

**Chung Hung Steel Corporation and
Subsidiaries**

**Consolidated Financial Statements for the
Years Ended December 31, 2017 and 2016 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, 2017 and 2016, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the consolidated financial statements section of our report. We are independent of the 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, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the Group's consolidated financial statements for the year ended December 31, 2017 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, 2017 the carrying amount of inventories held by the Group, which are represented in New Taiwan dollars ("NT\$"), was NT\$5,019,625 thousand, which accounted for 16% of total assets. For the related measurement of inventories, refer to Note 10 to the consolidated financial statements.

As there are critical accounting estimations in the measurement of inventories, inventory valuation is deemed to be the key audit matter. For the accounting policies of inventories and critical accounting estimates and judgments on inventories, refer to Note 4 and Note 5 to the consolidated financial statements, respectively.

We focused on the inventory valuation, including judgments about obsolete inventory and the measurement of inventories. Our main audit procedures performed included:

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, 2017, the current liabilities of the Corporation exceeded current assets by NT\$1,765,420 thousand, and a debt ratio of 62% 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 2018. For the related liquidity risk disclosures, refer to Note 26 (d) to the consolidated financial statements. Our main audit procedures performed included:

1. Review the accuracy of the Corporation's unused credit facilities summary as of December 31, 2017;
2. Evaluate the reasonableness of the cash flows forecast for the year of 2018; 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 standalone financial statements of the Corporation as of and for the years ended December 31, 2017 and 2016 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, 2017 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 22, 2018

Notice to Readers

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

For the convenience of readers, the independent auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and consolidated financial statements shall prevail. As stated in Note 4 to 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, 2017		December 31, 2016		LIABILITIES AND EQUITY	December 31, 2017		December 31, 2016	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash (Note 6)	\$ 217,955	1	\$ 14,830	-	Short-term borrowings (Notes 16 and 28)	\$ 7,464,815	24	\$ 8,417,281	27
Financial assets at fair value through profit or loss - current (Notes 4, 5 and 7)	215,464	1	231,953	1	Short-term bills payable (Note 16)	669,849	2	1,918,877	6
Available-for-sale financial assets - current (Notes 4 and 8)	819,454	3	816,143	3	Accounts payable (Note 17)	56,160	-	48,520	-
Accounts receivable (Note 9)	1,291,784	4	717,167	2	Accounts payable to related parties (Notes 17 and 27)	1,219,265	4	1,330,826	4
Accounts receivable from related parties (Notes 9 and 27)	168,187	-	244,533	1	Other payables (Note 18)	875,367	3	953,591	3
Other receivables (Note 9)	10,433	-	7,833	-	Current tax liabilities (Note 22)	73	-	187	-
Other receivables from related parties (Notes 9 and 27)	401,324	1	145,026	-	Current portion of long-term bank borrowings (Notes 16 and 28)	150,000	-	1,076,923	4
Current tax assets (Note 22)	339	-	468	-	Other current liabilities (Note 18)	183,673	1	144,536	1
Inventories (Notes 4, 5 and 10)	5,019,625	16	4,590,304	15					
Prepayments (Note 15)	202,824	1	307,081	1	Total current liabilities	10,619,202	34	13,890,741	45
Other financial assets - current (Notes 12 and 28)	500,000	1	525,500	2	NONCURRENT LIABILITIES				
Other current assets	6,393	-	3,305	-	Long-term bank borrowings (Notes 16 and 28)	5,097,450	16	5,136,966	16
Total current assets	8,853,782	28	7,604,143	25	Long-term bills payable (Note 16)	3,149,062	10	2,048,779	7
NONCURRENT ASSETS					Deferred tax liabilities (Notes 4 and 22)	182,222	1	182,377	1
Available-for-sale financial assets - noncurrent (Notes 4, 5 and 8)	79,411	-	79,411	-	Net defined benefit liabilities (Notes 4, 5 and 19)	365,756	1	316,101	1
Investments accounted for using equity method (Notes 4 and 11)	2,425,702	8	2,331,594	7	Guarantee deposits received (Note 24)	35,120	-	35,120	-
Property, plant and equipment (Notes 4, 13, 28 and 29)	14,031,648	45	15,056,749	49	Other noncurrent liabilities (Note 14)	2,380	-	2,380	-
Investment properties (Notes 4 and 14)	5,940,891	19	5,935,936	19					
Prepayments for equipment (Note 29)	37,185	-	5,672	-	Total noncurrent liabilities	8,831,990	28	7,721,723	25
Refundable deposits	5,847	-	6,390	-	Total liabilities	19,451,192	62	21,612,464	70
Other financial assets - noncurrent (Notes 12 and 14)	2,385	-	2,383	-	EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION (Note 20)				
Total noncurrent assets	22,523,069	72	23,418,135	75	Ordinary shares	14,355,444	46	14,355,444	46
					Capital surplus	903	-	903	-
					Accumulated deficit	(2,083,776)	(7)	(4,581,010)	(15)
					Other equity	(346,912)	(1)	(365,523)	(1)
					Total equity	11,925,659	38	9,409,814	30
TOTAL	\$ 31,376,851	100	\$ 31,022,278	100	TOTAL	\$ 31,376,851	100	\$ 31,022,278	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			
	2017		2016	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4 and 27)				
Sales	\$ 39,693,097	97	\$ 32,582,377	98
Investment revenue	853	-	502	-
Service revenue	1,042,391	3	806,944	2
Other operating revenue	<u>56,103</u>	<u>-</u>	<u>50,299</u>	<u>-</u>
Total operating revenue	40,792,444	100	33,440,122	100
OPERATING COSTS (Notes 10, 21 and 27)	<u>36,903,341</u>	<u>91</u>	<u>30,154,398</u>	<u>90</u>
GROSS PROFIT	<u>3,889,103</u>	<u>9</u>	<u>3,285,724</u>	<u>10</u>
OPERATING EXPENSES (Note 21)				
Selling and marketing expenses	940,718	2	891,090	3
General and administrative expenses	<u>374,645</u>	<u>1</u>	<u>349,757</u>	<u>1</u>
Total operating expenses	<u>1,315,363</u>	<u>3</u>	<u>1,240,847</u>	<u>4</u>
PROFIT FROM OPERATIONS	<u>2,573,740</u>	<u>6</u>	<u>2,044,877</u>	<u>6</u>
NON-OPERATING INCOME AND EXPENSES (Notes 11, 21, 24 and 27)				
Other income	142,354	-	94,558	-
Other gains and losses	(12,152)	-	(52,286)	-
Finance costs	(180,936)	-	(218,127)	-
Share of the profit of associates	<u>83,297</u>	<u>-</u>	<u>44,456</u>	<u>-</u>
Total non-operating income and expenses	<u>32,563</u>	<u>-</u>	<u>(131,399)</u>	<u>-</u>
PROFIT BEFORE INCOME TAX	2,606,303	6	1,913,478	6
INCOME TAX (Notes 4, 5 and 22)	<u>30</u>	<u>-</u>	<u>359</u>	<u>-</u>
NET PROFIT FOR THE YEAR	<u>2,606,273</u>	<u>6</u>	<u>1,913,119</u>	<u>6</u>
OTHER COMPREHENSIVE INCOME (LOSS) (Notes 4, 19 and 20)				
Items that will not be reclassified subsequently to profit or loss				
Remeasurement of defined benefit plans	(109,039)	-	(93,445)	(1)

