Stock Code: 2031
The information in the Annual Report can be found at the following webpage
(Website: http://newmops.twse.com.tw)

HSIN KUANG STEEL CO., LTD

2016

Annual Report

Date of Publication: April 30, 2017

1. Date of establishment
   January 1, 1967

2. Addresses of headquarters and factories:
   Headquarters: 25F, No. 97, Section 4, Chongxin Road, Sanchong District, New Taipei City ☏:(02)2978-8888
   Guanyin Plant: No. 120, Gongye 8th Road, Guanyin District, Taoyuan City ☏:(03)483-8895
   Changbin Plant: No. 1, East 9th Road, Changhua Coastal Industrial Park, Xianxi Township, Changhua County ☏:(04)758-3113
   Kaohsiung First Plant: No. 25, Bengong West Road, Benzhou Industrial Park, Gangshan District, Kaohsiung City ☏:(07)623-2325
   Kaohsiung Second Plant: No. 50, Bengong West Road, Benzhou Industrial Park, Gangshan District, Kaohsiung City ☏:(07)623-2325

3. Stock Transfer Handling Agency
   Name: President Securities Corp. Department of Stock Affairs
   Address: B1, No. 8, Dongxing Road, Taipei City
   Website:http://www.pscnet.com.tw
   Telephone:(02)2746-3797

4. Name of the CPA Certifying the Financial Statements in the Most Recent Year
   Name of CPA firm: Deloitte & Touche
   Certifying CPA: CPAs Chao-Ling Chen and Chiang-Pao Liu
   Address of CPA firm: 12F, No. 156, Section 3, Minsheng East Road, Taipei City
   Website: http://www.deloitte.com.tw
   Address and telephone number of CPA firm:(02)2545-9988

5. Name of exchange house where overseas eligible securities are traded and method of inquiry on mentioned securities: N/A

6. Spokesperson
   Name: Chao-Lang Hsu
   Title: Vice General Manager of Administration Department
   Telephone: (02) 2978-8888 ext. 236
   Email:xuzhal@hksteel.com.tw

7. Acting Spokesperson:
   Name: Teng-Kui Kao
   Title: Assistant Vice General Manager of 1st Operations Department, ext. 202
   Telephone:(02)2978-8888

8. Company Website: http://www.hkssteel.com.tw

9. Investor relations processing unit E-mail: IRP_mail@hkssteel.com.tw

10. Market Observation Post System: http://newmops.twse.com.tw

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I.Letter to Shareholders

Dear Shareholders,

We achieved outstanding business performance in 2016 through our concerted efforts. Due to economic cycles, the steel industry bottomed out in the fourth quarter of 2015 and recovery began in the first quarter of 2016 with the rise of China Steel Corporation's wholesale price. The recovery continued in the second and third quarter as international steel prices continued to increase and restored prosperity in the domestic steel market. Full-scale production in the plant and the smooth consolidated operations of procurement, production, and sales were rewarded with great success in the year.

Financial Performance

The Company's combined revenue for 2016 totaled NT$6.41 billion, was consistent with the NT$6.45 billion from the previous year. The net operating profit was NT$750 million and the earnings per share was NT$2.67, which constituted significant growth from the losses in the previous year.

In products sales, the Company's operating goal in 2016 was the sale of 345,000 metric tons of steel products and the combined sales of the year reached 335,000 metric tons. The achievement rate was 97.1%. In comparison, it was an increase of 6,000 metric tons from the 329,000 tons in 2015.

In income and expenditure, cash flow in 2016 from business activities amounted to NT$601.66 million, which mainly consisted of the bills receivable and accounts receivable generated in sales as well as inventories in response to supply and demand operations etc. Cash outflow for investment activities amounted to NT$301.11 million mainly due to the purchase of properties and investment in plants and equipment. Cash outflow for financing activities amounted to NT$631.68 million mainly due to long-term and short-term loans necessary for operations. The closing cash and cash equivalents of the period was NT$668.15 million.

Annual Corporate Development

In 2017, the Company will continue to implement the business guidelines of the previous year and focus on 1. Maintenance of consistent sales volumes in each month, optimize inventory structure, and ensure market share. 2. Enhance management of regional customer relations to maintain stable margins. 3. Continue to develop new steel types and new markets. 4. Integrate value chains; improve joint participation in public engineering projects and market development. 5. Continue to recruit talent with potential and cultivate strong leadership for the Company through training and execution of actual tasks. 6. Strengthen the expansion of sales to overseas markets. 7. Achieve goals in both revenue and profits.

The total annual sales goal of 2017 is set at 380,000 metric tons of steel. After a year of recovery, demand for related materials in the steel market has continued to grow. The demand and the influence of the anti-dumping duties on imports have brought stability to the market and provide a great opportunity for intensifying old partnerships as well as developing new customers. Due to abundant upstream supply, ample current inventory, updated cutting equipment, substantial improvement in production procedures, and more efficient transportation services, the overall operating performance shall continue to improve and we expect to complete the annual target of 380,000 metric tons.

We shall continue the guidelines and goals from the previous period in our development strategy and fully implement the following items: (1). Customer relationship management (CRM), establishment of customer KPI lists, periodically review performance, and enhance the operations capabilities of the Company. (2). Continue to develop EG and GA products and customers. (3). Develop the POC market and collaborate with upstream suppliers to increase product quality and stability in supplies. (4). Streamline production management to improve production efficiency, quality management, yield rate, standard operating procedures, production management personnel, and cultivate management personnel. (5). Build commercial roof-top photovoltaic (PV) system and partner with PV companies to create value in joint ventures and help the government promote the energy saving and carbon reduction policy. (6). Streamline corporate procedures, promote and bring in digitalization and information technology across departments to increase operating efficiency and maximize overall performance. (7). Develop land for investment in Guanyin District to revitalize assets and establish a foundation for diversified development.

Future Outlook

The economy is gradually recovering and there is room for development despite the slow pace of recovery. Tougher environmental protection regulations and difficulty in obtaining land favor businesses in industrial zones that follow regulations. Unstable cross-strait policy and difficulty in negotiation of trade agreements affect short-term development of Taiwan's economy. New labor regulations shorten the working hours of laborers and increase the cost of business operations. They also affect the existing business model and production efficiency, organization, and management must all improve to succeed in the new era. As anti-dumping regulations are established, the price, supply, and sales of steel plates and galvanized steel coil have also stabilized and supplier management and channel deployment shall be important items in operations and management. Values such as diligence, honesty, teamwork, value of innovation, optimism, continuous education, and advancing with the times are everlasting. We are prepared to embrace a year of changes.

Chairman Alexander M.T. Su

II. Company Overview

A.Company Introduction

Hsin Kuang Steel Co., Ltd. was established in 1965 and the Company's stocks were listed in the Taipei Exchange in April 1997. It became a listed company in the Taiwan Stock Exchange in September 2000.

the Company's main business operations include: (1). leveling of various steel coils; cutting and stamping of various steel plates, steel section, alloy steel, and special steels; (2). wholesale and retail of various steel and iron plates, iron tubes, hardware, and machinery equipment; (3). processing and manufacture of steel frames, steel tubes, and steel hardware; (4). contracting vendors to build public housing and commercial buildings for sale and lease; (5). import and export of aforementioned products and agency for quotation and tenders; (6). all business items that are not prohibited or restricted by law, except those that are subject to special approval.

As of the end of 2016, the Company has three plants including the Guanyin, Changbin, and Kaohsiung Plants with a total area of over 63,000 pings. Logistics centers were also established in each plant for the sales and delivery of various steel products. The Company has established a medium to thick steel plate cutting center, stainless steel cutting center, stainless steel polishing and cutting center, galvanized steel cutting center, special steel cutting center, and steel coil cutting center at the Guanyin Plant as well as special a steel plate cutting center, steel structure production center, steel plate logistics distribution center, round steel bar distribution center, and patterned worker's board (road coverage construction and bridge construction platform) manufacturing center to service the vast demand of domestic downstream customers.

Hsin Kuang Steel specializes in providing steel cutting services of the optimal quality and professional logistics for fast delivery of steel products. The Company added joint collaboration material supply services in 2001; added processing services for steel structure box-columns and BH steel column components in 2004; added galvanized steel product cutting and processing services in 2008; expanded a new plant to add a processed galvanized steel product line in 2009 which entered operations in 2010; added a polished stainless steel product cutting and processing line in 2010; added a processing production line for patterned worker's board (road coverage construction and bridge construction platform) to create more business opportunities and profits for the Company.

B.Company History

Since Mr. Ming-Te Su was elected Chairman in 1985, Hsin Kuang Steel conducted vigorous reforms and established professional management based on ideals of practicality, services, innovation, and sharing. These ideals allowed the Company to grow, prosper, and transform into a steel manufacturing firm listed on the TWSE and received recognition and praise from all sectors. The Chairman's important achievements include:

1. In April 1991, Hsin Kuang Steel was registered by the Industrial Development Bureau, Ministry of Economic Affairs as a central plant in the Hsin Kuang Steel central-satellite system.
2. In November 1992, the Company was awarded the Golden Merchants Award by the Ministry of Economic Affairs. The Chairman Mr. Ming-Te Su was summoned by President Mr. Teng-Hui Lee for praise and encouragement.
3. In May 1994, the Chairman Mr. Ming-Te Su was elected Supervisor of Taiwan Steel & Iron Industries Association.

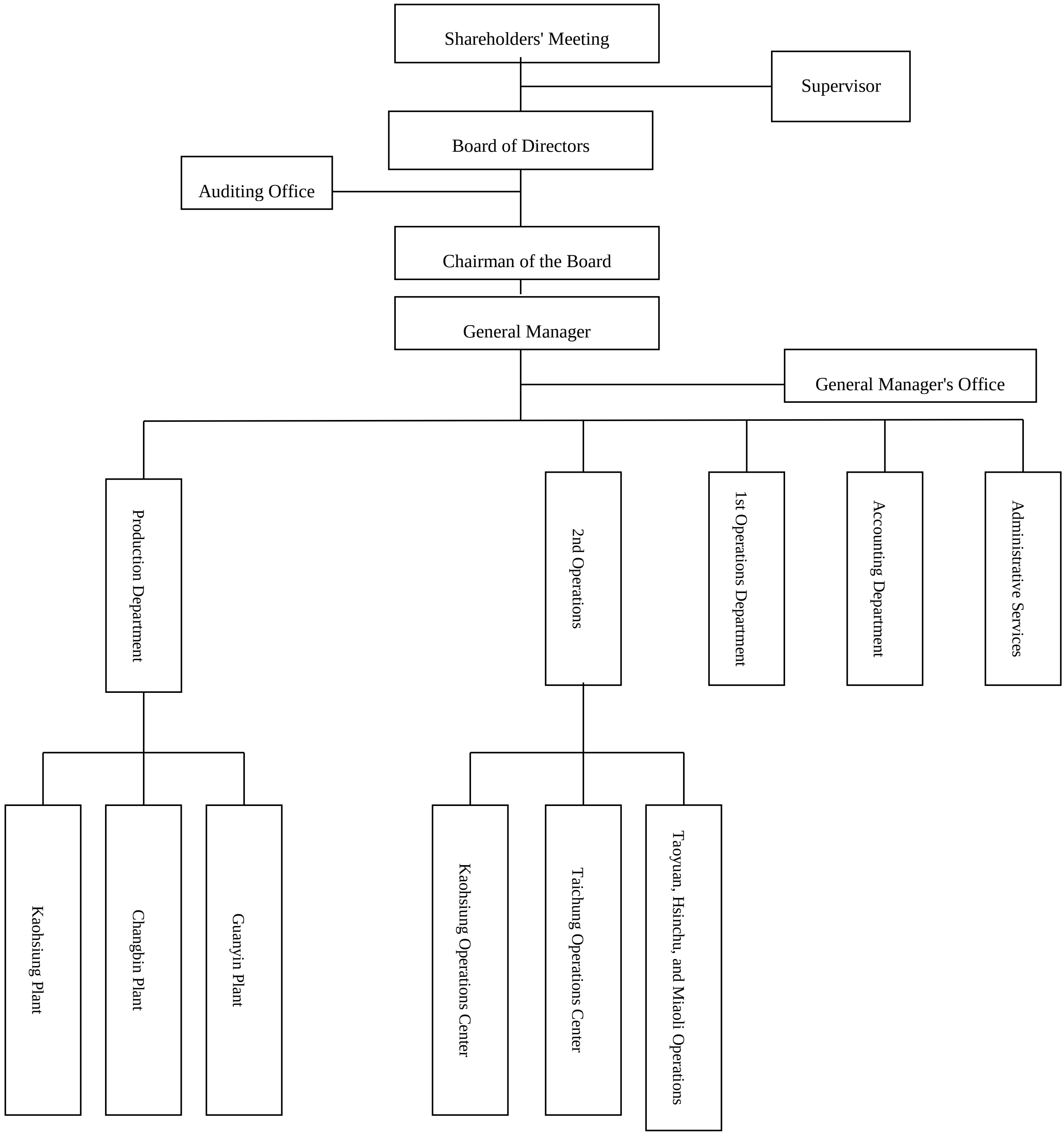
4. In August 1994, the Company was approved for public listing by the Securities and Futures Administration Committee, Ministry of Finance.
5. In September 1994, the Company was awarded the third-term National Award of Outstanding SMEs. The Chairman Mr. Ming-Te Su was summoned by President Mr. Teng-Hui Lee for praise and encouragement.
6. In August 1995, the Chairman Mr. Ming-Te Su was elected Chairman of the National Association of Hardware of R.O.C.
7. In September 1995, the Company completed the digitalization of internal corporate procedures.
8. In December 1995, the Chairman Mr. Ming-Te Su was elected the 18th-term Model of Entrepreneurs.
9. In December 1996, the Company was approved for listing on the Gre Tai Securities Market by the Securities and Futures Administration Committee, Ministry of Finance and the Taipei Exchange.
10. In April 1997, the Company's stocks were traded on the Gre Tai Securities Market.
11. In July 1998, the Company's Guanyin Plant and Xinwu Plant received ISO-9002 certification at the same time.
12. In August 1998, the Chairman Mr. Ming-Te Su was elected the 1st-term Model Achievement Award.
13. In August 2000, the Company was approved for listing on the Taiwan Stock Exchange by the by the Securities and Futures Administration Committee, Ministry of Finance and the Taiwan Stock Exchange. The Company's stocks are listed on the Taiwan Stock Exchange in September of the same year.
14. In February 2001, the Company's Guanyin Plant established the "Stainless Steel Cutting Center".
15. In September 2001, the Company's Guanyin Plant, Xinwu Plant, and Changbin Plant received ISO-9001: 2000 certification at the same time.
16. In September 2003, the Company's Kaohsiung Plant established the "Southern Steel Product Logistics Center".
17. In September 2004, the Company's Kaohsiung Plant established the "Steel Structure Component Production Center" and the "Special Steel Cutting Center".
18. In September 2008, the Company's Guanyin Plant established the "Galvanized Steel Cutting Center".
19. In November 2009, the Company invested and established the "Hsin Kuang Alga Engineering Co., Ltd." to achieve vertical integration in product supply.
    The Company collaborated with ALGA s.p.a. on earthquake protection technologies for bridges and established the "Taiwan Tech Structural Mechanics Laboratory" in academic-industrial collaboration with National Taiwan University of Science and Technology.
20. In May 2010, the "Galvanized Steel Cutting Center" at the Company's Guanyin Plant began operations.
21. In July 2010, the Company's Guanyin Plant, Xinwu Plant, Changbin Plant, and Kaohsiung Plant received ISO-9001: 2008 certification at the same time.
22. In October 2010, the Company established the "Stainless Steel Polishing and Cutting Center".
23. In January 2011, the Company established the "Patterned Worker's Board (road coverage construction and bridge construction platform) Polishing and Cutting Center".
24. In 2016, the construction of the "Steel Product Warehouse and Logistics Center" began at the Company's Guanyin Plant and it will be completed and inaugurated in 2017.

