

**Chung Hung Steel Corporation and
Subsidiaries**

**Consolidated Financial Statements for the
Years Ended December 31, 2016 and 2015 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Chung Hung Steel Corporation

Opinion

We have audited the accompanying consolidated financial statements of Chung Hung Steel Corporation (the "Corporation") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the Group's consolidated financial statements for the year ended December 31, 2016 are stated as follows:

Measurement of Inventories

For the Group, inventories represent one of the important assets of the balance sheet. As of December 31, 2016 the carrying amount of inventories held by the Group, which are represented in New Taiwan dollars ("NT\$"), was NT\$ 4,590,304 thousand, which accounted for 15% of total assets. For the related measurement of inventories, refer to Note 10 to the consolidated financial statements.

There are critical accounting estimations in the measurement of inventories. For the accounting policies of inventories and critical accounting estimates and judgements on inventories refer to Note 4 and Note 5 (a) to the consolidated financial statements, respectively.

We focused on the measurement of year-end inventories, including judgments about obsolete inventory and the measurement of inventories. Our key audit procedures performed in this area included the following:

1. Attend year-end inventory counts and assess the condition of inventory to evaluate the adequacy of inventory provisions for obsolete goods by inquiring and observing;
2. Obtain the year-end inventory aging profile and test whether it is in accordance with the Group's inventory provision policy for slow-moving and obsolete inventory, and whether it is accurate;
3. Evaluate the appropriateness of the methodology used to measure the inventory at the year end; and
4. Confirm underlying assumptions used in the calculation of inventory provisions and the market value of inventory from supporting documentation and recalculate the amounts of inventory to determine whether the measurement of inventory is appropriate.

Liquidity Risk

As of December 31, 2016, the current liabilities of the Corporation exceeded current assets by NT\$6,366,401 thousand, and a debt ratio of 68% was caused by accumulated deficits. In order to ensure that there was no liquidity risk or incapacity for financing capital to meet contractual obligations, the Corporation's management periodically reviewed the summary of unused credit facilities from banks and prepared a cash flows forecast for the year of 2017. For the related liquidity risk disclosures, refer to Note 27 (d) to the consolidated financial statements. Our audit key procedures performed in this area included the following:

1. Review the accuracy of the Corporation's unused credit facilities summary as of December 31, 2016;
2. Evaluate the reasonableness of the cash flows forecast for the year of 2017; and
3. Check that each loan covenant complied with restrictions such as financial ratios and the related adaptive measures.

Other Matter

We have also audited the financial statements of the Corporation as of and for the years ended December 31, 2016 and 2015 on which we have issued an unmodified opinion.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2016 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Jui-Hsuan Hsu and Yu-Hsiang Liu.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 21, 2017

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, 2016		December 31, 2015		LIABILITIES AND EQUITY	December 31, 2016		December 31, 2015	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash (Notes 6)	\$ 14,830	-	\$ 36,948	-	Short-term borrowings (Notes 16 and 29)	\$ 8,417,281	27	\$ 6,824,756	22
Financial assets at fair value through profit or loss - current (Notes 4, 5 and 7)	231,953	1	245,455	1	Short-term bills payable (Note 16)	1,918,877	6	2,062,598	7
Available-for-sale financial assets - current (Notes 4, 5 and 8)	816,143	3	594,311	2	Accounts payable (Note 17)	48,520	-	47,085	-
Accounts receivable (Note 9)	717,167	2	771,694	2	Accounts payable to related parties (Notes 17 and 28)	1,330,826	4	152,544	-
Accounts receivable from related parties (Notes 9 and 28)	244,533	1	52,316	-	Other payables (Note 18)	953,591	3	859,405	3
Other receivables (Note 9)	7,833	-	6,102	-	Current tax liabilities (Note 23)	187	-	4	-
Other receivables from related parties (Notes 9 and 28)	145,026	-	526,726	2	Current portion of long-term bank borrowings (Notes 16 and 29)	1,076,923	4	1,076,923	4
Current tax assets (Note 23)	468	-	708	-	Other current liabilities (Note 18)	144,536	1	43,026	-
Inventories (Notes 4, 5 and 10)	4,590,304	15	3,272,321	11	Total current liabilities	13,890,741	45	11,066,341	36
Prepayments (Note 15)	307,081	1	488,259	1	NONCURRENT LIABILITIES				
Other financial assets - current (Notes 12 and 29)	525,500	2	525,500	2	Long-term bank borrowings (Notes 16 and 29)	5,136,966	16	11,110,003	36
Other current assets	3,305	-	4,325	-	Long-term bills payable (Note 16)	2,048,779	7	1,299,387	4
Total current assets	7,604,143	25	6,524,665	21	Deferred tax liabilities (Notes 4 and 23)	182,377	1	182,222	1
NONCURRENT ASSETS					Net defined benefit liabilities (Notes 4, 5 and 20)	316,101	1	269,115	1
Available-for-sale financial assets - noncurrent (Notes 4, 5 and 8)	79,411	-	75,867	-	Guarantee deposits received (Note 25)	35,120	-	35,120	-
Investments accounted for using equity method (Notes 4 and 11)	2,331,594	7	1,562,815	5	Other noncurrent liabilities (Notes 14 and 18)	2,380	-	2,380	-
Property, plant and equipment (Notes 4, 5, 13, 20, 22, 29 and 30)	15,056,749	49	16,453,974	54	Total noncurrent liabilities	7,721,723	25	12,898,227	42
Investment properties (Notes 4, 5 and 14)	5,935,936	19	5,942,537	20	Total liabilities	21,612,464	70	23,964,568	78
Prepayments for equipment (Note 30)	5,672	-	32,289	-	EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION				
Refundable deposits	6,390	-	8,295	-	(Note 21)				
Other financial assets-noncurrent (Notes 12 and 14)	2,383	-	2,381	-	Ordinary shares	14,355,444	46	14,355,444	47
Total noncurrent assets	23,418,135	75	24,078,158	79	Capital surplus	903	-	903	-
					Accumulated deficit	(4,581,010)	(15)	(6,400,684)	(21)
					Accumulated deficit	(365,523)	(1)	(1,317,408)	(4)
					Other equity				
					Total equity	9,409,814	30	6,638,255	22
TOTAL	\$ 31,022,278	100	\$ 30,602,823	100	TOTAL	\$ 31,022,278	100	\$ 30,602,823	100

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

CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

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

	For the Year Ended December 31			
	2016		2015	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 4 and 28)				
Sales	\$ 32,582,377	98	\$ 29,305,798	98
Investment revenue	502	-	1,004	-
Service revenue	806,944	2	640,687	2
Other operating revenue	<u>50,299</u>	<u>-</u>	<u>44,842</u>	<u>-</u>
Total operating revenue	33,440,122	100	29,992,331	100
OPERATING COSTS (Notes 10, 20, 22 and 28)	<u>30,154,398</u>	<u>90</u>	<u>31,596,846</u>	<u>105</u>
GROSS PROFIT (LOSS)	<u>3,285,724</u>	<u>10</u>	<u>(1,604,515)</u>	<u>(5)</u>
OPERATING EXPENSES (Notes 20 and 22)				
Selling and marketing expenses	891,090	3	816,108	3
General and administrative expenses	<u>349,757</u>	<u>1</u>	<u>312,649</u>	<u>1</u>
Total operating expenses	<u>1,240,847</u>	<u>4</u>	<u>1,128,757</u>	<u>4</u>
PROFIT (LOSS) FROM OPERATIONS	<u>2,044,877</u>	<u>6</u>	<u>(2,733,272)</u>	<u>(9)</u>
NON-OPERATING INCOME AND EXPENSES (Notes 11, 22, 25 and 28)				
Other income	94,558	-	129,103	1
Other gains and losses	(52,286)	-	1,608,433	5
Finance costs	(218,127)	-	(264,768)	(1)
Share of the profit of associates and joint ventures	<u>44,456</u>	<u>-</u>	<u>96,408</u>	<u>-</u>
Total non-operating income and expenses	<u>(131,399)</u>	<u>-</u>	<u>1,569,176</u>	<u>5</u>
PROFIT (LOSS) BEFORE INCOME TAX	1,913,478	6	(1,164,096)	(4)
INCOME TAX EXPENSE (BENEFIT) (Notes 4, 5 and 23)	<u>359</u>	<u>-</u>	<u>(1,898)</u>	<u>-</u>
NET PROFIT (LOSS) FOR THE YEAR	<u>1,913,119</u>	<u>6</u>	<u>(1,162,198)</u>	<u>(4)</u>
OTHER COMPREHENSIVE INCOME (LOSS) (Notes 4, 20 and 21)				
Items that will not be reclassified subsequently to profit or loss				