(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			
	2017		2016	
	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss				
Unrealized gains on available-for-sale financial assets	\$ 7,800	-	\$ 227,562	1
Share of the other comprehensive income of associates	<u>10,811</u>	<u>-</u>	<u>724,323</u>	<u>2</u>
Other comprehensive income (loss) for the year, net of income tax	<u>(90,428)</u>	<u>-</u>	<u>858,440</u>	<u>2</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 2,515,845</u>	<u>6</u>	<u>\$ 2,771,559</u>	<u>8</u>
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Corporation	<u>\$ 2,606,273</u>	<u>6</u>	<u>\$ 1,913,119</u>	<u>6</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Corporation	<u>\$ 2,515,845</u>	<u>6</u>	<u>\$ 2,771,559</u>	<u>8</u>
EARNINGS PER SHARE (Note 23)				
Basic	<u>\$ 1.82</u>		<u>\$ 1.33</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, 2016	\$ 14,355,444	\$ 903	\$ (6,400,684)	\$ (1,317,408)	\$ 6,638,255
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>
Net profit for the year ended December 31, 2017	-	-	2,606,273	-	2,606,273
Other comprehensive income (loss) for the year ended December 31, 2017, net of income tax	-	-	(109,039)	18,611	(90,428)
Total comprehensive income for the year ended December 31, 2017	-	-	2,497,234	18,611	2,515,845
BALANCE AT DECEMBER 31, 2017	<u>\$ 14,355,444</u>	<u>\$ 903</u>	<u>\$ (2,083,776)</u>	<u>\$ (346,912)</u>	<u>\$ 11,925,659</u>

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

CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

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

	For the Year Ended December 31	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	\$ 2,606,303	\$ 1,913,478
Adjustments for:		
Depreciation expense	1,418,660	1,911,947
Net loss (gain) on financial assets at fair value through profit or loss	(7,059)	13,502
Finance costs	180,936	218,127
Interest income	(3,847)	(2,143)
Dividend income	(62,252)	(17,130)
Share of the profit of associates	(83,297)	(44,456)
Loss (gain) on disposal of property, plant and equipment	(290)	27,722
Decrease in provision for loss on inventories	(148,046)	(217,050)
Changes in operating assets and liabilities		
Financial instruments held for trading	23,548	-
Accounts receivable	(574,617)	54,527
Accounts receivable from related parties	76,346	(192,217)
Other receivables	(2,821)	(1,789)
Other receivables from related parties	(256,298)	381,700
Inventories	(281,275)	(1,100,933)
Prepayments	104,257	181,178
Other current assets	(3,088)	1,020
Accounts payable	7,640	1,435
Accounts payable to related parties	(111,561)	1,178,282
Other payables	38,235	177,337
Other current liabilities	39,137	101,510
Net defined benefit liabilities	(59,384)	(46,459)
Cash generated from operations	2,901,227	4,539,588
Income taxes refunded (paid)	(170)	219
Net cash generated from operating activities	<u>2,901,057</u>	<u>4,539,807</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the capital reduction on available-for-sale financial assets	4,489	2,186
Acquisition of property, plant and equipment	(553,808)	(588,889)
Proceeds from disposal of property, plant and equipment	12,233	-
Decrease in refundable deposits	543	1,905
Decrease (increase) in other financial assets	25,498	(2)
Interest received	4,068	2,201
Dividends received from others	62,252	17,130
Net cash used in investing activities	<u>(444,725)</u>	<u>(565,469)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term borrowings	(952,466)	1,592,525

(Continued)

CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

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

	For the Year Ended December 31	
	2017	2016
Decrease in short-term bills payable	\$ (1,249,028)	\$ (143,721)
Proceeds from long-term bank borrowings	2,300,000	800,000
Repayments of long-term bank borrowings	(3,272,308)	(6,776,923)
Increase in long-term bills payable	1,200,283	1,249,392
Decrease in long-term bills payable	(100,000)	(500,000)
Interest paid	<u>(179,688)</u>	<u>(217,729)</u>
Net cash used in financing activities	<u>(2,253,207)</u>	<u>(3,996,456)</u>
NET INCREASE (DECREASE) IN CASH	203,125	(22,118)
CASH AT THE BEGINNING OF THE YEAR	<u>14,830</u>	<u>36,948</u>
CASH AT THE END OF THE YEAR	<u>\$ 217,955</u>	<u>\$ 14,830</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, 2017 AND 2016 (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.

As of December 31, 2017, and 2016, 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 22, 2018.

3. APPLICATION OF NEW AND AMENDED STANDARDS AND INTERPRETATIONS

- a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively, the IFRSs) endorsed and issued into effect by the Financial Supervisory Commission (FSC)

Except for the following, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC did not have any material impact on the Corporation and its subsidiaries’ (the Group) accounting policies:

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 and issued into effect by the FSC. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include an 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 of the Group, 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 relationships with whom the Group have

significant transactions. If the transaction amount or balance with a specific related party is 10% or more of the Group's respective total transaction amount or balance, such transactions should be separately disclosed by the name of each related party.

When the amendments are applied retrospectively from January 1, 2017, the disclosures of related party transactions are enhanced. Refer to Note 27 for the related disclosures.

The initial application of above amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC would not have material impact.

- b. The Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed by the FSC for application starting from 2018

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendments to IFRS 2 "Classification and Measurement of Share-based Payment Transactions"	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
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendments to IFRS 15 "Clarifications to IFRS 15 Revenue from Contracts with Customers"	January 1, 2018
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

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 amendments to IAS 28 are retrospectively applied for annual periods beginning on or after January 1, 2018.

- 1) IFRS 9 "Financial Instruments" and related amendments

Classification, measurement and impairment of financial assets

With regard 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) If they are held within a business model whose objective is to collect contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with any impairment loss recognized in profit or loss. Interest revenue is recognized in profit or loss by using the effective interest method;
- b) If they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling 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 gains or losses 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 the 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 Group analyzed the facts and circumstances of its financial assets that existed at December 31, 2017 and performed an assessment of the impact of IFRS 9 on the classification and measurement of financial assets. Under IFRS 9, listed shares, emerging market shares, and unlisted shares classified as available-for-sale will be designated as at fair value through other comprehensive income and the fair value gains or losses accumulated in other equity will be transferred directly to retained earnings instead of being reclassified to profit or loss on disposal; for some unlisted shares classified as available-for-sale, they will be designated as at fair value through profit or loss.

IFRS 9 requires impairment loss on financial assets to be recognized by using the “Expected Credit Losses Model”. A loss allowance is required for financial assets measured at amortized cost, debt investments 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 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since its 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 its 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 take 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.

The Group has performed a preliminary assessment for when the Group will apply the simplified approach to recognize full-lifetime expected credit losses for trade receivables, contract assets and lease receivables.

The Group elects not to restate prior reporting periods when applying the classification, measurement and impairment of financial assets under IFRS 9 with the cumulative effect of the initial application recognized at the date of initial application and will provide the disclosures related to the classification and the adjustment information upon initial application of IFRS 9.

The anticipated impact on assets, liabilities and equity when retrospectively applying IFRS 9 on January 1, 2018 is detailed below:

	Carrying Amount as of December 31, 2017	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2018
<u>Impact on assets, liabilities and equity</u>			
Available-for-sale financial assets - current	\$ 819,454	\$ (819,454)	\$ -
Financial assets at fair value through other comprehensive income - current	-	819,454	819,454
Available-for-sale financial assets - noncurrent	79,411	(79,411)	-
Financial assets at fair value through other comprehensive income - noncurrent	<u>-</u>	<u>79,411</u>	<u>79,411</u>
Total effect on assets	<u>\$ 898,865</u>	<u>\$ -</u>	<u>\$ 898,865</u>
Accumulated deficits	\$ (2,083,776)	\$ 84,398	\$ (1,999,378)
Unrealized gains and losses on available-for-sale financial assets	(346,912)	346,912	-
Unrealized gains and losses on financial assets at fair value through other comprehensive income	<u>-</u>	<u>(431,310)</u>	<u>(431,310)</u>
Total effect on equity	<u>\$ (2,430,688)</u>	<u>\$ -</u>	<u>\$ (2,430,688)</u>

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

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.