III. Corporate Governance Report

A. Company Organization

(I) Organization

1. Organization Structure



2. Business and Functions of Main Departments

Department	Responsibility
Operations Department	1. Market development and sales for steel plates. 2. Market development and sales for special steel plates. 3. Market development and sales for steel sections. 4. Market development and sales for steel coils. 5. Market development and sales for stainless steel products. 6. Market development and sales for steel structure components. 7. Market development and sales for patterned worker's board (road coverage construction and bridge construction platform) 8. Market development and sales for export trades. 9. Source development and procurement of domestic and foreign raw materials. 10. Customer returns, complaints, and other services. 11. Payment collection and processing accounts receivable. 12. Customer credit management. 13. Other related sales and procurement operations.
Production Department	1. Storage, management, cutting, processing, and shipping of steel plates. 2. Storage, management, cutting, processing, and shipping of steel coils (including galvanized steel coils) and special steel plates. 3. Storage, management, cutting, processing, and shipping of stainless steel products. 4. Storage, management, cutting, processing, and shipping of round steel bars. 5. Storage, management, cutting, processing, and shipping of steel sections. 6. Storage, management, cutting, processing, and shipping of steel structure components. 7. Storage, management, cutting, processing, and shipping of patterned worker's board (road coverage construction and bridge construction platform). 8. Transportation management and vehicle dispatch. 9. Production cost information collection and control. 10. Inventory. 11. Industrial safety and health. 12. Equipment maintenance and repairs 13. Coordination between production and sales. 14. Other related production operations.
Administrative Services Department	1. Human resources, recruitment, appointment, promotion, attendance, assessment, salary, education and training, welfare, retirement, departure and other operations. 2. Document management and general affairs. 3. Procurement, management, inventory, insurance, and other operations for fixed assets. 4. Any other tasks assigned by superior officers.

Department	Responsibility
Accounting Department	1. Cash disbursement management and storage of securities. 2. Fundraising, financial operations, financing management, and other operations. 3. Review, number, filing, and storage of various accounting vouchers. 4. Processing accounts, formulation of financial statements and reports, and other operations. 5. Processing and compiling cost accounting affairs. 6. Taxation payment, report of deductibles, registration, and other operations. 7. Dividend distribution, shareholder services, and other operations. 8. Development and design of electronic network systems. 9. Provide shareholder information and legal declarations; announce the shareholding status of Directors and Supervisors, and other operations. 10. Any other tasks assigned by superior officers.
General Manager's Office	1. Mid to long-term business development plans. 2. Annual Business Plan adjustment and compilation. 3. Corporate business environment analysis and strategy formulation. 4. Formulation of overall operation targets. 5. Related affairs for advancing the management of objectives. 6. Maintain records and keep track of production and sales coordination meetings, personnel evaluation meetings, management meetings, management of objectives, and items assigned by the General Manager. 7. Instruct executive management and strategic committee members. 8. Other project research and assigned tasks.
Auditing Office	1. Audit items in accordance with the Company's established policies and instructions. 2. Audit items in various income and cost control operations. 3. Formulate and execute a written audit system. 4. Other related auditing operations.

(II) Directors and Supervisors

1. Directors and Supervisors

April 30, 2017

Title (Note 1)	Nationality or Place of Registration	Name	Gender	First elected date (Note 2)	Elected Date	Term	Shares Held When Elected		Shares Currently Held		Shares Held by Spouse and Underage Children		Shareholding by Nominee Arrangement		Education and Work Experiences	Positions Currently Held in Other Companies (Note 3)	Any Executive Officer, Director or Supervisor Who is a Spouse or Relative within the Second Degree of Kinship		
							Number of shares	Shareholding Ratio	Number of shares	Shareholding Ratio	Number of shares	Percentage of Shares	Number of shares	Percentage of Shares			Title	Name	Relationship
Director	R.O.C.	HAN DE INVESTMENT CO., LTD., Chairman：Alexander M.T.Su	—	June 13, 2008	June 17, 2014	3 years	11,100,425	4.01%	16,850,276	5.50%	18,116,487	5.92%	—	—	Executive Management Course, Center for Public and Business Administration Education, Chengchi University Chairman and General Manager of Hsin Kuang Steel Co., Ltd.	Chairman of: Hsin Yuan Investment Co., Ltd. Hsin Ho Fa Metal Co., Ltd. Hsin Kuang Alga Engineering Co., Ltd. B.V.I. Sinpao Investment Co., Ltd. Han Te Investment Co., Ltd. Hui Jung Investment Co., Ltd. Hsin Ching International Co., Ltd. Taipei County Private Hui Jung Welfare and Charity Foundation Director of: Cheng Yu Investment Co., Ltd. Hsin Wei Optoelectronics Co., Ltd. Century Iron and Steel Industrial Co., Ltd. Hsin Kuang Steel Tien-Cheng Charity Foundation Century International	Director	Xiao-Ru Su	Father-daughter

																Construction Ltd. Myanmar Century Steel Structure Ltd. Supervisor of: Ching Shun Hardware Co., Ltd.			
Director	R.O.C.	TRICKLE CO., LTD., Chairman：Trickle T.C.Chang	—	April 28, 1985	June 17, 2014	3 years	14,662,469	5.29%	14,662,469	4.79%	5,228,283	1.71%	—	—	Primary Agricultural School (predecessor of Mu Zha Junior High School) Chairman of Trickle Co., Ltd.	Chairman of: Shin Fa Steel Mfg. Co., Ltd. Shin Shin Fa Investment Co., Ltd. Hsin Kuang Steel Tien-Cheng Charity Foundation Director of: Taiwan Chinsan Electronics Industrial Co., Ltd. Taiwan Steel Tower Co., Ltd. An Gang Metal Co., Ltd. Taipei City Li Lien-Lai Charity Foundation Taipei City An Ho Social Welfare and Charity Foundation Supervisor of: Hsin Yuan Investment Co., Ltd. Does not hold positions in the Company	None	None	None
Director	R.O.C.	Ming-shan,Jheng	Men	July 8, 1990	June 17, 2014	3 years	2,116,999	0.76%	1,812,999	0.59%	1,959	—	—	—	Junior high school Director and Vice President of Operations of Hsin Kuang Steel Co., Ltd.	Chairman of: Fu Tao Construction Co., Ltd. Director of: Han Te Investment Co., Ltd. Hsin Ching International Co., Ltd. Taipei County Private Hui Jung Welfare and Charity Foundation Envirolink Corporation Director of Yun-Shen Energies Recycling Tech. Co., Ltd.	None	None	None

Director	R.O.C.	Fisher C.H.Yu	Men	April 8, 1999	June 17, 2014	3 years	190,242	0.07%	186,242	0.06%	–	–	–	–	University/College Director and Vice President of Operations of Hsin Kuang Steel Co., Ltd.	Director of Hui Jung Investment Co., Ltd.	None	None	None
Director	R.O.C.	Xiao-Ru Su	Female	June 13, 2008	June 17, 2014	3 years	1,018,413	0.36%	1,238,413	0.40%	–	–	–	–	Master's degree Former Special Assistant of General Manager's Office of Hsin Kuang Steel Co., Ltd.	None	General Manager	Ming-Te Su	Father-daughter
Director	R.O.C.	Wan-Chin Tsai	Men	June 10, 2011	June 17, 2014	3 years	1,079,419	0.39%	1,142,419	0.37%	1,374,729	0.45%	–	–	Tung Hai Senior High School Former Assistant Vice President of Operations of Hsin Kuang Steel Co., Ltd.	Director of Pao Ching Investment Co., Ltd.	Special Assistant of the General Manager's Office	Pao-Kui Chang	Married couple
Supervisor	R.O.C.	Wen-Lung Li	Men	June 13, 1997	June 17, 2014	3 years	1,340,318	0.05%	1,374,000	0.45%	–	–	–	–	Senior high school Chairman of Ching Shun Hardware Co., Ltd.	Chairman of Ching Shun Hardware Co., Ltd.	None	None	None
Supervisor	R.O.C.	Shih-Yang Chen	Men	June 13, 2008	June 17, 2014	3 years	10,193	0.00%	10,193	.00%	–	–	–	–	Department of Accounting, Soochow University CPA, Chung Sun Certified Public Accountants Taipei Office Director of Taiwan CPA Association	Director of: Optivision Technology Incorporated Smartax Consulting Inc. Supervisor of: Pai Lung Machinery Mill Co., Ltd. Taiwan Chinsan Electronics Industrial Co., Ltd.	None	None	None
Supervisor	R.O.C.	Yung-Yu Chiu	Men	June 10, 2011	June 17, 2014	3 years	149,526	0.05%	149,526	0.05%	–	–	–	–	Department of Computer Science, Tamkang University Former IT Manager of Yung Kuang Hwa Metal Industrial Co., Ltd.	None	None	None	None

Note 1: The names and representatives of corporate shareholders shall be listed separately (those who represent corporate shareholders should indicate corporate names) and fill in the following Table 1.
Note 2: Fill in the time when the individual first served as the Company's Director or Supervisor. Any interruptions should be indicated.
Note 3: Experience related to the current position. If the individual had served in the certifying CPA firm or an affiliated enterprise in the aforementioned period, the position and job functions shall be described.

2. Major Shareholders of Corporate Shareholders

(1). Major Shareholders of Corporate Shareholders

April 30, 2017

Name of Corporate Shareholder (Note 1)	Major Shareholders of Corporate Shareholders (Note 2)
Han De Investment Co., Ltd.	Johnathon Y.J.Su holds 74% Alexander M.T.Su holds 25%
Trickle Co., Ltd.	Trickle T.C.Chang holds 61.16% Ya-Chi Wei holds 20.35% Tai-Tou Chang holds 11.49%

Note 1: Those who represent corporate shareholders shall include the name of the corporate shareholder and the names of shareholders of the corporation with over 10% of the shares or the top ten shareholders with the most shares.

Note 2: Fill in the names of main shareholders of the corporate shareholder (the top ten shareholders in terms of shareholding ratio) and their shareholding ratio. If the major shareholders are corporate shareholders, fill in Table 2 below.

(2). Corporate shareholders' principal shareholders who are representatives of the corporate shareholders

April 30, 2017

Name of Corporate Shareholder (Note 1)	Major Shareholders of Corporate Shareholders (Note 2)

Note 1: If the major shareholders in the preceding Table1 are corporate shareholders, the name of the corporate shareholder shall be disclosed.

Note 2: Fill in the names of main shareholders of the juristic person (the top ten shareholders in terms of shareholding ratio) and their shareholding ratio.

3. Directors and Supervisors

Qualifications / Name (Note 1)	Having More Than 5 Years Work Experience and Professional Qualifications Listed Below			Meets the Independence Criteria (Note 2)										Number of Positions as an Independent Director in Other Public Companies
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialists Who Has Passed a National Examination and Been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Area of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10	
Alexander M.T.Su			✓	✓			✓		✓	✓		✓		
Trickle T.C.Chang			✓	✓					✓	✓		✓		
Ming-shan,Jheng			✓				✓	✓	✓	✓	✓	✓	✓	
Fisher C.H.Yu			✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	
Xiao-Ru Su			✓		✓	✓		✓	✓	✓		✓	✓	
Wan-Chin Tsai			✓		✓	✓		✓	✓	✓		✓	✓	
Wen-Lung Li			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Shih-Yang Chen		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Yung-Yu Chiu			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	

Note 1: Please add more rows to accommodate additional entries.

Note 2: Please "✓" the box under each criteria number if the director or supervisor meets the criteria two years prior to resuming the position or during the term of service.

(1). Not an employee of the Company or any of its affiliates.

(2). Not a director or supervisor of the Company or any of its affiliates (the same does not apply if the person is an independent director of the Company or its parent company, or any subsidiary in which the Company holds, directly and indirectly, more than 50% of the voting shares).

(3). Not a natural-person shareholder whose shareholding, together with those of his/her spouse, minor children, and shares held under others' names, exceed 1% of the total number of outstanding shares of the Company, or ranks the person in the top ten shareholders of the Company.

(4). Not a spouse, relative of second degree or closer, or direct blood relative of third degree or closer to any person listed in the three preceding criteria.

(5). Not a director, supervisor, or employee of a corporate shareholder that owns more than 5% of the company's outstanding shares, and is not a director, supervisor, or employee of any of the top five corporate shareholders.

(6). Not a director, supervisor, manager or shareholder holding 5% or more of the shares of a specified company or institution that has a financial or business relationship with the Company.

(7). Not a professional individual or owner, partner, director (member of the governing board), supervisor (member of the supervising board), or managerial officer of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting, or consultation services to the company or to any affiliate enterprise, or spouse thereof. However, this excludes members of the Remuneration Committee who have been appointed to exercise duties in accordance with Article 7 of Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter.

(8). Not a spouse or relative of second degree or closer to any other directors.

(9). Not having any of the situations set forth in Article 30 of the Company Act of the R.O.C.

(10). Not elected as a government or corporate representative, as described in Article 27 of The Company Act.

(III) Information of General Manager, Vice Presidents, Assistant Vice Presidents, and Managers of Various Departments and Branch Offices

April 30, 2017

Title (Note 1)	Nationality	Name	Gender	Appointment Date	Shares Currently Held		Shares Held by Spouse and Underage Children		Shares Held in the Name of Other Persons		Experience (Education) (Note 2)	Positions Currently Held in Other Companies	Other Manager Who is the Spouse or a Relative within Second Degree of Kinship			The Condition of Managers Obtaining Stock Options
					Number of shares	Percentage of Shares	Number of shares	Percentage of Shares	Number of shares	Percentage of Shares			Title	Name	Relationship	
General Manager	R.O.C.	Alexander M.T.Su	Men	1985	17,000,719	5.55%	1,115,768	0.36%	–	–	Executive Management Course, Center for Public and Business Administration Education, Chengchi University Chairman and General Manager of Hsin Kuang Steel Co., Ltd. Chairman of the National Association of Hardware of R.O.C. Executive Director of Taiwan Steel & Iron Industries Association	Chairman of: –Hsin Kuang Steel Co., Ltd. –Hsin Yuan Investment Co., Ltd. –Hsin Ho Fa Metal Co., Ltd. –Hsin Kuang Alga Engineering Co., Ltd. –B.V.I. Sinpao Investment Co., Ltd. –Han Te Investment Co., Ltd. –Hui Jung Investment Co., Ltd. –Hsin Ching International Co., Ltd. –Taipei County Private Hui Jung Welfare and Charity Foundation Director of: –Hsin Wei Optoelectronics Co., Ltd. –Century Iron and Steel Industrial Co., Ltd. –Cheng Yu Investment Co., Ltd. –Hsin Kuang Steel Tien-Cheng Charity Foundation –Century International Construction Ltd. –Myanmar Century Steel Structure Ltd. Supervisor of: –Ching Shun Hardware Co., Ltd.	None	None	None	None
Vice President of Administration	R.O.C.	Chao-Lang Hsu	Men	1995	902,660	0.30%	–	–	–	–	University	Supervisor of Hsin Kuang Alga Engineering Co., Ltd.	None	None	None	None
Vice President of Operations	R.O.C.	Ming-shan,Jheng	Men	2006	1,812,999	0.59%	1,959	–	–	–	Junior high school	Chairman of Fu Tao Construction Co., Ltd. Director of: –Hsin Kuang Steel Co., Ltd. –Han Te Investment Co., Ltd. –Hsin Ching International Co., Ltd. –Taipei County Private Hui Jung Welfare and Charity Foundation –Envirolink Corporation –Yun-Shen Energies Recycling Tech. Co., Ltd.	None	None	None	None

