

**Chung Hung Steel Corporation and  
Subsidiaries**

**Consolidated Financial Statements for the  
Years Ended December 31, 2015 and 2014 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, 2015 and 2014, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2015 and 2014. 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, 2015 and 2014, and their consolidated financial performance and their consolidated cash flows for the years ended December 31, 2015 and 2014, 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.

As discussed in Note 3 to the accompanying consolidated financial statements, starting from January 1, 2015, the Corporation and its subsidiaries applied the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the 2013 version of the IFRS, IAS, Interpretations of IFRS, and Interpretations of IAS endorsed by the FSC. Therefore, some items in the consolidated financial statements of prior reporting periods were adjusted to reflect the effects of retrospective application of the above regulations, standards and interpretations.

We have also audited the standalone financial statements of Chung Hung Steel Corporation as of and for the years ended December 31, 2015 and 2014 on which we have issued a modified unqualified report.

March 22, 2016

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, 2015		December 31, 2014 (Audited after Restated)		LIABILITIES AND EQUITY	December 31, 2015		December 31, 2014 (Audited after Restated)	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
Cash and cash equivalents (Notes 6)	\$ 36,948	-	\$ 19,604	-	Short-term borrowings (Notes 17 and 30)	\$ 6,824,756	22	\$ 7,837,538	22
Financial assets at fair value through profit or loss - current (Notes 4, 5 and 7)	245,455	1	283,979	1	Short-term bills payable (Note 17)	2,062,598	7	2,401,665	7
Available-for-sale financial assets - current (Notes 4, 5 and 8)	594,311	2	870,773	3	Notes payable (Note 18)	-	-	17,386	-
Accounts receivable (Note 9)	771,694	2	760,663	2	Accounts payable (Note 18)	47,085	-	692,615	2
Accounts receivable from related parties (Notes 9 and 29)	52,316	-	59,097	-	Accounts payable to related parties (Notes 18 and 29)	152,544	-	65,055	-
Other receivables (Note 9)	6,102	-	137,966	-	Other payables (Note 19)	859,405	3	650,234	2
Other receivables from related parties (Notes 9 and 29)	526,726	2	119,089	-	Current tax liabilities (Note 24)	4	-	57	-
Current tax assets (Note 24)	708	-	550	-	Current portion of long-term bank borrowings (Notes 17 and 30)	1,076,923	4	1,076,923	3
Inventories (Notes 4, 5 and 10)	3,272,321	11	7,095,557	20	Other current liabilities (Note 19)	43,026	-	45,543	-
Prepayments (Note 16)	488,259	1	615,361	2					
Other financial assets (Notes 13 and 30)	525,500	2	525,500	2	Total current liabilities	11,066,341	36	12,787,016	36
Other current assets (Note 16)	4,325	-	43,054	-					
Total current assets	6,524,665	21	10,531,193	30	<b>NONCURRENT LIABILITIES</b>				
<b>NONCURRENT ASSETS</b>					Long-term bank borrowings (Notes 17 and 30)	11,110,003	36	11,383,040	33
Available-for-sale financial assets - noncurrent (Notes 4, 5 and 8)	75,867	-	83,707	-	Long-term bills payable (Note 17)	1,299,387	4	1,299,251	4
Investments accounted for using equity method (Notes 4 and 12)	1,562,815	5	2,369,107	7	Deferred tax liabilities (Notes 4 and 24)	182,222	1	184,132	-
Property, plant and equipment (Notes 4, 5, 14, 21, 23, 30 and 31)	16,453,974	54	16,429,842	47	Net defined benefit liabilities (Notes 4, 5 and 21)	269,115	1	246,935	1
Investment properties (Notes 4, 5 and 15)	5,942,537	20	4,308,752	12	Guarantee deposits received (Note 26)	35,120	-	35,120	-
Prepayments for equipment (Note 31)	32,289	-	1,251,659	4	Other noncurrent liabilities (Notes 15 and 19)	2,380	-	-	-
Refundable deposits	8,295	-	5,734	-	Total noncurrent liabilities	12,898,227	42	13,148,478	38
Other financial assets-noncurrent (Notes 13 and 15)	2,381	-	-	-					
Total noncurrent assets	24,078,158	79	24,448,801	70	Total liabilities	23,964,568	78	25,935,494	74
<b>TOTAL</b>	<b>\$ 30,602,823</b>	<b>100</b>	<b>\$ 34,979,994</b>	<b>100</b>	<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION</b> (Note 22)				
					Ordinary shares	14,355,444	47	14,355,444	41
					Capital surplus	903	-	903	-
					Accumulated deficit				
					Accumulated deficit	(6,400,684)	(21)	(5,179,417)	(15)
					Other equity	(1,317,408)	(4)	(132,430)	-
					Total equity	6,638,255	22	9,044,500	26
					<b>TOTAL</b>	<b>\$ 30,602,823</b>	<b>100</b>	<b>\$ 34,979,994</b>	<b>100</b>

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

(With Deloitte & Touche audit report dated March 22, 2016)

# 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			
	2015		2014	
	Amount	%	(Audited after Restated) Amount	%
OPERATING REVENUES (Notes 4 and 29)				
Sales	\$ 29,305,798	98	\$ 36,242,931	98
Investment revenue	1,004	-	689	-
Service revenue	640,687	2	774,338	2
Other operating revenue	44,842	-	114,711	-
Total operating revenue	29,992,331	100	37,132,669	100
OPERATING COSTS (Notes 10, 21, 23 and 29)	31,596,846	105	35,832,783	97
GROSS PROFIT (LOSS)	(1,604,515)	(5)	1,299,886	3
OPERATING EXPENSES (Notes 21 and 23)				
Selling and marketing expenses	816,108	3	705,097	2
General and administrative expenses	312,649	1	322,343	1
Total operating expenses	1,128,757	4	1,027,440	3
PROFIT (LOSS) FROM OPERATIONS	(2,733,272)	(9)	272,446	-
NON-OPERATING INCOME AND EXPENSES (Notes 12, 14, 23, 26 and 29)				
Other income	129,103	1	106,959	-
Other gains and losses	1,608,433	5	36,514	-
Finance costs	(264,768)	(1)	(261,758)	-
Share of the profit of associates and joint ventures	96,408	-	62,020	-
Total non-operating income and expenses	1,569,176	5	(56,265)	-
PROFIT (LOSS) BEFORE INCOME TAX	(1,164,096)	(4)	216,181	-
INCOME TAX EXPENSE (BENEFIT) (Notes 4, 5 and 24)	(1,898)	-	1,404	-
NET PROFIT (LOSS) FOR THE YEAR	(1,162,198)	(4)	214,777	-
OTHER COMPREHENSIVE INCOME (LOSS) (Notes 4, 12, 21 and 22)				
Items that will not be reclassified subsequently to profit or loss				
Remeasurement of defined benefit plans	(59,069)	-	(75,434)	-

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# 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			
	2015		2014	
	Amount	%	(Audited after Restated) Amount	%
Items that may be reclassified subsequently to profit or loss				
Unrealized gain (loss) on available-for-sale financial assets	\$ (282,278)	(1)	\$ 23,347	-
Share of the other comprehensive loss of associates	<u>(902,700)</u>	<u>(3)</u>	<u>(17,518)</u>	<u>-</u>
Other comprehensive income for the year, net of income tax	<u>(1,244,047)</u>	<u>(4)</u>	<u>(69,605)</u>	<u>-</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<u>\$ (2,406,245)</u>	<u>(8)</u>	<u>\$ 145,172</u>	<u>-</u>
<b>NET PROFIT (LOSS) ATTRIBUTABLE TO:</b>				
Owners of the Corporation	<u>\$ (1,162,198)</u>	<u>(4)</u>	<u>\$ 214,777</u>	<u>1</u>
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>				
Owners of the Corporation	<u>\$ (2,406,245)</u>	<u>(8)</u>	<u>\$ 145,172</u>	<u>-</u>
<b>EARNINGS (LOSS) PER SHARE (Note 25)</b>				
Basic	<u>\$ (0.81)</u>		<u>\$ 0.15</u>	

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

(With Deloitte & Touche audit report dated March 22, 2016)

(Concluded)

**CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES**

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

	Issued and Outstanding Common Stock	Capital Surplus	Accumulated Deficit	Other Equity Unrealized Gain (Loss) on Financial assets	Total Equity
BALANCE AT JANUARY 1, 2014 AS RESTATED	\$ 14,355,444	\$ 903	\$ (5,281,959)	\$ (138,259)	\$ 8,936,129
Effect of retrospective application and retrospective restatement (Note 3)	-	-	(36,801)	-	(36,801)
BALANCE AT JANUARY 1, 2014 AS RESTATED	<u>14,355,444</u>	<u>903</u>	<u>(5,318,760)</u>	<u>(138,259)</u>	<u>8,899,328</u>
Net profit for the year ended December 31, 2014	-	-	214,777	-	214,777
Other comprehensive income (loss) for the year ended December 31, 2014, net of income tax	-	-	(75,434)	5,829	(69,605)
Total comprehensive income for the year ended December 31, 2014	-	-	139,343	5,829	145,172
BALANCE AT DECEMBER 31, 2014 AS RESTATED	<u>14,355,444</u>	<u>903</u>	<u>(5,179,417)</u>	<u>(132,430)</u>	<u>9,044,500</u>
Net Loss for the year ended December 31, 2015	-	-	(1,162,198)	-	(1,162,198)
Other comprehensive loss for the year ended December 31, 2015, net of income tax	-	-	(59,069)	(1,184,978)	(1,244,047)
Total comprehensive loss for the year ended December 31, 2015	-	-	(1,221,267)	(1,184,978)	(2,406,245)
BALANCE AT DECEMBER 31, 2015	<u>\$ 14,355,444</u>	<u>\$ 903</u>	<u>\$ (6,400,684)</u>	<u>\$ (1,317,408)</u>	<u>\$ 6,638,255</u>