(Continued)

CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

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

	For the Year Ended December 31			
	2016		2015	
	Amount	%	Amount	%
Remeasurement of defined benefit plans	\$ (93,445)	(1)	\$ (59,069)	-
Items that may be reclassified subsequently to profit or loss				
Unrealized gain (loss) on available-for-sale financial assets	227,562	1	(282,278)	(1)
Share of the other comprehensive loss of associates	<u>724,323</u>	<u>2</u>	<u>(902,700)</u>	<u>(3)</u>
Other comprehensive income for the year, net of income tax	<u>858,440</u>	<u>2</u>	<u>(1,244,047)</u>	<u>(4)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 2,771,559</u>	<u>8</u>	<u>\$ (2,406,245)</u>	<u>(8)</u>
NET PROFIT (LOSS) ATTRIBUTABLE TO:				
Owners of the Corporation	<u>\$ 1,913,119</u>	<u>6</u>	<u>\$ (1,162,198)</u>	<u>(4)</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Corporation	<u>\$ 2,771,559</u>	<u>8</u>	<u>\$ (2,406,245)</u>	<u>(8)</u>
EARNINGS (LOSS) PER SHARE (Note 24)				
Basic	<u>\$ 1.33</u>		<u>\$ (0.81)</u>	

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

(Concluded)

CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

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

	Issued and Outstanding Ordinary Shares	Capital Surplus	Accumulated Deficit	<u>Other Equity Unrealized Gain (Loss) on Financial Assets</u>	Total Equity
BALANCE AT JANUARY 1, 2015	\$ 14,355,444	\$ 903	\$ (5,179,417)	\$ (132,430)	\$ 9,044,500
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>
Net profit for the year ended December 31, 2016	-	-	1,913,119	-	1,913,119
Other comprehensive income (loss) for the year ended December 31, 2016, net of income tax	-	-	(93,445)	951,885	858,440
Total comprehensive income for the year ended December 31, 2016	-	-	1,819,674	951,885	2,771,559
BALANCE AT DECEMBER 31, 2016	<u>\$ 14,355,444</u>	<u>\$ 903</u>	<u>\$ (4,581,010)</u>	<u>\$ (365,523)</u>	<u>\$ 9,409,814</u>

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

CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

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

	<u>For the Year Ended December 31</u>	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit (loss) before income tax	\$ 1,913,478	\$ (1,164,096)
Adjustments for:		
Depreciation expense	1,911,947	1,962,271
Net loss on financial assets and liabilities at fair value through profit or loss	13,502	28,908
Finance costs	218,127	264,768
Interest income	(2,143)	(2,902)
Dividend income	(17,130)	(33,734)
Share of the profit of associates	(44,456)	(96,408)
Loss on disposal of property, plant and equipment	27,722	228
Increase (decrease) in provision for loss on inventories	(217,050)	289,927
Reversal of impairment loss	-	(1,612,081)
Recognition of provisions	-	10,200
Changes in operating assets and liabilities		
Financial assets held for trading	-	9,616
Accounts receivable	54,527	(11,031)
Accounts receivable from related parties	(192,217)	6,781
Other receivables	(1,789)	(3,156)
Other receivable from related parties	381,700	(407,637)
Inventories	(1,100,933)	3,566,497
Prepayments	181,178	127,102
Other current assets	1,020	5,541
Notes payable	-	(17,386)
Accounts payable	1,435	(645,530)
Accounts payables to related parties	1,178,282	87,489
Other payables	177,337	2,681
Provisions - current	-	(10,200)
Other current liabilities	101,510	(2,517)
Net defined benefit liabilities	(46,459)	(36,889)
Cash generated from operations	4,539,588	2,318,442
Income taxes refund (paid)	219	(223)
Net cash generated from operating activities	<u>4,539,807</u>	<u>2,318,219</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the capital reduction on available-for-sale financial assets	2,186	2,024
Acquisition of property, plant and equipment	(588,889)	(522,607)
Decrease (increase) in refundable deposits	1,905	(2,561)
Decrease in other receivables	-	135,013
Payments for investment properties	-	(22,525)
Increase in other financial assets	(2)	(2,381)

(Continued)

CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

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

	For the Year Ended December 31	
	2016	2015
Interest received	\$ 2,201	\$ 2,909
Dividends received from others	<u>17,130</u>	<u>33,734</u>
Net cash used in investing activities	<u>(565,469)</u>	<u>(376,394)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term borrowings	1,592,525	(1,012,782)
Decrease in short-term bills payable	(143,721)	(339,067)
Proceeds from long-term bank borrowings	800,000	6,300,000
Repayments of long-term bank borrowings	(6,776,923)	(6,576,923)
Increase in long-term bills payable	749,392	136
Increase in other noncurrent liabilities	-	2,380
Interest paid	<u>(217,729)</u>	<u>(298,225)</u>
Net cash used in financing activities	<u>(3,996,456)</u>	<u>(1,924,481)</u>
NET INCREASE (DECREASE) IN CASH	(22,118)	17,344
CASH AT THE BEGINNING OF THE YEAR	<u>36,948</u>	<u>19,604</u>
CASH AT THE END OF THE YEAR	<u>\$ 14,830</u>	<u>\$ 36,948</u>

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

(Concluded)

CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

Chung Hung Steel Corporation (the “Corporation”) was incorporated in September 1983 and started operations in September 1985. It mainly manufactures and sells steel products, such as cold and hot rolled coils and steel pipes. Within these notes to the consolidated financial statement, the Corporation and its subsidiaries are hereto forth referred to as the “Group”.

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 shareholder (41%), controls the Corporation’s management and operations.

The consolidated financial statements are presented in the Corporation’s functional currency, the 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 21, 2017.

3. APPLICATION OF NEW AND AMENDED STANDARDS AND INTERPRETATIONS

- a. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and 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) for application starting from 2017

Rule No. 1050050021 and Rule No. 1050026834 issued by the FSC stipulated that starting January 1, 2017, the Group should apply the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRS, IAS, IFRIC and SIC (collectively, the “IFRSs”) issued by the IASB and endorsed by the FSC for application starting from 2017.

New, Amended or Revised Standards and Interpretations (the New IFRSs)	Effective Date Announced by IASB (Note 1)
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)
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
Amendment to IAS 1 “Disclosure Initiative”	January 1, 2016
Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization”	January 1, 2016

(Continued)

New, Amended or Revised Standards and Interpretations (the New IFRSs)	Effective Date Announced by IASB (Note 1)
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
	(Concluded)

Note 1: Unless stated otherwise, the above New IFRSs 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.

The initial application in 2017 of the above IFRSs and related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers would not have any material impact on the Group’s accounting policies, except for the following:

1) Amendment to IFRS 8 “Operating Segments”

IFRS 8 was amended by the Annual Improvements to IFRSs: 2010-2012 Cycle to require disclosure of 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 Group’s assets should only be provided if the segments’ assets are regularly provided to the chief operating decision-maker. The judgements made in applying aggregation criteria should be disclosed retrospectively upon initial application of the amendment in 2017.

2) Amendments to IFRS 13 “Fair Value Measurement”

The basis for conclusions of IFRS 13 was amended by the Annual Improvements to IFRSs: 2010-2012 Cycle to clarify that when the amendment becomes effective in 2017, the short-term receivables and payables with no stated interest rate will be measured at their invoice amounts without discounting, if the effect of not discounting is immaterial.

3) Amendment to IAS 36 “Impairment of Assets”

The amendment “Disclosures for Non-financial Assets” clarifies that the recoverable amount of an asset or a cash-generating unit is disclosed only when an impairment loss on the asset has been recognized or reversed during the period. Furthermore, if the recoverable amount of an item of property, plant and equipment for which impairment loss has been recognized or reversed is fair value less costs of disposal, the Group is required to disclose the fair value hierarchy. If the fair value measurements are categorized within Level 2 or Level 3, the valuation technique and key assumptions used to measure the fair value are disclosed. The discount rate used is disclosed if

such fair value less costs of disposal is measured by using present value technique. The amendment will be applied retrospectively.

4) Amendment to IAS 40 “Investment Property”

IAS 40 was amended by the Annual Improvements to IFRSs: 2011-2013 Cycle 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.