Title (Note 1)	Nationality	Name	Gender	Appointment Date	Shares Currently Held		Shares Held by Spouse and Underage Children		Shares Held in the Name of Other Persons		Experience (Education) (Note 2)	Positions Currently Held in Other Companies	Other Manager Who is the Spouse or a Relative within Second Degree of Kinship			The Condition of Managers Obtaining Stock Options
					Number of shares	Percentage of Shares	Number of shares	Percentage of Shares	Number of shares	Percentage of Shares			Title	Name	Relationship	
Assistant Vice President of Operations	R.O.C.	Teng-Kui Kao	Men	2014	131,000	0.04%	–	–	–	–	Junior high school	Director of Hsin Kuang Alga Engineering Co., Ltd. Director of Hsin Ho Fa Metal Co., Ltd. Director of Taipei County Private Hui Jung Welfare and Charity Foundation	None	None	None	None
Vice President of Finance and Accounting	R.O.C.	Jessica P.H.Liu	Female	2014	629,575	0.21%	–	–	–	–	University	Director of Hsin Yuan Investment Co., Ltd. Director of Hsin Kuang Alga Engineering Co., Ltd. Director of Hsin Ching International Co., Ltd. Director of Taipei County Private Hui Jung Welfare and Charity Foundation Supervisor of Hsin Wei Optoelectronics Co., Ltd. Supervisor of Envirolink Corporation	None	None	None	None
Vice President of Special Steel Operations	R.O.C.	Fisher C.H.Yu	Men	2014	186,242	0.06%	–	–	–	–	Master's degree	Director of Hsin Kuang Steel Co., Ltd. Director of Hui Jung Investment Co., Ltd.	None	None	None	None
Chief Executive Officer of the Executive Management and Strategy Committee	R.O.C.	Johnathon Y.J.Su	Men	2016	7,704,930	2.52%	–	–	–	–	Master's degree	Chairman of Cheng Yu Investment Co., Ltd. Director of Han Te Investment Co., Ltd. Director of Hui Jung Investment Co., Ltd. Director of Taipei County Private Hui Jung Welfare and Charity Foundation	General Manager	Ming-Te Su	Father-son	None
Assistant Vice President of Finance and Accounting	R.O.C.	Lisa H.C.Chien	Female	2014	195,497	0.06%	–	–	–	–	University	Supervisor of Hsin Ching International Co., Ltd.	None	None	None	None
Assistant Vice President of International Trade	R.O.C.	Frank C.C.Hunag	Men	2014	53,038	0.02%	–	–	–	–	Master's degree	None	None	None	None	None
Assistant Vice President of Taipei Office	R.O.C.	Kuo-San Yang	Men	2014	75,000	0.02%	–	–	–	–	University/College	None	None	None	None	None
Guanyin Plant Director	R.O.C.	Jih-Shun Yeh	Men	2010	57,282	0.02%	–	–	–	–	Junior high school	None	None	None	None	None
Changbin Plant Director	R.O.C.	Ho-Shu Kao	Men	2000	140,000	0.05%	–	–	–	–	Senior high school	None	None	None	None	None
Kaohsiung Plant Director	R.O.C.	Chih-Cheng Kao		2010	–	–	–	–	–	–	Senior high school	None	None	None	None	None

Note 1: This table should include Information of the General Manager, vice presidents, assistant vice presidents, and managers of various departments and branch offices as well as disclose information of those with equivalent positions of the General Manager, vice presidents, and assistant vice presidents regardless of job title.

Note 2: Experience related to the current position. If the individual had served in the certifying CPA firm or an affiliated enterprise in the aforementioned period, the position and job functions shall be described.

(IV) Remuneration for Directors (including Independent Directors) in the Most Recent Year

December 31, 2016; Unit: NT$1,000; market value is in NT$ and number of shares is in shares

<table>
<tr><th rowspan="4">Title</th><th rowspan="4">Name</th><th colspan="8">Remuneration of Directors</th><th colspan="2" rowspan="2">Ratio of Total Compensation (A+B+C+D) to Net Income (%) (Note 11)</th><th colspan="10">Remuneration Paid to Concurrent Employees</th><th colspan="2" rowspan="2">Ratio of Total (A), (B), (C), (D), (E), (F) and (G) to After-Tax Income (Note 11)</th><th rowspan="4">Remuneration Received from Investees Other than Subsidiaries (Note 12)</th></tr>
<tr><th colspan="2">Base Compensation (A) (Note 2)</th><th colspan="2">Severance Pay and Pension (B)</th><th colspan="2">Profit Sharing (C) (Note 3)</th><th colspan="2">Business Expense (D) (Note 4)</th><th colspan="2">Salary, Bonus and Special Allowance (E) (Note 5)</th><th colspan="2">Severance Pay and Pension (F)</th><th colspan="4">Profit sharing & bonus (G) (Note 6)</th><th colspan="2">Shares Acquired from Employee Stock Options (H) (Note 7)</th></tr>
<tr><th rowspan="2">The Company</th><th rowspan="2">All Companies in Consolidated Statements (Note 8)</th><th rowspan="2">The Company</th><th rowspan="2">All Companies in Consolidated Statements (Note 8)</th><th rowspan="2">The Company</th><th rowspan="2">All Companies in Consolidated Statements (Note 8)</th><th rowspan="2">The Company</th><th rowspan="2">All Companies in Consolidated Statements (Note 8)</th><th rowspan="2">The Company</th><th rowspan="2">All Companies in Consolidated Statements (Note 8)</th><th rowspan="2">The Company</th><th rowspan="2">All Companies in Consolidated Statements (Note 8)</th><th rowspan="2">The Company</th><th rowspan="2">All Companies in Consolidated Statements (Note 8)</th><th colspan="2">The Company</th><th colspan="2">All Companies in Consolidated Statements (Note 8)</th><th rowspan="2">The Company</th><th rowspan="2">All Companies in Consolidated Statements (Note 8)</th><th rowspan="2">The Company</th><th rowspan="2">All Companies in Consolidated Statements (Note 8)</th></tr>
<tr><th>Cash Bonus</th><th>Stock bonus</th><th>Cash Bonus</th><th>Stock bonus</th></tr>
<tr><td>Chairman</td><td>Alexander M.T.Su</td><td rowspan="8">461</td><td rowspan="8">1,001</td><td rowspan="8">-</td><td rowspan="8">-</td><td rowspan="8">23,096</td><td rowspan="8">23,557</td><td rowspan="8">540</td><td rowspan="8">1,010</td><td rowspan="8">24,097</td><td rowspan="8">25,568</td><td rowspan="8">5,956</td><td rowspan="8">7,616</td><td rowspan="8">0</td><td rowspan="8">-</td><td rowspan="8">2,959</td><td rowspan="8">-</td><td rowspan="8">3,074</td><td rowspan="8">-</td><td rowspan="8">-</td><td rowspan="8">-</td><td rowspan="8">33,012</td><td rowspan="8">36,258</td><td>None</td></tr>
<tr><td>Juristic Person Director</td><td>Han De Investment Co., Ltd.</td><td>None</td></tr>
<tr><td rowspan="2">Juristic Person Director</td><td>Trickle Co., Ltd.</td><td>None</td></tr>
<tr><td>Trickle T.C.Chang</td><td>None</td></tr>
<tr><td>Director</td><td>Ming-Shan Jheng</td><td>None</td></tr>
<tr><td>Director</td><td>Fisher C.H.Yu</td><td>None</td></tr>
<tr><td>Director</td><td>Xiao-Ru Su</td><td>None</td></tr>
<tr><td>Director</td><td>Wan-Chin Tsai</td><td>None</td></tr>
</table>

If any of the following applies to the Company, it shall disclose the remuneration paid to each individual Director and Supervisor. Under all other conditions, the Company may compile table to specify the range of remuneration with disclosed names, or disclose individual names and remuneration (those that opt to disclose individual names and remuneration shall disclose individual titles, names, and amount; the remuneration range table is not required):

(1) A company that has posted after-tax deficits in financial reports within the two most recent fiscal years shall disclose the names of individual "directors and supervisors" and remuneration paid. This requirement, however, shall not apply if the company has posted net income after tax in the financial report in the most recent fiscal year. A company that has adopted the International Financial Reporting Standards (IFRS) with after-tax deficits in parent company only or individual financial report in the two most recent fiscal years shall disclose the names of individual "directors and supervisors" and remuneration paid. This requirement, however, shall not apply if the company has posted net income after tax in the parent company only or individual financial report in the most recent fiscal year [Note 1].

(2) A company that has had an insufficient director shareholding percentage for 3 consecutive months or longer during the most recent fiscal year shall disclose the remuneration of individual directors; one that has had an insufficient supervisor shareholding percentage for 3 consecutive months or more during the most recent fiscal year shall disclose the remuneration of individual supervisors [Note 2].

(3) A company that has had an average ratio of share pledging by directors or supervisors in excess of 50 percent in any 3 months during the most recent fiscal year shall disclose the remuneration paid to each individual director or supervisor having a ratio of pledged shares in excess of 50 percent for each such month [Note 3].

(4) If the total amount of remuneration received by all of the directors and supervisors in their capacity as directors or supervisors of all of the companies listed in the financial reports exceeds 2 percent of the net income after tax, and the remuneration received by any individual director or supervisor exceeds NT$15 million, the company shall disclose the remuneration paid to that individual director or supervisor.

[Note 1] Example: Take the 2014 Annual Report compiled in the 2015 shareholders' meeting as an example, if the Company posted losses in the 2013 parent company only or individual financial report, or losses in the 2014 parent company only or individual financial report, they shall be disclosed separately. However, if losses were posted in the 2013 parent company only or individual financial report but the after-tax net profit in the 2014 parent company only or individual financial report was sufficient to cover accumulated losses, the individual disclosure may be exempted.

[Note 2] Example: Take the 2009 Annual Report compiled in the 2010 shareholders' meeting as an example, if the Company has had an insufficient Director or Supervisor shareholding percentage for 3 consecutive months or longer from January 2009 to December 2009, it shall disclose the remuneration of individual Directors and Supervisors. In addition, if the insufficient Director or Supervisor shareholding percentage persisted for 3 consecutive months or more in January 2009 (i.e. from November and December 2008 to January 2009 for 3 consecutive months), it shall also disclose the remuneration of individual Directors and Supervisors.

[Note 3] Example: Take the 2009 Annual Report compiled in the 2010 shareholders' meeting as an example, if the Company has had an average ratio of share pledging by Directors in excess of 50 percent in February, May, and August 2009, then it shall disclose the remuneration paid to each individual Director having a ratio of pledged shares in excess of 50 percent for February, May, and August. In addition, if the Company has had an average ratio of share pledging by Supervisors in excess of 50 percent in any 3 months, it shall disclose the remuneration paid to each individual Supervisor having a ratio of pledged shares in excess of 50 percent in such months.

[Note 4] The average ratio of share pledging by all Directors per month: Share pledging by all Directors/shares held by all Directors (including retained decision-making trust shares). The average ratio of share pledging by all Supervisors per month: Share pledging by all Supervisors/shares held by all Supervisors (including retained decision-making trust shares).

Remuneration Range Table

Table of Remuneration Ranges for Directors	Name of Director			
	Total of (A+B+C+D)		Total of (A+B+C+D+E+F+G)	
	The Company (Note 9)	All Companies in Consolidated Statements (Note 10) I	The Company (Note 9)	All Companies in Consolidated Statements (Note 10) I
Less than NT$2,000,000	Hsiao-Ru Su, Wan-Chin Tsai	Hsiao-Ru Su, Wan-Chin Tsai	Hsiao-Ru Su, Wan-Chin Tsai	Hsiao-Ru Su, Wan-Chin Tsai
From NT$2,000,000 to NT$5,000,000	Trickle Co,m Ltd,&Trickle T.C.Chang, Fisher C.H.Yu	Trickle Co,m Ltd,&Trickle T.C.Chang, Fisher C.H.Yu	Trickle Co,m Ltd,&Trickle T.C.Chang, Fisher C.H.Yu	Trickle Co,m Ltd,&Trickle T.C.Chang, Fisher C.H.Yu
From NT$5,000,000 to NT$10,000,000	Han De Investment Co., Ltd.&Alexander M.T.Su, Ming-Shan Jheng	Ming-Shan Jheng	Ming-Shan Jheng	Ming-Shan Jheng
From NT$10,000,000 to NT$15,000,000		Han De Investment Co., Ltd.&Alexander M.T.Su	Han De Investment Co., Ltd.&Alexander M.T.Su	
From NT$15,000,000 to NT$30,000,000				Han De Investment Co., Ltd.&Alexander M.T.Su
From NT$30,000,000 to NT$50,000,000				
From NT$50,000,000 to NT$100,000,000				
Greater than NT$100,000,000				
Total	6	6	6	6

Note 1: The names of Directors shall be listed separately (the names and representatives of corporate shareholders shall be listed separately) and the amounts paid shall be disclosed in a summary. The table and the following Table (3) shall be filled if a Director serves concurrently as General Manager or Vice President.

Note 2: Remuneration to the Director in the past year (including salary, additional pay, severance pay, bonuses and rewards).

Note 3: The amount is the proposed remuneration to directors according to the most recent earnings distribution that has been approved by the Board of Directors but has not been submitted to the shareholders' meeting.

Note 4: This is business expense of directors in the past year (including transportation allowance, special allowance, stipends, dormitory, and car). If housing, cars, other transportation vehicles, or exclusive personal expenditures are provided, the nature, cost, actual rent or fair value rent of the assets, fuel expenses, and other payments shall also be disclosed. If a driver is assigned, please describe the related compensation paid by the Company to the driver which shall not be included in the remuneration.

Note 5: All pays to the director who is also employee of the Company (including the position of General Manager, Vice President, other managerial officer and staff), including salary, additional pay, pension, severance pay, bonuses, rewards, transportation allowance, special allowance, stipends, dormitory, and car. If housing, cars, other transportation vehicles, or exclusive personal expenditures are provided, the nature, cost, actual rent or fair value rent of the assets, fuel expenses, and other payments shall also be disclosed. If a driver is assigned, please describe the related compensation paid by the Company to the driver which shall not be included in the remuneration.

Note 6: For directors also working as an employee (including the position of General Manager, vice president, other managerial officer and staff), the amount of the proposed profit sharing and bonus according to the most recent earnings distribution that has been approved by the Board of Directors but has not been submitted to the shareholders' meeting. If the proposed profit sharing and bonus cannot be estimated, the proposed distribution amount shall be calculated based on the actual amount distributed in the previous year. The attached Table 1-3 shall also be filled out.

Note 7: Shares subscribable under employee stock option plan by the director also working as an employee (including the position of General Manager, vice president, other managerial officer and staff) as of the date of report (excluding shares already exercised). This table shall be filled out and the attached Table 15 shall also be filled out.

Note 8: The total pay to the director from all companies in the consolidated statements (including the Company) shall be disclosed.

Note 9: The payment collected by corporate directors shall be distributed evenly among their assigned representatives before classification into the number of individuals for each remuneration range of the Company's Directors. If the Company voluntarily adopts summarized disclosure and discloses the names of the individuals in each remuneration range, please change the name of the "Number of Directors" field to "Name of Director".

Note 10: The number of Directors paid by all companies in the consolidated statements (including the Company) in the remuneration range. If the Company voluntarily adopts summarized disclosure and discloses the names of the individuals in each remuneration range, please change the name of the "Number of Directors" field to "Name of Director".

Note 11: the after-tax net profit refers to the after-tax net profit in the most recent fiscal year; for companies that have adopted IFRSs, the after-tax net profit refers to the after-tax net profit in the parent company only or individual financial report in the most recent year.

Note 12: a. This field shall clearly indicate whether the Director of the Company receives remuneration from investees other than subsidiaries of the Company and the amount.

b. If a Director of the Company received remuneration from investees other than subsidiaries of the Company, the remuneration received by the Director of the Company from investees other than subsidiaries of the Company shall be included in J column of the Remuneration Range Table and the name of the field shall be changed to "All Reinvestment Enterprises".

c. The remuneration means pay, remuneration, employee bonus and business expense received by the director serving as a director, supervisor or manager of an investee of the Company other than subsidiaries.

Note 13: New shares subscribed under the restrictive employee stock option plan by the Director also working as an employee (including the position of General Manager, vice president, other managerial officer and staff) as of the date of report. This table shall be filled out and the attached Table 15 shall also be filled out.

* The content of the remuneration disclosed in this Table is different in concept from the income in the Income Tax Act, therefore the purpose of the table is to disclose information and not for taxation.