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

(With Deloitte & Touche audit report dated March 22, 2016)

# CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

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

	<u>For the Year Ended December 31</u>	
	2015	2014 (Audit after Restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit (loss) before income tax	\$ (1,164,096)	\$ 216,181
Adjustments for:		
Depreciation expense	1,962,271	1,901,870
Net loss (profit) on financial assets and liabilities at fair value through profit or loss	28,908	(8,727)
Finance costs	264,768	261,758
Interest income	(2,902)	(4,057)
Dividend income	(33,734)	(23,397)
Share of the profit of associates	(96,408)	(62,020)
Loss on disposal of property, plant and equipment	228	685
Gain on disposal of investments	-	(13,417)
Impairment loss on non-financial assets	289,927	42,987
Reversal of impairment loss	(1,612,081)	-
Recognition of provisions	10,200	-
Other non-cash items	-	(2,983)
Changes in operating assets and liabilities		
Financial assets held for trading	9,616	8,848
Accounts receivable	(11,031)	(293,935)
Accounts receivable from related parties	6,781	22,657
Other receivables	(3,156)	6,133
Other receivable from related parties	(407,637)	(85,227)
Inventories	3,566,497	(1,125,198)
Prepayments	127,102	282,061
Other current assets	5,541	21,155
Notes payable	(17,386)	(92,725)
Accounts payable	(645,530)	(565,731)
Accounts payables to related parties	87,489	(5,089)
Other payables	2,681	(79,063)
Provisions - current	(10,200)	-
Other current liabilities	(2,517)	(4,713)
Net defined benefit liabilities	(36,889)	(28,993)
Cash generated from operations	<u>2,318,442</u>	<u>369,060</u>
Income taxes refund (paid)	<u>(223)</u>	<u>72</u>
Net cash generated from operating activities	<u>2,318,219</u>	<u>369,132</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of available-for-sale financial assets	-	281,372
Proceeds from the capital reduction on available-for-sale financial assets	2,024	15,666
Acquisition of property, plant and equipment	(522,607)	(982,636)

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# CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

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

	<u>For the Year Ended December 31</u>	
	<b>2015</b>	<b>2014 (Audit after Restated)</b>
Decrease (increase) in refundable deposits	\$ (2,561)	\$ 12,350
Decrease in other receivables	135,013	-
Payments for investment properties	(22,525)	-
Increase in other financial assets	(2,381)	(9,500)
Interest received	2,909	3,872
Dividends received from others	<u>33,734</u>	<u>23,397</u>
Net cash used in investing activities	<u>(376,394)</u>	<u>(655,479)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Decrease in short-term borrowings	(1,012,782)	(773,809)
Increase (decrease) in short-term bills payable	(339,067)	260,745
Proceeds from long-term bank borrowings	6,300,000	12,350,000
Repayments of long-term bank borrowings	(6,576,923)	(12,626,923)
Increase in long-term bills payable	136	1,299,251
Increase in other noncurrent liabilities	2,380	-
Interest paid	<u>(298,225)</u>	<u>(306,034)</u>
Net cash generated from (used in) financing activities	<u>(1,924,481)</u>	<u>203,230</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>17,344</b>	<b>(83,117)</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<u><b>19,604</b></u>	<u><b>102,721</b></u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<u><b>\$ 36,948</b></u>	<u><b>\$ 19,604</b></u>

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

(Concluded)

(With Deloitte & Touche audit report dated March 22, 2016)

# CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

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### 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 dollar.

### 2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Corporation’s board of directors and authorized for issue on March 22, 2016.

### 3. APPLICATION OF NEW AND AMENDED STANDARDS AND INTERPRETATIONS

- a. Initial application of the amendments to 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”).

According to 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.

Except for the following, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the 2013 version of IFRSs did 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 past standards.

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

Under the 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 the previous 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 past standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy previously required only for financial instruments measured at fair value will be extended by IFRS 13 to cover all assets and liabilities within its scope.

The fair value measurements under IFRSs 13 are applied prospectively from January 1, 2015. Refer to Note 28 for related disclosures.

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 previous IAS 1, there were no such requirements.

The Group retrospectively applied the above amendments starting from 2015. Items that are not that are expected to be reclassified to profit or loss are remeasurements of the defined benefit plans. Items that are 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). The application of the above amendments did 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 accelerates 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 previous 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. The revised IAS 19 introduces certain changes in the presentation of the defined benefit cost, and also includes more extensive disclosures.

In addition, the revised IAS 19 changed the definition of short-term employee benefits as “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 rendered service which was previously classified as short-term employee benefits, is now classified as other long-term employee benefits under the revised IAS 19. Related defined benefit obligation of such other long-term benefit is calculated using the Projected Unit Credit Method. However, this change did 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, the changes in cumulative employee benefit costs as of December 31, 2013 resulting from the retrospective application were adjusted to the net defined benefit liability and retained earnings; the carrying amounts of inventories were not adjusted. In addition, the Group elected not to present 2014 comparative information about the sensitivity of the defined benefit obligation.

The impact in the 2014 financial statements is set out below:

	<b>As Originally Stated</b>	<b>Adjustments Arising from Initial Application</b>	<b>Restated</b>
<u>Impact on assets, liabilities and equity</u>			
<u>December 31, 2014</u>			
Net defined benefit liabilities	\$ 215,391	\$ 31,544	\$ 246,935
Retained earnings	\$ (5,147,873)	\$ (31,544)	\$ (5,179,417)
<u>January 1, 2014</u>			
Net defined benefit 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 subsequently to profit or loss:			
Remeasurement of defined benefit plans	\$ (74,311)	\$ (1,123)	\$ (75,434)
Total effect on total comprehensive income for the year	\$ 139,915	\$ 5,257	\$ 145,172
<u>Impact on earnings per share for the year ended December 31, 2014</u>			
Basic	\$ 0.15	\$ -	\$ 0.15

The impact on the Group's consolidated assets, liabilities and equity as of December 31, 2015 and consolidated comprehensive income and earnings per share for the year ended December 31, 2015 is considered immaterial.

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 impact on the consolidated balance sheet as of January 1, 2014 of 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 shown on the table above.

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.

On March 10, 2016 the FSC announced the scope of the 2016 version of IFRSs to be endorsed and will take effect from January 1, 2017. The scope includes all IFRSs that were issued by the IASB before January 1, 2016 and have effective dates on or before January 1, 2017, which means the scope excludes those that are not yet effective as of January 1, 2017 such as IFRS 9 “Financial Instruments” and IFRS 15 “Revenue from Contracts with Customers” and those with undetermined effective date. In addition, the FSC announced that the Group should apply IFRS 15 starting January 1, 2018. As of the date the consolidated financial statements were authorized for issue, the FSC has not announced the effective dates of other new, amended and revised standards and interpretations.

<b><u>New, Amended and Revised Standards and Interpretations</u></b>	<b><u>Effective Date Announced by IASB (Note 1)</u></b>
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 3)
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”	To be determined by IASB
Amendments to IFRS 10, IFRS 12 and IAS 28 “Investment Entities: Applying the Consolidation Exception”	January 1, 2016
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, 2018
IFRS 16 “Leases”	January 1, 2019
Amendment to IAS 1 “Disclosure Initiative”	January 1, 2016
Amendment to IAS 7 “Disclosure Initiative”	January 1, 2017
Amendment to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017
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 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

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: 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.

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

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) IFRS 16 “Leases”

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 and a number of related interpretations.

Under IFRS 16, if the Group is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for low-value and short-term leases. The Group may elect to apply the accounting method similar to the accounting for operating lease under IAS 17 to the low-value and short-term leases. On the consolidated statements of comprehensive income, the Group should present the depreciation expense charged on the right-of-use asset separately from interest expense accrued on the lease liability; interest is computed by using effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of the lease liability are classified within financing activities; cash payments for interest portion are classified within financing activities.

The application of IFRS 16 is not expected to have a material impact on the accounting of the Group as lessor.

When IFRS 16 becomes effective, the Group may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the initial application of this Standard recognized at the date of initial application.

8) Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”

The amendment clarifies that in determining whether to recognize a deferred tax asset, the Group should assess a deductible temporary difference in combination with all of its other deductible temporary differences, unless the tax law restricts the utilization of losses to deduction against income of a specific type, in which case, a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type. The amendment also stipulates that, when determining whether to recognize a deferred tax asset, the estimate of probable future taxable profit may include some of the Group’s assets for more than

their carrying amount if there is sufficient evidence that it is probable that the Group will achieve this, and that the estimate for future taxable profit should exclude tax deductions resulting from the reversal of deductible temporary differences.