When applying IFRS 15, the Group recognizes 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 contract; and
- Recognize revenue when the Group satisfies a performance obligation.

In identifying performance obligations, IFRS 15 and the related amendments require that a good or service is distinct if it is capable of being distinct (for example, the Group regularly sell it separately) and the promise to transfer it is distinct within the context of the contract (i.e. the nature of the promise in the contract is to transfer each of the goods or services individually rather than to transfer combined items).

For the manufacturing of customer-specific goods, if the customer controls the goods when they are created or enhanced, and the customer would compensate the Group to recover the costs incurred plus a reasonable profit margin whenever the contract is terminated by the customer, revenue will be recognized over time under IFRS 15. Currently, the Group recognize revenue when goods are

delivered.

The Group elects to retrospectively apply IFRS 15 to contracts that are not complete on January 1, 2018 and recognize the cumulative effect of the change in retained earnings on January 1, 2018. In addition, the Group will disclose the difference between the amount that results from applying IFRS 15 and the amount that results from applying current standards for 2018.

The anticipated impact on assets, liabilities and equity when retrospectively applying IFRS 15 on January 1, 2018 is detailed below:

	Carrying Amount as of December 31, 2017	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2018
<u>Impact on assets, liabilities and equity</u>			
Other payables	\$ 875,367	\$ (163,435)	\$ 711,932
Refund liabilities - current	-	163,435	163,435
Other current liabilities	183,673	(161,365)	22,308
Contract liabilities - current	-	161,365	161,365
Other noncurrent liabilities	2,380	(2,380)	-
Contract liabilities - noncurrent	<u>-</u>	<u>2,380</u>	<u>2,380</u>
Total effect on liabilities	<u>\$ 1,061,420</u>	<u>\$ -</u>	<u>\$ 1,061,420</u>

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

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 as 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 amendments also stipulate that, when determining whether to recognize a deferred tax asset, the estimate of probable future taxable profit may include some of the subsidiary’s assets for more than their carrying amount if there is sufficient evidence that it is probable that the subsidiary will achieve the higher amount, and that the estimate for future taxable profit should exclude tax deductions resulting from the reversal of deductible temporary differences.

In assessing a deferred tax asset, the Group currently assumes it will recover the asset at its carrying amount when estimating probable future taxable profit. The amendments will be applied retrospectively in 2018.

Except for the above impact, as of the date the consolidated financial statements were issued by the board of directors, the Group assessed that there would be no material impact of the initial application of other standards and the amendments to interpretations on their financial position and results of operations.

c. New IFRSs in issue but not yet endorsed and issued into effect by the FSC

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 “Prepayment Features with Negative Compensation”	January 1, 2019 (Note 2)
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 16 “Leases”	January 1, 2019 (Note 3)
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019 (Note 4)
Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures”	January 1, 2019
IFRIC 23 “Uncertainty Over Income Tax Treatments”	January 1, 2019

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 FSC permits the election for early adoption of the amendments starting from 2018.

Note 3: On December 19, 2017, the FSC announced that IFRS 16 will take effect starting from January 1, 2019.

Note 4: The Corporation shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

1) 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 are lessee, they 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 leases under IAS 17 to low-value and short-term leases. On the consolidated statements of comprehensive income, the Group should present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed by using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion and interest portion of lease liabilities 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.

2) IFRIC 23 “Uncertainty Over Income Tax Treatments”

IFRIC 23 clarifies that when there is uncertainty over income tax treatments, the Group should assume that the taxation authority will have full knowledge of all related information when making related examinations. If the Group conclude that it is probable that the taxation authority will accept an uncertain tax treatment, the Group should determine the taxable profit, tax bases, unused

tax losses, unused tax credits or tax rates consistently with the tax treatments used or planned to be used in its income tax filings. If it is not probable that the taxation authority will accept an uncertain tax treatment, the Group should make estimates using either the most likely amount or the expected value of the tax treatment, depending on which method the entity expects to better predict the resolution of the uncertainty. The Group has to reassess its judgments and estimates if facts and circumstances change.

On initial application, the Group shall apply IFRIC 23 either retrospectively to each prior reporting period presented, if this is possible without the use of hindsight, or retrospectively with the cumulative effect of the initial application of IFRIC 23 recognized at the date of initial application.

Except for the above impact, as of the date the consolidated financial statements were issued by the board of directors, the Group are in the process of assessing the impact of the impending initial application of the aforementioned and other standards and the amendments to interpretations on its financial position and results of operations. Disclosures will be provided after a detailed review of the impact has been completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

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 and net defined liabilities which are measured at present value of the defined benefit obligation less the fair value of plan assets.

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 (i.e. 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, 2017	December 31, 2016
Chung Hung Steel Corporation Ltd.	Hung Li Steel Corporation Ltd. (HLSC)	Steel product processing	100	100
	Taiwan Steel Corporation	Operation in progress	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 (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, etc. 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 its 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 - changes in the Group's share of equity of associates. If the Group ownership interest is reduced due to non-subscription of 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's share of losses of an associate equals or exceeds its interest in that associate (which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing their share of further losses. Additional losses and liabilities are recognized only to the extent that the Group has 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 of investment 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 transacts 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 Tangible Assets

At each balance sheet date, the Group reviews the carrying amounts of their tangible 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 26.

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's right to receive the dividends is established.

3) Loans and receivables

Loans and receivables (including cash, 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 it transfers 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.

Equity instruments

Equity instruments issued by the Corporation are recognized at the proceeds received, net of direct issue costs.

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 held for trading 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 26.

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.

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 26, 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. 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

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Cash on hand	\$ 820	\$ 840
Checking accounts and demand deposits	<u>217,135</u>	<u>13,990</u>
	<u>\$ 217,955</u>	<u>\$ 14,830</u>

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
<u>Financial assets held for trading - current</u>		
Emerging market shares	<u>\$ 215,464</u>	<u>\$ 231,953</u>

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
<u>Current</u>		
Domestic listed shares	<u>\$ 819,454</u>	<u>\$ 816,143</u>
<u>Noncurrent</u>		
Domestic listed shares	\$ 24,848	\$ 24,748
Domestic unlisted shares	<u>54,563</u>	<u>54,663</u>
	<u>\$ 79,411</u>	<u>\$ 79,411</u>

Rise Link Venture Capital Corp. conducted capital reduction and refunded NT\$4,489 thousand and NT\$2,186 thousand in August 2017 and August 2016, respectively.

9. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
<u>Accounts receivable</u>		
Accounts receivable - non-related parties	<u>\$ 1,291,784</u>	<u>\$ 717,167</u>
Accounts receivable - related parties	<u>\$ 168,187</u>	<u>\$ 244,533</u>
<u>Other receivables (including related parties)</u>		
Discount receivable	\$ 363,920	\$ 118,478
Receivables from disposal of scrap	43,348	28,507
Others	<u>4,489</u>	<u>5,874</u>
	<u>\$ 411,757</u>	<u>\$ 152,859</u>

a. Accounts receivable

The average credit period for sales of goods was 7-30 days. Allowance for impairment loss was recognized by reference to past default experience with counterparties and an analysis of their current financial position. As of December 31, 2017 and 2016, there was no allowance for doubtful accounts.

The aging of accounts receivable was as follows:

	December 31	
	2017	2016
Up to 30 days	\$ 1,459,775	\$ 917,580
31-60 days	196	41,042
61-90 days	<u>-</u>	<u>3,078</u>
	<u>\$ 1,459,971</u>	<u>\$ 961,700</u>

The above aging schedule was based on the creation date.

