2014</u>				
Short-term borrowings	\$ 7,911,131	\$ -	\$ -	\$ 7,911,131
Short-term bills payable	2,403,000	-	-	2,403,000
Notes payable	17,386	-	-	17,386
Accounts payable (including related parties)	757,670	-	-	757,670
Other payables	650,234	-	-	650,234
Long-term bank borrowings	1,211,471	11,851,893	-	13,063,364
Long-term bills payable	<u>-</u>	<u>1,300,000</u>	<u>-</u>	<u>1,300,000</u>
	<u>\$ 12,950,892</u>	<u>\$ 13,151,893</u>	<u>\$ -</u>	<u>\$ 26,102,785</u>
<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>

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.

a. Sale of goods

Account Items	Related Parties Types	For the Year Ended December 31	
		2014	2013
Sales	Parent entity	\$ 925,294	\$ 20,539
	Fellow subsidiaries		
	related to others	273,006	240,250
	Others	<u>-</u>	<u>47</u>
		<u>\$ 1,198,300</u>	<u>\$ 260,836</u>
Service Revenue	Parent entity	<u>\$ 765,904</u>	<u>\$ 711,289</u>

The parent entity 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.

The price of iron oxide that HLSC sells to parent entity and fellow subsidiaries related to others is not comparable because HLSC doesn't sell iron oxide to third parties and the collection term for selling iron oxide is negotiated to be on Tuesday and Friday.

The abovementioned service revenue is from the agreements that the Corporation and its subsidiary entered into with parent entity in which the Group has to do certain processing work and charged based on the formula stated in the agreements. The Corporation bills the parent entity within one month after approval of delivery.

Account Items	Related Parties Types	For the Year Ended December 31	
		2014	2013
Other operating revenue	Fellow subsidiaries related to others	<u>\$ 111,950</u>	<u>\$ 46,393</u>

b. Purchase of goods

	For the Year Ended December 31	
	2014	2013
Parent entity	\$ 2,467,412	\$ 3,890,678
Fellow subsidiaries related to others	<u>4,883,863</u>	<u>4,063,833</u>
	<u>\$ 7,351,275</u>	<u>\$ 7,954,511</u>

Purchases from related parties, mainly slabs and hot rolling coil, were made under normal terms.

c. Accounts receivable from related parties (excluding loans from related parties)

	For the Year Ended December 31	
	2014	2013
Parent entity	\$ 52,864	\$ 73,224
Fellow subsidiaries related to others	<u>6,233</u>	<u>8,530</u>
	<u>\$ 59,097</u>	<u>\$ 81,754</u>
Other receivable from related parties		
Parent entity	\$ 98,937	\$ 5,091
Fellow subsidiaries related to others	<u>20,152</u>	<u>28,771</u>
	<u>\$ 119,089</u>	<u>\$ 33,862</u>

No guarantee had been received for accounts receivable from related parties. No expense had been recognized for the years ended December 31, 2014 and 2013 for allowance for impairment of accounts receivable in respect of the amounts owed by related parties.

d. Accounts payable to related parties (excluding loans from related parties)

	For the Year Ended December 31	
	2014	2013
Parent entity	\$ 54,079	\$ 49,938
Fellow subsidiaries related to others	2,382	8,679
Others	<u>8,594</u>	<u>11,527</u>
	<u>\$ 65,055</u>	<u>\$ 70,144</u>

The outstanding accounts payable to related parties were unsecured.

e. Loans from related parties

The Corporation borrowed money from the parent entity because of the need for short-term fund. As of December 2014 and 2013, the loan was fully repaid. The interest rate of the loan 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 loans from the parent entity were unsecured loans with interest expense of NT\$14,420 thousand and NT\$3,767 thousand for 2014 and 2013, respectively.

f. Other transactions with related parties

1) 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\$152,833 thousand in 2014 and NT\$206,913 thousand in 2013. As of December 31, 2014 and 2013, authorization fees payable (included in payables to related parties) were NT\$40,520 thousand and NT\$42,222 thousand, respectively. The calculation of slab purchase prices was based on the formula stated in the agreement.