(V) Remuneration for Supervisors in the Most Recent Year

December 31, 2016; Unit: NT$1,000

Title	Name	Remuneration of Supervisors						Ratio of Total Remuneration (A+B+C) to Net Income (%) (Note 8)		Remuneration Received from Investees Other than Subsidiaries (Note 9)
		Base Compensation (A) (Note 2)		Remuneration for Distribution of Earnings (B) (Note 3)		Project implementation Expenses (C) (Note 4)				
		The Company	All Companies in Consolidated Statements (Note 5)	The Company	All Companies in Consolidated Statements (Note 5)	The Company	All Companies in Consolidated Statements (Note 5)	The Company	All Companies in Consolidated Statements (Note 5)	
Supervisor	Wen-Lung Li	-	-	2,780	2,780	210	320	2,990	3,100	None
Supervisor	Yung-Yu Chiu									
Supervisor	Shih-Yang Chen									

Remuneration Range Table

Remuneration Range for the Company's Supervisors	Names of Supervisor Total of (A+B+C)	
	The Company (Note 6)	All Companies in Consolidated Statements (Note 7) D
Less than NT$2,000,000	Wen-Lung Li, Shih-Yang Chen, Yung-Yu Chiu	Wen-Lung Li, Shih-Yang Chen, Yung-Yu Chiu
From NT$2,000,000 to NT$5,000,000		
From NT$5,000,000 to NT$10,000,000		
From NT$10,000,000 to NT$15,000,000		
From NT$15,000,000 to NT$30,000,000		
From NT$30,000,000 to NT$50,000,000		
From NT$50,000,000 to NT$100,000,000		
Greater than NT$100,000,000		
Total	3	3

Note 1: The names of Supervisors shall be listed separately (the names and representatives of corporate shareholders shall be listed separately) and the amounts paid shall be disclosed in a summary.

Note 2: Remuneration to supervisors in the past year (including salary, additional pay, severance pay, bonuses and rewards).

Note 3: The amount is the proposed remuneration to supervisors according to the most recent earnings distribution approved by the Board of Directors, but this figure has not yet been submitted to the shareholders' meeting.

Note 4: This is business expense of Supervisors in the past year (including transportation allowance, special allowance, stipends, dormitory, and car). If housing, cars, other transportation vehicles, or exclusive personal expenditures are provided, the nature, cost, actual rent or fair value rent of the assets, fuel expenses, and other payments shall also be disclosed. If a driver is assigned, please describe the related compensation paid by the Company to the driver which shall not be included in the remuneration.

Note 5: The total pay to the Supervisor from all companies in the consolidated statements (including the Company) shall be disclosed.

Note 6: The number of Supervisors paid by the Company in the remuneration range. If the Company voluntarily adopts summarized disclosure and discloses the names of the individuals in each remuneration range, please change the name of the "Number of Supervisors" field to "Name of Supervisor".

Note 7: The names of Supervisors paid by all companies in the consolidated statements (including the Company) shall be disclosed in their respective remuneration range.

Note 8: The after-tax net profit refers to the after-tax net profit in the most recent fiscal year; for companies that have adopted IFRSs, the after-tax net profit refers to the after-tax net profit in the parent company only or individual financial report in the most recent year.

Note 9: a. This field shall clearly indicate whether the Supervisor of the Company receives remuneration from investees other than subsidiaries of the Company and the amount.

b. If a Supervisor of the Company received remuneration from investees other than subsidiaries of the Company, the remuneration received by the Supervisor of the Company from investees other than subsidiaries of the Company and their positions shall be included in J column of the Remuneration Range Table and the name of the field shall be changed to "All Reinvestment Enterprises".

c. The remuneration means pay, remuneration, employee bonus and business expense received by the supervisor serving as a director, supervisor or manager of an investee of the Company other than subsidiaries.

* The content of the remuneration disclosed in this Table is different in concept from the income in the Income Tax Act, therefore the purpose of the table is to disclose information and not for taxation.

(VI) Remunerations to the General Manager and Vice Presidents in the most recent year

December 31, 2016; Unit: NT$1,000; market value is in NT$ and number of shares is 1,000 shares

<table>
<tr><th rowspan="3">Title</th><th rowspan="3">Name</th><th colspan="2">Salary (A) (Note 2)</th><th colspan="2">Severance Pay (B)</th><th colspan="2">Bonuses and Allowances, etc. (C) (Note 3)</th><th colspan="4">Profit Sharing-Employee Bonus (D) (Note 4)</th><th colspan="2">Ratio of total (A), (B), (C), and (D) to after-tax income (%) (Note 9)</th><th colspan="2">Shares subscribable under employee stock options (Note 5)</th><th colspan="2">Shares obtained through restricted stock award (Note 11)</th><th rowspan="3">Remuneration Received from Investees Other than Subsidiaries (Note 10)</th></tr>
<tr><th rowspan="2">The Company</th><th rowspan="2">All Companies in Consolidated Statements (Note 6)</th><th rowspan="2">The Company</th><th rowspan="2">All Companies in Consolidated Statements (Note 6)</th><th rowspan="2">The Company</th><th rowspan="2">All Companies in Consolidated Statements (Note 6)</th><th colspan="2">The Company</th><th colspan="2">All Companies in Consolidated Statements (Note 6)</th><th rowspan="2">The Company</th><th rowspan="2">All Companies in Consolidated Statements (Note 6)</th><th rowspan="2">The Company</th><th rowspan="2">All Companies in Consolidated Statements (Note 6)</th><th rowspan="2">The Company</th><th rowspan="2">All Companies in Consolidated Statements (Note 6)</th></tr>
<tr><th>Cash Bonus</th><th>Stock bonus</th><th>Cash Bonus</th><th>Stock bonus</th></tr>
<tr><td>General Manager</td><td>Ming-Te Su</td><td rowspan="5">9,778</td><td rowspan="5">9,950</td><td rowspan="5">-</td><td rowspan="5">-</td><td rowspan="5">-</td><td rowspan="5">-</td><td rowspan="5">5,046</td><td rowspan="5">-</td><td rowspan="5">5,251</td><td rowspan="5">-</td><td rowspan="5">1.98%</td><td rowspan="5">2.03%</td><td rowspan="5">-</td><td rowspan="5">-</td><td rowspan="5">-</td><td rowspan="5">-</td><td rowspan="5">None</td></tr>
<tr><td>Vice President</td><td>Chao-Lang Hsu</td></tr>
<tr><td>Vice President</td><td>Ming-Shan Tseng</td></tr>
<tr><td>Vice President</td><td>Pai-Hui Liu</td></tr>
<tr><td>Vice President</td><td>Chun-Hsiung Yu</td></tr>
</table>

<table>
<tr><th rowspan="2">Range of Remuneration Paid to General Managers and Vice Presidents</th><th colspan="2">Names of General Manager or Vice President</th></tr>
<tr><th>The Company (Note 7)</th><th>All companies in consolidated statements (Note 8) E</th></tr>
<tr><td>Less than NT$2,000,000</td><td>Chao-Lang Hsu, Fisher C.H.Yu, Jessica P.H.Liu</td><td>Chao-Lang Hsu, Fisher C.H.Yu, Jessica P.H.Liu</td></tr>
<tr><td>NT$2,000,000 (inclusive) to NT$5,000,000 (exclusive)</td><td>Alexadner M.T.Su, Ming-Shan Jheng</td><td>Alexadner M.T.Su, Ming-Shan Jheng</td></tr>
<tr><td>NT$5,000,000 (inclusive) to NT$10,000,000 (exclusive)</td><td></td><td></td></tr>
<tr><td>NT$10,000,000 (inclusive) to NT$15,000,000 (exclusive)</td><td></td><td></td></tr>
<tr><td>NT$15,000,000 (inclusive) to NT$30,000,000 (exclusive)</td><td></td><td></td></tr>
<tr><td>NT$30,000,000 (inclusive) to NT$50,000,000 (exclusive)</td><td></td><td></td></tr>
<tr><td>NT$50,000,000 (inclusive) to NT$100,000,000 (exclusive)</td><td></td><td></td></tr>
<tr><td>Greater than NT$100,000,000</td><td></td><td></td></tr>
<tr><td>Total</td><td>5</td><td>5</td></tr>
</table>

Note 1: The names of General Managers and Vice Presidents shall be listed separately and the amounts paid shall be disclosed in a summary. The table and the preceding Table (1-1) or (1-2) shall be filled if a Director serves concurrently as General Manager or Vice President.

Note 2: Salary, additional pay, and severance pay received by the General Manager or vice president in the past year.

Note 3: Bonus, reward, transportation allowance, special allowance, stipends, dormitory, car and other pays received by the General Manager or vice president in the past year. If housing, cars, other transportation vehicles, or exclusive personal expenditures are provided, the nature, cost, actual rent or fair value rent of the assets, fuel expenses, and other payments shall also be disclosed. If a driver is assigned, please describe the related compensation paid by the Company to the driver which shall not be included in the remuneration.

Note 4: The amount is the employee bonus (including stock bonus and cash bonus) to the General Manager and vice presidents according to the most recent earnings distribution that has been approved by the Board of Directors but has not been submitted to the shareholders' meeting. If the proposed profit sharing and bonus cannot be estimated, the proposed distribution amount shall be calculated based on the actual amount distributed in the previous year. The attached Table 1-3 shall also be filled out. The after-tax net profit refers to the after-tax net profit in the most recent fiscal year; for companies that have adopted IFRSs, the after-tax net profit refers to the after-tax net profit in the parent company only or individual financial report in the most recent year.

Note 5: Shares subscribable under employee stock option plan by the General Managers and Vice Presidents also working as an employee as of the date of report (excluding shares already exercised). This table shall be filled out and the attached Table 15 shall also be filled out.

Note 6: The total pay to the General Manager or vice president from all companies in the consolidated statements (including the Company) shall be disclosed.

Note 7: The names and remuneration of General Managers and Vice Presidents paid by the Company shall be disclosed in their respective remuneration range.

Note 8: The names of General Managers and Vice Presidents paid by all companies in the consolidated statements (including the Company) shall be disclosed in their respective remuneration range.

Note 9: The after-tax net profit refers to the after-tax net profit in the most recent fiscal year; for companies that have adopted IFRSs, the after-tax net profit refers to the after-tax net profit in the parent company only or individual financial report in the most recent year.

Note 10: a. This field shows the amount of remuneration the General Manager or Vice President of the Company receives from investees other than subsidiaries of the Company.

b. If a General Manager or Vice President of the Company received remuneration from investees other than subsidiaries of the Company, the remuneration received by the General Manager or Vice President of the Company from investees other than subsidiaries of the Company shall be included in E column of the Remuneration Range Table and the name of the field shall be changed to "All Reinvestment Enterprises".

c. The remuneration means pay, remuneration, employee bonus and business expense received by the General Manager or Vice President serving as a Director, Supervisor or manager of an investee of the Company other than subsidiaries.

Note 11: New shares subscribed under the restrictive employee stock option plan by the Director also working as an employee (including the position of General Manager, vice president, other managerial officer and staff) as of the date of report. This table shall be filled out and the attached Table 15 shall also be filled out.

* The content of the remuneration disclosed in this Table is different in concept from the income in the Income Tax Act, therefore the purpose of the table is to disclose information and not for taxation.

(VII) Names of the Managers who were Distributed Employee Dividend and the Distribution

December 31, 2016; Unit: NT$1,000; market value is in NT$ and number of shares is in shares

<table>
<tr><th></th><th>Title (Note 1)</th><th>Name (Note 1)</th><th>Stock Bonus</th><th>Cash Bonus</th><th>Total</th><th>Ratio (%) accounted compared to the total net income</th></tr>
<tr><td rowspan="6">Manager</td><td>General Manager</td><td>Alexander M.T.Su</td><td rowspan="6">-</td><td rowspan="6">5,281</td><td rowspan="6">5,281</td><td rowspan="6">0.70%</td></tr>
<tr><td>Vice President of Administration</td><td>Chao-Lang Hsu</td></tr>
<tr><td>Vice President of Operations</td><td>Ming-Shan Jheng</td></tr>
<tr><td>Vice President of Special Steel Operations</td><td>Fisher C.H.Yu</td></tr>
<tr><td>Vice President of Finance and Accounting</td><td>Jessica P.H.Liu</td></tr>
<tr><td>Assistant Vice President of Finance and Accounting</td><td>Lisa H.C.Chien</td></tr>
</table>

The amount is the employee bonus (including stock bonus and cash bonus) to the managers according to the most recent earnings distribution that has been approved by the Board of Directors but has not been submitted to the shareholders' meeting. If the proposed profit sharing and bonus cannot be estimated, the proposed distribution amount shall be calculated based on the actual amount distributed in the previous year. The value of stock bonuses of a company listed whose stock is listed on the stock exchange or traded over the counter shall be calculated by the fair value in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers (the closing price of the company's stock on the balance sheet date); if the company's stocks is not listed on the stock exchange or traded over the counter, it shall be calculated by the net value of profits on the closing date of the fiscal year. Net profit after tax means the net profit after tax in the most recent year.

Note 1: Names and titles of individuals should be disclosed, but the disclosure can be shown in aggregate earnings distribution.

Note 2: The amount is the employee bonus (including stock bonus and cash bonus) to the managers according to the most recent earnings distribution that has been approved by the Board of Directors but has not been submitted to the shareholders' meeting. If the proposed profit sharing and bonus cannot be estimated, the proposed distribution amount shall be calculated based on the actual amount distributed in the previous year. The after-tax net profit refers to the after-tax net profit in the most recent fiscal year; for companies that have adopted IFRSs, the after-tax net profit refers to the after-tax net profit in the parent company only or individual financial report in the most recent year.

Note 3: The applicability of managers shall be in accordance with the Financial Supervisory Commission's Tai-Cai-Zheng-3 No. 0920001301 Letter specifying the range as follows:

(1) The General Manager and those with equivalent powers
(2) Vice Presidents and those with equivalent powers
(3) The Assistant Vice Presidents and those with equivalent powers
(4) Supervisor of the Finance Department
(5) Supervisor of the Accounting Department
(6) Other individuals with the authority of managing company affairs and signatory rights

Note 4: If the Director, General Manager, and Vice Presidents have collected employee bonus (including stock bonus and cash bonus), in addition to the attached Table 2-1, this Table shall also be filled out separately.

(VIII) Analysis of remunerations to the Company's Directors, Supervisors, General Manager and Vice Presidents as a percentage of earnings in the last two years and description of the policy, standards and packages of remunerations, procedure for making such decision and relation to business performance:

1. Analysis of remunerations to the Company's Directors, Supervisors, General Manager and Vice Presidents as a percentage of net profit after tax in the most recent year:

Title	Ratio of total remuneration to net profit after tax %			
	2016		2017	
	The Company	All Companies in Consolidated Statements	The Company	All Companies in Consolidated Statements
Remuneration to Directors	-0.38%	-0.42%	3.22%	3.42%
Remuneration to Supervisors	-0.06%	-0.06%	0.40%	0.41%
Remunerations to General Manager and Vice Presidents	-2.43%	-2.48%	1.98%	2.03%

2. Policies, standards, and packages for payment of remuneration, as well as the procedures for determining remuneration, and its linkage to business performance
   (1). Policies, standards, and packages for payment of remuneration:
      A. The salary compensation of the Company's Directors, Supervisors, and managers is discussed and determined by the Board of Directors based on the Company's earnings, the Company's overall business performance, standards of industry peers, and recommendations of the Remuneration Committee. The Company's Directors and Supervisors' Remuneration Policy is provided in "(X) Employee Bonus and Remuneration for Directors and Supervisors" on page 54.
      B. The remuneration for the Company's General Manager and Vice Presidents includes salary, bonus, and employee bonus from earnings distribution. The salary and bonus are discussed and determined by the Board of Directors based on the Company's earnings, personal business performance, standards of industry peers, and recommendations of the Remuneration Committee. Employee bonus is determined by the Board of Directors in accordance with the Company's earnings and the distribution ratio established in the Articles of Incorporation and distributed after approval from the shareholders' meeting.
   (2). Remuneration establishment procedure:
      A. The salary compensation of the Company's Directors is discussed and determined by the Board of Directors based on their participation in the Company's overall business operations, standards of industry peers, and recommendations of the Remuneration Committee. Remuneration for Directors and Supervisors is determined by the Board of Directors in accordance with the Company's earnings and the distribution ratio established in the Articles of Incorporation and distributed after approval from the shareholders' meeting.
      B. The salary compensation of the Company's General Manager and Vice Presidents is discussed and determined by the Board of Directors based on the Company's earnings, personal business performance, standards of industry peers, and recommendations of the Remuneration Committee.