As of December 31, 2017 and 2016, 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	
	2017	2016
A company	\$ 191,338	\$ 105,065
B company	184,954	-
C company	163,962	-
D company	<u>121,529</u>	<u>112,686</u>
	<u>\$ 661,783</u>	<u>\$ 217,751</u>

The Corporation entered into accounts receivable factoring contract (without recourse). 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
<u>For the year ended December 31, 2017</u>						
Mega Bank	\$ 1,099,546	\$ 3,137,353	\$ 3,148,673	\$ 1,088,226	1.19	NT\$3 billion
Bank of Taiwan	106,911	356,052	400,158	62,805	2.58	USD30 million
Taishin International Bank	-	726,453	726,453	-	2.61	USD10 million
	<u>\$ 1,206,457</u>	<u>\$ 4,219,858</u>	<u>\$ 4,275,284</u>	<u>\$ 1,151,031</u>		
<u>For the year ended December 31, 2016</u>						
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>		

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, 2017 and 2016, there was no allowance for doubtful accounts.

10. INVENTORIES

	December 31	
	2017	2016
Raw materials	\$ 1,537,686	\$ 1,619,612
Supplies	426,656	395,979
Work in progress	782,309	436,654
Finished goods	2,268,470	2,129,546
Others	4,504	7,710
Raw materials and supplies in transit	<u>-</u>	<u>803</u>
	<u>\$ 5,019,625</u>	<u>\$ 4,590,304</u>

As of December 31, 2017 and 2016, the reduction for inventory devaluation was NT\$5,743 thousand and NT\$153,789 thousand, respectively.

The cost of inventories recognized as operating costs for the years ended December 31, 2017 and 2016 was NT\$36,306,647 thousand and NT\$29,699,747 thousand, respectively.

11. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31	
	2017	2016
Transglory Investment Corp. (TIC)	<u>\$ 2,425,702</u>	<u>\$ 2,331,594</u>

Name of Associate	Proportion of Ownership and Voting Rights			
	Nature of Activities	Principal Place of Business	December 31	
			2017	2016
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, 2017 and 2016 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

	December 31	
	2017	2016
Current assets	\$ 644	\$ 1,725
Noncurrent assets	6,429,601	6,396,510

(Continued)

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Current liabilities	\$ (500,883)	\$ (698,910)
Equity	\$ 5,929,362	\$ 5,699,325
Proportion of the Group's ownership (%)	40.91	40.91
Equity attributable to the Group	\$ 2,425,702	\$ 2,331,594
Carrying amount	\$ 2,425,702	\$ 2,331,594

(Concluded)

	<u>For the Year Ended December 31</u>	
	<u>2017</u>	<u>2016</u>
Operating revenue	\$ 223,577	\$ 129,961
Net profit for the year	\$ 203,611	\$ 108,668
Other comprehensive income	26,426	1,770,528
Total comprehensive income for the year	\$ 230,037	\$ 1,879,196
Comprehensive income attributable to the Group	\$ 94,108	\$ 768,779

12. OTHER FINANCIAL ASSETS

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
<u>Current</u>		
Time deposits with original maturities more than three months	\$ -	\$ 25,500
Pledged time deposits (Note 28)	500,000	500,000
	\$ 500,000	\$ 525,500
<u>Noncurrent</u>		
Deposits for projects (Note 14)	\$ 2,385	\$ 2,383

13. PROPERTY, PLANT AND EQUIPMENT

For the year ended December 31, 2017

	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, 2017	\$ 3,989,661	\$ 4,968,868	\$ 22,075,191	\$ 4,322,471	\$ 1,542,186	\$ 244,701	\$ 37,143,078
Additions	1,496	20,325	68,771	45,416	152,988	121,461	410,457
Disposals	(11,258)	-	(197,479)	(26,902)	(141,980)	-	(377,619)
Items reclassified to investment properties	(5,778)	-	-	-	-	-	(5,778)
Balance at December 31, 2017	\$ 3,974,121	\$ 4,989,193	\$ 21,946,483	\$ 4,340,985	\$ 1,553,194	\$ 366,162	\$ 37,170,138

(Continued)

	Land	Buildings	Machinery and Equipment	Other Equipment	Spare Parts	Construction in Progress and Equipment to be Inspected	Total
<u>Accumulated depreciation</u>							
Balance at January 1, 2017	\$ -	\$ 1,481,430	\$ 16,404,867	\$ 3,575,303	\$ 624,729	\$ -	\$ 22,086,329
Depreciation expense	-	132,176	903,953	177,190	204,518	-	1,417,837
Disposals	-	-	(196,794)	(26,903)	(141,979)	-	(365,676)
Balance at December 31, 2017	<u>\$ -</u>	<u>\$ 1,613,606</u>	<u>\$ 17,112,026</u>	<u>\$ 3,725,590</u>	<u>\$ 687,268</u>	<u>\$ -</u>	<u>\$ 23,138,490</u>
Carrying amount at December 31, 2017	<u>\$ 3,974,121</u>	<u>\$ 3,375,587</u>	<u>\$ 4,834,457</u>	<u>\$ 615,395</u>	<u>\$ 865,926</u>	<u>\$ 366,162</u>	<u>\$ 14,031,648</u>

(Concluded)

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	5,778	-	-	-	-	-	5,778
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>

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	5-10 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, 2017 and 2016, the book value of those remaining farmlands recognized as land were NT\$55,433 thousand and NT\$66,753 thousand, respectively.

Refer to Note 28 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, 2017

	Land	Buildings	Total
<u>Cost</u>			
Balance at January 1, 2017	\$ 5,987,363	\$ 39,218	\$ 6,026,581
Transfer from property, plant and equipment	<u>5,778</u>	<u>-</u>	<u>5,778</u>
Balance at December 31, 2017	<u>\$ 5,993,141</u>	<u>\$ 39,218</u>	<u>\$ 6,032,359</u>
<u>Accumulated depreciation</u>			
Balance at January 1, 2017	\$ -	\$ 13,113	\$ 13,113
Depreciation expense	<u>-</u>	<u>823</u>	<u>823</u>
Balance at December 31, 2017	<u>\$ -</u>	<u>\$ 13,936</u>	<u>\$ 13,936</u>
<u>Accumulated impairment</u>			
Balance at January 1, and December 31, 2017	<u>\$ 77,532</u>	<u>\$ -</u>	<u>\$ 77,532</u>
Carrying amount at December 31, 2017	<u>\$ 5,915,609</u>	<u>\$ 25,282</u>	<u>\$ 5,940,891</u>

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>
<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>

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 recognized as investment property. 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 fair value of the investment properties was arrived at on the basis of valuations carried out in March, December 2017 and April, September and November 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:

	December 31	
	2017	2016
Fair value	<u>\$ 9,055,408</u>	<u>\$ 8,509,731</u>
Expense rate (%)	19.61-25.61	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

	December 31	
	2017	2016
Input tax	\$ 162,775	\$ 199,619
Prepaid insurance	10,968	4,558
Prepayments for purchases	26,800	42,440
Offset against business tax payable	167	56,381
Others	<u>2,114</u>	<u>4,083</u>
	<u>\$ 202,824</u>	<u>\$ 307,081</u>