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 which are measured at fair value.

The fair value measurements are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- a. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- b. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- c. Level 3 inputs are unobservable inputs for the asset or liability.

##### **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**

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.

See Note 11 for the detailed information of subsidiaries (including the percentage of ownership and main business).

## **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 discontinue recognizing their share of further losses. Additional losses and liabilities are recognized only to the extent that the Group have incurred legal obligations, or constructive obligations, or made payments on behalf of that associate.

When impairment loss is evaluated, the entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is deducted from investment and the carrying amount is net of impairment loss. 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 recognized accumulated depreciation and subsequent 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.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

### **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.

On derecognition of the property, the difference between the net disposal proceeds and the carrying amount of the asset and is included in profit or loss.

### **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. Corporate assets are allocated to the individual cash-generating units on a reasonable and consistent basis of allocation.

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, with the resulting impairment loss recognized in profit or loss.

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.

Fair value is determined in the manner described in Note 28.

##### 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.

#### 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. Fair value is determined in the manner described in Note 28.

##### 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.

### **Employee benefits**

#### a. Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

#### b. Retirement benefits

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

Defined benefit costs (including service cost, net interest and rereasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost and net interest on the net defined benefit liability (asset) are recognized as employee benefits expense in the period they occur. Rereasurement, comprising actuarial gains and losses, and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Rereasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liability (asset) represents the actual deficit (surplus) in the Group's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

### **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.

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 28, 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 and investment properties**

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.

### **Impairment of property, plant and equipment**

The impairment of equipment in relation to the production of handsets was based on the recoverable amount of those assets, which is the higher of fair value less costs to sell or value-in-use of those assets. Any changes in the market price or future cash flows will affect the recoverable amount of those assets and may lead to recognition of additional or reversal of impairment losses.

### **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>	
	2015	2014
Cash on hand	\$ 840	\$ 900
Checking accounts and demand deposits	<u>36,108</u>	<u>18,704</u>
	<u>\$ 36,948</u>	<u>\$ 19,604</u>

## 7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>December 31</u>	
	2015	2014
<u>Financial assets held for trading - current</u>		
Emerging market shares	\$ 245,455	\$ 276,613
Foreign exchange forward contracts	<u>-</u>	<u>7,366</u>
	<u>\$ 245,455</u>	<u>\$ 283,979</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

The Group entered into foreign exchange forward contracts during 2015 and 2014 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>	
	2015	2014
<u>Current</u>		
Domestic listed shares	<u>\$ 594,311</u>	<u>\$ 870,773</u>
<u>Noncurrent</u>		
Domestic listed shares	\$ 18,021	\$ 26,405
Domestic unlisted shares	<u>57,846</u>	<u>57,302</u>
	<u>\$ 75,867</u>	<u>\$ 83,707</u>

- a. Rise Link Venture Capital Corp. conducted capital reduction and refunded NT\$2,024 thousand and NT\$2,249 thousand in July 2015 and June 2014, respectively.
- b. 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>	
	<u>2015</u>	<u>2014</u>
<u>Accounts receivable</u>		
Accounts receivable - non related parties	<u>\$ 771,694</u>	<u>\$ 760,663</u>
Accounts receivable - related parties	<u>\$ 52,316</u>	<u>\$ 59,097</u>
<u>Other receivables (including related parties)</u>		
Discount receivable	\$ 506,454	\$ 95,980
Receivables from disposal of scrap	22,281	21,603
Receivables from business tax refund	-	135,013
Others	<u>4,093</u>	<u>4,459</u>
	<u>\$ 532,828</u>	<u>\$ 257,055</u>

### a. Accounts receivable

The average credit period for sales of goods was 7-30 days. Allowance for impairment loss was recognized by reference to past default experience with counterparties and an analysis of their current financial position. As of December 31, 2015 and 2014, there was no allowance for doubtful accounts.

The aging of accounts receivable was as follows:

	<u>December 31</u>	
	<u>2015</u>	<u>2014</u>
Less than 30 days	\$ 823,351	\$ 818,089
31-60 days	659	905
61-120 days	<u>-</u>	<u>766</u>
	<u>\$ 824,010</u>	<u>\$ 819,760</u>

The above aging schedule was based on the past due date.

As of December 31, 2015 and 2014, the Group did not have overdue accounts receivable.

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

	<b>December 31</b>	
	<b>2015</b>	<b>2014</b>
A company	\$ 120,664	\$ 25,823
B company	95,401	-
C company	91,209	-
D company	87,809	-
E company	<u>11,964</u>	<u>94,948</u>
	<u>\$ 407,047</u>	<u>\$ 120,771</u>

The Corporation entered into accounts receivable factoring contract (without recourse) with Mega International Commercial Bank (“Mega Bank”) and Taipei Fubon 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:

<b>Buyer of Accounts Receivable</b>	<b>Advances Received at Year - Beginning</b>	<b>Receivables Sold</b>	<b>Amounts Collected</b>	<b>Advances Received at Year-end</b>	<b>Interest Rates on Advances Received (%)</b>	<b>Credit Line</b>
<u>For the year ended December 31, 2015</u>						
Mega Bank	\$ 1,421,281	\$ 3,426,005	\$ 3,861,826	\$ 985,460	1.36	NT\$3 billion
Taipei Fubon Bank Commercial Bank	-	45,280	45,280	-	0.8668 - 0.8985	USD3 million
	<u>\$ 1,421,281</u>	<u>\$ 3,471,285</u>	<u>\$ 3,907,106</u>	<u>\$ 985,460</u>		
<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

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, 2015 and 2014, there was no allowance for doubtful accounts.

## 10. INVENTORIES

	<b>December 31</b>	
	<b>2015</b>	<b>2014</b>
Raw materials	\$ 871,436	\$ 3,346,310
Supplies	509,638	502,680
Work in progress	502,709	683,755
Finished goods	1,379,812	2,113,415
Others	8,726	110,893
Raw materials and supplies in transit	<u>-</u>	<u>338,504</u>
	<u>\$ 3,272,321</u>	<u>\$ 7,095,557</u>

As of December 31, 2015 and 2014, the allowance for inventory devaluation was NT\$370,839 thousand and NT\$80,912 thousand, respectively.

The cost of inventories recognized as operating costs for the years ended December 31, 2015 and 2014 was NT\$31,239,507 thousand and NT\$35,322,086 thousand, respectively.

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

	<b>For the Year Ended December 31</b>	
	<b>2015</b>	<b>2014</b>
Balance, beginning of year	\$ 80,912	\$ 42,469
Recognized	2,326,789	231,099
Sold	<u>(2,036,862)</u>	<u>(192,656)</u>
Balance, end of year	<u>\$ 370,839</u>	<u>\$ 80,912</u>

## 11. SUBSIDIARIES

Subsidiary included in consolidated financial statements

<b>Investor</b>	<b>Investee</b>	<b>Nature of Activities</b>	<b>Percentage of Ownership (%)</b>	
			<b>2015</b>	<b>2014</b>
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

## 12. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	<b>December 31</b>	
	<b>2015</b>	<b>2014</b>
Transglory Investment Corp. (TIC)	<u>\$ 1,562,815</u>	<u>\$ 2,369,107</u>

<b>Name of Associate</b>	<b>Nature of Activities</b>	<b>Principal Place of Business</b>	<b>Proportion of Ownership and Voting Rights</b>	
			<b>December 31</b>	
			<b>2015</b>	<b>2014</b>
TIC	General investment	Taiwan	40.91%	40.91%

The investments accounted for by the equity method and the share of profit or loss and other comprehensive loss of those investments for the years ended December 31, 2015 and 2014 was based on the audited financial statements for the same years.

The summarized financial information below represents amounts shown in the associates' financial statements prepared in accordance with IFRSs adjusted by the Group for equity accounting purposes.

TIC

	<b>December 31</b>	
	<b>2015</b>	<b>2014</b>
Current assets	\$ 754	\$ 575
Non-current assets	4,630,039	6,832,189
Current liabilities	<u>(810,664)</u>	<u>(1,041,742)</u>
Equity	<u>\$ 3,820,129</u>	<u>\$ 5,791,022</u>
Proportion of the Group's ownership (%)	40.91	40.91
Equity attributable to the Group	<u>\$ 1,562,815</u>	<u>\$ 2,369,107</u>
Carrying amount	<u>\$ 1,562,815</u>	<u>\$ 2,369,107</u>
	<b>For the Year Ended December 31</b>	
	<b>2015</b>	<b>2014</b>
Operating revenue	<u>\$ 259,968</u>	<u>\$ 177,575</u>
Net profit for the year	\$ 235,660	\$ 151,601
Other comprehensive income	<u>(2,206,553)</u>	<u>(42,820)</u>
Total comprehensive income for the year	<u>\$ (1,970,893)</u>	<u>\$ 108,781</u>

**13. OTHER FINANCIAL ASSETS - CURRENT**

	<b>December 31</b>	
	<b>2015</b>	<b>2014</b>
<u>Current</u>		
Time deposits with original maturities more than three months	\$ 25,500	\$ 25,500
Pledged time deposits	<u>500,000</u>	<u>500,000</u>
	<u>\$ 525,500</u>	<u>\$ 525,500</u>
<u>Non - Current</u>		
Deposits for projects (Note 15)	<u>\$ 2,381</u>	<u>\$ -</u>

Refer to Note 30 for information relating to other financial assets pledged as security.