2) 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 2014 and 2013 are summarized as follows:

(Unit: Ton)

	The parent entity	Fellow subsidiaries related to others	Total
<u>2014</u>			
Balance, beginning of year	(74,623)	1,322	(73,301)
Lending for the year	100,161	100,304	200,465
Returns for the year	(23,749)	(97,014)	(120,763)
Allowance for inventory loss	<u>(1,789)</u>	<u>(2,290)</u>	<u>(4,079)</u>
Balance, end of year	<u>-</u>	<u>2,322</u>	<u>2,322</u>
<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>

As of December 31, 2013, the above payables of NT\$1,102,596 thousand are classified as other current liabilities. As of December 31, 2014 and 2013, the above receivables classified as other current assets were NT\$33,188 thousand and NT\$19,084 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, 2014, the NT\$32,727 thousand of payables were classified as other current liabilities. 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.

3) Leases

a) HLSC entered into a contract with fellow subsidiaries related to others on the lease of the HLSC's part of the land and warehouse. Lease period is until September 2018. The rental revenue for the years ended December 31, 2014 and 2013 were NT\$1,561 thousand and NT\$1,471 thousand, respectively.

b) HLSC entered into a contract with parent entity on the lease of the HLSC's part of the land until December 2017. The rental revenue for the years ended December 31, 2014 and 2013 were NT\$4,848 thousand and NT\$6,003 thousand, respectively.

4) 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	
	2014	2013
a) Other expenditures		
Parent entity	\$ 151,245	\$ 119,058
Fellow subsidiaries related to others	179,686	147,793
Others	<u>165,615</u>	<u>139,663</u>
	<u>\$ 496,546</u>	<u>\$ 406,514</u>
b) Capital expenditure		
Parent entity	\$ 9,876	\$ 87,873
Fellow subsidiaries related to others	<u>254,269</u>	<u>1,338,391</u>
	<u>\$ 264,145</u>	<u>\$ 1,426,264</u>

5) Income from supplies and scrap

	For the Year Ended December 31	
	2014	2013
Fellow subsidiaries related to others	<u>\$ 402,343</u>	<u>\$ 466,765</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	
	2014	2013
Short-term employee benefits	\$ 24,553	\$ 25,491
Post-employment benefits	<u>385</u>	<u>656</u>
	<u>\$ 24,938</u>	<u>\$ 26,147</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	
	2014	2013
Time deposits (included in other financial assets - current)	\$ 500,000	\$ 500,000
Net property, plant and equipment	6,308,765	9,790,313
Investment properties, net	<u>-</u>	<u>141,796</u>
	<u>\$ 6,808,765</u>	<u>\$ 10,432,109</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, 2014 were as follows:

- a. Unused letters of credit for purchases of raw materials and machinery and equipment amounted to about NT\$2,975,899 thousand.
- b. The Group had signed agreements to buy equipment for NT\$3,678,102 thousand, of which NT\$3,222,717 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, 2014, purchase commitments were 200,000 tons of slabs for NT\$2.6 billion of which NT\$1,765,675 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, 2014</u>			
Monetary financial assets			
USD	\$ 18,110	31.65	\$ 573,172
Monetary financial liabilities			
USD	22,071	31.65	698,664
<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

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, 2014</u>					
Revenues from external customers	\$ 35,592,976	\$ 1,536,063	\$ 3,630	\$ -	\$ 37,132,669
Inter-segment revenues	<u>584,824</u>	<u>384,392</u>	<u>-</u>	<u>(969,216)</u>	<u>-</u>
Segment revenues	<u>\$ 36,177,800</u>	<u>\$ 1,920,455</u>	<u>\$ 3,630</u>	<u>\$ (969,216)</u>	<u>\$ 37,132,669</u>
Segment profit	\$ 63,029	\$ 114,123	\$ 700	\$ 88,214	\$ 266,066
Other income	183,738	11,107	328	(88,214)	106,959
Other income and expenses	38,675	(2,161)	-	-	36,514