16. BORROWINGS

a. Short-term borrowings and bank overdrafts

	December 31	
	2017	2016
Unsecured loans - interest at 0.88%-1.03% p.a. and 0.90%-1.15% p.a. as of December 31, 2017 and 2016, respectively	\$ 5,965,000	\$ 6,391,000
Letters of credit - interest at 0.98% p.a. and 0.93%-1.03% p.a. as of December 31, 2017 and 2016, respectively	1,054,484	1,612,209
Bank overdrafts - interest at both 0.35%-0.54% p.a. as of December 31, 2017 and 2016	<u>445,331</u>	<u>414,072</u>
	<u>\$ 7,464,815</u>	<u>\$ 8,417,281</u>

b. Short-term bills payable

	December 31	
	2017	2016
Commercial paper		
Mega Bills Finance Corporation	\$ 460,000	\$ 460,000
Grand Bills Finance Corp.	100,000	200,000
Taiwan Cooperative Bills Finance Corporation	100,000	100,000
China Bills Finance Corporation	10,000	600,000
Taiwan Finance Corp.	-	250,000
Ta Ching Bills Finance Corporation	-	200,000
International Bills Finance Corporation	-	<u>110,000</u>
	<u>670,000</u>	<u>1,920,000</u>
	<u>151</u>	<u>1,123</u>
Less: Unamortized discounts	<u>\$ 669,849</u>	<u>\$ 1,918,877</u>
Interest rate (%)	0.50-0.65	0.40-0.74

c. Long-term borrowings

	December 31	
	2017	2016
Syndicated bank loans		
Bank of Taiwan and other banks		
Repaid in December 2017, interest at 1.58% p.a.	\$ -	\$ 2,672,308
Repayable in March 2019 with a revolving credit, interest at both 1.58% p.a. as of December 31, 2017 and 2016.	2,250,000	2,250,000
Credit bank loans		
Due on various dates through December 2020, interest at both 1.11%-1.32% p.a. as of December 2017 and 2016.	<u>3,000,000</u>	<u>1,300,000</u>
	5,250,000	6,222,308
Less: Current portion	150,000	1,076,923
Syndicated loan fee	<u>2,550</u>	<u>8,419</u>
	<u>\$ 5,097,450</u>	<u>\$ 5,136,966</u>

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

- 1) The credit line is NT\$16 billion, which consists of two types of loans, namely Type A for NT\$7 billion and Type B for 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 was repaid in December 2017.
- 3) Type B is an unsecured revolving credit loan, and the committed minimum amount to use is 25% of the loan amount.
- 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 operations. 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 the Corporation's audited annual standalone financial statements.

As of December 31, 2017 and 2016, the Corporation was in compliance with this syndicated credit facility agreement.

d. Long-term bills payable

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Mega Bills Finance Corporation		
Repayable in March 2021 with a credit of NT\$1.3 billion	\$ 1,300,000	\$ 1,100,000
China Bills Finance Corporation		
Repayable in January 2020 with a credit of NT\$600 million	600,000	500,000
Repayable in September 2021 with a credit of NT\$500 million	500,000	-
Grand Bills Finance Corporation		
Repayable in January 2020 with a credit of NT\$600 million	450,000	450,000
International Bills Financial Corporation		
Repayable in December 2021 with a credit of NT\$300 million	<u>300,000</u>	<u>-</u>
	3,150,000	2,050,000
Less: Unamortized discount	<u>938</u>	<u>1,221</u>
	<u>\$ 3,149,062</u>	<u>\$ 2,048,779</u>
Interest rate (%)	0.42-0.65	0.60-0.69

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

17. ACCOUNTS PAYABLE

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
<u>Accounts payable</u>		
Operating - non related parties	<u>\$ 56,160</u>	<u>\$ 48,520</u>
Operating - related parties	<u>\$ 1,219,265</u>	<u>\$ 1,330,826</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>2017</u>	<u>2016</u>
Current		
Other payables		
Salaries and incentive bonus	\$ 349,322	\$ 300,476
Sales discounts	163,435	200,763
Utilities	71,104	63,447
Export fees	65,457	54,364
Outsourced repair and construction	53,091	47,374
Purchases of equipment	26,885	142,457
Others	<u>146,073</u>	<u>144,710</u>
	<u>\$ 875,367</u>	<u>\$ 953,591</u>
Other current liabilities		
Unearned receipts	\$ 167,296	\$ 133,406
Others	<u>16,377</u>	<u>11,130</u>
	<u>\$ 183,673</u>	<u>\$ 144,536</u>

19. 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 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 makes 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:

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Present value of defined benefit obligation	\$ 1,282,008	\$ 1,182,038
Fair value of plan assets	<u>(916,252)</u>	<u>(865,937)</u>
Net defined benefit liabilities	<u>\$ 365,756</u>	<u>\$ 316,101</u>

Movements of net defined benefit liabilities (assets) were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities (Assets)
Balance at January 1, 2017	<u>\$ 1,182,038</u>	<u>\$ (865,937)</u>	<u>\$ 316,101</u>
Service cost			
Current service cost	20,694	-	20,694
Interest expense (income)	<u>14,775</u>	<u>(11,247)</u>	<u>3,528</u>
Recognized in profit or loss	<u>35,469</u>	<u>(11,247)</u>	<u>24,222</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	2,611	2,611
Actuarial loss - changes in demographic assumptions	16,585	-	16,585
Actuarial loss - experience adjustments	<u>89,843</u>	<u>-</u>	<u>89,843</u>
Recognized in other comprehensive income	<u>106,428</u>	<u>2,611</u>	<u>109,039</u>
Contributions from the employer	<u>-</u>	<u>(80,260)</u>	<u>(80,260)</u>
Benefits paid	<u>(41,927)</u>	<u>38,581</u>	<u>(3,346)</u>
Balance at December 31, 2017	<u>\$ 1,282,008</u>	<u>\$ (916,252)</u>	<u>\$ 365,756</u>
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 loss - changes in demographic assumptions	2,770	-	2,770
Actuarial loss - 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>

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	
	2017	2016
Operating costs	\$ 20,733	\$ 23,015
Operating expenses	<u>3,489</u>	<u>5,298</u>
	<u>\$ 24,222</u>	<u>\$ 28,313</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 of Labor Funds, Ministry of Labor 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 and 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	
	2017	2016
Discount rate (%)	1.25	1.25
Expected rate of salary increase (%)	2.00	2.00
Turnover rate (%)	0-8	0-10

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:

	December 31	
	2017	2016
Discount rate		
0.25% increase	<u>\$ (34,176)</u>	<u>\$ (32,596)</u>
0.25% decrease	<u>\$ 35,507</u>	<u>\$ 33,902</u>

(Continued)

	December 31	
	2017	2016
Expected rate of salary increase		
0.25% increase	<u>\$ 34,607</u>	<u>\$ 33,045</u>
0.25% decrease	<u>\$ (33,482)</u>	<u>\$ (31,937)</u>
		(Concluded)

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

	December 31	
	2017	2016
The expected contributions to the plan for the next year	<u>\$ 63,600</u>	<u>\$ 67,650</u>
The average duration of the defined benefit obligation	11.1 years	11.5 years

20. EQUITY

a. Ordinary shares

	December 31	
	2017	2016
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 NT\$10, carry one vote per share and the right to dividends.

b. Capital surplus

	December 31	
	2017	2016
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

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.

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\$1,913,119 thousand of net profit for 2016 to offset the accumulated deficit was proposed by the board of directors and approved in the shareholders' meeting in June 2017. The use of NT\$2,606,273 thousand of net profit for 2017 to offset the accumulated deficit was proposed by the board of directors, and the appropriation is subject to resolution in the shareholders' meeting to be held in June 2018.