## 14. PROPERTY, PLANT AND EQUIPMENT

### For the year ended December 31, 2015

	Land	Buildings	Machinery and Equipment	Other Equipment	Spare Parts	Construction in Progress and Equipment to be Inspected	Total
Cost							
Balance at January 1, 2015	\$ 3,983,883	\$ 3,278,342	\$ 19,675,611	\$ 3,935,696	\$ 1,614,091	\$ 2,526,052	\$ 35,013,675
Additions	-	1,687,122	2,269,863	357,282	83,841	(2,412,298)	1,985,810
Disposals	-	-	(7,161)	(8,954)	(114,651)	-	(130,766)
Balance at December 31, 2015	<u>\$ 3,983,883</u>	<u>\$ 4,965,464</u>	<u>\$ 21,938,313</u>	<u>\$ 4,284,024</u>	<u>\$ 1,583,281</u>	<u>\$ 113,754</u>	<u>\$ 36,868,719</u>
Accumulated depreciation							
Balance at January 1, 2015	\$ -	\$ 1,244,436	\$ 13,697,203	\$ 3,046,094	\$ 591,556	\$ -	\$ 18,579,289
Depreciation expense	-	105,671	1,413,064	280,152	162,563	-	1,961,450
Disposals	-	-	(2,617)	(8,726)	(114,651)	-	(125,994)
Balance at December 31, 2015	<u>\$ -</u>	<u>\$ 1,350,107</u>	<u>\$ 15,107,650</u>	<u>\$ 3,317,520</u>	<u>\$ 639,468</u>	<u>\$ -</u>	<u>\$ 20,414,745</u>
Accumulated impairment							
Balance at January 1, 2015	\$ -	\$ -	\$ 4,544	\$ -	\$ -	\$ -	\$ 4,544
Impairment losses	-	-	(4,544)	-	-	-	(4,544)
Balance at December 31, 2015	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Carrying amount at December 31, 2015	<u>\$ 3,983,883</u>	<u>\$ 3,615,357</u>	<u>\$ 6,830,663</u>	<u>\$ 966,504</u>	<u>\$ 943,813</u>	<u>\$ 113,754</u>	<u>\$ 16,453,974</u>

### 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>\$ 2,526,052</u>	<u>\$ 16,429,842</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 is recognized based on the following useful lives:

Buildings	
Facility	8-50 years
Main structure	31-60 years
Machinery and equipment	
Power equipment	3-30 years
High-temperature equipment	5-18 years
Other equipment	
Computer equipment	3-10 years
Office, air condition and extinguishment equipment	3-20 years

(Continued)

Transportation equipment	5-16 years
Others	3-18 years
Tank	5-18 years
	(Concluded)

The Group bought farmlands for warehouse at the Jia Xing Section and Qing Shui 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, 2015 and 2014, 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, 2015, the business tax refund had been received.

Refer to Note 30 for the carrying amount of property, plant and equipment that are pledged by the Group to secure borrowings.

## 15. INVESTMENT PROPERTIES

For the year ended December 31, 2015

	<b>Land</b>	<b>Buildings</b>	<b>Total</b>
<u>Cost</u>			
Balance at January 1, 2015	\$ 5,970,616	\$ 39,218	\$ 6,009,834
Additions	<u>22,525</u>	<u>-</u>	<u>22,525</u>
Balance at December 31, 2015	<u>\$ 5,993,141</u>	<u>\$ 39,218</u>	<u>\$ 6,032,359</u>
<u>Accumulated depreciation</u>			
Balance at January 1, 2015	\$ -	\$ 11,469	\$ 11,469
Depreciation expense	<u>-</u>	<u>821</u>	<u>821</u>
Balance at December 31, 2015	<u>\$ -</u>	<u>\$ 12,290</u>	<u>\$ 12,290</u>
<u>Accumulated Impairment</u>			
Balance at January 1, 2015	\$ 1,689,613	\$ -	\$ 1,689,613
Reversal	<u>(1,612,081)</u>	<u>-</u>	<u>(1,612,081)</u>
Balance at December 31, 2015	<u>\$ 77,532</u>	<u>-</u>	<u>\$ 77,532</u>
Carrying amount at December 31, 2015	<u>\$ 5,915,609</u>	<u>\$ 26,928</u>	<u>\$ 5,942,537</u>

For the year ended December 31, 2014

	<b>Land</b>	<b>Buildings</b>	<b>Total</b>
<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>

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

The Group joined China Prosperity Development Corporation's (CPDC) in the contract for the construction of the Zhongxin Cianjhen residential building, and bought the land from CPDC for NT\$22,525 thousand recognized as investment property in June 2015. The Corporation then signed contracts with employees for the sale of the land. The proceeds of the sale are deposited in the Bank of Taiwan and recognized as other financial asset-noncurrent. At the same time, the Corporation recognized other noncurrent liability which will be recognized as gain on disposal of land when the transfer of ownership of the land has been completed.

The Bureau of Land Administration, Tainan City government informed the Corporation that its land in Guo'an section in Tainan had been assigned property registration the number on April 1, 2015. The Corporation entrusted independent appraiser to appraise the value of the land in April and September 2015 and recognized the reversal of impairment loss NT\$1,128,307 thousand and NT\$431,082 thousand, respectively.

The Corporation entrusted independent appraiser to appraise the land in Lungwa section in Kaohsiung and recognized the reversal of impairment of loss NT\$52,692 thousand.

The fair value of the investment properties was arrived at on the basis of valuations carried out on April 30, September 30, November 30, 2015 and December 31, 2013, respectively, by independent appraisers and on the basis of information at the Ministry of the Interior's real estate transaction database website. Appraised lands and buildings were evaluated using Level 3 inputs under market approach, income approach, and land development analysis approach. The important assumptions and fair value were as follows:

	<u>December 31</u>	
	<u>2015</u>	<u>2014</u>
Fair value	<u>\$ 8,535,333</u>	<u>\$ 6,810,387</u>

(Continued)

	<b>December 31</b>	
	<b>2015</b>	<b>2014</b>
Expense rate (%)	3.68-16.86	10.74-21.78
Depreciation rate (%)	1.90-2.57	1.90-2.57
		(Concluded)

All investment properties are owned by the Group and had not been pledged to secure borrowings.

## 16. PREPAYMENTS AND OTHER CURRENT ASSETS

	<b>December 31</b>	
	<b>2015</b>	<b>2014</b>
<b>Prepayments</b>		
Overpaid sales tax	\$ 251,860	\$ 335,460
Prepaid sales tax	157,281	208,184
Prepayment for purchase	70,917	61,851
Others	<u>8,201</u>	<u>9,866</u>
	<u>\$ 488,259</u>	<u>\$ 615,361</u>
<b>Other current assets</b>		
Temporary payments	\$ 4,225	\$ 9,549
Receivables from lending of steel slabs (Note 29)	-	33,188
Others	<u>100</u>	<u>317</u>
	<u>\$ 4,325</u>	<u>\$ 43,054</u>

## 17. BORROWINGS

### a. Short-term borrowings and bank overdraft

	<b>December 31</b>	
	<b>2015</b>	<b>2014</b>
Unsecured loans - interest at 1.05%-1.24% p.a. and 1.15%-1.42% p.a. as of December 31, 2015 and 2014, respectively	\$ 4,620,000	\$ 5,059,000
Letters of credit - interest at 1.13%-1.18% p.a. and 1.15%-1.25% p.a. as of December 31, 2015 and 2014, respectively	1,949,158	2,330,978
Bank overdraft - interest at 0.49%-0.77% p.a. and 0.62%-0.84% p.a. as of December 31, 2015 and 2014, respectively	<u>255,598</u>	<u>447,560</u>
	<u>\$ 6,824,756</u>	<u>\$ 7,837,538</u>

b. Short-term bills payable

	<u>December 31</u>	
	<b>2015</b>	<b>2014</b>
Commercial paper		
China Bills Finance Corporation	\$ 660,000	\$ 693,000
Mega Bills Finance Corporation	505,000	550,000
International Bills Finance Corporation	320,000	380,000
Taiwan Finance Corp.	250,000	200,000
Ta Ching Bills Finance Corporation	200,000	200,000
Taiwan Cooperative Bills Finance Corporation	100,000	100,000
Grand Bills Finance Corp.	<u>29,000</u>	<u>280,000</u>
	2,064,000	2,403,000
	<u>1,402</u>	<u>1,335</u>
Less: Unamortized discounts	<u>\$ 2,062,598</u>	<u>\$ 2,401,665</u>
Interest rate (%)	0.55-0.91	0.70-0.94

c. Long-term borrowings

	<u>December 31</u>	
	<b>2015</b>	<b>2014</b>
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 both 1.5789% p.a. as of December 31, 2015 and 2014	\$ 3,749,231	\$ 4,826,154
Repayable in March 2019 with a revolving credit, interest at 1.5789% and 1.5789%-1.5968% p.a. as of December 31, 2015 and 2014, respectively	6,750,000	5,850,000
Credit bank loans		
Industrial Bank of Taiwan loan to the Corporation		
Repayable in October 2017, interest at 1.3625% and 1.4082% p.a. as of December 31, 2015 and 2014, respectively	500,000	500,000
Bank loans		
Bank of Taiwan		
Repayable in November 2017, interest at 1.3832% and 1.503% p.a. as of December 31, 2015 and 2014, respectively	462,000	500,000
Chang Hwa Bank		
Repayable in November 2017, interest at 1.4037% and 1.5229% p.a. as of December 31, 2015 and 2014, respectively	462,000	500,000
CTBC Bank Co., Ltd.		
Repayable in November 2017, interest at 1.4096% and 1.5293% p.a. as of December 31, 2015 and 2014, respectively	<u>276,000</u>	<u>300,000</u>
	12,199,231	12,476,154
Less: Current portion	1,076,923	1,076,923
Syndicated loan fee	<u>12,305</u>	<u>16,191</u>
	<u>\$ 11,110,003</u>	<u>\$ 11,383,040</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, the Corporation was in compliance with this syndicated credit facility agreement. As of December 31, 2015, the tangible net worth of the Corporation was lower than 50% of its share capital-outstanding ordinary shares; thus, it should take remedial measures within half year from the next day the financial statements are issued.