The amendment will be applied prospectively to acquisitions of investment property on or after January 1, 2017.

5) Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers

The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed by the FSC for application starting from 2017. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include emphasis on certain recognition and measurement considerations and add requirements for disclosures of related party transactions and goodwill.

The amendments stipulate that other companies or institutions of which the chairman of the board of directors or president serves as the chairman of the board of directors or the president, or is the spouse or second immediate family of the chairman of the board of directors or president of the Group are deemed to have a substantive related party relationship, unless it can be demonstrated that no control, joint control, or significant influence exists. Furthermore, the amendments require the disclosure of the names of the related parties and the relationship with whom the Group have significant transaction. If the transaction or balance with a specific related party is 10% or more of the Group’s respective total transaction or balance, such transaction should be separately disclosed by the name of each related party.

The disclosures of related party transactions and impairment of goodwill will be enhanced when the above amendments are retrospectively applied in 2017.

As of the date the consolidated financial statements were reported to the board of directors for issue, the Group is in the process of estimating the impact of the impending initial application of the aforementioned and other standards and the amendments to interpretations on their financial position and results of operations. Disclosures will be provided after a detailed review of the impact has been completed.

b. New IFRSs in issue but not yet endorsed by the FSC

The Group has not applied the following IFRSs issued by the IASB but not yet endorsed by the FSC.

The FSC announced that amendments to IFRS 9 and IFRS 15 will take effect 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 IFRSs.

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendment to IFRS 2 “Classification and Measurement of Share-based Payment Transactions”	January 1, 2018

(Continued)

New IFRSs	Effective Date Announced by IASB (Note 1)
Amendments to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”	January 1, 2018
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
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendments to IFRS 15 “Clarifications to IFRS15 Revenue from Contracts with Customers”	January 1, 2018
IFRS 16 “Leases”	January 1, 2019
Amendment to IAS 7 “Disclosure Initiative”	January 1, 2017
Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017
Amendments to IAS 40 “Transfers of Investment Property”	January 1, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 1, 2018

(Concluded)

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

Note 2: The amendment to IFRS 12 is retrospectively applied for annual periods beginning on or after January 1, 2017; the amendment to IAS 28 is retrospectively applied for annual periods beginning on or after January 1, 2018.

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 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.

Hedge accounting

The main changes in hedge accounting amended the application requirements for hedge accounting to better reflect the Corporation and its subsidiaries’ risk management activities. Compared with IAS 39, the main changes include: (1) enhancing types of transactions eligible for hedge accounting, specifically broadening the risks eligible for hedge accounting of non-financial items; (2) changing the way hedging derivative instruments are accounted for to reduce profit or loss volatility; and (3) replacing retrospective effectiveness assessment with the principle of economic relationship between the hedging instrument and the hedged item.

Transition

Financial instruments that have been derecognized prior to the effective date of IFRS 9 cannot be reversed to apply IFRS 9 when it becomes effective. Under IFRS 9, the requirements for classification, measurement and impairment of financial assets are applied retrospectively with the difference between the previous carrying amount and the carrying amount at the date of initial application recognized in the current period and restatement of prior periods is not required. The requirements for general hedge accounting shall be applied prospectively and the accounting for hedging options shall be applied retrospectively.

2) IFRS 15 “Revenue from Contracts with Customers” and related amendment

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, 2018.

When applying IFRS 15, the Group 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.

3) 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.

4) 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.

5) Amendments to IAS 40 “Transfers of Investment Property”

The amendments clarify that the Group should transfer to, or from, investment property when, and only when, the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management’s intentions for the use of a property does not provide evidence of a change in use. The amendments also clarify that the evidence of the change in use is not limited to those illustrated in IAS 40.

The Group may elect to apply the amendments prospectively and reclassify the property as required to reflect the conditions that exist at the date of initial application. The Group is also required to disclose the reclassified amounts and such amounts should be included in the reconciliation of the carrying amount of investment property. Alternatively, the Group may elect to apply the amendments retrospectively if, and only if, that is possible without the use of hindsight.

6) IFRIC 22 “Foreign Currency Transactions and Advance Consideration”

IAS 21 stipulated that a foreign currency transaction shall be recorded on initial recognition in the functional currency by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. IFRIC 22 further explains that the date of the transaction is the date on which an entity recognizes a non-monetary asset or non-monetary liability from payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine the date of the transaction for each payment or receipt of advance consideration.

The Group shall apply IFRIC 22 either retrospectively or prospectively to all assets, expenses and income in the scope of the Interpretation initially recognized on or after the beginning of the reporting period in which the entity first applies IFRIC 22.

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 reporting 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.

The consolidated entities were as followed:

Investor	Investee	Main Businesses	Percentage of Ownership (%)	
			December 31, 2016	December 31, 2015
Chung Hung Steel Corporation Ltd.	Hung Li Steel Corporation Ltd. (HLSC)	Steel product processing	100	100
	Taiwan Steel Corporation	Operation in progress manufacturing processing and selling	100	100
	Hung Kao Investment Corporation	General investment	100	100

Foreign Currencies

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

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

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

Inventories

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

necessary to make the sale. Inventories are recorded at weighted-average cost.

Investment in Associates

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

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

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

When the Group share of losses of an associate equals or exceeds their interest in that associate (which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Group's net investment in the associate), the Group 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 27.

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 27.

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 remeasurement) 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 are recognized as employee benefits expense in the period they occur. Remeasurement, 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. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liability represents the actual deficit in the Group's defined benefit plan.

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 carryforwards 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.

Measurement of inventories

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

Fair value of financial instruments

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

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.

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>	
	<u>2016</u>	<u>2015</u>
Cash on hand	\$ 840	\$ 840
Checking accounts and demand deposits	<u>13,990</u>	<u>36,108</u>
	<u>\$ 14,830</u>	<u>\$ 36,948</u>

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>Financial assets held for trading - current</u>		
Emerging market shares	<u>\$ 231,953</u>	<u>\$ 245,455</u>

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>Current</u>		
Domestic listed shares	<u>\$ 816,143</u>	<u>\$ 594,311</u>
<u>Noncurrent</u>		
Domestic listed shares	\$ 24,748	\$ 18,021
Domestic unlisted shares	<u>54,663</u>	<u>57,846</u>
	<u>\$ 79,411</u>	<u>\$ 75,867</u>

Rise Link Venture Capital Corp. conducted capital reduction and refunded NT\$2,186 thousand and NT\$2,024 thousand in August 2016 and July 2015, respectively.

9. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>Accounts receivable</u>		
Accounts receivable - non-related parties	<u>\$ 717,167</u>	<u>\$ 771,694</u>
Accounts receivable - related parties	<u>\$ 244,533</u>	<u>\$ 52,316</u>

(Continued)

	December 31	
	2016	2015
<u>Other receivables (including related parties)</u>		
Discount receivable	\$ 118,478	\$ 506,454
Receivables from disposal of scrap	28,507	22,281
Others	<u>5,874</u>	<u>4,093</u>
	<u>\$ 152,859</u>	<u>\$ 532,828</u> (Concluded)

a. Accounts receivable

The average credit period for sales of goods was 7-30 days. Allowance for impairment loss was recognized by reference to past default experience with counterparties and an analysis of their current financial position. As of December 31, 2016 and 2015, there was no allowance for doubtful accounts.

The aging of accounts receivable was as follows:

	December 31	
	2016	2015
Up to 30 days	\$ 917,580	\$ 823,351
31-60 days	41,042	659
61-120 days	<u>3,078</u>	<u>-</u>
	<u>\$ 961,700</u>	<u>\$ 824,010</u>

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

As of December 31, 2016 and 2015, 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:

	December 31	
	2016	2015
A company	\$ 112,686	\$ 43,099
B company	105,065	120,664
C company	74,304	87,809
D company	-	95,401
E company	<u>-</u>	<u>91,209</u>
	<u>\$ 292,055</u>	<u>\$ 438,182</u>

The Corporation entered into accounts receivable factoring contract (without recourse) with Mega International Commercial Bank (“Mega Bank”), Bank of Taiwan and Taipei Fubon Bank. Under the contract, the Corporation is authorized to sell accounts receivable to Bank of Taiwan 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 uncollectability of the accounts receivable. The receivables sold and the related credit lines, which may be used on a revolving basis, were as follows:

Buyer of Accounts Receivable	Advances Received at Year - Beginning	Receivables Sold	Amounts Collected	Advances Received at Year-end	Interest Rates on Advances Received (%)	Credit Line
For the year ended December 31, 2016						
Mega Bank	\$ 985,460	\$ 3,114,118	\$ 3,000,032	\$ 1,099,546	1.19	NT\$3 billion
Bank of Taiwan	-	147,712	40,801	106,911	2.07	USD30 million
	<u>\$ 985,460</u>	<u>\$ 3,261,830</u>	<u>\$ 3,040,833</u>	<u>\$ 1,206,457</u>		
For the year ended December 31, 2015						
Mega Bank	\$ 1,421,281	\$ 3,426,005	\$ 3,861,826	\$ 985,460	1.36	NT\$3 billion
Taipei Fubon 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>		

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, 2016 and 2015, there was no allowance for doubtful accounts.