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	
	2017	2016
Balance, beginning of year	\$ (365,523)	\$ (1,317,408)
Unrealized gain or loss on available-for-sale financial assets	7,800	227,562
Share of unrealized loss on available-for-sale financial assets of associates accounted for using the equity method	<u>10,811</u>	<u>724,323</u>
Balance, end of year	<u>\$ (346,912)</u>	<u>\$ (365,523)</u>

21. PROFIT BEFORE INCOME TAX

Profit before income tax consisted of following items:

a. Other income

	For the Year Ended December 31	
	2017	2016
Rental income	\$ 70,202	\$ 68,628
Interest income	3,847	2,143
Dividend income	61,399	17,130
Others	<u>6,906</u>	<u>6,657</u>
	<u>\$ 142,354</u>	<u>\$ 94,558</u>

b. Other gains and losses

	For the Year Ended December 31	
	2017	2016
Net foreign exchange gain (loss)	\$ (686)	\$ 9,849
Gain (loss) arising on financial assets at fair value through profit or loss	7,059	(13,502)
Fees	(18,214)	(20,065)
Gain (loss) on disposal of property, plant and equipment	290	(27,722)
Other losses	<u>(601)</u>	<u>(846)</u>
	<u>\$ (12,152)</u>	<u>\$ (52,286)</u>

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

	For the Year Ended December 31	
	2017	2016
Foreign exchange gain	\$ 64,004	\$ 72,090
Foreign exchange loss	<u>(64,690)</u>	<u>(62,241)</u>
Net exchange gain (loss)	<u>\$ (686)</u>	<u>\$ 9,849</u>

c. Finance costs

	For the Year Ended December 31	
	2017	2016
Interest on bank overdrafts and loans	\$ 170,187	\$ 209,790
Interest on loans from related parties (Note 28)	<u>14,483</u>	<u>10,284</u>
Total interest expense financial liabilities measured at amortized cost	184,670	220,074
Less: Amounts included in the cost of qualifying assets	<u>3,734</u>	<u>1,947</u>
	<u>\$ 180,936</u>	<u>\$ 218,127</u>

Information about capitalized interest was as follows:

	For the Year Ended December 31	
	2017	2016
Capitalized amounts	\$ 3,734	\$ 1,947
Capitalized annual rates (%)	1.01-1.15	1.07-1.27

d. Depreciation

	For the Year Ended December 31	
	2017	2016
Property, plant and equipment	\$ 1,417,837	\$ 1,911,124
Investment properties	<u>823</u>	<u>823</u>
	<u>\$ 1,418,660</u>	<u>\$ 1,911,947</u>

(Continued)

	For the Year Ended December 31	
	2017	2016
Analysis of depreciation by function		
Operating costs	\$ 1,332,810	\$ 1,838,197
Operating expenses	85,027	72,927
Deduction of other income	<u>823</u>	<u>823</u>
	<u>\$ 1,418,660</u>	<u>\$ 1,911,947</u>
		(Concluded)

e. Operating expenses directly related to investment properties

	For the Year Ended December 31	
	2017	2016
Direct operating expenses of investment properties that generated rental income	\$ 16,857	\$ 16,725
Direct operating expenses of investment properties that did not generate rental income	<u>2,163</u>	<u>2,163</u>
	<u>\$ 19,020</u>	<u>\$ 18,888</u>

f. Employee benefits

	For the Year Ended December 31	
	2017	2016
Short-term employee benefits		
Salaries	\$ 1,097,875	\$ 1,013,594
Labor and health insurance	83,815	74,560
Others	<u>142,593</u>	<u>120,654</u>
	<u>1,324,283</u>	<u>1,208,808</u>
Post-employment benefits		
Defined contribution plans	22,556	20,118
Defined benefit plans (Note 20)	<u>24,222</u>	<u>28,313</u>
	<u>46,778</u>	<u>48,431</u>
	<u>\$ 1,371,061</u>	<u>\$ 1,257,239</u>
Analysis of employee benefits expense by function		
Operating costs	\$ 1,114,861	\$ 1,016,122
Operating expenses	<u>256,200</u>	<u>241,117</u>
	<u>\$ 1,371,061</u>	<u>\$ 1,257,239</u>

In accordance with the Corporation's Articles of Incorporation, the Corporation distributes 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 2017 and 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.

22. 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	
	2017	2016
Current tax		
In respect of the current year	\$ 185	\$ 205
In respect of prior years	<u>-</u>	<u>(1)</u>
	185	204
Deferred tax		
In respect of the current year	<u>(155)</u>	<u>155</u>
	<u>\$ 30</u>	<u>\$ 359</u>

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

	For the Year Ended December 31	
	2017	2016
Profit before income tax	<u>\$ 2,606,303</u>	<u>\$ 1,913,478</u>
Income tax expense at the statutory rate (17%)	\$ 443,072	\$ 325,291
Permanent differences		
Profit on investments under equity method	(14,161)	(7,558)
Others	(7,965)	5,006
Unrecognized deductible temporary differences	(54,192)	(56,381)
Loss carryforwards	(366,755)	(265,998)
Unrecognized loss carryforwards	21	-
Land value increment tax	10	-
Adjustments from prior years	<u>-</u>	<u>(1)</u>
	<u>\$ 30</u>	<u>\$ 359</u>

In February 2018, it was announced by the President that the Income Tax Act in the ROC was amended and starting from 2018, the corporate income tax rate will be adjusted from 17% to 20%. In addition, the tax rate of the corporate unappropriated earnings in 2018 will be reduced from 10% to 5%.

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

c. Current tax assets and liabilities

	<u>December 31</u>	
	2017	2016
Current tax assets		
Tax refund receivable	<u>\$ 339</u>	<u>\$ 468</u>
Current tax liabilities		
Income tax payable	<u>\$ 73</u>	<u>\$ 187</u>

d. Deferred tax liabilities

The movements of deferred tax liabilities were as follows:

For the year ended December 31, 2017

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

For the year ended December 31, 2016

	Balance, Beginning of Year	Recognized in Profit or Loss	Balance, End of Year
<u>Deferred Tax Liabilities</u>			
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>

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

	<u>December 31</u>	
	2017	2016
Loss carryforwards		
2021 maturity	\$ 61,050	\$ 2,071,134
2022 maturity	4,641,513	4,570,617
2023 maturity	187,880	187,880
2025 maturity	<u>2,655,245</u>	<u>2,655,245</u>
	<u>\$ 7,545,688</u>	<u>\$ 9,484,876</u>

(Continued)

	December 31	
	2017	2016
Deductible temporary differences		
Gain on disposal of nonperforming loans	\$ 575,992	\$ 658,134
Impairment loss on assets	447,663	447,663
Net defined benefit liabilities	365,756	316,101
Sales discount payable	163,174	181,446
Provision for inventory loss	5,743	153,789
Loss on asset retirement	-	27,722
Others	<u>60,389</u>	<u>71,321</u>
	<u>\$ 1,618,717</u>	<u>\$ 1,856,176</u>

(Concluded)

f. Integrated income tax - the Corporation

	December 31	
	2017	2016
Imputation credit account ("ICA")	Note	<u>\$ 1,016,011</u>

Note: Since the amended Income Tax Act announced in February 2018 abolished the imputation tax system, the related information about integrated income tax in 2017 is no longer applicable.

g. Income tax assessments

The Group's income tax returns through 2015 have been assessed by the tax authorities.

23. BASIC EARNINGS PER SHARE

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

Net profit for the year

	For the Year Ended December 31	
	2017	2016
Attributable to owners of the Corporation	<u>\$ 2,606,273</u>	<u>\$ 1,913,119</u>

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

	For the Year Ended December 31	
	2017	2016
Weighted average number of ordinary shares in computation of basic earnings per share	<u>1,435,544</u>	<u>1,435,544</u>

24. 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,

2017 and 2016 were NT\$75,775 thousand and NT\$74,521 thousand, respectively, and were included in other income. Based on the lease contract, as of December 31, 2017 and 2016, the Corporation obtained the same amount of deposit of NT\$35,000 thousand which was recognized as guaranteed deposits received.

As of December 31, 2017 and 2016, notes receivable and advance rental were as follows:

	<u>December 31</u>	
	2017	2016
Notes receivable	\$ 47,669	\$ 45,399
Less: Advance rental	<u>(47,669)</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>	
	2017	2016
Not later than 1 year	\$ 85,363	\$ 81,916
Later than 1 year and not later than 5 years	415,880	407,813
Later than 5 years	<u>723,052</u>	<u>809,556</u>
	<u>\$ 1,224,295</u>	<u>\$ 1,299,285</u>

25. 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.

26. 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 that are measured at fair value on a recurring basis.