The interest rate needs to be adjusted in accordance with the agreement. If the remedial measure cannot be done within half year, the adjusted interest rate will still be lower than 1.5789%, which is the lowest interest rate of the agreement. As a result, the impact is immaterial on the financial condition of the Corporation.

c. Long-term bills payable

	<b>December 31</b>	
	<b>2015</b>	<b>2014</b>
Commercial paper -interest at 0.772% p.a. and 0.944% p.a. as of December 31, 2015 and 2014, respectively	\$ 1,300,000	\$ 1,300,000
Less: Unamortized discount	<u>613</u>	<u>749</u>
	<u>\$ 1,299,387</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 (from March 10, 2014 to March 9, 2018), 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.

## 18. NOTES PAYABLE AND ACCOUNTS PAYABLE

	<u>December 31</u>	
	<u>2015</u>	<u>2014</u>
<u>Notes payable</u>		
Operating	\$ <u>-</u>	\$ <u>17,386</u>
<u>Accounts payable</u>		
Operating - non related parties	\$ <u>47,085</u>	\$ <u>692,615</u>
Operating - related parties	\$ <u>152,544</u>	\$ <u>65,055</u>

As of December 31, 2014, notes payable to bank were NT\$17,210 thousand.

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

## 19. OTHER LIABILITIES

	<u>December 31</u>	
	<u>2015</u>	<u>2014</u>
<u>Current</u>		
Other payables		
Purchase of equipment	\$ 224,067	\$ 13,755
Sales discounts	194,373	216,306
Salaries and incentive bonus	159,455	96,296
Utilities	68,942	70,664
Export fee	66,944	53,796
Outsourced repair and construction	36,536	27,339
Processing charge	27,969	6,461
Delivery pay	22,980	34,365
Borrowing of steel slabs (Note 29)	-	32,727
Others	<u>58,139</u>	<u>98,525</u>
	<u>\$ 859,405</u>	<u>\$ 650,234</u>
Other current liabilities		
Unearned receipts	\$ 31,128	\$ 35,307
Others	<u>11,898</u>	<u>10,236</u>
	<u>\$ 43,026</u>	<u>\$ 45,543</u>
<u>Non-current</u>		
Other liabilities		
Unearned sales of land (Note 15)	\$ <u>2,380</u>	\$ <u>-</u>

## 20. PROVISIONS - CURRENT

As of December 31, 2015 and 2014, the Group has no provision for onerous contracts.

	<b>For the Year Ended December 31</b>	
	<b>2015</b>	<b>2014</b>
Balance, beginning of year	\$ -	\$ -
Recognized for the year	10,200	-
Deducted for the year	<u>(10,200)</u>	<u>-</u>
Balance, end of year	<u>\$ -</u>	<u>\$ -</u>

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

## 21. 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. Before the end of each year, the Corporation assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Corporation is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); the Corporation has no right to influence the investment policy and strategy.

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

	<b>December 31</b>	
	<b>2015</b>	<b>2014</b>
Present value of defined benefit obligation	\$ 1,131,990	\$ 1,059,561
Fair value of plan assets	<u>(862,875)</u>	<u>(812,626)</u>
Net defined benefit liability	<u>\$ 269,115</u>	<u>\$ 246,935</u>

Movements of net defined benefit liability (asset) were as follows:

	<b>Present Value of the Defined Benefit Obligation</b>	<b>Fair Value of the Plan Assets</b>	<b>Net Defined Benefit Liability (Asset)</b>
Balance at January 1, 2015	<u>\$ 1,059,561</u>	<u>\$ (812,626)</u>	<u>\$ 246,935</u>
Service cost			
Current service cost	23,244	-	23,244
Interest expense (income)	<u>19,867</u>	<u>(15,682)</u>	<u>4,185</u>
Recognized in profit or loss	<u>43,111</u>	<u>(15,682)</u>	<u>27,429</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(6,146)	(6,146)
Actuarial loss - changes in demographic assumptions	18,720	-	18,720
Actuarial loss - changes in financial assumptions	46,813	-	46,813
Actuarial gain - experience adjustments	<u>(318)</u>	<u>-</u>	<u>(318)</u>
Recognized in other comprehensive income	<u>65,215</u>	<u>(6,146)</u>	<u>59,069</u>
Contributions from the employer	<u>-</u>	<u>(64,254)</u>	<u>(64,254)</u>
Benefits paid	<u>(35,897)</u>	<u>35,833</u>	<u>(64)</u>
Balance at December 31, 2015	<u>\$ 1,131,990</u>	<u>\$ (862,875)</u>	<u>\$ 269,115</u>
Balance at January 1, 2014	<u>\$ 975,023</u>	<u>\$ (774,529)</u>	<u>\$ 200,494</u>
Service cost			
Current service cost	25,398	-	25,398
Interest expense (income)	<u>15,315</u>	<u>(15,812)</u>	<u>(497)</u>
Recognized in profit or loss	<u>40,713</u>	<u>(15,812)</u>	<u>24,901</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(2,514)	(2,514)
Actuarial gain - changes in demographic assumptions	(11,552)	-	(11,552)
Actuarial gain - changes in financial assumptions	(14,731)	-	(14,731)
Actuarial loss - experience adjustments	<u>104,231</u>	<u>-</u>	<u>104,231</u>
Recognized in other comprehensive income	<u>77,948</u>	<u>(2,514)</u>	<u>75,434</u>
Contributions from the employer	<u>-</u>	<u>(47,075)</u>	<u>(47,075)</u>
Benefits paid	<u>(34,123)</u>	<u>27,304</u>	<u>(6,819)</u>
Balance at December 31, 2014	<u>\$ 1,059,561</u>	<u>\$ (812,626)</u>	<u>\$ 246,935</u>

An analysis by function of the amounts recognized in profit or loss in respect of the defined benefit plans is as follows:

	<b>For the Year Ended December 31</b>	
	<b>2015</b>	<b>2014</b>
Operating costs	\$ 23,425	\$ 21,123
Operating expenses	3,738	3,381
Recognized in the construction in process	<u>266</u>	<u>397</u>
	<u>\$ 27,429</u>	<u>\$ 24,901</u>

Through the defined benefit plans under the Labor Standards Law, the Corporation is exposed to the following risks:

1) Investment risk

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 or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.

2) Interest risk

A decrease in the government or the corporate bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.

3) Salary risk

The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	<b>December 31</b>	
	<b>2015</b>	<b>2014</b>
Discount rate (%)	1.500	1.875
Expected rate of salary increase (%)	2.000	2.000
Mortality rate	Based on 2012 TSO	Based on 2012 TSO
Turnover rate (%)	0-12	0-14
Retirement rate (%)	3-100	3-100

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

	<b>December 31, 2015</b>
Discount rate	
0.25% increase	<u>\$ (31,796)</u>
0.25% decrease	<u>\$ 33,098</u>
	(Continued)

	<b>December 31, 2015</b>
Expected rate of salary increase	
0.25% increase	<u>\$ 32,338</u>
0.25% decrease	<u>\$ (31,224)</u>
	(Concluded)

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	<u>December 31</u>	
	2015	2014
The expected contributions to the plan for the next year	<u>\$ 65,300</u>	<u>\$ 47,476</u>
The average duration of the defined benefit obligation	11.9 years	12 years

## 22. EQUITY

### a. Ordinary Share

	<u>December 31</u>	
	2015	2014
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>	
	2015	2014
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.

Such capital surplus may be used only to offset deficits.

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.

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The consequential amendments to the Corporation's Articles of Incorporation had been proposed by the Corporation's board of directors on December 22, 2015 and are subject to the resolution of the shareholders in their meeting to be held in June 2016. For information about the accrual basis of the employees' compensation and remuneration to directors and supervisors and the actual appropriations, please refer to f. Employee benefits expense in Note 23.