(Continued)

	The Corporation	HLSC	Others	Adjustment and Elimination	Total
Finance costs	\$ (231,658)	\$ (30,100)	\$ -	\$ -	\$ (261,758)
Share of the profit of associates and joint ventures	<u>155,955</u>	<u>-</u>	<u>-</u>	<u>(93,935)</u>	<u>62,020</u>
Profit before income tax	209,739	92,969	1,028	(93,935)	209,801
Income tax expense	<u>(1,342)</u>	<u>1</u>	<u>(63)</u>	<u>-</u>	<u>(1,404)</u>
Net profit for the year	<u>\$ 208,397</u>	<u>\$ 92,970</u>	<u>\$ 965</u>	<u>\$ (93,935)</u>	<u>\$ 208,397</u>
Identifiable assets	\$ 28,391,702	\$ 4,998,518	\$ 56,509	\$ (835,842)	\$ 32,610,887
Investments accounted for using equity method	<u>4,379,406</u>	<u>-</u>	<u>-</u>	<u>(2,010,299)</u>	<u>2,369,107</u>
Total assets	<u>\$ 32,771,108</u>	<u>\$ 4,998,518</u>	<u>\$ 56,509</u>	<u>\$ (2,846,141)</u>	<u>\$ 34,979,994</u>
Total liabilities	<u>\$ 23,695,064</u>	<u>\$ 2,221,040</u>	<u>\$ 1,270</u>	<u>\$ (13,424)</u>	<u>\$ 25,903,950</u>

For the year ended December 31, 2013

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>

(Concluded)

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, 2014

<u>Included in segment profit or loss</u>	The Corporation	HLSC	Total
Additions to non-current assets (Note)	\$ 842,310	\$ 73,932	\$ 916,242
Depreciation	<u>1,683,851</u>	<u>218,019</u>	<u>1,901,870</u>
	<u>\$ 2,526,161</u>	<u>\$ 291,951</u>	<u>\$ 2,818,112</u>

For the year ended December 31, 2013

	The Corporation	HLSC	Total
<u>Included in segment profit or loss</u>			
Additions to non-current assets (Note)	\$ 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>

Note: Non-current assets excluded financial instruments, deferred tax assets, post-employment benefit assets and assets arising from insurance contracts.

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>	
	2014	2013
Sales		
Hot Rolled Steel	\$ 23,862,409	\$ 24,213,013
Cold Rolled Steel	6,329,230	7,947,012
Galvanized Steel	3,603,472	3,461,768
Steel Pipe	1,518,983	2,469,555
Slab	922,343	301
Iron Oxide Powder	6,494	1,040
Service revenue	774,338	713,355
Investments revenue	689	390
Other operating revenue	<u>114,711</u>	<u>48,796</u>
	<u>\$ 37,132,669</u>	<u>\$ 38,855,230</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.

	<u>Revenues from External Customers</u>		<u>Non-current Assets</u>	
	<u>For the Year Ended December 31</u>		<u>December 31</u>	
	2014	2013	2014	2013
Taiwan	\$ 24,353,729	\$ 25,751,078	\$ 21,990,253	\$ 23,113,140
Asia	10,443,738	11,407,774	-	-
America	1,183,885	871,591	-	-
Europe	393,570	222,599	-	-
Others	<u>757,747</u>	<u>602,188</u>	<u>-</u>	<u>-</u>
	<u>\$ 37,132,669</u>	<u>\$ 38,855,230</u>	<u>\$ 21,990,253</u>	<u>\$ 23,113,140</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	
	2014	2013
Sales revenue		
A Company	\$ 4,310,572	\$ 4,224,784
B Company	3,392,831	3,914,272
C Company	<u>3,308,122</u>	<u>3,903,588</u>
	<u>\$ 11,011,525</u>	<u>\$ 12,042,644</u>