1) Fair value hierarchy

	Level 1	Level 2	Level 3	Total
<u>December 31, 2017</u>				
Financial assets at fair value through profit or loss				
Emerging market shares	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 215,464</u>	<u>\$ 215,464</u>

(Continued)

	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
Domestic listed shares	\$ 844,302	\$ -	\$ -	\$ 844,302
Domestic unlisted shares	<u>-</u>	<u>-</u>	<u>54,563</u>	<u>54,563</u>
	<u>\$ 844,302</u>	<u>\$ -</u>	<u>\$ 54,563</u>	<u>\$ 898,865</u>
<u>December 31, 2016</u>				
Financial assets at fair value through profit or loss				
Emerging market shares	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 231,953</u>	<u>\$ 231,953</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>
				(Concluded)

There was no transfer between Level 1 and Level 2 for the years ended December 31, 2017 and 2016.

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, 2017</u>			
Balance, beginning of year	\$ 231,953	\$ 54,663	\$ 286,616
Recognized in profit or loss	7,195	-	7,195
Disposal	(23,684)	-	(23,684)
Recognized in other comprehensive income	-	4,389	4,389
Capital reduction refunded	<u>-</u>	<u>(4,489)</u>	<u>(4,489)</u>
Balance, end of year	<u>\$ 215,464</u>	<u>\$ 54,563</u>	<u>\$ 270,027</u>
<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>

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

	December 31	
	2017	2016
Financial assets		
<hr/>		
Fair value through profit or loss		
Held for trading	\$ 215,464	\$ 231,953
Available-for-sale financial assets (including noncurrent)	898,865	895,554
Loans and receivables (see 1 below)	2,597,915	1,663,662
<hr/>		
Financial liabilities		
<hr/>		
Measured at amortized cost (see 2 below)	18,717,088	20,966,883

- 1) The balances included loans and receivables measured at amortized cost, which comprise cash, 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, 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 30.

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. 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	
	2017	2016
Profit	\$ (10,116)	\$ (2,074)

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

b) Interest rate risk

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

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

	December 31	
	2017	2016
Fair value interest rate risk		
Financial liabilities	\$ 3,149,062	\$ 2,048,779
Cash flow interest rate risk		
Financial assets	697,108	537,258
Financial liabilities	12,712,265	14,631,170

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, 2017 and 2016 would have been lower by NT\$120,152 thousand and lower by NT\$140,939 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 other comprehensive income, for the years ended December 31, 2017 and 2016 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 Group.

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, 2017, the current liabilities of the Group exceed current assets by NT\$1,765,420 thousand and the unutilized credit facility of the Group was NT\$29.2 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	1-5 Years	Total
<u>December 31, 2017</u>			
Short-term borrowings	\$ 7,515,246	\$ -	\$ 7,515,246
Short-term bills payable	670,000	-	670,000
Accounts payable (including related parties)	1,275,425	-	1,275,425
Other payables	875,367	-	875,367
Long-term bank borrowings	223,403	5,162,475	5,385,878
Long-term bills payable	-	3,150,000	3,150,000
Guarantee deposits received	-	35,120	35,120
	<u>\$ 10,559,441</u>	<u>\$ 8,347,595</u>	<u>\$ 18,907,036</u>
<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>

27. 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. The name of the company and its relationship with the Group

<u>Company</u>	<u>Relationship</u>
China Steel Corporation	Parent entity
Dragon Steel Corporation (DSC)	Fellow subsidiaries
CHC Resources Corporation (CHC)	Fellow subsidiaries
United Steel Engineering & Construction Corp. (USECC)	Fellow subsidiaries
Info Champ Systems Corporation (ICSC)	Fellow subsidiaries
China Steel Machinery Corporation (CSMC)	Fellow subsidiaries
China Steel Precision Metals Kunshan Co., Ltd. (former name: United Steel Engineering and Construction Co., Ltd.)	Fellow subsidiaries
CSC Steel SDN. BHD.	Fellow subsidiaries
CSGT Metals Vietnam Joint Stock Company	Fellow subsidiaries
China Steel Global Trading Corporation	Fellow subsidiaries
China Ecotek Corporation	Fellow subsidiaries
Steel Castle Technology Corporation	Fellow subsidiaries
China Steel Security Corporation	Fellow subsidiaries
China Steel Express Corporation	Fellow subsidiaries
Chung-Kang Steel Structure (Kunshan) Co., Ltd	Fellow subsidiaries
Universal Exchange Inc.	Fellow subsidiaries
United Steel Development Co., Ltd.	Fellow subsidiaries
Union Steel Development Corp.	Fellow subsidiaries
China Prosperity Development Corp.	Fellow subsidiaries
Himag Magnetic Corporation	Fellow subsidiaries
CSGT (Singapore) Pte. Ltd.	Fellow subsidiaries
China Steel Management Consulting Corp.	Fellow subsidiaries
China Steel Chemical Corporation	Fellow subsidiaries
Yu Cheng Lime Corporation	Fellow subsidiaries
Transglory Investment Corporation	Associates
Pacitic Harbour Stevedoring Corporation	Other related parties as supervisors of the Corporation
Cheng Shin Management for Building Co., Ltd. (former name: Cheng Shin Building Company)	Director of the Corporation

- b. Sale of goods

Account Items	Related Parties Types	<u>For the Year Ended December 31</u>	
		2017	2016
Sales	Fellow subsidiaries related to others	\$ 1,345,685	\$ 1,595,572
	Parent entity	<u>5,508</u>	<u>4,584</u>
		<u>\$ 1,351,193</u>	<u>\$ 1,600,156</u>

(Continued)

Account Items	Related Parties Types	For the Year Ended December 31	
		2017	2016
Service Revenue	Parent entity	\$ 1,021,535	\$ 794,662
	Fellow subsidiaries related to others	18	224
		<u>\$ 1,021,553</u>	<u>\$ 794,886</u>

(Concluded)

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 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	
		2017	2016
Other operating revenue	Fellow subsidiaries related to others		
	DSC	\$ 47,024	\$ 43,820
	Parent entity	<u>619</u>	<u>-</u>
		<u>\$ 47,643</u>	<u>\$ 43,820</u>

c. Purchase of goods

	For the Year Ended December 31	
	2017	2016
Parent entity	<u>\$ 20,345,694</u>	<u>\$ 19,707,646</u>
Fellow subsidiaries related to others		
DSC	9,404,310	5,204,697
Others	<u>371,746</u>	<u>484,213</u>
	<u>9,776,056</u>	<u>5,688,910</u>
	<u>\$ 30,121,750</u>	<u>\$ 25,396,556</u>

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

d. Accounts receivable from related parties

	December 31	
	2017	2016
Parent entity	\$ 121,529	\$ 112,686
Fellow subsidiaries related to others	<u>46,658</u>	<u>131,847</u>
	<u>\$ 168,187</u>	<u>\$ 244,533</u>
Other receivable from related parties		
Parent entity	<u>\$ 366,735</u>	<u>\$ 121,316</u>
Fellow subsidiaries related to others		
CHC	34,292	23,408
Others	<u>297</u>	<u>302</u>
	<u>34,589</u>	<u>23,710</u>
	<u>\$ 401,324</u>	<u>\$ 145,026</u>

No guarantee had been received for accounts receivable from related parties. No expense had been recognized for the years ended December 31, 2017 and 2016 for allowance for impairment of accounts receivable in respect of the amounts owed by related parties.

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

	December 31	
	2017	2016
Parent entity	\$ 1,196,582	\$ 1,317,755
Fellow subsidiaries related to others	9,756	5,052
Others	<u>12,927</u>	<u>8,019</u>
	<u>\$ 1,219,265</u>	<u>\$ 1,330,826</u>

The outstanding accounts payable to related parties were unsecured.

f. Loans from related parties

The Corporation borrowed money from the parent entity because of the need for short-term fund. As of December 31, 2017 and 2016, the loan was fully repaid. The interest rate of the loan was based on average daily short-term interest the parent entity financed for the same currency from financial institutions in the last 30 days and adjusted monthly.