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\$208,397 thousand of net profit for 2014 to offset the accumulated deficit was proposed by the board of directors and approved in the stockholders' meeting on 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

	<b>For the Year Ended December 31</b>	
	<b>2015</b>	<b>2014</b>
Balance, beginning of year	\$ (132,430)	\$ (138,259)
Unrealized gain or loss on available-for-sale financial assets	(282,278)	36,764
Cumulative gain and loss reclassified to profit or loss on sale of available-for-sale financial assets	-	(13,417)
Share of unrealized loss on available-for-sale financial assets of associates accounted for using the equity method	<u>(902,700)</u>	<u>(17,518)</u>
Balance, end of year	<u>\$ (1,317,408)</u>	<u>\$ (132,430)</u>

## 23. PROFIT (LOSS) BEFORE INCOME TAX

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

a. Other income

	<b>For the Year Ended December 31</b>	
	<b>2015</b>	<b>2014</b>
Rental income	\$ 76,059	\$ 71,970
Interest income	2,902	4,057
Dividend income	33,734	23,397
Others	<u>16,408</u>	<u>7,535</u>
	<u>\$ 129,103</u>	<u>\$ 106,959</u>

b. Other gains and losses

	<b>For the Year Ended December 31</b>	
	<b>2015</b>	<b>2014</b>
Reversal of impairment loss (Note 15)	\$ 1,612,081	\$ -
Gain on disposal of investments (Note 8)	-	13,417
Net foreign exchange gain	41,385	29,772
Gain (Loss) arising on financial assets at fair value through profit or loss	(28,908)	8,727
Fees	(14,395)	(14,190)
Loss on disposal of property, plant and equipment	(228)	(685)
Other losses	<u>(1,502)</u>	<u>(527)</u>
	<u>\$ 1,608,433</u>	<u>\$ 36,514</u>

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

	<b>For the Year Ended December 31</b>	
	<b>2015</b>	<b>2014</b>
Foreign exchange gain	\$ 100,919	\$ 114,519
Foreign exchange loss	<u>(59,534)</u>	<u>(84,747)</u>
Net exchange gain	<u>\$ 41,385</u>	<u>\$ 29,772</u>

c. Finance costs

	<b>For the Year Ended December 31</b>	
	<b>2015</b>	<b>2014</b>
Interest on bank overdrafts and loans	\$ 283,990	\$ 299,708
Interest on loans from related parties (Note 29)	<u>14,299</u>	<u>14,420</u>
Total interest expense financial liabilities measured at amortized cost	298,289	314,128
Less: Amounts included in the cost of qualifying assets	<u>33,521</u>	<u>52,370</u>
	<u>\$ 264,768</u>	<u>\$ 261,758</u>

Information about capitalized interest was as follows:

	<b><u>For the Year Ended December 31</u></b>	
	<b>2015</b>	<b>2014</b>
Capitalized amounts	\$ 33,521	\$ 52,370
Capitalized annual rates (%)	1.2063-1.3876	1.2720-1.5061
d. Depreciation		
	<b><u>For the Year Ended December 31</u></b>	
	<b>2015</b>	<b>2014</b>
Property, plant and equipment	\$ 1,961,450	\$ 1,901,047
Investment properties	<u>821</u>	<u>823</u>
	<u>\$ 1,962,271</u>	<u>\$ 1,901,870</u>
Analysis of depreciation by function		
Operating costs	\$ 1,899,437	\$ 1,832,693
Operating expenses	62,013	68,354
Deduction of other income	<u>821</u>	<u>823</u>
	<u>\$ 1,962,271</u>	<u>\$ 1,901,870</u>
e. Operating expenses directly related to investment properties		
	<b><u>For the Year Ended December 31</u></b>	
	<b>2015</b>	<b>2014</b>
Direct operating expenses of investment properties that generated rental income	\$ 9,917	\$ 10,359
Direct operating expenses of investment properties that did not generate rental income	<u>1,364</u>	<u>1,364</u>
	<u>\$ 11,281</u>	<u>\$ 11,723</u>
f. Employee benefits		
	<b><u>For the Year Ended December 31</u></b>	
	<b>2015</b>	<b>2014</b>
Short-term employee benefits		
Salaries	\$ 810,008	\$ 810,522
Labor and health insurance	75,686	72,901
Others	<u>107,782</u>	<u>147,020</u>
	<u>993,476</u>	<u>1,030,443</u>
Post-employment benefits		
Defined contribution plans	19,255	18,111
Defined benefit plans (Note 21)	<u>27,429</u>	<u>24,901</u>
	<u>46,684</u>	<u>43,012</u>
	<u>\$ 1,040,160</u>	<u>\$ 1,073,455</u>

(Continued)

	<b>For the Year Ended December 31</b>	
	<b>2015</b>	<b>2014</b>
Analysis of employee benefits expense by function		
Operating costs	\$ 788,309	\$ 802,253
Operating expenses	200,595	203,319
Recognized in the construction in process	<u>51,256</u>	<u>67,883</u>
	<u>\$ 1,040,160</u>	<u>\$ 1,073,455</u>
		(Concluded)

The Corporation did not distribute bonus to employees and remuneration to directors and supervisors in 2014 because of the net loss.

In compliance with the Company Act as amended in May 2015, the Corporation proposed amendments of its Articles of Incorporation to distribute employees' compensation and remuneration to directors and supervisors at the rates no less than 1‰ and no higher than 1%, respectively, of net profit before income tax, employees' compensation, and remuneration to directors and supervisors. There was no bonus to employees and remuneration to directors and supervisors in 2015 because of the net loss in 2015.

Information on the bonus to employees, directors and supervisors resolved by the shareholders in their meetings is available on the Market Observation Post System website of the Taiwan Stock Exchange Corporation.

## 24. INCOME TAX

### a. Income tax recognized in profit or loss

The major components of income tax expense were as follows:

	<b>For the Year Ended December 31</b>	
	<b>2015</b>	<b>2014</b>
Current tax		
In respect of the current year	\$ 33	\$ 57
Income tax expense of unappropriated earnings	-	5
In respect of prior years	<u>(21)</u>	<u>1</u>
	12	63
Deferred tax		
In respect of the current year	<u>(1,910)</u>	<u>1,341</u>
	<u>\$ (1,898)</u>	<u>\$ 1,404</u>

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

	<b>For the Year Ended December 31</b>	
	<b>2015</b>	<b>2014</b>
Profit (Loss) before income tax	<u>\$ (1,164,096)</u>	<u>\$ 216,181</u>
Income tax expense (income) at the statutory rate (17%)	\$ (197,896)	\$ 36,751
		(Continued)

**For the Year Ended December 31**

	<b>2015</b>	<b>2014</b>
Permanent differences		
Loss on investments under equity method	\$ (16,389)	\$ (10,543)
Reversal of impairment loss	(274,054)	-
Others	4,739	(2)
Unrecognized deductible temporary differences	27,047	(16,311)
Loss carry for wards	(12,030)	(14,430)
Unrecognized loss carry forwards	466,706	5,933
Additional income tax on unappropriated earnings	-	5
Adjustments to prior years' tax	<u>(21)</u>	<u>1</u>
	<u>\$ (1,898)</u>	<u>\$ 1,404</u>

(Concluded)

- 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

	<b>December 31</b>	
	<b>2015</b>	<b>2014</b>
Current tax assets		
Tax refund receivable	<u>\$ 708</u>	<u>\$ 550</u>
Current tax liabilities		
Income tax payable	<u>\$ 4</u>	<u>\$ 57</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, 2015

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

For the year ended December 31, 2014

	<b>Balance, beginning of year</b>	<b>Recognized in Profit or Loss</b>	<b>Balance, end of year</b>
<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>-</u>	<u>(182,222)</u>
	<u>\$ (182,791)</u>	<u>\$ (1,341)</u>	<u>\$ (184,132)</u>

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

	<u>December 31</u>	
	<b>2015</b>	<b>2014</b>
Loss carry forwards		
2015 maturity	\$ -	\$ 3,023
2016 maturity	119	119
2019 maturity	1,380,064	1,380,064
2020 maturity	96,724	167,461
2021 maturity	2,169,464	2,169,464
2022 maturity	4,750,612	4,750,612
2023 maturity	187,880	187,880
2024 maturity	-	34,901
2025 maturity	<u>2,745,327</u>	<u>-</u>
	<u>\$ 11,330,190</u>	<u>\$ 8,693,524</u>
Deductible temporary differences		
Gain on disposal of nonperforming loans	\$ 740,276	\$ 822,418
Impairment loss on assets	447,663	452,207
Sales discount payable	195,072	203,814
Net defined benefit liability	269,115	246,935
Provision for inventory loss	370,839	80,912
Others	<u>71,424</u>	<u>69,930</u>
	<u>\$ 2,094,389</u>	<u>\$ 1,876,216</u>

g. Integrated income tax - The Corporation

	<u>December 31</u>	
	<b>2015</b>	<b>2014</b>
Imputation credit account ("ICA")	<u>\$ 994,732</u>	<u>\$ 976,470</u>

As of December 31, 2015, 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 income tax returns through 2012 and the subsidiaries' income tax returns through 2013 have been assessed by the tax authorities.