10. INVENTORIES

	December 31	
	2016	2015
Raw materials	\$ 1,619,612	\$ 871,436
Supplies	395,979	509,638
Work in progress	436,654	502,709
Finished goods	2,129,546	1,379,812
Others	7,710	8,726
Raw materials and supplies in transit	<u>803</u>	<u>-</u>
	<u>\$ 4,590,304</u>	<u>\$ 3,272,321</u>

As of December 31, 2016 and 2015, the reduction for inventory devaluation was NT\$153,789 thousand and NT\$370,839 thousand, respectively.

The cost of inventories recognized as operating costs for the years ended December 31, 2016 and 2015 was NT\$29,699,747 thousand and NT\$31,239,507 thousand, respectively.

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

	For the Year Ended December 31	
	2016	2015
Balance, beginning of year	\$ 370,839	\$ 80,912
Recognized	665,954	2,326,789
Sold	<u>(883,004)</u>	<u>(2,036,862)</u>
Balance, end of year	<u>\$ 153,789</u>	<u>\$ 370,839</u>

11. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Transglory Investment Corp. (TIC)	<u>\$ 2,351,594</u>	<u>\$ 1,562,815</u>

Name of Associate	Nature of Activities	Principal Place of Business	<u>Proportion of Ownership and Voting Rights</u>	
			<u>December 31</u>	
			<u>2016</u>	<u>2015</u>
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, 2016 and 2015 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

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Current assets	\$ 1,725	\$ 754
Non-current assets	6,396,510	4,630,039
Current liabilities	<u>(698,910)</u>	<u>(810,664)</u>
Equity	<u>\$ 5,699,325</u>	<u>\$ 3,820,129</u>
Proportion of the Group's ownership (%)	40.91	40.91
Equity attributable to the Group	<u>\$ 2,331,594</u>	<u>\$ 1,562,815</u>
Carrying amount	<u>\$ 2,331,594</u>	<u>\$ 1,562,815</u>
	<u>For the Year Ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Operating revenue	<u>\$ 129,961</u>	<u>\$ 259,968</u>
Net profit for the year	\$ 108,668	\$ 235,660
Other comprehensive income	<u>1,770,528</u>	<u>(2,206,553)</u>
Total comprehensive income for the year	<u>\$ 1,879,196</u>	<u>\$ (1,970,893)</u>

12. OTHER FINANCIAL ASSETS - CURRENT

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
<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 14)	<u>\$ 2,383</u>	<u>\$ 2,381</u>

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

13. PROPERTY, PLANT AND EQUIPMENT

For the year ended December 31, 2016

	Land	Buildings	Machinery and Equipment	Other Equipment	Spare Parts	Construction in Progress and Equipment to be Inspected	Total
<u>Cost</u>							
Balance at January 1, 2016	\$ 3,983,883	\$ 4,965,464	\$ 21,938,313	\$ 4,284,024	\$ 1,583,281	\$ 113,754	\$ 36,868,719
Additions	-	3,404	195,707	41,274	164,511	130,947	535,843
Disposals	-	-	(58,829)	(2,827)	(205,606)	-	(267,262)
Items reclassified from investment properties	<u>5,778</u>	-	-	-	-	-	<u>5,778</u>
Balance at December 31, 2016	<u>\$ 3,989,661</u>	<u>\$ 4,968,868</u>	<u>\$ 22,075,191</u>	<u>\$ 4,322,471</u>	<u>\$ 1,542,186</u>	<u>\$ 244,701</u>	<u>\$ 37,143,078</u>
<u>Accumulated depreciation</u>							
Balance at January 1, 2016	\$ -	\$ 1,350,107	\$ 15,107,650	\$ 3,317,520	\$ 639,468	\$ -	\$ 20,414,745
Depreciation expense	-	131,323	1,329,638	260,610	189,553	-	1,911,124
Disposals	-	-	(31,107)	(2,827)	(205,606)	-	(239,540)
Reclassification	-	-	(1,314)	-	1,314	-	-
Balance at December 31, 2016	<u>\$ -</u>	<u>\$ 1,481,430</u>	<u>\$ 16,404,867</u>	<u>\$ 3,575,303</u>	<u>\$ 624,729</u>	<u>\$ -</u>	<u>\$ 22,086,329</u>
Carrying amount at December 31, 2016	<u>\$ 3,989,661</u>	<u>\$ 3,487,438</u>	<u>\$ 5,670,324</u>	<u>\$ 747,168</u>	<u>\$ 917,457</u>	<u>\$ 244,701</u>	<u>\$ 15,056,749</u>

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
<u>Cost</u>							
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>
<u>Accumulated depreciation</u>							
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>
<u>Accumulated impairment</u>							
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>

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	3-15 years
Office, air condition and extinguishment equipment	3-20 years
Transportation equipment	5-16 years
Others	3-18 years
Tank	5-18 years

The Group bought farmlands for warehouse at the Jia Xing Section and Quing 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, 2016 and 2015, 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 29 for the carrying amount of property, plant and equipment that are pledged by the Group to secure borrowings.

14. INVESTMENT PROPERTIES

For the year ended December 31, 2016

	Land	Buildings	Total
<u>Cost</u>			
Balance at January 1, 2016	\$ 5,993,141	\$ 39,218	\$ 6,032,359
Items reclassified to property, plant and equipment	<u>(5,778)</u>	<u>-</u>	<u>(5,778)</u>
Balance at December 31, 2016	<u>\$ 5,987,363</u>	<u>\$ 39,218</u>	<u>\$ 6,026,581</u>
<u>Accumulated depreciation</u>			
Balance at January 1, 2016	\$ -	\$ 12,290	\$ 12,290
Depreciation expense	<u>-</u>	<u>823</u>	<u>823</u>
Balance at December 31, 2016	<u>\$ -</u>	<u>\$ 13,113</u>	<u>\$ 13,113</u>

(Continued)

	Land	Buildings	Total
<u>Accumulated Impairment</u>			
Balance at January 1, 2016 and December 31, 2016	\$ <u>77,532</u>	\$ <u>-</u>	\$ <u>77,532</u>
Carrying amount at December 31, 2016	\$ <u>5,909,831</u>	\$ <u>26,105</u>	\$ <u>5,935,936</u> (Concluded)
<u>For the year ended December 31, 2015</u>			
	Land	Buildings	Total
<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>

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 appointed an independent appraiser to appraise the land located in Lungwa section in Kaohsiung, which had a recognized reversal of impairment of loss of NT\$52,692 thousand in September, 2015.