The loans from the parent entity were unsecured loans with interest expense of NT\$14,483 thousand and NT\$10,284 thousand for 2017 and 2016, 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\$113,656 thousand in 2017 and NT\$119,440 thousand in 2016. As of December 31, 2017 and 2016, authorization fees payable (included in payables to related parties) were NT\$35,083 thousand and NT\$33,026 thousand, respectively. The calculation of slab purchase prices was based on the formula stated in the agreement.

2) 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, 2017 and 2016 were NT\$2,292 thousand and NT\$1,722 thousand.

b) HLSC entered into a contract with parent entity on the lease of the HLSC's part of the land until December 2018. The rental revenue for the years ended December 31, 2017 and 2016 were both NT\$5,310 thousand.

3) 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	
	2017	2016
a) Other expenditures		
Fellow subsidiaries related to others	\$ 186,088	\$ 167,851
Parent entity	128,873	87,137
Others	<u>150,124</u>	<u>135,388</u>
	<u>\$ 465,085</u>	<u>\$ 390,376</u>
b) Capital expenditure		
Parent entity	\$ <u>6,039</u>	\$ <u>-</u>
Fellow subsidiaries related to others		
CSMC	30,600	16,723
ICSC	16,650	40,595
USECC	2,477	21,454
Others	<u>5,968</u>	<u>8,112</u>
	<u>55,695</u>	<u>86,884</u>
	<u>\$ 61,734</u>	<u>\$ 86,884</u>

4) Income from supplies and scrap

	For the Year Ended December 31	
	2017	2016
Fellow subsidiaries related to others		
CHC	\$ 363,868	\$ 275,060
Others	<u>18,161</u>	<u>18,461</u>
	<u>\$ 382,029</u>	<u>\$ 293,521</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	
	2017	2016
Short-term employee benefits	\$ 27,886	\$ 23,262
Post-employment benefits	<u>234</u>	<u>334</u>
	<u>\$ 28,120</u>	<u>\$ 23,596</u>

28. 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	
	2017	2016
Time deposits (included in other financial assets - current)	\$ 500,000	\$ 500,000
Net property, plant and equipment	<u>3,696,986</u>	<u>4,219,981</u>
	<u>\$ 4,196,986</u>	<u>\$ 4,719,981</u>

29. 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, 2017 were as follows:

- a. Unused letters of credit for purchases of raw materials and machinery and equipment amounted to about NT\$2,224,048 thousand
- b. The Group had signed agreements to buy equipment for NT\$622,943 thousand, of which NT\$384,490 thousand had been paid (included in construction-in-progress and prepayments for equipment).

30. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currencies of the Group 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, 2017</u>			
Monetary financial assets			
USD	\$ 36,110	29.76	\$ 1,074,655
Monetary financial liabilities			
USD	2,118	29.76	63,026
<u>December 31, 2016</u>			
Monetary financial assets			
USD	11,340	32.25	365,923
Monetary financial liabilities			
USD	4,915	32.25	158,499

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, 2017		
USD	29.76 (USD:NTD)	\$ (774)
JPY	0.2642 (JPY:NTD)	276
EUR	35.57 (EUR:NTD)	(187)
Other		<u>(1)</u>
		<u>\$ (686)</u>
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>

31. 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, 2017</u>					
Revenues from external customers	\$ 39,000,764	\$ 1,787,826	\$ 3,854	\$ -	\$ 40,792,444
Inter-segment revenues	<u>1,026,404</u>	<u>15,077</u>	<u>-</u>	<u>(1,041,481)</u>	<u>-</u>
Segment revenues	<u>\$ 40,027,168</u>	<u>\$ 1,802,903</u>	<u>\$ 3,854</u>	<u>\$ (1,041,481)</u>	<u>\$ 40,792,444</u>
Segment profit	\$ 2,343,126	\$ 142,933	\$ 1,102	\$ 86,579	\$ 2,573,740
Interest revenue	3,430	319	98	-	3,847
Other income	215,485	9,601	-	(86,579)	138,507
Other income and expenses	(12,189)	37	-	-	(12,152)
Finance costs	(171,178)	(9,758)	-	-	(180,936)
Share of the profit of associates	<u>227,454</u>	<u>-</u>	<u>-</u>	<u>(144,157)</u>	<u>83,297</u>
Profit before income tax for the year	2,606,128	143,132	1,200	(144,157)	2,606,303
Income tax expense (benefit)	<u>(145)</u>	<u>-</u>	<u>175</u>	<u>-</u>	<u>30</u>
Net profit for the year	<u>\$ 2,606,273</u>	<u>\$ 143,132</u>	<u>\$ 1,025</u>	<u>\$ (144,157)</u>	<u>\$ 2,606,273</u>
Identifiable assets	\$ 25,606,859	\$ 3,977,594	\$ 31,071	\$ (664,375)	\$ 28,951,149
Investments accounted for using equity method	<u>5,016,227</u>	<u>-</u>	<u>-</u>	<u>(2,590,525)</u>	<u>2,425,702</u>
Total assets	<u>\$ 30,623,086</u>	<u>\$ 3,977,594</u>	<u>\$ 31,071</u>	<u>\$ (3,254,900)</u>	<u>\$ 31,376,851</u>
Total liabilities	<u>\$ 18,697,427</u>	<u>\$ 840,837</u>	<u>\$ 1,311</u>	<u>\$ (88,383)</u>	<u>\$ 19,451,192</u>
<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>

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, 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, 2017

	The Corporation	HLSC	Total
<u>Included in segment profit or loss</u>			
Additions to noncurrent assets (Note)	<u>\$ 404,523</u>	<u>\$ 37,447</u>	<u>\$ 441,970</u>
Depreciation	<u>\$ 1,159,763</u>	<u>\$ 258,897</u>	<u>\$ 1,418,660</u>

For the year ended December 31, 2016

	The Corporation	HLSC	Total
<u>Included in segment profit or loss</u>			
Additions to noncurrent assets (Note)	<u>\$ 459,580</u>	<u>\$ 49,646</u>	<u>\$ 509,226</u>
Depreciation	<u>\$ 1,667,013</u>	<u>\$ 244,934</u>	<u>\$ 1,911,947</u>

Note: Noncurrent 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>	
	2017	2016
Sales		
Hot Rolled Steel	\$ 26,371,392	\$ 21,761,782
Cold Rolled Steel	7,946,076	6,903,655
Galvanized Steel	2,438,093	2,927,847
Steel Pipe	2,920,540	970,421
Iron Oxide Powder	16,996	18,672
Service revenue	1,042,391	806,944
Investments revenue	853	502
Other operating revenue	<u>56,103</u>	<u>50,299</u>
	<u>\$ 40,792,444</u>	<u>\$ 33,440,122</u>

d. Geographical information

The Group operates in Taiwan.

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

	Revenues from External Customers		Noncurrent Assets	
	For the Year Ended December 31		December 31	
	2017	2016	2017	2016
Taiwan	\$ 24,868,698	\$ 21,275,484	\$ 20,009,724	\$ 20,998,357
Asia	11,419,006	10,092,565	-	-
America	3,077,960	999,456	-	-
Europe	1,053,070	544,985	-	-
Others	<u>373,710</u>	<u>527,632</u>	-	-
	<u>\$ 40,792,444</u>	<u>\$ 33,440,122</u>	<u>\$ 20,009,724</u>	<u>\$ 20,998,357</u>

Noncurrent 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	
	2017	2016
Sales revenue		
A Company	\$ 5,693,645	\$ 4,210,666
B Company	<u>3,550,931</u>	<u>3,136,922</u>
	<u>\$ 9,244,576</u>	<u>\$ 7,347,588</u>