## 25. BASIC EARNINGS (LOSS) PER SHARE

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

Net profit (loss) for the year

	<u>For the Year Ended December 31</u>	
	<u>2015</u>	<u>2014</u>
Profit (loss) for the year attributable to owners of the Corporation	\$ <u>(1,162,198)</u>	\$ <u>214,777</u>

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

	<u>For the Year Ended December 31</u>	
	<u>2015</u>	<u>2014</u>
Weighted average number of ordinary shares in computation of basic earnings per share	<u>1,435,544</u>	<u>1,435,544</u>

## 26. 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, 2015 and 2014 were NT\$74,577 thousand and NT\$72,293 thousand, respectively, and were included in other income. Based on the lease contract, as of December 31, 2015 and 2014, the Corporation obtained the same amount of deposit of NT\$35,000 thousand which was recognized as guaranteed deposits received.

As of December 31, 2015 and 2014, notes receivable and advance rental were as follows:

	<u>December 31</u>	
	<u>2015</u>	<u>2014</u>
Notes receivable	\$ 45,399	\$ 45,399
Less: Advance rental	<u>(45,399)</u>	<u>(45,399)</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>2015</u>	<u>2014</u>
Not later than 1 year	\$ 80,813	\$ 81,054
Later than 1 year and not later than 5 years	404,598	402,609
Later than 5 years	<u>894,360</u>	<u>977,504</u>
	\$ <u>1,379,771</u>	\$ <u>1,461,167</u>

## 27. 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.

## 28. FINANCIAL INSTRUMENTS

### a. 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.

### b. Fair value of financial instruments carried at fair value

#### 1) Fair value hierarchy

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<hr/> <b>December 31, 2015</b> <hr/>				
Financial assets at fair value through profit or loss				
Emerging market shares	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 245,455</u>	<u>\$ 245,455</u>
Available-for-sale financial assets				
Domestic listed shares	\$ 612,332	\$ -	\$ -	\$ 612,332
Domestic unlisted shares	<u>-</u>	<u>-</u>	<u>57,846</u>	<u>57,846</u>
	<u>\$ 612,332</u>	<u>\$ -</u>	<u>\$ 57,846</u>	<u>\$ 670,178</u>
<hr/> <b>December 31, 2014</b> <hr/>				
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>

There was no transfer between Level 1 and Level 2 for the years ended December 31, 2015 and 2014.

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

	<b>Financial Assets at Fair Value Through Profit or Loss - Held for Trading</b>	<b>Available-for- sale Financial Assets - Equity Investments Without Active Market</b>	<b>Total</b>
<u>For the year ended December 31, 2015</u>			
Balance, beginning of year	\$ 276,613	\$ 57,302	\$ 333,915
Recognized in profit or loss	(31,158)	-	(31,158)
Recognized in other comprehensive income	-	2,568	2,568
Capital reduction refunded	<u>-</u>	<u>(2,024)</u>	<u>(2,024)</u>
Balance, end of year	<u>\$ 245,455</u>	<u>\$ 57,846</u>	<u>\$ 303,301</u>
<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>

3) Valuation techniques and inputs applied for the purpose of measuring Level 2 fair value measurement

<u>Financial Instruments</u>	<u>Valuation Techniques and Inputs</u>
Derivatives - foreign currency forward contracts	Discounted cash flow: Future cash flows are estimated based on observable forward exchange rates at the end of the reporting period and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties. 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.

4) Valuation techniques and inputs applied for the purpose of measuring Level 3 fair value measurement

- a) The fair value of emerging stocks was based on the closing price adjusted for liquidity risk premium.
- b) The fair value of unlisted stocks was based on the current net value.

c. Categories of financial instruments

	<b>December 31</b>	
	<b>2015</b>	<b>2014</b>
<b>Financial assets</b>		
<hr/>		
Fair value through profit or loss		
Held for trading	\$ 245,455	\$ 283,979
Available-for-sale financial assets (including noncurrent)	670,178	954,480
Loans and receivables (see 1 below)	1,929,962	1,492,640
<hr/>		
<b>Financial liabilities</b>		
<hr/>		
Measured at amortized cost (see 2 below)	23,467,821	25,458,827

- 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 (including current and noncurrent) 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.

d. 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, long-term borrows (including current portion of long-term bank borrowings) and long-term bills payable. 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:

	<b>December 31</b>	
	<b>2015</b>	<b>2014</b>
Assets		
USD	\$ -	\$ 7,366

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 32.

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 32. A positive number below indicates an increase in profit or loss when New Taiwan dollars strengthen by 1% against the relevant currency.

	<b>USD Impact (Note)</b>	
	<b>For the Year Ended December 31</b>	
	<b>2015</b>	<b>2014</b>
Profit	\$ (3,299)	\$ 1,255

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:

	<b>December 31</b>	
	<b>2015</b>	<b>2014</b>
Fair value interest rate risk		
Financial liabilities	\$ 3,361,985	\$ 3,700,916

(Continued)

	<b>December 31</b>	
	<b>2015</b>	<b>2014</b>
Cash flow interest rate risk		
Financial assets	\$ 560,528	\$ 542,775
Financial liabilities	19,011,682	20,297,501
		(Concluded)

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, 2015 and 2014 would have been upper by NT\$184,512 thousand and lower by NT\$197,547 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, 2015 and 2014 would have been both lower by NT\$34,113 thousand.

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, 2015, the current liabilities of the Group exceed current assets by NT\$4,541,676 thousand and the unutilized credit facility of the Group was NT\$25,337,684 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:

December 31, 2015	<b>Less Than 1 Year</b>	<b>2-5 Years</b>	<b>Total</b>
Short-term borrowings	\$ 6,881,923	\$ -	\$ 6,881,923
Short-term bills payable	2,064,000	-	2,064,000
Accounts payable (including related parties)	199,629	-	199,629
Other payables	859,405	-	859,405
			(Continued)

	<b>Less Than 1 Year</b>	<b>2-5 Years</b>	<b>Total</b>
Long-term bank borrowings	\$ 1,219,219	\$ 11,422,843	\$ 12,642,062
Long-term bills payable	<u>-</u>	<u>1,300,000</u>	<u>1,300,000</u>
	<u>\$ 11,224,176</u>	<u>\$ 12,722,843</u>	<u>\$ 23,947,019</u>
<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>1,300,000</u>
	<u>\$ 12,950,892</u>	<u>\$ 13,151,893</u>	<u>\$ 26,102,785</u>
			(Concluded)

## 29. 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

<b>Account Items</b>	<b>Related Parties Types</b>	<b>For the Year Ended December 31</b>	
		<b>2015</b>	<b>2014</b>
Sales	Fellow subsidiaries related to others	\$ 304,864	\$ 273,006
		<u>5,672</u>	<u>925,294</u>
		<u>\$ 310,536</u>	<u>\$ 1,198,300</u>
Service Revenue	Parent entity	<u>\$ 635,239</u>	<u>\$ 765,904</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	<u>For the Year Ended December 31</u>	
		2015	2014
Other operating revenue	Fellow subsidiaries related to others	\$ <u>36,836</u>	\$ <u>111,950</u>

b. Purchase of goods

	<u>For the Year Ended December 31</u>	
	2015	2014
Parent entity	\$ 9,604,571	\$ 2,467,412
Fellow subsidiaries related to others	<u>5,960,533</u>	<u>4,883,863</u>
	\$ <u>15,565,104</u>	\$ <u>7,351,275</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)

	<u>December 31</u>	
	2015	2014
Parent entity	\$ 43,099	\$ 52,864
Fellow subsidiaries related to others	<u>9,217</u>	<u>6,233</u>
	\$ <u>52,316</u>	\$ <u>59,097</u>
Other receivable from related parties		
Parent entity	\$ 507,792	\$ 98,937
Fellow subsidiaries related to others	<u>18,934</u>	<u>20,152</u>
	\$ <u>526,726</u>	\$ <u>119,089</u>

No guarantee had been received for accounts receivable from related parties. No expense had been recognized for the years ended December 31, 2015 and 2014 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)

	<u>December 31</u>	
	2015	2014
Parent entity	\$ 143,860	\$ 54,079
Fellow subsidiaries related to others	1,187	2,382
Others	<u>7,497</u>	<u>8,594</u>
	\$ <u>152,544</u>	\$ <u>65,055</u>

The outstanding accounts payable to related parties were unsecured.

e. Investment properties acquired

Related Party Categories	Price	
	For the Year Ended December 31	
	2015	2014
Fellow subsidiaries related to others	\$ 22,525	\$ _____ -

The Corporation's board of directors agreed to purchase land from related party in March 2015 and had joined construction contract. The purchase price of the land was based on appraisal report and the ownership of land was transferred to the Corporation in June 2015.

f. Loans from related parties

The Corporation borrowed money from the parent entity because of the need for short-term fund. As of December 2015 and 2014, 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\$14,299 thousand and NT\$14,420 thousand for 2015 and 2014, respectively.

g. 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\$115,658 thousand in 2015 and NT\$152,833 thousand in 2014. As of December 31, 2015 and 2014, authorization fees payable (included in payables to related parties) were NT\$31,527 thousand and NT\$40,520 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 2015 and 2014 are summarized as follows:

(Unit: Ton)

	The parent entity	Fellow subsidiaries related to others	Total
2015			
Balance, beginning of year	-	2,322	2,322
Lending for the year	-	49,980	49,980
Returns for the year	-	(51,708)	(51,708)
(Continued)			

	<b>The parent entity</b>	<b>Fellow subsidiaries related to others</b>	<b>Total</b>
Allowance for inventory loss	_____ -	_____ (594)	_____ (594)
Balance, end of year	===== -	===== -	===== -
<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	_____ (1,789)	_____ (2,290)	_____ (4,079)
Balance, end of year	===== -	===== 2,322	===== 2,322 (Concluded)

As of December 31, 2014, the above receivables classified as other current assets were NT\$33,188 thousand.