The fair value of the investment properties was arrived at on the basis of valuations carried out on April 30, September 30 and November 30, 2015, 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>	
	2016	2015
Fair value	<u>\$ 8,509,731</u>	<u>\$ 8,535,333</u>
Expense rate (%)	3.68-16.86	3.68-16.86
Depreciation rate (%)	1.90-2.57	1.90-2.57

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

15. PREPAYMENTS

	<u>December 31</u>	
	2016	2015
Prepaid sales tax	\$ 199,619	\$ 157,281
Overpaid sales tax	56,381	251,860
Prepayment for purchase	42,440	70,917
Others	<u>8,641</u>	<u>8,201</u>
	<u>\$ 307,081</u>	<u>\$ 488,259</u>

16. BORROWINGS

a. Short-term borrowings and bank overdrafts

	<u>December 31</u>	
	2016	2015
Unsecured loans - interest at 0.90%-1.148% p.a. and 1.05%-1.24% p.a. as of December 31, 2016 and 2015, respectively	\$ 6,391,000	\$ 4,620,000
Letters of credit - interest at 0.93%-1.03% p.a. and 1.13%-1.18% p.a. as of December 31, 2016 and 2015, respectively	1,612,209	1,949,158
Bank overdrafts - interest at 0.35%-0.54% p.a. and 0.49%-0.77% p.a. as of December 31, 2016 and 2015, respectively	<u>414,072</u>	<u>255,598</u>
	<u>\$ 8,417,281</u>	<u>\$ 6,824,756</u>

b. Short-term bills payable

	December 31	
	2016	2015
Commercial paper		
China Bills Finance Corporation	\$ 600,000	\$ 660,000
Mega Bills Finance Corporation	460,000	505,000
Taiwan Finance Corp.	250,000	250,000
Ta Ching Bills Finance Corporation	200,000	200,000
Grand Bills Finance Corp.	200,000	29,000
International Bills Finance Corporation	110,000	320,000
Taiwan Cooperative Bills Finance Corporation	<u>100,000</u>	<u>100,000</u>
	1,920,000	2,064,000
	<u>1,123</u>	<u>1,402</u>
Less: Unamortized discounts	<u>\$ 1,918,877</u>	<u>\$ 2,062,598</u>
Interest rate (%)	0.40-0.74	0.55-0.91

c. Long-term borrowings

	December 31	
	2016	2015
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, 2016 and 2015	\$ 2,672,308	\$ 3,749,231
Repayable in March 2019 with a revolving credit, interest at both 1.5789% p.a. as of December 31, 2016 and 2015.	2,250,000	6,750,000
Credit bank loans		
Industrial Bank of Taiwan loan to the Corporation		
Repayable in October 2017, interest at 1.1105% and 1.3625% p.a. as of December 31, 2016 and 2015, respectively	500,000	500,000
Bank of Taiwan		
Repaid in December 2016, interest at 1.3832% p.a.	-	462,000
Bank of Taiwan		
Repayable in December 2019, interest at 1.3168% p.a.	300,000	-
Chang Hwa Bank		
Repaid in December 2016, interest at 1.4037% p.a.	-	462,000
Chang Hwa Bank		
Repayable in December 2019, interest at 1.31684% p.a.	300,000	-
Taiwan Cooperative Bank		
Repayable in December 2019, interest at 1.3169% p.a.	200,000	-
CTBC Bank Co., Ltd.		
Repaid in December 2016, interest at 1.4096% p.a.	<u>-</u>	<u>276,000</u>
	6,222,308	12,199,231
Less: Current portion	1,076,923	1,076,923
Syndicated loan fee	<u>8,419</u>	<u>12,305</u>
	<u>\$ 5,136,966</u>	<u>\$ 11,110,003</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.

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, there is no impact on the financial condition of the Corporation.

As of December 31, 2016, the Corporation was in compliance with this syndicated credit facility agreement.

d. Long-term bills payable

	December 31	
	2016	2015
Mega Bills Finance Corporation		
Repayable in March 2018 with a credit of NT\$1.3 billion	\$ 1,100,000	\$ 1,300,000
China Bills Finance Corporation		
Repayable in January 2020 with a credit of NT\$600 million	500,000	-
Grand Bills Finance Corporation		
Repayable in January 2020 with a credit of NT\$600 million	<u>450,000</u>	<u>-</u>
	2,050,000	1,300,000
Less: Unamortized discount	<u>1,221</u>	<u>613</u>
	<u>\$ 2,048,779</u>	<u>\$ 1,299,387</u>
Interest rate (%)	0.600-0.687	0.772

The above commercial paper was secured by Mega Bank, Agricultural Bank of Taiwan, Taishin International Bank, and Taichung Commercial Bank.

17. NOTES PAYABLE AND ACCOUNTS PAYABLE

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>Accounts payable</u>		
Operating - non related parties	\$ <u>48,520</u>	\$ <u>47,085</u>
Operating - related parties	\$ <u>1,330,826</u>	\$ <u>152,544</u>

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

18. OTHER LIABILITIES

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>Current</u>		
Other payables		
Salaries and incentive bonus	\$ 300,476	\$ 159,455
Sales discounts	200,763	194,373
Purchase of equipment	142,457	224,067
Utilities	63,447	68,942
Export fee	54,364	66,944
Outsourced repair and construction	47,374	36,536
Processing charge	32,823	27,969
Delivery pay	32,398	22,980
Others	<u>79,489</u>	<u>58,139</u>
	<u>\$ 953,591</u>	<u>\$ 859,405</u>
Other current liabilities		
Unearned receipts	\$ 133,406	\$ 31,128
Others	<u>11,130</u>	<u>11,898</u>
	<u>\$ 144,536</u>	<u>\$ 43,026</u>
<u>Non-current</u>		
Other liabilities		
Unearned sales of land (Note 14)	<u>\$ 2,380</u>	<u>\$ 2,380</u>

19. PROVISIONS - CURRENT

As of December 31, 2016 and 2015, the Group has no provision for onerous contracts.

	For the Year Ended December 31	
	2016	2015
Balance, beginning of year	\$ -	\$ -
Recognized for the year	-	10,200
Deducted for the year	<u>-</u>	<u>(10,200)</u>
Balance, end of year	<u>\$ -</u>	<u>\$ -</u>

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

20. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

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

b. Defined benefit plans

The Corporation and its domestic subsidiaries adopted the defined benefit plan under the Labor Standards Law, under which pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Corporation and its domestic subsidiaries make contributions, equal to 12.9% of total monthly salaries, to a pension fund, which is deposited in the Bank of Taiwan in the name of and administered by the pension fund monitoring committee. 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:

	December 31	
	2016	2015
Present value of defined benefit obligation	\$ 1,182,038	\$ 1,131,990
Fair value of plan assets	<u>(865,937)</u>	<u>(862,875)</u>
Net defined benefit liability	<u>\$ 316,101</u>	<u>\$ 269,115</u>

Movements of net defined benefit liability were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability
Balance at January 1, 2016	<u>\$ 1,131,990</u>	<u>\$ (862,875)</u>	<u>\$ 269,115</u>
Service cost			
Current service cost	23,202	-	23,202
Past service cost	1,564	-	1,564
Interest expense (income)	<u>16,980</u>	<u>(13,433)</u>	<u>3,547</u>
Recognized in profit or loss	<u>41,746</u>	<u>(13,433)</u>	<u>28,313</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	7,313	7,313
Actuarial gain - changes in demographic assumptions	2,770	-	2,770
Actuarial gain - changes in financial assumptions	32,585	-	32,585
Actuarial loss - experience adjustments	<u>50,777</u>	<u>-</u>	<u>50,777</u>
Recognized in other comprehensive income	<u>86,132</u>	<u>7,313</u>	<u>93,445</u>
Contributions from the employer	<u>-</u>	<u>(67,355)</u>	<u>(67,355)</u>
Benefits paid	<u>(77,830)</u>	<u>70,413</u>	<u>(7,417)</u>
Balance at December 31, 2016	<u>\$ 1,182,038</u>	<u>\$ (865,937)</u>	<u>\$ 316,101</u>
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>

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

	For the Year Ended December 31	
	2016	2015
Operating costs	\$ 23,015	\$ 23,425
Operating expenses	5,298	3,738
Recognized in the construction in process	<u>-</u>	<u>266</u>
	<u>\$ 28,313</u>	<u>\$ 27,429</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:

	December 31	
	2016	2015
Discount rate (%)	1.250	1.500
Expected rate of salary increase (%)	2.000	2.000
Mortality rate	Based on 2012 TSO	Based on 2012 TSO
Turnover rate (%)	0-10	0-12
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:

	<u>December 31</u>	
	2016	2015
Discount rate		
0.25% increase	<u>\$ (32,596)</u>	<u>\$ (31,796)</u>
0.25% decrease	<u>\$ 33,902</u>	<u>\$ 33,098</u>
Expected rate of salary increase		
0.25% increase	<u>\$ 33,045</u>	<u>\$ 32,338</u>
0.25% decrease	<u>\$ (31,937)</u>	<u>\$ (31,224)</u>

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>	
	2016	2015
The expected contributions to the plan for the next year	<u>\$ 67,650</u>	<u>\$ 65,300</u>
The average duration of the defined benefit obligation	11.5 years	11.9 years

21. EQUITY

a. Ordinary Shares

	<u>December 31</u>	
	2016	2015
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 shareholders' 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>	
	2016	2015
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 ordinary 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

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 approved in the Corporation's shareholders' meeting on June 24, 2016. The Corporation's Articles of Incorporation provide that 10% of the annual net income less any deficit should be appropriated as a legal reserve; a certain percentage should be appropriated as special reserve; the remainder may be declared as dividends or retained as proposed by the Corporation's board of directors and approved in the shareholders' meetings. For information about the accrual basis of the employees' compensation and remuneration of directors and supervisors and the actual appropriations of earnings, refer to Note 22 (f) on employee benefits expense.