(3). Linkage to business performance and future risk exposure:

A. The Company's founder and executive director is paid fixed compensation and partial transportation expenses whereas other directors are only paid transportation expenses for attending Board meetings without other remuneration. Therefore no future risks exist.

B. The remuneration paid to the General Manager was determined in a comprehensive assessment that has taken full account of the Company's revenue and related business performance as well as standards of industry peers. Employee bonus is determined by the Board of Directors in accordance with the Company's earnings and the distribution ratio established in the Articles of Incorporation and distributed after approval from the shareholders' meeting. Therefore there are no unforeseeable future risks.

C. The remuneration paid to the Vice Presidents was determined in a comprehensive assessment that is based on the Company's executive management evaluation guidelines and their performance based on "achievement status of work objectives" while taking into account standards of industry peers as the basis for salary adjustment and bonus distribution. Employee bonus is determined by the Board of Directors in accordance with the Company's earnings and the distribution ratio established in the Articles of Incorporation and distributed after approval from the shareholders' meeting. Therefore there are no unforeseeable future risks.

3. Basis for estimating the amount of employee bonuses and remuneration to directors/supervisors, basis for calculating the number of shares to be distributed as stock bonuses, and the accounting treatment of the discrepancy, if any, between the actual distributed amount and the estimated figure, for the current period: If there are differences in the actual distributed amount and the estimated amount, they shall be processed as changes in accounting estimates and adjusted into accounts in the following year.

(IX) Share Equity Change Status for Directors, Supervisors, Managers and Major Shareholders

1. Share Equity Change Status for Directors, Supervisors, Managers and Major Shareholders

Title (Note 1)	Name	2016		Current year up to April 30	
		Additional (Reduction) of Shares Held	Increase (Decrease) in Pledged Shares	Additional (Reduction) of Shares Held	Increase (Decrease) in Pledged Shares
Chairman	Alexander M.T.Su	—	—	—	—
Director	Han De Investment Co., Ltd.	1,050,000	1,300,000	1,650,000	
Director	Trickle Co., Ltd.	—	—	—	—
Director	Ming-Shan Jheng	—	—	96,000	—
Director	Fisher C.H.Yu	—	—	96,000	—
Director	Xiao-Ru Su	—	—	82,000	—
Director	Wan-Chin Tsai	—	—	—	—
Supervisor	Wen-Lung Li	—	—	—	—
Supervisor	Shih-Yang Chen	—	—	—	—
Supervisor	Yung-Yu Chiu	—	—	—	—

Note 1: Shareholders with over 10% of the Company's total share shall be classified as major shareholders and listed separately.

Note 2: Information regarding the transfer of shares or shares pledged to the counterparty being the related party shall be filled in the following Table.

2. Information on transfer of shares: There has been no transfer of shares with counterparties who are related parties.
3. Information on pledged shares: There have been no shares pledged to counterparties who are related parties.
4. Overview of reinvestment business: Please refer to the descriptions in the "Special Record Items" in the Annual Report (page 98 to 101).
5. Comprehensive Shareholding Ratio

Unit: share; %

Reinvestment Enterprises (Note)	Investment by the Company		Investments of Directors, Supervisors, Managers and Directly or Indirectly Controlled Businesses		Comprehensive Investment	
	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio
Hsin Yuan Investment	17,000,000	100%	－	－	17,000,000	100%
Sinpao Investment	USD 4,173,498	99.82%	－	－	USD 4,173,498	99.82%
Hsin Ho Fa Metal	9,171,030	83.37%	－	－	9,171,030	83.37%
Hsin Kuang Alga Engineering	8,520,000	68.16%	－	－	8,520,000	68.16%
China Steel Sumikin Vietnam	VND 18,368,000	2%	－	－	VND 18,368,000	2%
Hsin Wei Optoelectronics	1,120,000	40%	－	－	1,120,000	40%
Hsin Ching International	2,750,000	50%	－	－	2,750,000	50%
Pao Tien No. Venture Capital	USD 360,030	5.38%	－	－	USD 360,030	5.38%
Shang Yang Venture Capital	392,000	1.07%	－	－	392,000	1.07%
Dah Chung Bills Finance	423,863	0.10%	－	－	423,863	0.10%
InnoVision Venture Capital	1,380,000	3.07%	－	－	1,380,000	3.07%
Linkou Entertainment	1	0.10%	－	－	1	0.10%
TBI Motion Technology	175,000	0.21%	－	－	175,000	0.21%
Envirolink	2,375,000	9.90%	－	－	2,375,000	9.90%

Note: The Company's investments accounted for by the equity method and investment in available-for-sale financial products that have been fully recognized as losses are not be included.

B. Board of Directors Operation Status

A total of 7 meetings of the Board of Directors were held in the most recent year (2016). The attendance was as follows:

Title	Name (Note 1)	Attendance in Person (B)	Attendance by Proxy	Attendance in Person Rate (%) [B/A] (Note 2)	Remark(s)
Chairman	Alexander M.T.Su	7	–	100%	
Director	Han De Investment Co., Ltd.: Chairman：Alexander M.T.Su	7	–	100%	
Director	Trickle Co., Ltd.: Chairman：Trickle T.C.Chang	6	–	88%	
Director	Ming-Shan Jheng	7	–	100%	
Director	Fisher C.H.Yu	7	–	100%	
Director	Xiao-Ru Su	7	–	100%	
Director	Wan-Chin Tsai	7	–	100%	

Other details that need to be recorded in meeting minutes:

I. Matters stipulated in Article 14-3 of the Securities and Exchange Act and resolutions adopted by the Board of Directors, to which an independent director has a dissenting or qualified opinion that is on record or stated in a written statement: None.

II. Directors recused from themselves from discussion or voting on an agenda item in which they have an interest: N/A.

III. Programs this year and in the most recent year in strengthening the functionality of the Board (for example, set up an auditing committee, improve transparency, etc.) and execution evaluation: None

Note 1: If a Director is an institution, names of institutional shareholder and its representative should be disclosed.

Note 2:

(1) If a Director has resigned before the end of the year, the resignation date must be specified in the remarks section. The actual attendance rate (%) shall be calculated by dividing the number of the Board of Directors meetings held during the period by the number of the meetings that the Director has actually attended.

(2) If a Director has been reelected before the end of the year, the names of the new and old Directors must be filled in and the resignation, new appointment, second term appointment, or reelection dates shall be specified in the remarks section. The actual attendance rate (%) shall be calculated by dividing the number of the Board meetings held during the period by the number of the meetings that the Director has actually attended.

C. Operations of the Audit Committee: N/A

D. Supervisors' participation in Board meetings

A total of 7 meetings of the Board of Directors were held in the most recent year (2016). The attendance of Supervisors was as follows:

Title	Name (Note 1)	Attendance in Person (B)	Attendance by Proxy	Attendance in Person Rate (%) [B/A] (Note 2)	Remark(s)
Supervisor	Wen-Lung Li	7	–	100%	
Supervisor	Shih-Yang Chen	7	–	100%	
Supervisor	Yung-Yu Chiu	7	–	100%	

Other details that need to be recorded in meeting minutes:

I. Composition and responsibilities of Supervisors:

(I) Supervisors, employees and shareholders' communication (for example, communication channels, methods, etc.): Employees and shareholders can communicate with Supervisors through mail or email. Supervisors can instruct related departments and units of the Company to process opinions if necessary.

(II) Supervisors' communication with internal auditors and CPAs (for example, communication over the Company's financial and business status-the methods and results, etc.):

(1). The audit chief submits the completed audit report to Supervisors for examination in the following month and the Supervisors did not raise any objection.

(2). The audit chief attends submits the completed audit report to Supervisors for examination in the following month and the Supervisors did not raise any objection.

(3). The semi-annual financial reports certified by CPAs, the financial reports, earnings distribution proposals, and business reports certified by CPAs at the end of each fiscal year are submitted to the Supervisors for review and the Supervisors shall submit an Audit Report.

(4). If deemed necessary, Supervisors would communicate directly with CPA on the financial condition of the Company in face-to-face meetings or in writing.

2. If a Supervisor stated any opinions while attending Board of Directors' meetings, the date, session, contents of the case discussed, and resolution of the meeting as well as the Company's disposition of opinions stated by the Supervisor shall be described: None.

Note 1: If a Supervisor is an institution, names of institutional shareholder and its representative should be disclosed.

Note 2:

(1) If a Supervisor has resigned before the end of the year, the resignation date must be specified in the remarks section. The actual attendance rate (%) shall be calculated by dividing the number of meetings held during the period by the number of the meetings that the Supervisor has actually attended.

(2) If a Supervisor has been reelected before the end of the year, the names of the new and old Supervisors must be filled in and the resignation, new appointment, second term appointment, or reelection dates shall be specified in the remarks section. The attendance in person rate (%) is calculated by attendance in person during the period of service.

E. Corporate governance implementation status and deviations from Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and reasons

Assessed Items	Implementation status (Note 1)			Deviations from Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and Reasons
	Yes	No	Summary	
1. Has the Company established and disclosed its code of practice on corporate governance based on "Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies"?	✓		The Company has established corporate governance principles in accordance with the TWSE and TPEx Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies. Please refer to the description in the "Corporate Governance Report" in this Annual Report (page 26 to 30) for the Company corporate governance status.	None
2. Shareholding structure & shareholders' rights (1) Did the company establish an internal procedure for handling shareholder proposals, inquiries, disputes, and litigations? Are such matters handled according to the internal procedure?	✓		The Company instructed the General Manager's Office, Administrative Services Department, Shareholder Service Agency and related departments to process shareholder questions, disputes, and litigation and processed related matters accordingly.	None
(2) Did the company maintain a register of major shareholders with controlling power as well as a register of persons exercising ultimate control over those major shareholders?	✓		The Company maintains knowledge of shareholding status of Directors, Supervisors, managers, and shareholders with shareholding ratios of 10% or greater at all times and disclose the information in accordance with regulations. The shareholding structure of the Company remains stable.	None
(3) Did the company establish and enforce risk control and firewall systems with its affiliate enterprises?	✓		The Company has established related regulations on internal control mechanisms in its internal control system and "Transaction Procedures with Related Parties, Specific Companies, and Companies of the Group" in accordance with regulations. Business and financial dealings between the Company and an affiliate are treated as dealings with an independent third party to prevent non-arm's-length transactions.	None
(4) Does the company establish internal rules against insiders trading with undisclosed information?	✓		The Company has established "Procedures for Handling Material Inside Information" to regulate all company employees, managers, and Directors, as well as those who have learned of the Company's information based on positions or controlling relations to prevent any insider trading activities. The Company also conducts regular internal education, training, and announcements.	None
3. Composition and Responsibilities of the Board of Directors (1) Has a policy of diversity	✓		The nomination of the Company's Board of Directors was carried out in accordance with rigorous internal procedures that not only take into account their	None

Assessed Items	Implementation status (Note 1)			Deviations from Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and Reasons
	Yes	No	Summary	
been established and implemented for the composition of the Board of Directors?			professional capabilities but also their personal ethics and leadership reputation. The nine members of the Company's Board of Directors consist of Directors and Supervisors with extensive experience in company operations or expertise in the industry. We rely on the extensive professional knowledge, personal insight and business judgments of Directors. One of the Board members is female. The scope of duties of the Board of Directors, the Chairman, and the General Manager shall be regulated by the "Authorization of Approval Table of the Board of Directors and Management" and the "Duties Division Table of the Board of Directors, Chairman, and General Manager" established by the Company.	
(2) In addition to Salary and Remuneration Committee and Audit Committee established according to law, has the company voluntarily established other functional committees?		✓	All important decisions of the Company are decided by the Board of Directors. The Company has established a Remuneration Committee. Please refer to descriptions in "6. Composition, duties, and operations of the Remuneration Committee" in the Corporate Governance Report chapter of the Annual Report (page 31-32). The Company has not established a Nomination Committee or other functional committees. (The Company shall establish committees based on actual requirements and specific regulations in accordance with laws.) The Company's CPAs are capable of independently reviewing the Company's financial statements and with the exception of the Remuneration Committee, the current organization meets operational requirements.	As summarized.
(3) Does the Company establish standards and method for evaluating the performance of the Board of Directors, and implemented it annually?	✓		Based on the Company's ideals for corporate governance, the main duties of the Board of Directors is to supervise, instruct, and evaluate the performance of the management team and to appoint and dismiss managers. Members of the Company's Board of Directors have extensive corporate management experience or professional experience in the industry. They maintain high ethical standards and adhere to the commitments made to the Company. The Company convenes Board of Directors meetings regularly every quarter. In addition to approval of various proposals, the Board also receives reports from the management team on business strategies and future plans in order to create maximum value for shareholders. The Company's long-term business performance and the implementation of the Company's corporate governance mechanisms provide ample evidence for the sound performance of the Company's Board of Directors. The Company has established related performance	None

Assessed Items	Implementation status (Note 1)			Deviations from Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and Reasons
	Yes	No	Summary	
			evaluation indicators for the operations of the Board in the "Regulations Governing Performance Evaluation of the Board of Directors and Managers". The Company uses a questionnaire for performance self-assessment and discussion of issues that require special attention in the future.	
(4) Does the Company regularly evaluate the independence of CPAs?	✓		The finance and accounting units of the Company evaluates the independence of CPAs with regard to the following items periodically every year and reports the results to the Board of Directors: 1. The report on the independence of the CPA. 2. The audit or non-audit services provided by the CPA to ensure that non-audit services do not affect the results of audits. 3. No CPA has provided audit services for over five consecutive years. 4. The Company uses an eligibility questionnaire to compile results of the assessment of the independence of CPAs each year.	None
4. Does the Company establish a communication channel and build a designated section on its website for stakeholders, and properly respond to corporate social responsibility issues of concern to the stakeholders?	✓		The Company instructs the General Manager's Office, Audit Office, Shareholder Service Agency, and other departments to communicate with stakeholders in accordance with circumstances. The Company established a spokesperson system on the Company website and contact information with various related business departments. The Company also built a designated section on its website for stakeholders to appropriately respond to important corporate and social responsibility issues that stakeholders are concerned about. The Company's Supervisors may, when they deem it necessary, communicate directly with stakeholders.	None
5. Does the company designate a professional shareholder service agency to deal with shareholder affairs?	✓		The Company has appointed the Department of Stock Affairs at President Securities Corp. to process affairs related to shareholders meetings.	None
6. Information disclosure (1) Has the company established a corporate website to disclose information regarding the company's financial, business and corporate governance status?	✓		The Company readily discloses related information on its website (http://www.hksteel.com.tw) and the Market Observation Post System (http://newmops.twse.com.tw).	None

Assessed Items	Implementation status (Note 1)			Deviations from Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and Reasons
	Yes	No	Summary	
(2)Did the company adopt other information disclosure methods (such as establishing English websites, assign dedicated personnel to collect and disclose company data, implement the spokesperson system, upload the investor conference processes to the company's website, etc.)?	✓		Other means of information disclosure adopted by the Company: 1. The Company instructed the General Manager's Office, Administrative Services Department, and related departments to collect and disclose related information in accordance with regulations. 2. The Company has established a spokesperson system and readily discloses financial and business information, corporate governance information disclosure, the proceedings of institutional investor conferences, and related information on its website (http://www.hksteel.com.tw) and the Market Observation Post System (http://newmops.twse.com.tw).	None
7. Is there any other important information to facilitate a better understanding of the company's corporate governance practices (including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, continuing education of directors and supervisors, the implementation of risk management policies and risk evaluation standards, the implementation of customer relations policies, and purchasing insurance for directors and supervisors)?	✓		The Company readily discloses related information on its website (http://www.hksteel.com.tw) and the Market Observation Post System (http://newmops.twse.com.tw). (1). Employee rights: The Company has always treated employees honorably and provides protection of their legal rights in accordance with the Labor Standards Act and related labor regulations. Please refer to the descriptions in the "5. Employees-employer relations" section of the Operational Highlights in the Annual Report (page 72). (2). Caring for Employees: The Company has established a welfare system that provides stability for employees' lives and a sound education and training system to build good relations with employees based on mutual trust and reliance. For instance, the Company subsidizes employees' on-the-job training and provides them with cultural entertainment, subsidies for healthcare, and daily-life necessities for boarding employees. Please refer to the descriptions in the "5. Employees-employer relations" section of the Operational Highlights in the Annual Report (page 72). (3). Investor relations: The Company instructed the General Manager's Office, Administrative Services Department, and related departments to process shareholder advice, questions, disputes, and other affairs. Please refer to the descriptions in the "7. Performance of corporate social responsibility" section of the Corporate Governance Report in the Annual Report (page 32). (4). Supplier relations: The Company has always maintained good relations with suppliers. Please refer to the descriptions in the "7. Performance of	None