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.

### 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, 2015 and 2014 were NT\$1,400 thousand and NT\$1,561 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, 2015 and 2014 were NT\$6,267 thousand and NT\$4,848 thousand, respectively.

### 4) Construction in progress and other expenditures

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

	<b>For the Year Ended December 31</b>	
	<b>2015</b>	<b>2014</b>
a) Other expenditures		
Parent entity	\$ 91,640	\$ 151,245
Fellow subsidiaries related to others	175,223	179,686
Others	_____ 152,722	_____ 165,615
	<u>\$ 419,585</u>	<u>\$ 496,546</u>

(Continued)

	<b>For the Year Ended December 31</b>	
	<b>2015</b>	<b>2014</b>
b) Capital expenditure		
Parent entity	\$ -	\$ 9,876
Fellow subsidiaries related to others	<u>228,490</u>	<u>254,269</u>
	<u>\$ 228,490</u>	<u>\$ 264,145</u> (Concluded)

5) Income from supplies and scrap

	<b>For the Year Ended December 31</b>	
	<b>2015</b>	<b>2014</b>
Fellow subsidiaries related to others	<u>\$ 273,626</u>	<u>\$ 402,343</u>

h. Compensation of key management personnel

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

	<b>For the Year Ended December 31</b>	
	<b>2015</b>	<b>2014</b>
Short-term employee benefits	\$ 21,919	\$ 24,553
Post-employment benefits	<u>339</u>	<u>385</u>
	<u>\$ 22,258</u>	<u>\$ 24,938</u>

### 30. 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):

	<b>December 31</b>	
	<b>2015</b>	<b>2014</b>
Time deposits (included in other financial assets - current)	\$ 500,000	\$ 500,000
Net property, plant and equipment	<u>5,138,316</u>	<u>6,308,765</u>
	<u>\$ 5,638,316</u>	<u>\$ 6,808,765</u>

### 31. 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, 2015 were as follows:

- a. Unused letters of credit for purchases of raw materials and machinery and equipment amounted to about NT\$1,210,325 thousand.
- b. The Group had signed agreements to buy equipment for NT\$465,166 thousand, of which NT\$97,240 thousand had been paid (included in construction-in-progress and prepayments for equipment).

### 32. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currencies of the group entities and the exchange rates between foreign currencies and respective functional currencies were disclosed. The significant assets and liabilities denominated in foreign currencies were as follows:

	<b>Foreign Currencies (In Thousands)</b>	<b>Exchange Rate</b>	<b>Carrying Amount (In Thousands of New Taiwan Dollars)</b>
<u>December 31, 2015</u>			
Monetary financial assets			
USD	\$ 15,766	32.825	\$ 517,525
Monetary financial liabilities			
USD	5,715	32.825	187,580
<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

The significant realized and unrealized foreign exchange gains (losses) were as follows:

<b>Foreign Currencies</b>	<b>Exchange Rate</b>	<b>Net Foreign Exchange Gain (Loss)</b>
For the Year Ended December 31, 2015		
USD	32.825 (USD:NTD)	\$ 42,088
JPY	0.2727 (JPY:NTD)	(204)
EUR	35.88 (EUR:NTD)	8
Other		<u>(507)</u>
		<u>\$ 41,385</u>
For the Year Ended December 31, 2014		
USD	31.65 (USD:NTD)	\$ 36,256
JPY	0.2646 (JPY:NTD)	392
EUR	38.47 (EUR:NTD)	(6,870)
Other		<u>(6)</u>
		<u>\$ 29,772</u>

### 33. 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, 2015</u>					
Revenues from external customers	\$ 28,953,519	\$ 1,036,853	\$ 1,959	\$ -	\$ 29,992,331
Inter-segment revenues	<u>396,008</u>	<u>310,611</u>	<u>-</u>	<u>(706,619)</u>	<u>-</u>
Segment revenues	<u>\$ 29,349,527</u>	<u>\$ 1,347,464</u>	<u>\$ 1,959</u>	<u>\$ (706,619)</u>	<u>\$ 29,992,331</u>
Segment profit (loss)	\$ (2,912,361)	\$ 89,573	\$ 163	\$ 89,353	\$ (2,733,272)
Interest revenue	1,701	854	347	-	2,902
Other income	205,597	9,957	-	(89,353)	126,201
Other income and expenses	1,609,390	(957)	-	-	1,608,433
Finance costs	(240,933)	(23,835)	-	-	(264,768)
Share of the profit of associates and joint ventures	<u>172,477</u>	<u>-</u>	<u>-</u>	<u>(76,069)</u>	<u>96,408</u>
Profit (loss) before income tax	(1,164,129)	75,592	510	(76,069)	(1,164,096)
Income tax benefit (expense)	<u>1,931</u>	<u>-</u>	<u>(33)</u>	<u>-</u>	<u>1,898</u>
Net profit (loss) for the year	<u>\$ (1,162,198)</u>	<u>\$ 75,592</u>	<u>\$ 477</u>	<u>\$ (76,069)</u>	<u>\$ (1,162,198)</u>
Identifiable assets	\$ 25,177,902	\$ 4,617,595	\$ 48,127	\$ (803,616)	\$ 29,040,008
Investments accounted for using equity method	<u>3,722,811</u>	<u>-</u>	<u>-</u>	<u>(2,159,996)</u>	<u>1,562,815</u>
Total assets	<u>\$ 28,900,713</u>	<u>\$ 4,617,595</u>	<u>\$ 48,127</u>	<u>\$ (2,963,612)</u>	<u>\$ 30,602,823</u>
Total liabilities	<u>\$ 22,262,458</u>	<u>\$ 1,764,525</u>	<u>\$ 925</u>	<u>\$ (63,340)</u>	<u>\$ 23,964,568</u>
<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	\$ 69,409	\$ 114,123	\$ 700	\$ 88,214	\$ 272,446
Interest revenue	2,833	896	328	-	4,057
Other income	180,905	10,211	-	(88,214)	102,902
Other income and expenses	38,675	(2,161)	-	-	36,514
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	216,119	92,969	1,028	(93,935)	216,181
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>\$ 214,777</u>	<u>\$ 92,970</u>	<u>\$ 965</u>	<u>\$ (93,935)</u>	<u>\$ 214,777</u>

(Continued)

	<b>The Corporation</b>	<b>HLSC</b>	<b>Others</b>	<b>Adjustment and Elimination</b>	<b>Total</b>
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>\$ 23,726,608</u>	<u>\$ 2,221,040</u>	<u>\$ 1,270</u>	<u>\$ (13,424)</u>	<u>\$ 25,935,494</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, 2015

	<b>The Corporation</b>	<b>HLSC</b>	<b>Total</b>
<u>Included in segment profit or loss</u>			
Additions to non-current assets (Note)	\$ 748,248	\$ 18,192	\$ 766,440
Depreciation	<u>1,730,641</u>	<u>231,630</u>	<u>1,962,271</u>
	<u>\$ 2,478,889</u>	<u>\$ 249,822</u>	<u>\$ 2,728,711</u>

For the year ended December 31, 2014

	<b>The Corporation</b>	<b>HLSC</b>	<b>Total</b>
<u>Included in segment profit or loss</u>			
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>

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:

	<b>For the Year Ended December 31</b>	
	<b>2015</b>	<b>2014</b>
Sales		
Hot Rolled Steel	\$ 19,994,654	\$ 23,862,409
Cold Rolled Steel	5,911,601	6,329,230
Galvanized Steel	2,678,735	3,603,472

(Continued)

	<b>For the Year Ended December 31</b>	
	<b>2015</b>	<b>2014</b>
Steel Pipe	\$ 701,857	\$ 1,518,983
Slab	-	922,343
Iron Oxide Powder	18,951	6,494
Service revenue	640,687	774,338
Investments revenue	1,004	689
Other operating revenue	<u>44,842</u>	<u>114,711</u>
	<u>\$ 29,992,331</u>	<u>\$ 37,132,669</u>

(Concluded)

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.

	<b>Revenues from External Customers</b>		<b>Non-current Assets</b>	
	<b>For the Year Ended December 31</b>		<b>December 31</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Taiwan	\$ 17,973,521	\$ 24,353,729	\$ 22,428,800	\$ 21,990,253
Asia	10,911,128	10,443,738	-	-
America	563,945	1,183,885	-	-
Europe	165,174	393,570	-	-
Others	<u>378,563</u>	<u>757,747</u>	<u>-</u>	<u>-</u>
	<u>\$ 29,992,331</u>	<u>\$ 37,132,669</u>	<u>\$ 22,428,800</u>	<u>\$ 21,990,253</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

	<b>For the Year Ended December 31</b>	
	<b>2015</b>	<b>2014</b>
Sales revenue		
A Company	\$ 3,811,458	\$ 3,308,122
B Company	<u>2,901,553</u>	<u>4,310,572</u>
	<u>\$ 6,713,011</u>	<u>\$ 7,618,694</u>