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.

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 shareholders' meeting on June 26, 2015. The use of NT\$1,913,119 thousand of net profit for 2016 to offset the accumulated deficit was proposed by the board of directors, and the appropriations are subject to the resolution from the shareholders' meeting to be held on June 23, 2017.

Information about the appropriation of earnings and offsetting deficits, proposed by the shareholders' meetings and the Corporation's board of directors, is available on the Market Observation Post System website of the Taiwan Stock Exchange.

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

	For the Year Ended December 31	
	2016	2015
Balance, beginning of year	\$ (1,317,408)	\$ (132,430)
Unrealized gain or loss on available-for-sale financial assets	227,562	(282,278)
Share of unrealized loss on available-for-sale financial assets of associates accounted for using the equity method	<u>724,323</u>	<u>(902,700)</u>
Balance, end of year	<u>\$ (365,523)</u>	<u>\$ (1,317,408)</u>

22. PROFIT (LOSS) BEFORE INCOME TAX

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

a. Other income

	For the Year Ended December 31	
	2016	2015
Rental income	\$ 68,628	\$ 76,059
Interest income	2,143	2,902
Dividend income	17,130	33,734
Others	<u>6,657</u>	<u>16,408</u>
	<u>\$ 94,558</u>	<u>\$ 129,103</u>

b. Other gains and losses

	For the Year Ended December 31	
	2016	2015
Reversal of impairment loss (Note 14)	\$ -	\$ 1,612,081
Net foreign exchange gain	9,849	41,385
Loss arising on financial assets at fair value through profit or loss	(13,502)	(28,908)
Fees	(20,065)	(14,395)
Loss on disposal of property, plant and equipment	(27,722)	(228)
Other losses	<u>(846)</u>	<u>(1,502)</u>
	<u>\$ (52,286)</u>	<u>\$ 1,608,433</u>

The components of net foreign exchange gain were as follows:

	For the Year Ended December 31	
	2016	2015
Foreign exchange gain	\$ 72,090	\$ 100,919
Foreign exchange loss	<u>(62,241)</u>	<u>(59,534)</u>
Net exchange gain	<u>\$ 9,849</u>	<u>\$ 41,385</u>

c. Finance costs

	For the Year Ended December 31	
	2016	2015
Interest on bank overdrafts and loans	\$ 209,790	\$ 283,990
Interest on loans from related parties (Note 28)	<u>10,284</u>	<u>14,299</u>
Total interest expense financial liabilities measured at amortized cost	220,074	298,289
Less: Amounts included in the cost of qualifying assets	<u>1,947</u>	<u>33,521</u>
	<u>\$ 218,127</u>	<u>\$ 264,768</u>

Information about capitalized interest was as follows:

	<u>For the Year Ended December 31</u>	
	2016	2015
Capitalized amounts	\$ 1,947	\$ 33,521
Capitalized annual rates (%)	1.0731-1.2650	1.2063-1.3876
 d. Depreciation		
	<u>For the Year Ended December 31</u>	
	2016	2015
Property, plant and equipment	\$ 1,911,124	\$ 1,961,450
Investment properties	<u>823</u>	<u>821</u>
	<u>\$ 1,911,947</u>	<u>\$ 1,962,271</u>
Analysis of depreciation by function		
Operating costs	\$ 1,838,197	\$ 1,899,437
Operating expenses	72,927	62,013
Deduction of other income	<u>823</u>	<u>821</u>
	<u>\$ 1,911,947</u>	<u>\$ 1,962,271</u>
 e. Operating expenses directly related to investment properties		
	<u>For the Year Ended December 31</u>	
	2016	2015
Direct operating expenses of investment properties that generated rental income	\$ 16,725	\$ 9,917
Direct operating expenses of investment properties that did not generate rental income	<u>2,163</u>	<u>1,364</u>
	<u>\$ 18,888</u>	<u>\$ 11,281</u>
 f. Employee benefits		
	<u>For the Year Ended December 31</u>	
	2016	2015
Short-term employee benefits		
Salaries	\$ 1,013,594	\$ 810,008
Labor and health insurance	74,560	75,686
Others	<u>120,654</u>	<u>107,782</u>
	<u>1,208,808</u>	<u>993,476</u>
Post-employment benefits		
Defined contribution plans	20,118	19,255
Defined benefit plans (Note 20)	<u>28,313</u>	<u>27,429</u>
	<u>48,431</u>	<u>46,684</u>
	<u>\$ 1,257,239</u>	<u>\$ 1,040,160</u>

(Continued)

	For the Year Ended December 31	
	2016	2015
Analysis of employee benefits expense by function		
Operating costs	\$ 1,016,122	\$ 788,309
Operating expenses	241,117	200,595
Recognized in the construction in process	<u> -</u>	<u> 51,256</u>
	<u>\$ 1,257,239</u>	<u>\$ 1,040,160</u>
		(Concluded)

The Corporation did not distribute bonus to employees and remuneration for directors and supervisors in 2015 because it experienced a net loss.

In compliance with the Company Act as amended in May 2015, the Corporation approved amendments of its Articles of Incorporation to distribute employees' compensation and remuneration of directors and supervisors at rates of no less than 1‰ and no higher than 1%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors. There was no bonus to employees and remuneration for directors and supervisors in 2016 because the Corporation had accumulated deficits.

Information on employees' compensation and remuneration of directors and supervisors resolved by the Corporation's board of directors in 2017 and 2016 is available on the Market Observation Post System website of the Taiwan Stock Exchange.

23. INCOME TAX

a. Income tax recognized in profit or loss

The major components of income tax expense were as follows:

	For the Year Ended December 31	
	2016	2015
Current tax		
In respect of the current year	\$ 205	\$ 33
In respect of prior years	<u> (1)</u>	<u> (21)</u>
	204	12
Deferred tax		
In respect of the current year	<u> 155</u>	<u> (1,910)</u>
	<u>\$ 359</u>	<u>\$ (1,898)</u>

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

	For the Year Ended December 31	
	2016	2015
Profit (Loss) before income tax	<u>\$ 1,913,478</u>	<u>\$ (1,164,096)</u>

(Continued)

	For the Year Ended December 31	
	2016	2015
Income tax expense (income) at the statutory rate (17%)	\$ 325,291	\$ (197,896)
Permanent differences		
Profit on investments under equity method	(7,558)	(16,389)
Reversal of impairment loss	-	(274,054)
Others	5,006	4,739
Unrecognized deductible temporary differences	(56,381)	27,047
Loss carry for wards	(265,998)	(12,030)
Unrecognized loss carryforwards	-	466,706
Adjustments from prior years'	<u>(1)</u>	<u>(21)</u>
	<u>\$ 359</u>	<u>\$ (1,898)</u>

(Concluded)

b. No income tax was recognized in other comprehensive loss.

c. Current tax assets and liabilities

	December 31	
	2016	2015
Current tax assets		
Tax refund receivable	<u>\$ 468</u>	<u>\$ 708</u>
Current tax liabilities		
Income tax payable	<u>\$ 187</u>	<u>\$ 4</u>

d. Deferred tax liabilities

The movements of deferred tax liabilities were as follows:

For the year ended December 31, 2016

<u>Deferred Tax Liabilities</u>	Balance, Beginning of Year	Recognized in Profit or Loss	Balance, End of Year
Temporary differences			
Unrealized foreign exchange gain	\$ -	\$ (155)	\$ (155)
Land value increment tax	<u>(182,222)</u>	<u>-</u>	<u>(182,222)</u>
	<u>\$ (182,222)</u>	<u>\$ (155)</u>	<u>\$ (182,377)</u>

For the year ended December 31, 2015

	Balance, Beginning of Year	Recognized in Profit or Loss	Balance, End of Year
<u>Deferred Tax Liabilities</u>			
Temporary differences			
Unrealized foreign exchange gain (loss)	\$ (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>

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

	<u>December 31</u>	
	2016	2015
Loss carryforwards		
2016 maturity	\$ -	\$ 119
2019 maturity	-	1,380,064
2020 maturity	-	96,724
2021 maturity	2,071,134	2,169,464
2022 maturity	4,570,617	4,750,612
2023 maturity	187,880	187,880
2025 maturity	<u>2,655,245</u>	<u>2,745,327</u>
	<u>\$ 9,484,876</u>	<u>\$ 11,330,190</u>
Deductible temporary differences		
Gain on disposal of nonperforming loans	\$ 658,134	\$ 740,276
Impairment loss on assets	447,663	447,663
Loss on asset retirement	27,722	-
Sales discount payable	181,446	195,072
Net defined benefit liability	316,101	269,115
Provision for inventory loss	153,789	370,839
Others	<u>71,321</u>	<u>71,424</u>
	<u>\$ 1,856,176</u>	<u>\$ 2,094,389</u>

f. Integrated income tax - the Corporation

	<u>December 31</u>	
	2016	2015
Imputation credit account ("ICA")	<u>\$ 1,016,011</u>	<u>\$ 994,732</u>

As of December 31, 2016, the Corporation had accumulated deficits, the imputation credits will be allocated when there is retained earnings in the future.

g. Income tax assessments

The Corporation and the subsidiaries' income tax returns through 2014 have been assessed by the tax authorities.