Assessed Items	Implementation status (Note 1)			Deviations from Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and Reasons
	Yes	No	Summary	
			corporate social responsibility" section of the Corporate Governance Report in the Annual Report (page 32). (5). Stakeholder rights: The Company values the opinions of various stakeholders and uses visits, emails, telephone calls, faxes, mail (written, package, and official documents), instant communication software, various forms of meetings (coordination meetings, press conferences, conferences, seminars, and creditors' meetings), associations, video conference, regulations, and other means of active communication to appropriately respond to external requirements. Please refer to the descriptions in the "7. Performance of corporate social responsibility" section of the Corporate Governance Report in the Annual Report (page 32). (6). Directors and Supervisors' training records: The Directors and Supervisors of the Company have the appropriate professional background and practical management experience. The Company also provides Directors and Supervisors with related regulatory information at all times and conducts business and other related briefings for Directors and Supervisors. In 2016, the Company arranged training courses for all Directors and Supervisors as follows: －The 3-hour "Corporate Decision-Making and the Functions of the Board of Directors" course organized by Taiwan Corporate Governance Association －The 3-hour "Corporate Decision-Making and the Functions of the Board of Directors" course organized by Taiwan Corporate Governance Association In addition, training for the Company's Directors and Supervisors includes the following methods: －The management team conducts briefing on changes in business and regulations and other related information for the Directors and Supervisors (at least once every quarter); －The certifying CPA reports information on changes in regulations and the Company's compliance status to the Directors and Supervisors; and －The Directors and Supervisors opts for participation in related training courses based on requirements －The Chairman Ming-Te Su logged a total of 12	

Assessed Items	Implementation status (Note 1)			Deviations from Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and Reasons
	Yes	No	Summary	
			hours in training courses in 2016. In addition to the aforementioned courses, he attended the "How to Actively Uncover Frauds by Strengthening Corporate Governance through Internal Controls" and "Taxation Issues Involving Enterprises and Major Shareholders in the Process of Returning to Taiwan for Public Listing" courses. (7). The implementation of risk management policies and risk evaluation measures: The Company has established various internal regulations and conducted various risk management and assessment in accordance with regulations. Please refer to the descriptions in the "Review of Financial Conditions, Financial Performance and Risk Management" in the Annual Report (page 91 to 97). (8). Implementation of customer policies: The Company maintains stable and good relations with customers in order to generate profits. (9). Purchase of liability insurance for Directors and Supervisors: The Company's Directors and Supervisors adhere to ethical business principles and there have been no litigations or illegal activities. Therefore the Company has not purchased liability insurance for Directors and Supervisors.	
8. Does the Company have corporate governance self-assessment report or have engaged any other professional organization to conduct such assessment? (If so, please describe the opinion of the board, the results of self or outside evaluation, major deficiencies found, suggestions, or improvement actions taken) (Note 2)	✓		The Company has conducted self-assessment on corporate governance since January 2015 in accordance with the "Corporate Governance Evaluation System" established by the TWSE. The Company shall review the results of the evaluation and assess feasible improvement methods. The Company's corporate governance self-assessment report did not contain material deficiencies and is posted on the Market Observation Post System (http://newmops.twse.com.tw).	None

Note1: Regardless of whether "Yes" or "No" was selected, explanation shall be provided in the Summary column.

Note 2: A self-assessment report is defined as a report produced by a company on its current corporate operations and implementation based on the self-assessment of its corporate governance items with appropriate explanations provided.

F. Composition, duties, and operations of the Remuneration Committee

The mission of the Remuneration Committee is to assist the Board of Directors in the execution and assessment of the Company's overall compensation and welfare policies as well as the remuneration for managers.

According to the laws of the R.O.C., the members of the Remuneration Committee are appointed by the Board of Directors. According to the Company's Remuneration Committee Charter, the

Committee shall be formed by at least three individuals with the qualifications specified in Article 3 of the Charter. The Company's Remuneration Committee currently has three members. The Chairman Ming-Te Su is invited to participate in all meetings but recused during discussions on his remuneration.

Professional Qualifications and Independence of Remuneration Committee Members

According to related regulations of the Securities and Futures Bureau of the Financial Supervisory Commission, the professional qualifications and independence of the Company's Remuneration Committee Members are as follows:

Position (Note 1)	Qualifications / Name	Has at least 5 years of work experience and meet one of the following professional qualifications			Meets the independence criteria (Note 2)								Number of other public companies where he/she is a member of the remuneration committee	Notes (Note 3)
		Currently serving as a lecturer or a higher post in a private or public college or university in the field of business, law, finance, accounting, or the business sector of the Company	A judge, public prosecutor, attorney, accountant, or other professional or technical specialist related to the needs of the Company who has passed a national examination and received a certificate therefore	Have work experience in commerce, law, finance, or accounting or a profession necessary for the business of the Company	1	2	3	4	5	6	7	8		
Remuneration Committee Member	Winston Won		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		
Remuneration Committee Member	Ming-Sheng Wang		✓		✓	✓	✓	✓	✓	✓	✓	✓		
Remuneration Committee Member	Tun-Ting Mou			✓	✓	✓	✓	✓	✓	✓	✓	✓		

Note 1: For Position, please identify whether the person is a Director, Independent Director, or other.

Note 2: Please "✓" the boxes below each criterion if a member meets these conditions within two years prior to being elected and during his/her term of service.

(1) Not an employee of the company or any of its affiliates;

(2) Not a Director or Supervisor at the Company or its affiliates. The same does not apply, however, in cases where the committee member is an independent director of the Company, its parent company, or any subsidiary in which the Company holds, directly or indirectly, more than 50 percent of the voting shares.

(3) Not a shareholder that hold more than 1% of the Company's total shares or rank among top-ten shareholders, this applies for the Director him/herself, spouse, minor children, or shares held under others' names.

(4) Not a spouse, relative within the second-degree of kinship, or direct, blood-related three-degree relative of the personnel listed in the first three criteria.

(5) Not a Director, Supervisor, or employee of a corporate/institutional shareholder that directly holds five percent or more of the total number of issued shares of the company or ranks as one of its top five shareholders;

(6) Not a Director, Supervisor, manager, or a shareholder that holds more than 5% of shares at a company or institution that has financial or business exchanges with the Company.

(7) Not a professional, business owner, partner, director, supervisor, manager, or their spouse at a sole proprietor, partnership, company, or institution that offers business, finance, or accounting services or consultancy for the Company or its affiliates.

(8) Not having any of the situations set forth in Article 30 of the Company Act of the R.O.C.

Note 3: If the member is a Director, please specify whether the member meets provisions provided by Paragraph 5, Article 6 of the "Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter".

State of Operations of the Remuneration Committee

The Company's Compensation Committee has a total of three members and the term of the current members is from August 6, 2014 to August 5, 2017.

Please refer to the Company's website (http://www.hksteel.com.tw) or the Market Observation Post System (http://newmops.twse.com.tw) for the "Remuneration Committee Charter".

The Remuneration Committee met 2 times (A) in the most recent year and the attendance records of the members of the Remuneration Committee are as follows:

Title	Name	Attendance in person	Attendance rate (%)	Notes
Chairman	Jong-Sui Weng	2	100%	None
Committee Member	Ming-Sheng Wang	2	100%	None
Committee Member	Tun-Ting Mou	2	100%	None
Other details that need to be recorded in meeting minutes: 1.If the Board of Directors choose not to adopt or revise recommendations proposed by the Salary and Remuneration Committee, the date of the Board of Directors' Meeting, session, contents discussed, results of meeting resolutions, and the Company's disposition of opinions provided by the Salary and Remuneration Committee shall be described in detail (also, where the salary and remuneration approved by the Board of Directors Meeting is better than that recommended by the Salary and Remuneration Committee, the differences and the reason for the approval shall be described in detail): None. 2.Where resolutions of the Remuneration Committee include dissenting or qualified opinion which is on record or stated in a written statement, the date, session, contents discussed, opinions from every member, and disposition of the members' opinions shall be described in detail: None.				

Note:

(I) If a Remuneration Committee member has resigned before the end of the year, the resignation date must be specified in the remarks section. The actual attendance rate (%) shall be calculated by dividing the number of the Remuneration Committee meetings held during the period by the number of the meetings that the member has actually attended.

(II) If a Remuneration Committee has been reelected before the end of the year, the names of the new and old Remuneration Committee members must be filled-in and the resignation, new appointment, second term appointment, or reelection dates shall be specified in the remarks section. The actual attendance rate (%) shall be calculated by dividing the number of the Remuneration Committee meetings held during the period by the number of the meetings that the member has actually attended.

G. Performance of Corporate Social Responsibility

In addition to focusing on development of its operations in the industry, the Company maintains an ethical and harmonious corporate culture in its fair treatment of shareholders, employees and the public. The Company has adopted basic ideals for compliance with laws, conducts business in accordance with laws, and shall not take part in illegal activities. The Company values corporate governance and seeks to attain balance in the benefits of shareholders, employees, and all stakeholders. It also provides high-quality work opportunities including good pay, challenging work content, and a comfortable and secure work environment. It is the Company's responsibility to take care of the physical and mental needs of employees. The Company also participates in social welfare activities, donates life-support systems and ambulances to give back to society. In the future, the Company shall continue to fulfill corporate social responsibilities and strive to become a good corporate citizen.

The Company has established the 7 principles and objectives for the execution of corporate social responsibilities as follows in order to achieve the goal of becoming a good corporate citizen.

(1) Adhere to the principles of ethics in business management and fulfill the core corporate values of an "ethical and harmonious" corporate culture to provide shareholders, employees, customers, suppliers, and the public with fair treatment.

(2) The Company shall abide by laws, conduct business in accordance with laws, and shall not take part in illegal activities.
(3) The Company values corporate governance and seeks to attain balance in the benefits of shareholders, employees, and all stakeholders.
(4) The Company provides high-quality work opportunities including good pay, challenging work content, and a comfortable and secure work environment to take care of the physical and mental needs of employees.
(5) The Company dedicates itself to long-term care of the community, participates in social welfare activities, and shall continue to sponsor education and cultural activities.
(6) The Company values and continues to implement environmental protection measures in response to climate change.
(7) The Company opposes corruption, rejects nepotism and strictly adheres to principles of recusal in conflicts of interest. The Company does not partake in bribery nor pursue political relations.

The Company firmly believes that both the related domestic regulations and recognized international standards shall be met when advancing environmental protection, safety, and sanitation operations.

The Company also dedicates itself to advancing corporate social responsibilities and safety and sanitation management. The Company has adopted a spirit for continuous improvement to promote safety and health, strengthen resource utilization and pollution prevention, regulate environmental safety and sanitation risks, establish environmental safety and sanitation cultural values, and adopt strategies for constructing green supply chains to fulfill corporate social responsibilities.

The Company continues to dedicate itself to advancing corporate social responsibilities, energy conservation, carbon emissions reduction, resource recycling, and other environmental protection efforts. The Company has always dedicated efforts on reducing greenhouse gas emissions. For a company that has continued to expand productivity and product lines, it is a difficult task to lower carbon dioxide emissions produced in the use of electricity. However, the Company remains dedicated to the planning and execution of these efforts. At the same time, the Company also adopted energy conservation designs in newly-built plants and offices as well as continuous increase in energy efficiency in preparation for the carbon dioxide trade and corporate carbon resources management in future domestic regulations. These measures not only reduce costs but also achieve the objective of lowering CO_2 emissions that cause global warming. The Company also uses rooftop areas of existing factories to set up PV panels to produce energy in order to reduce energy consumption and carbon emissions and implement environmental protection measures. The Company also sets up solar-powered street lights to lower CO_2 emissions that cause global warming.

The Company's production line does not require vast amounts of water resources but in order to effectively use water resources, the Company has also adopted recycling and reuse measures to reduce water consumption in non-production operations. For instance, the Company reduced water consumption in its air-conditioning systems, installed water-conservation devices in sanitation systems, monitors water consumption in washing external walls and irrigation of plants, and decreased general water consumption.

The Company donated a total of NT$1.75 million to elderly care and healthcare services, children and youth education welfare (established scholarships and low-income stipends), supported the provision of lunch for children in remote areas, funded Good People and Good Deeds programs, provided year-end dinner parties for the homeless and elderly that live alone, and sponsored the adoption of orphans of Veterans.

The Company and Trickle Co., Ltd. established the "Hsin Kuang Steel Tien-Cheng Charity Foundation" (hereinafter referred to as the "Hsin Kuang Steel Tien-Cheng Charity Foundation") in January 1, 2009. The Company current Director Tien-Cheng Chang represented the Company and serves as the Chairman of the Foundation. The Foundation contributes to social development and fulfills corporate social responsibilities by providing emergency social assistance, children and youth education welfare, assistance for the disabled, elderly welfare, subsidies for low-income individuals, special medical assistance, and other social charity assistance.

In 2016, Hsin Kuang Steel Tien-Cheng Charity Foundation donated NT$3.78 million (including NT$1.6 million from Hsin Kuang Steel Co., Ltd.) to actively contribute to social development and provided emergency social assistance, children and youth education welfare, assistance for the disabled, elderly welfare, special medical assistance, and other social charity assistance. The main tasks are described below:

Item	Talent Development and Promotion of Education and Culture	Implement Community Care	Assistance for the Disadvantaged	Establishment of Emergency Medical Equipment
Ratio	12.53%	5.35%	6.69%	75.42%

The Company's Chairman Ming-Te Su values corporate social responsibilities and established the "Taipei County Private Hui Jung Welfare and Charity Foundation" (hereinafter referred to as the Hui-Jung Foundation) in 2003 based on his beliefs to promote the main tasks of "talent development and promotion of education and culture", implementation of community care", "assistance for the disadvantaged", and "establishment of emergency medical equipment" in order to contribute to society and implement his personal will in caring for society.

In 2016, the Hui-Jung Foundation donated a total of NT$5.01 million to actively contribute to social development and the work are described below:

Item	Talent Development and Promotion of Education and Culture	Implement Community Care	Assistance for the Disadvantaged	Establishment of Emergency Medical Equipment
Ratio	20.20%	15.00%	1%	63.80%

The Company fulfills social responsibilities to all stakeholders. Customers would place more trust in the Company due to its ethical and law-abiding principles as well as its sound corporate management. Investors would be more willing to commit to long-term investments due to the Company's clear core values. Employees would also identify with corporate values and form stronger coherence. The implementation of corporate social responsibilities shall create stronger competitive advantages for the Company, create higher values for shareholders, and produce prosperity for all related parties of the Company.

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Performance of Corporate Social Responsibility

Assessed Items	Implementation Status (Note 1)			Deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEx listed companies and reasons for deviation
	Yes	No	Summary (Note 2)	
1. Implementing Corporate Governance (1) Does the company have a corporate social responsibility policy or system in place? Is progress reviewed on a regular basis?	✓		To fulfill corporate social responsibilities and promote the economic, environmental, and social advancement for the purpose of achieving sustainable development, the Company has established the "Corporate Social Responsibility Principles" in accordance with the "Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies" to provide guidance and manage its risks and impact on the economy, environment, and society. The Company shall actively implement corporate social responsibilities while conducting corporate operations in order to match international development trends in balanced environment, social, and corporate governance development. The Company shall increase its contribution to the national economy and improve the quality of life for employees, communities, and society by fulfilling its duties as a corporate citizen and advance its competitive advantages based on corporate social values. Please refer to "7. Performance of corporate social responsibility" section of the Corporate Governance Report in the Annual Report (page 32 to 38).	None
(2) Does the company provide educational training on corporate social responsibility on a regular basis?	✓		The Company places great value on legal compliance education and training. The Company not only allows employees to gain knowledge on the latest or closely related regulations through regulation promotion and training courses, but also further strengthens employees' firm commitment to compliance with ethical business policies and social responsibilities. The Company also regularly invites its suppliers or contractors to educate them on the ethical business policies and social responsibilities of the Company to ensure that they fully understand the necessity of the Company's implementation of ethical business policies.	None
(3) Does the company have a unit that specializes (or is involved) in CSR practices? Is the CSR unit run by senior management and reports its progress to the board of directors?		✓	The Chairman instructs the General Manager's Office and the Audit Office to implement Company's CSR decision-making and operations. They are also responsible for coordinating all internal units to implement CSR tasks. The Company has included the report on CSR implementation and results of the current year and	As summarized.