24. 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>	
	2016	2015
Attributable to owners of the Corporation	\$ <u>1,913,119</u>	\$ <u>(1,162,198)</u>

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

	<u>For the Year Ended December 31</u>	
	2016	2015
Weighted average number of ordinary shares in computation of basic earnings per share	<u>1,435,544</u>	<u>1,435,544</u>

25. OPERATING LEASE ARRANGEMENTS

The Corporation as lessor leased a building on June 30, 2010 for 20 years under an operating lease agreement; the Corporation collects rental monthly. The rental revenues for the years ended December 31, 2016 and 2015 were NT\$74,521 thousand and NT\$74,577 thousand, respectively, and were included in other income. Based on the lease contract, as of December 31, 2016 and 2015, the Corporation obtained the same amount of deposit of NT\$35,000 thousand which was recognized as guaranteed deposits received.

As of December 31, 2016 and 2015, notes receivable and advance rental were as follows:

	<u>December 31</u>	
	2016	2015
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>	
	2016	2015
Not later than 1 year	\$ 81,916	\$ 80,813
Later than 1 year and not later than 5 years	407,813	404,598
Later than 5 years	<u>809,556</u>	<u>894,360</u>
	<u>\$ 1,299,285</u>	<u>\$ 1,379,771</u>

26. CAPITAL MANAGEMENT

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

27. 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

	Level 1	Level 2	Level 3	Total
<hr/>				
December 31, 2016				
<hr/>				
Financial assets at fair value through profit or loss				
Emerging market shares	\$ <u> -</u>	\$ <u> -</u>	\$ <u>231,955</u>	\$ <u>231,955</u>
Available-for-sale financial assets				
Domestic listed shares	\$ 840,891	\$ -	\$ -	\$ 840,891
Domestic unlisted shares	<u> -</u>	<u> -</u>	<u>54,663</u>	<u>54,663</u>
	<u>\$ 840,891</u>	<u>\$ -</u>	<u>\$ 54,663</u>	<u>\$ 895,554</u>
<hr/>				
December 31, 2015				
<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>

There was no transfer between Level 1 and Level 2 for the years ended December 31, 2016 and 2015.

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

	Financial Assets at Fair Value Through Profit or Loss - Held for Trading	Available-for- sale Financial Assets - Equity Investments Without Active Market	Total
<u>For the year ended December 31, 2016</u>			
Balance, beginning of year	\$ 245,455	\$ 57,846	\$ 303,301
Recognized in profit or loss	(13,502)	-	(13,502)
Recognized in other comprehensive income	-	(997)	(997)
Capital reduction refunded	<u>-</u>	<u>(2,186)</u>	<u>(2,186)</u>
Balance, end of year	<u>\$ 231,953</u>	<u>\$ 54,663</u>	<u>\$ 286,616</u>
<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>

3) 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

	<u>December 31</u>	
	2016	2015
<u>Financial assets</u>		
Fair value through profit or loss		
Held for trading	\$ 231,953	\$ 245,455
Available-for-sale financial assets (including noncurrent)	895,554	670,178
Loans and receivables (see 1 below)	1,663,662	1,929,962
<u>Financial liabilities</u>		
Measured at amortized cost (see 2 below)	20,966,883	23,467,821

- 1) The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, accounts receivable (including related parties), other receivables (including related parties), other financial assets (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, 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.

1) Market risk

The main financial risks arising from operating activities are to the risk of change in foreign exchange rates (see (a) below), the risk of changes in interest rates (see (b) below) and the risk of other price (see (c) below).

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 the same currency for accounts receivable and payable.

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

Sensitivity analysis

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

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

	USD Impact (Note)	
	For the Year Ended December 31	
	2016	2015
Profit	\$ (2,074)	\$ (3,299)

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:

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Fair value interest rate risk		
Financial liabilities	\$ 2,048,779	\$ 1,299,387
Cash flow interest rate risk		
Financial assets	537,258	560,528
Financial liabilities	14,631,170	19,011,682

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, 2016 and 2015 would have been lower by NT\$140,939 thousand and upper by NT\$184,512 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, 2016 and 2015 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, 2016, the current liabilities of the Group exceed current assets by NT\$6,286,598 thousand and the unutilized credit facility of the Group was NT\$29.6 billion; therefore, there is no liquidity risk or incapacity of financing capital to meet contractual

obligations.

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

	Less Than 1 Year	2-5 Years	Total
<u>December 31, 2016</u>			
Short-term borrowings	\$ 8,475,531	\$ -	\$ 8,475,531
Short-term bills payable	1,920,000	-	1,920,000
Accounts payable (including related parties)	1,379,346	-	1,379,346
Other payables	953,591	-	953,591
Long-term bank borrowings	1,140,529	5,234,038	6,374,567
Long-term bills payable	-	2,050,000	2,050,000
Guarantee deposits received	-	35,120	35,120
	<u>\$ 13,868,997</u>	<u>\$ 7,319,158</u>	<u>\$ 21,188,155</u>
<u>December 31, 2015</u>			
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
Long-term bank borrowings	1,219,219	11,422,843	12,642,062
Long-term bills payable	-	1,300,000	1,300,000
Guarantee deposits received	-	35,120	35,120
	<u>\$ 11,224,176</u>	<u>\$ 12,757,963</u>	<u>\$ 23,982,139</u>

28. TRANSACTIONS WITH RELATED PARTIES

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

a. Sale of goods

Account Items	Related Parties Types	<u>For the Year Ended December 31</u>	
		2016	2015
Sales	Fellow subsidiaries related to others	\$ 1,595,572	\$ 304,864
	Parent entity	<u>4,584</u>	<u>5,672</u>
		<u>\$ 1,600,156</u>	<u>\$ 310,536</u>
Service Revenue	Parent entity	\$ 794,662	\$ 635,239
	Fellow subsidiaries related to others	224	-
		<u>\$ 794,886</u>	<u>\$ 635,239</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.

HLSC entered into an agreement with fellow subsidiaries related to others under which HLSC sells waste acid and the price is charged based on the formula stated in the agreement. HLSC bills the fellow subsidiaries related to others within monthly T/T after acceptance based on the monthly amount of processing.