Assessed Items	Implementation Status (Note 1)			Deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEx listed companies and reasons for deviation
	Yes	No	Summary (Note 2)	
(4) Does the company establish a reasonable salary remuneration policy, and integrate the employee performance evaluation system with its CSR policy, and establish an effective reward and disciplinary system?	✓		work plans for the following year into the formal agenda of the Board of Directors meeting every year since 2016. The goal of corporate governance is to achieve balance among various stakeholders of which the "society" is an integral part. The Company considers corporate governance and business objectives in its formulation of a reasonable salary remuneration policy. CSR is also one of the key indicators in the policy. For more information, please refer to descriptions in "5. Employees-employer relations" in Operational Highlights section of the Annual Report (page 72).	None
2. Developing sustainable environment (1) Is the company committed to improving the efficiency of the various resources and using recycled materials which have a low impact on the environment?	✓		The Company has established management procedures in response to environmental requirements. For more information, please refer to the "Performance of corporate social responsibility" section in 7. Corporate Governance Report in the Annual Report (page 32 to 33).	None
(2) Did the company establish an appropriate environmental management system based on its industry characteristics?	✓		The Company has established an ISO-9001 quality management system. For more information, please refer to the "Performance of corporate social responsibility" section in 7. Corporate Governance Report in the Annual Report (page 32 to 33).	None
(3) Did the company monitor the impact of climate change on business operations, implement greenhouse gas audit and formulate energy conservation and carbon reduction as well as greenhouse gas cutback strategy?	✓		The Company values environmental protection policies and regularly reviews electricity consumption within the plants to strengthen the advancement of energy conservation, carbon reduction, and greenhouse gas reduction policies. The Company uses rooftop areas of existing factories to set up PV panels to produce energy in order to reduce energy consumption and carbon emissions and implement environmental protection measures. The Company also sets up solar-powered street lights. For more information, please refer to the "Performance of corporate social responsibility" section in 7. Corporate Governance Report in the Annual Report (page 32 to 33).	None
3. Upholding public interests (1) Has the company developed its policies and procedures in accordance with laws and the International Bill of	✓		The Company complies with relevant labor laws and regulations, protects of the legal rights and interests of employees, and communicates with employees in the promotion of company policies and understanding employee opinions through	None

Assessed Items	Implementation Status (Note 1)			Deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEx listed companies and reasons for deviation
	Yes	No	Summary (Note 2)	
Human Rights?			open communication channels. The Company shall establish human resources policies that comply with internationally-recognized principles for the protection of basic labor rights. For more information, please refer to the descriptions in "5. Employees-employer relations" section of the Operational Highlights in the Annual Report (page 72).	
(2) Does the company have means through which employees may raise complaints? Are employee complaints being handled properly?	✓		The Company values two-way communication and is strives to provide open and transparent communication management between managers and employees and between peer employees. To give attention to employee opinions and sentiment, the Company conducts regular (at least twice every year) labor-management communication meeting and provides employees with fair and effective communication mechanisms to state their opinions in order to understand employee sentiments and quickly process issues raised by employees for the purpose of promoting harmonious labor-management relations and achieving prosperity for the Company and employees. The two-way communication channels established by the Company include: (1) Regular business communication meetings between each level of management and employees. (2) The Company's internal website (contents include the Chairman's announcements, important company information, promotion of recent events etc.) (3) The employee mailbox provides a channel for employees to state general suggestions and opinions with regard to work and the environment. (4) A column for suggestions to the Company is provided in employees' self-assessment. (5) The complaint channels to the Company's Supervisors are provided for major management, financial, and auditing issues.	None
(3) Does the company provide employees with a safe and healthy work environment? Are employees trained regularly on safety and health issues?	✓		The Company believes the employees' health to be the foundation of sustaining normal corporate operations and it is the Company's responsibility to look after the physical and mental health of employees. The Company organizes periodic physical examinations, safety lectures, and labor safety and health training for employees at least once every two years. The Company also organizes regular or unscheduled health	None

Assessed Items	Implementation Status (Note 1)			Deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEx listed companies and reasons for deviation
	Yes	No	Summary (Note 2)	
			promotion activities including aerobics courses, establishment of the breastfeeding room, physical and mental health seminars, and response strategies and health seminars for prevention of new infectious diseases to satisfy employees' health requirements.	
(4) Does the company have channels to communicate with employees on a regular basis, and inform them of operational changes that may be of a significant impact?	✓		Taiwanese laws and the United Nations International Labour Organization strictly prohibit any form of forced labor and the Company also abides by this regulation and has never forced or coerced any individuals to provide labor against their will. The Company values two-way communication and is strives to provide open and transparent communication management between managers and employees and between peer employees. To give attention to employee opinions and sentiment, the Company conducts regular (at least twice every year) labor-management communication meeting and provides employees with fair and effective communication mechanisms to state their opinions in order to understand employee sentiments and quickly process issues raised by employees for the purpose of promoting harmonious labor-management relations and achieving prosperity for the Company and employees.	None
(5) Does the Company offer its employees effective occupational empowerment training programs?	✓		The Company believes that the growth of the Company cannot be achieved without employee development and employees require "systematic, disciplined, and planned" learning and development. The Company dedicates itself to building a lasting and rewarding learning environment and has established the "Education and Training Management Regulations" to provide guidance. It also integrates internal and external resources to cultivate and improve employees' capabilities for employees and the Company to grow together. The Company provides comprehensive learning channels and development resources in accordance with the nature and requirements of personal work, results of performance evaluation, and career development requirements. They include on-the-job training, classroom education, work guidance, internal mentor system, work rotations etc. The Company also systematically provides a series of general knowledge,	None

Assessed Items	Implementation Status (Note 1)			Deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEx listed companies and reasons for deviation
	Yes	No	Summary (Note 2)	
			professional, and management training courses for employees of different levels. The courses include lectures given by external experts and the Company also encourages employees to give lectures to pass on important knowledge of the Company and establish effective career capabilities development training programs for technical personnel. For more information, please refer to the descriptions in "5. Employees-employer relations" section of the Operational Highlights in the Annual Report (page 72).	
(6) Does the company establish any consumer protection mechanisms and complaint procedures regarding R&D, purchasing, production, operation and service?	✓		The Company is not a manufacturer of final products and this evaluation item is not applicable.	None
(7) Does the Company comply with applicable laws, regulations, and international guidelines in the marketing and labeling of products and services?	✓		The Company is not a manufacturer of final products and this evaluation item is not applicable.	None
(8) Does the Company evaluate the records of suppliers' impact on the environment and society before doing business with the supplier?	✓		The Company continues to strengthen supply chain management. It requires and encourages suppliers and contractors to constantly improve in quality, costs, delivery period, environmental protection, safety and sanitation. The Company and main suppliers and contractors maintain mutually beneficial cooperation through regular exchanges between management as well as exchanges and sharing of experience in production technologies to enhance partnerships and pursue better performance and greater contributions to the society. As described above, when contractors conduct high-risk operations, they shall be required to clearly define safety protection and preventive measures required of the workers. The contractors that carry out factory construction or work at heights shall also be required to establish Occupational Health and Safety Assessment Series (OHSAS 18001) standards or related control systems. Their employees shall also be required to complete comprehensive work training.	None
（八） Do the contracts between	✓		The Company has assembled an internal	None

Assessed Items	Implementation Status (Note 1)			Deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEx listed companies and reasons for deviation
	Yes	No	Summary (Note 2)	
the company and its major suppliers include termination clauses which come into force once the suppliers breach the corporate social responsibility policy and cause significant impact on the environment and society?			assessment team from domestic steel plants, materials and resources management, risk management, and quality assurance system management units to conduct supply chain management. The main objective of the assessment team is to lower risks in the supply chain and improve the supply chain. The assessment team shares case studies in risk management with suppliers and helps suppliers improve and raise their quality systems, green procurement, environmental protection and factory safety. At the same time, we also communicate regularly with suppliers or continue to monitor the financial status of main suppliers and inventory changes of the entire supply chain through public information in order to prepare response measures and lower risks. The work team convenes monthly meetings to follow up on the progress of various projects and actively resolves issues for suppliers. The Company's requirements for main suppliers in terms of legal compliance, social environment impact, and corporate social responsibilities are reflected in the annual supplier satisfaction evaluation. For suppliers with poor rating and who have failed to make improvements to meet the Company's requirements, the Company shall impose punishment by reducing or terminating collaboration in accordance with the severity of violations.	
4. Enhancing information disclosure (1) Has the company disclosed relevant and reliable information regarding its corporate social responsibility on its website and the M.O.P.S.?	✓		The Company places CSR related regulations and education material on the Company's internal website for employees to read at any time. The Company places its Annual Reports and discloses related CSR information on the Company's external website (http://www.hksteel.com.tw) (the Annual Reports are also placed on the M.O.P.S. (http://newmops.twse.com.tw)).	None
5. If the Company has established the corporate social responsibility principles based on "Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies", please describe any discrepancy between the principles and their implementation: The Company has established the "Corporate Social Responsibility Best Practice Principles" but has not compiled a "Corporate Social Responsibility Report". However, in addition to focusing on development of its operations in the industry, the Company maintains an ethical and harmonious corporate culture in its fair treatment of shareholders, employees, and the public. The Company has adopted basic ideals for compliance with laws, conducts business in accordance with laws, and shall not take part in illegal activities. The				

<table>
<tr><td rowspan="2">Assessed Items</td><td colspan="3">Implementation Status (Note 1)</td><td rowspan="2">Deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEx listed companies and reasons for deviation</td></tr>
<tr><td><u>Yes</u></td><td><u>No</u></td><td>Summary (Note 2)</td></tr>
<tr><td colspan="5">Company values corporate governance and seeks to attain balance in the benefits of shareholders, employees, and all stakeholders. It also provides high-quality work opportunities including good pay, challenging work content, and a comfortable and secure work environment. It is the Company's responsibility to take care of the physical and mental needs of employees. The Company also participates in social welfare activities, donates life-support systems and ambulances to give back to society. Please refer to descriptions in 7. Performance of corporate social responsibility" (page 33) of the Corporate Governance Report in the Annual Report.</td></tr>
<tr><td colspan="5">6. Other important information to facilitate a better understanding of the company’s corporate social responsibility practices:
1. The Company donated a total of NT$1.75 million to elderly care and healthcare services, children and youth education welfare (established scholarships and low-income stipends), supported the provision of lunch for children in remote areas, funded Good People and Good Deeds programs, provided year-end dinner parties for the homeless and elderly that live alone, and sponsored the adoption of orphans of Veterans.
2. In 2016, Hsin Kuang Steel Tien-Cheng Charity Foundation donated NT$3.78 million (including NT$1.6 million from Hsin Kuang Steel Co., Ltd.). 12.5% of the funds were used for talent development and promotion of education and culture, 5.4% were used for implementing community care, 6.7% were used for assistance for the disadvantaged, and 75.4% were used for establishment of emergency medical equipment in order to actively contribute to social development.
3. The Company's Chairman <u>Ming-Te Su</u> values corporate social responsibilities and established a social welfare and charity foundation who donated NT$5.01 million in 2016. 20.2% of the funds were used for talent development and promotion of education and culture, 15% were used for implementing community care, 1% was used for assistance for the disadvantaged, and 63.8% were used for establishment of emergency medical equipment in order to actively contribute to social development.
4. The Company continues to dedicate itself to advancing corporate social responsibilities, energy conservation, carbon emissions reduction, resource recycling, and other environmental protection efforts. The Company uses rooftop of factories to set up PV panels to produce energy in order to reduce energy consumption and carbon emissions and implement environmental protection measures. The Company also sets up solar-powered street lights.
5. Please refer to the descriptions "7. Performance of corporate social responsibility" section of the Corporate Governance Report in the Annual Report (page 33).</td></tr>
<tr><td colspan="5">7. If the corporate social responsibility reports have received assurance from external institutions, they should state so below:
The Company has passed the ISO-9001 quality management system certification.</td></tr>
</table>

Note1: Regardless of whether "Yes" or "No" was selected, explanation shall be provided in the Summary column.

Note 2: If the Company has produced a corporate social responsibility report, the Company may reference the CSR report or indicate the page number in the summary.

H. Ethical corporate management and measures adopted:

The ethical and harmonious corporate culture has always been the Company's core value. The Company has always upheld integrity in all business activities and has always maintained a fair, honest, trustworthy, and transparent code of conduct to put our words into practice.

It is the responsibility of all members of the Company to uphold the Company's core values in our corporate culture and the Company's reputation. Therefore, the Company requires each member of the Company in its Ethical Corporate Management Best Practice Principles (hereinafter referred to as the "Principles") to adhere to the following: avoid sacrificing or conflicting with company interest for personal gains; avoid any bribery, unfair competition, fraud, waste, and abuse of company resources; prohibition against any actions harmful to the Company, the environment, and society; abide by all laws and regulations and respect legislative purposes; avoid any actions that may inappropriately affect anyone's decisions, including government officials, public servants, courts, customers, suppliers, and contractors.

The Principles also require all employees, managers, and Board members to adhere to the core values of the Principles. The Company's management is required to establish a good example for ethical corporate management. The Company's manager, particularly the Chief Executive Officer, Chief Financial Officer, and Chief Information Officer of the product profit center, shall be supervised by the Board of Directors and be responsible for fully, fairly, accurately, promptly, and clearly disclosing the Company's financial and accounting information in financial statements submitted to the competent authority and disclosed to the public.

The Company shall enforce management and punishment to ensure that all employees, managers, and supervisors adhere to the Principles, Ethical Corporate Management Operating Procedures, and Code of Conduct. The Company hopes that the Company's customers, suppliers, contractors, consultants, and other partners with contractual relationships understand and respect the Company's corporate culture for ethical, transparent and responsible corporate governance.

In the event that an employee discovers or has reasonable doubts of any violation of the Principles, he/she shall immediately file a report to the following individuals or through the following channels in accordance with the status of the violation: the direct supervisor, the General Manager's Office, internal audit chief, employee complaint channels, or the Supervisors. Upon discovering or receiving a complaint about involvement of any personnel in unethical conduct, the Company shall ascertain the relevant facts without delay; if it is verified that there is indeed a violation of applicable laws and regulations or the Company's ethical corporate management policies, the Company shall immediately require the violator to cease the conduct and shall punish the individual accordingly. where necessary, the Company shall file for damage claims through legal proceedings to protect the reputation and interests of the Company. For unethical conduct that have occurred, the Company shall instruct related units to review the internal control system and operating procedures and provide improvement measures in order to prevent the same conduct from reoccurring. The Company shall instruct units to report the unethical conduct, the processing methods, and follow up review and improvement measures to the Board of Directors.

If any of the Company's personnel discovers that another party has engaged in unethical conduct towards the Company, and such unethical conduct is of an illegal nature, the Company shall immediately notify judicial agencies and prosecutors of related facts. If the unethical conduct involves public offices or public servants, the government's agencies against corruption shall be notified.