Account Items	Related Parties Types	For the Year Ended December 31	
		2016	2015
Other operating revenue	Fellow subsidiaries related to others	\$ <u>43,820</u>	\$ <u>36,836</u>

b. Purchase of goods

	For the Year Ended December 31	
	2016	2015
Parent entity	\$ 19,707,646	\$ 9,604,571
Fellow subsidiaries related to others	<u>5,688,910</u>	<u>5,960,533</u>
	<u>\$ 25,396,556</u>	<u>\$ 15,565,104</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)

	December 31	
	2016	2015
Parent entity	\$ 112,686	\$ 43,099
Fellow subsidiaries related to others	<u>131,847</u>	<u>9,217</u>
	<u>\$ 244,533</u>	<u>\$ 52,316</u>
Other receivable from related parties		
Parent entity	\$ 121,316	\$ 507,792
Fellow subsidiaries related to others	<u>23,710</u>	<u>18,934</u>
	<u>\$ 145,026</u>	<u>\$ 526,726</u>

No guarantee had been received for accounts receivable from related parties. No expense had been recognized for the years ended December 31, 2016 and 2015 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)

	December 31	
	2016	2015
Parent entity	\$ 1,317,755	\$ 143,860
Fellow subsidiaries related to others	5,052	1,187
Others	<u>8,019</u>	<u>7,497</u>
	<u>\$ 1,330,826</u>	<u>\$ 152,544</u>

The outstanding accounts payable to related parties were unsecured.

e. Investment properties acquired

Related Party Categories	Price	
	For the Year Ended December 31	
	2016	2015
Fellow subsidiaries related to others	\$ <u> -</u>	\$ <u>22,525</u>

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 2016 and 2015, 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\$10,284 thousand and NT\$14,299 thousand for 2016 and 2015, 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\$119,440 thousand in 2016 and NT\$115,658 thousand in 2015. As of December 31, 2016 and 2015, authorization fees payable (included in payables to related parties) were NT\$33,026 thousand and NT\$31,527 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 are summarized as follows:

(Unit: Ton)

**Fellow
Subsidiaries
Related to
Others**

2016	
Balance, beginning of year	2,322
Lending for the year	49,980
Returns for the year	(51,708)
Allowance for inventory loss	<u>(594)</u>
Balance, end of year	<u><u>-</u></u>

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, 2016 and 2015 were NT\$1,722 thousand and NT\$1,400 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, 2016 and 2015 were NT\$5,310 thousand and NT\$6,267 thousand, respectively.

4) Construction in progress and other expenditures

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

	For the Year Ended December 31	
	2016	2015
a) Other expenditures		
Parent entity	\$ 87,137	\$ 91,640
Fellow subsidiaries related to others	167,851	175,223
Others	<u>135,388</u>	<u>152,722</u>
	<u>\$ 390,376</u>	<u>\$ 419,585</u>
b) Capital expenditure		
Fellow subsidiaries related to others	<u>\$ 86,884</u>	<u>\$ 228,490</u>

5) Income from supplies and scrap

	For the Year Ended December 31	
	2016	2015
Fellow subsidiaries related to others	<u>\$ 293,521</u>	<u>\$ 273,626</u>

h. Compensation of key management personnel

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

	For the Year Ended December 31	
	2016	2015
Short-term employee benefits	\$ 23,262	\$ 21,919
Post-employment benefits	<u>334</u>	<u>339</u>
	<u>\$ 23,596</u>	<u>\$ 22,258</u>

29. ASSETS PLEDGED AS COLLATERAL OR SECURITY

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

	December 31	
	2016	2015
Time deposits (included in other financial assets - current)	\$ 500,000	\$ 500,000
Net property, plant and equipment	<u>4,219,981</u>	<u>5,138,316</u>
	<u>\$ 4,719,981</u>	<u>\$ 5,638,316</u>

30. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Group as of December 31, 2016 were as follows:

- a. Unused letters of credit for purchases of raw materials and machinery and equipment amounted to about NT\$1,809,819 thousand
- b. The Group had signed agreements to buy equipment for NT\$567,806 thousand, of which NT\$208,957 thousand had been paid (included in construction-in-progress and prepayments for equipment).

31. 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:

	Foreign Currencies (In Thousands)	Exchange Rate	Carrying Amount (In Thousands of New Taiwan Dollars)
<u>December 31, 2016</u>			
Monetary financial assets			
USD	\$ 11,340	32.25	\$ 365,923 (Continued)

	Foreign Currencies (In Thousands)	Exchange Rate	Carrying Amount (In Thousands of New Taiwan Dollars)
Monetary financial liabilities			
USD	\$ 4,915	32.25	\$ 158,499
<hr/> December 31, 2015 <hr/>			
Monetary financial assets			
USD	15,766	32.825	517,525
Monetary financial liabilities			
USD	5,715	32.825	187,580 (Concluded)

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

Foreign Currencies	Exchange Rate	Net Foreign Exchange Gain (Loss)
For the Year Ended December 31, 2016		
USD	32.25 (USD:NTD)	\$ 11,564
JPY	0.2756 (JPY:NTD)	(122)
EUR	33.90 (EUR:NTD)	(1,532)
Other		<u>(61)</u>
		<u>\$ 9,849</u>
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>

32. SEGMENT INFORMATION

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

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

a. Segment revenues and operating results

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

	The Corporation	HLSC	Others	Adjustment and Elimination	Total
<u>For the year ended December 31, 2016</u>					
Revenues from external customers	\$ 31,900,108	\$ 1,537,048	\$ 2,966	\$ -	\$ 33,440,122
Inter-segment revenues	<u>718,403</u>	<u>413,963</u>	<u>-</u>	<u>(1,132,366)</u>	<u>-</u>
Segment revenues	<u>\$ 32,618,511</u>	<u>\$ 1,951,011</u>	<u>\$ 2,966</u>	<u>\$ (1,132,366)</u>	<u>\$ 33,440,122</u>
Segment profit	\$ 1,779,313	\$ 175,604	\$ 1,206	\$ 88,754	\$ 2,044,877
Interest revenue	1,431	422	290	-	2,143
Other income	172,566	8,603	-	(88,754)	92,415
Other income and expenses	(24,238)	(28,048)	-	-	(52,286)
Finance costs	(202,101)	(16,026)	-	-	(218,127)
Share of the profit of associates and joint ventures	<u>186,303</u>	<u>-</u>	<u>-</u>	<u>(141,847)</u>	<u>44,456</u>
Profit before income tax for the year	1,913,274	140,555	1,496	(141,847)	1,913,478
Income tax expense	<u>(155)</u>	<u>-</u>	<u>(204)</u>	<u>-</u>	<u>(359)</u>
Net profit for the year	<u>\$ 1,913,119</u>	<u>\$ 140,555</u>	<u>\$ 1,292</u>	<u>\$ (141,847)</u>	<u>\$ 1,913,119</u>
Identifiable assets	\$ 25,151,486	\$ 4,253,741	\$ 56,202	\$ (770,745)	\$ 28,690,684
Investments accounted for using equity method	<u>4,720,416</u>	<u>-</u>	<u>-</u>	<u>(2,388,822)</u>	<u>2,331,594</u>
Total assets	<u>\$ 29,871,902</u>	<u>\$ 4,253,741</u>	<u>\$ 56,202</u>	<u>\$ (3,159,567)</u>	<u>\$ 31,022,278</u>
Total liabilities	<u>\$ 20,462,088</u>	<u>\$ 1,260,116</u>	<u>\$ 1,399</u>	<u>\$ (111,139)</u>	<u>\$ 21,612,464</u>
<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 for the year	(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>

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, 2016

	The Corporation	HLSC	Total
<u>Included in segment profit or loss</u>			
Additions to non-current assets (Note)	\$ 459,580	\$ 49,646	\$ 509,226
Depreciation	<u>1,667,013</u>	<u>244,934</u>	<u>1,911,947</u>
	<u>\$ 2,126,593</u>	<u>\$ 294,580</u>	<u>\$ 2,421,173</u>

For the year ended December 31, 2015

	The Corporation	HLSC	Total
<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>

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

c. Revenues from major products and services

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

	<u>For the Year Ended December 31</u>	
	2016	2015
Sales		
Hot Rolled Steel	\$ 21,761,782	\$ 19,994,654
Cold Rolled Steel	6,903,655	5,911,601
Galvanized Steel	2,927,847	2,678,735
Steel Pipe	970,421	701,857
Iron Oxide Powder	18,672	18,951
Service revenue	806,944	640,687
Investments revenue	502	1,004
Other operating revenue	<u>50,299</u>	<u>44,842</u>
	<u>\$ 33,440,122</u>	<u>\$ 29,992,331</u>

d. Geographical information

The Group operates in Taiwan.

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

	Revenues from External Customers		Non-current Assets	
	For the Year Ended December 31		December 31	
	2016	2015	2016	2015
Taiwan	\$ 21,275,484	\$ 17,973,521	\$ 20,998,357	\$ 22,428,800
Asia	10,092,565	10,911,128	-	-
America	999,456	563,945	-	-
Europe	544,985	165,174	-	-
Others	<u>527,632</u>	<u>378,563</u>	-	-
	<u>\$ 33,440,122</u>	<u>\$ 29,992,331</u>	<u>\$ 20,998,357</u>	<u>\$ 22,428,800</u>

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

e. Information about major customers

	For the Year Ended December 31	
	2016	2015
Sales revenue		
A Company	\$ 4,210,666	\$ 3,811,458
B Company	<u>3,136,922</u>	<u>2,901,553</u>
	<u>\$ 7,347,588</u>	<u>\$ 6,713,011</u>