Implementation of ethical corporate management

Assessment Item	Implementation Status (Note 1)			Deviation from "Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies" and reasons for deviation
	Yes	No	Summary	
1. Establishment of ethical corporate management policy and approaches (1) Has the company declared its ethical corporate management policies and procedures in its rules and external documents, as well as the commitment of its Board of Directors and management to implementing the management policies?	✓		The ethical and harmonious corporate culture has always been the Company's most important core value. The Company has always upheld integrity in all business activities and has established the "Ethical Corporate Management Operating Procedures" as guidance to strictly require each employee to adhere to the ethical policies. The Company also provides detailed explanation of the Company's ethical corporate management policies and the Board of Directors and management's active implementation of these policies.	None
(2) Has the company established policies to prevent unethical conduct with relevant procedures, guidelines of conduct, punishment for violation, rules of appeal clearly stated in the policies, and implemented the policies?	✓		The "Ethical Corporate Management Operating Procedures and Code of Conduct" are the core guidance in the Company's implementation of the above values and ideals. The Company requires all employees, including members of subsidiaries and affiliated enterprises to shoulder the responsibilities of maintaining high-level ethical standards, the Company's reputation, and compliance with regulations in accordance with the Code of Conduct, which is announced on the Company's internal website for employees to reference at any time. In addition, the Company also promotes the Company's core values and compliance policies to employees through education and training courses, posters, educational short films, and other diverse methods. With respect to any suspected violation of ethical conduct, the Company has always maintained the attitude of not punishing the innocent and not permitting the guilty to go unpunished. The Company treats all verified cases with the utmost seriousness and imposes severe punishments on violator such as termination of employment or business relations as well as appropriate legal actions. The Company has included the principles of ethical corporate management as part of employees'	None

Assessment Item	Implementation Status (Note 1)			Deviation from "Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies" and reasons for deviation
	Yes	No	Summary	
(3) Has the company established appropriate precautionary measures for operating activities with higher risk of unethical conducts provided in Paragraph 2, Article 7 of the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies or within its scope of business?	✓		performance appraisal and the Company's human resource policy. There are clear and effective systems in place to enforce discipline and reporting of dishonest conduct. If any of the Company's personnel seriously violates ethical conduct rules, the Company shall dismiss the person in accordance with applicable laws and regulations or internal human resources guidelines. In Article 7 of the "Ethical Corporate Management Operating Procedures and Code of Conduct", the Company established related policies and guidelines with regard to different legal compliance requirements under the processing procedures for collecting unlawful interests in order to implement ethical management. All employees of the Company, including subsidiaries and affiliated enterprises, shall be required to understand regulations related to their businesses and make correct business and ethical judgments. The Company's internal auditing department also plays an important role in ensuring ethical management and legal compliance in order to ensure the accuracy, reliability, and promptness in financing, management, and business information and to establish policies, guidelines, procedures, and regulations related to employee conduct. The internal auditing department shall conduct various audits in the annual audit plan approved by the Board of Directors and submit the results of the audit and follow-up improvement plans to the Board and management to implement the effects of the audit.	None
2. Implementation of ethical corporate management (1) Has the company evaluated the ethical records of parties it does business with and stipulated ethical conduct clauses in business contracts?	✓		The Company takes practical actions based on the "Ethical Corporate Management Operating Procedures and Code of Conduct" to assist the Company's customers, suppliers, business partners, and other individuals with whom the Company has business relations, including	None

Assessment Item	Implementation Status (Note 1)			Deviation from "Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies" and reasons for deviation
	Yes	No	Summary	
			consultants or other individuals who are authorized to conduct business activities on behalf of the Company, to identify with and implement the Company's ethical management policies and corporate culture. The Company requests all suppliers or contractors to submit written commitments to respect and comply with the Company's ethical management policies and corporate culture. The Company also regularly invites them for education on the Company's ethical management policies in order to understand whether there has been any unethical conduct. In the event that a transaction or cooperation counterparty is found to be unethical, the Company shall terminate business relations immediately and blacklist the counterparty in order to implement the Company's ethical management policies.	
(2) Did the Company set up full (part) time corporate social responsibility promotional units that are affiliated with the board of directors, and do such units report to the board regarding the status of implementation?	✓		To carry out supervision responsibilities for its ethical management policies, the Company's Board of Directors has established various organization and management procedures such as the Remuneration Committee, the internal audit etc. In addition, the Company has charged the General Manager's Office and internal auditing department to periodically report related implementation status to the Board of directors. Under the supervision of the Board of Directors, the Company's managers, particularly the General Manager, Chief Financial Officer, and Spokesperson shall ensure that the financial and accounting information the Company submits to the competent authority of securities or disclosed to external parties is complete, fair, prepared, prompt, and easy to understand.	None
(3) Did the company establish policies that prevent conflict of interests, provide appropriate channels for filing related complaints and implement such policies and channels?	✓		When the Company hires new employees, it shall request employees to sign the "Commitment to Ethical Conduct" in accordance with requirements. In addition, all employees are required to actively inform the Company of any conflicts of interest or suspected conflicts of interest in accordance with the Company's "Ethical Corporate Management Operating	None

Assessment Item	Implementation Status (Note 1)			Deviation from "Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies" and reasons for deviation
	Yes	No	Summary	
			Procedures and Code of Conduct".	
(4) Did the company establish effective accounting system and internal control systems and designate its internal audit units or commission an accountant to regularly review such systems?	✓		The Company has always valued the accuracy and integrity of its financial report procedures and controls and it has established related internal control systems for operating procedures with potentially higher risks for unethical conduct. The internal auditing unit also carries out various audits in accordance with the annual audit plan established on the results of risk analyses and it reports the results of audits and follow-up improvement plans to the Board of Directors and the management to implement the effects of the audits. The Company also conducts annual self-assessment procedures on internal controls of the Company. The Company's departments and subsidiaries shall inspect the design of the internal control system and the effectiveness of its implementation.	None
(5) Did the company periodically provide internal and external training programs on integrity management?	✓		The Company places great value on legal compliance education and training. The Company not only allows employees to gain knowledge on latest or closely related regulations through regulation promotion and training courses, but also further strengthens employees' firm commitment to compliance with ethical business policies. The Company also regularly invites its suppliers or contractors to educate them on the ethical business policies of the Company to ensure that they fully understand the necessity of the Company's implementation of ethical business policies.	None
3. Operation of whistle-blowing system in the Company (1) Has the company established concrete whistle-blowing and reward systems and accessible whistle-blowing channels? Does the company assign a suitable and dedicated individual for the case being exposed by the	✓		The Company established guidelines in the "Ethical Corporate Management Operating Procedures and Code of Conduct" to provide employees with channels to report any inappropriate financial or legal conduct. If an employee suspects that unethical conduct has occurred, he/she is responsible for reporting to the direct supervisor or the highest ranking officer in the Administrative Services	None

<table>
<tr><th rowspan="2">Assessment Item</th><th colspan="3">Implementation Status (Note 1)</th><th rowspan="2">Deviation from "Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies" and reasons for deviation</th></tr>
<tr><th>Yes</th><th>No</th><th>Summary</th></tr>
<tr><td>whistle-blower?</td><td></td><td></td><td>Department, report through existing employee reporting channels, or notify the Supervisors directly. The Company shall establish independent internal report mailbox and dedicated line on the company website and internal website and assign personnel to take charge of processing reports. The Company shall keep the identity of the whistle-blower and the content confidential.</td><td></td></tr>
<tr><td>(2) Did the company establish standard operating procedures for investigating reported issues as well as relevant confidential mechanisms?</td><td>✓</td><td></td><td>As specified in the internal regulations, the Company maintains the confidentiality of received reports and subsequent investigations and processes reports rigorously.</td><td>None</td></tr>
<tr><td>(3) Did the company adopt measures for protecting the whistle-blower against improper treatment or retaliation?</td><td>✓</td><td></td><td>The Company strictly prohibits any form of retaliation against whistle-blowers who provided reports in good faith or individuals who assist in investigations.</td><td>None</td></tr>
<tr><td>4. Enhancing information disclosure
(1) Did the company disclose the content and effectiveness of its integrity management principles on the company's website and the Market Observation Post System?</td><td>✓</td><td></td><td>The Company places related regulations and education material for ethical corporate management policies on the Company's internal website for employees to read at any time. The Company places its Annual Reports and discloses related information on ethical corporate management policies on the Company's external website (http://www.hksteel.com.tw) (the Annual Reports are also placed on the M.O.P.S. (http://newmops.twse.com.tw)).</td><td>None</td></tr>
<tr><td colspan="5">5. If the Company has established Ethical Corporate Management Principles in accordance with the "Ethical Corporate Management Best Practice Principles for TWSE/TPEX-Listed Companies", describe any discrepancy between the principles and their implementation:
The Company has established the "Ethical Corporate Management Best Practice Principles" and "Ethical Corporate Management Operating Procedures and Code of Conduct". All employees, managers, Board members, and subsidiaries shall follow the provisions in the Principles and related regulations. Regarding the implementation of the Company's ethical corporate management policies, please refer to "8. Ethical corporate management and measures adopted" (page 39) in the Corporate Governance Report.</td></tr>
<tr><td colspan="5">6. Other important information to facilitate better understanding of the company's implementation of ethical corporate management: (e.g. declare the company’s commitment to practice and policy for ethical corporate</td></tr>
</table>

<table>
<tr><th rowspan="2">Assessment Item</th><th colspan="3">Implementation Status (Note 1)</th><th rowspan="2">Deviation from "Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies" and reasons for deviation</th></tr>
<tr><th>Yes</th><th>No</th><th>Summary</th></tr>
<tr><td colspan="5">management to its business counterparties, and invite them to join the company’s training program, and review/revision of the company’s ethical corporate management principles)
1. The Company shall disclose the its ethical management policies in internal regulations, Annual Reports, company website, or other materials and declare the policies at appropriate times in product launch events, investor conferences, and other external activities so that the Company's suppliers, customers or other related institutions and personnel are fully aware of the Company's principles and rules with respect to ethical corporate management.
2. When carrying out business activities, the Company shall explain its ethical management policies and related regulations to counterparties and clearly refuse to directly or indirectly offer, promise to offer, request or accept any improper benefits, including kickbacks, commissions, facilitation payments, or offer or accept improper benefits in any other form.
3. When the Company signs contracts with other entities, it shall fully understand the status of the counterparty's ethical management and include provisions requiring compliance to its ethical management policies and unconditional termination or cancellation of the contract at any time in the event of unethical conduct by the other party.
4. The Company shall periodically organize training and awareness programs for Directors, Supervisors, managers, employees, and substantial controllers and invite the companies' commercial transaction counterparties so they understand the companies' resolve to implement ethical corporate management, the related policies, prevention programs and the consequences of committing unethical conduct.
5. The Company shall apply the policies of ethical corporate management when creating its employee performance appraisal system and human resource policies to establish a clear and effective reward and discipline system.
6. The Company shall at all times monitor the development of relevant local and international regulations concerning ethical corporate management and encourage Directors, Supervisors, managers, and employees to make suggestions, based on which the adopted ethical corporate management policies will be reviewed and improved with a view to achieving better effectiveness of ethical management.
Please refer to the descriptions "8. Ethical corporate management and measures adopted" in the Corporate Governance Report in the Annual Report (page 39).</td></tr>
</table>

Note1: Regardless of whether "Yes" or "No" was selected, explanation shall be provided in the Summary column.

I. If the company has established corporate governance principles and related bylaws, their query methods shall be disclosed:

The Company readily discloses related information on the Market Observation Post System (http://newmops.twse.com.tw).

J. The Company should also disclose other significant information that may improve the understanding of its governance and operation: None.

K. Status of implementation of internal control system

(I) Statement of Declaration on Internal Control

Hsin Kuang Steel Co., Ltd.

Statement of Declaration on Internal Control **Stock Code: 2031**

Date: March 14, 2017

From January 1, 2016 to December 31, 2016, the Company conducted an internal audit of its internal control system and hereby declares the following:

1. The Company acknowledges and understands that the establishment, enforcement and maintenance of the internal control system are the responsibility of the Board of Directors and management, and that the company has already established such a system. The purpose is to provide reasonable assurance to the effectiveness and efficiency of business operations (including profitability, performance and security of assets), reliability of financial reporting and compliance with relevant regulatory requirements.
2. Internal control regulations possess inherent shortcomings. Regardless of its design, an effective internal control system can only provide reasonable assurance of the three objectives as mentioned above. Furthermore, its effectiveness may change due to changes in the Company's environment and circumstances. However, self-supervision measures were implemented within the Company's internal control policies to facilitate immediate rectification once procedural flaws have been identified.
3. The Company determines the effectiveness of the design and implementation of its internal control system in accordance with the items in "Governing Regulations for Public Company's Establishment of Internal Control System" (hereinafter called "Governing Regulations") that are related to the effectiveness of internal control systems. The criteria introduced by the "Governing Regulations" cover the process of management control and consist of five major elements, each representing a different stage of internal control: (1) Control Environment, (2) Risk Evaluation, (3) Control Operation, (4) Information and Communication, and (5) Monitoring. Each of the elements in turn contains certain audit items. Please refer to "Governing Regulations" for details.
4. The Company has adopted the aforementioned measures for an examination of the effectiveness of the design and implementation of the internal control system.
5. Based on the findings of the aforementioned examination, the Company believes it can reasonably assure that the design and implementation of its internal control system in the aforementioned period (including supervision and management of subsidiaries), including the effectiveness and efficiency in operation, reliability in financial reporting and compliance with relevant regulatory requirements, have achieved the aforementioned objectives.
6. This statement shall be an integral part of the Annual Report and prospectus of the Company and will be made public. Should any of the aforementioned disclosure contents be fictitious or concealed in an illegal manner, the company shall bear legal responsibilities pursuant to Articles 20, 32, 171, and 174 of the Securities Exchange Act.
7. This statement was approved by the Board on March 14, 2017 in the presence of 6 directors, who concurred unanimously.

Hsin Kuang Steel Co., Ltd.

Chairman of the Board: Alexander M.T.Su Signature

General Manager: Alexander M.T.Su Signature

(II) According to requirements of the Securities and Futures Bureau of the Financial Supervisory Commission, if the company engages an accountant to examine its internal control system, it shall disclose the CPA examination report: None.

L. From the most recent fiscal year up until the date of publication of the Annual Report, explain the circumstances in which the Company and its personnel have been punished by law, the Company has undertaken disincentive measures for its personnel for breaching the internal control system, and any material deficiencies and revisions: None.

M. Critical resolutions made during shareholders and Board of Directors' meetings in recent years and up to the publication date of this annual report:

(一)、Major Resolutions of Shareholders' Meeting and Implementation Status

The Company's 2016 regular shareholders meeting was held at the Company's Guanyin Plant Conference Office in the Guanyin Industrial Park, Guanyin District, Taoyuan City on June 15, 2016. At the meeting,shareholders present in person or by proxy approved the following resolutions：

1.The revisions to the Articles of Incorporation;
2.The 2015 Business Report and Financial Statements;
3.The distribution of 2015 profits;
4.The proposal for the distribution of cash dividend from the capital reserve;
5.The revision of the Company's "Rules of Procedure for Shareholders Meetings"; and
6.The revision of the Company's "Procedures for Election of Directors and Supervisors" and renamed it "Procedures for Election of Directors".

Implementation Status

All the resolutions of the Shareholders' Meeting have been fully implemented in accordance with the resolutions.

(二)、Major Resolutions of Board Meetings

The company convened a total of 8 Board of Directors meetings in 2016 up to the date of Annual Report. The important resolutions adopted in the Board of Directors' meetings are summarized below:

1.The 12th meeting of the 13th-term Board of Directors: Approved the revision of the "Articles of Incorporation", approved the 2015 Business Report, Individual and Consolidated Financial Statements, approved the proposal for appropriating profits for deficit compensation in 2015, approved the proposal for distribution of cash dividend from the capital reserve, approved the 2015 Internal Control Self-Assessment of the Design and Implementation of the Internal Control System to be Effective Report, approved the 2016 Business Plan, approved the 2016 assessment of the eligibility, independence, appointment, and the remuneration of CPAs, approved the establishment of the "MRM029 Rules Governing the Scope of Powers of Independent Directors", approved the establishment of the "MRM030 Regulations Governing the Exercise of Powers by Audit Committee", approved the revision of the "MRM003 Rules of Procedure for Shareholders Meetings", approved the revision of the "MRM004 Procedures for Election of Directors and Supervisors" and renamed it "MRM004 Procedures for Election of Directors", approved the revision of the "MRM023 Remuneration Committee Charter", approved the revision of the "MRM025 Regulations Governing Performance Evaluation of the Board of Directors and Managers", approved the revision of the "Internal Control System", approved the "2015 Performance Evaluation of the Board of Directors and Managers" submitted by the Remuneration Committee, approved the "2015 Remuneration Execution for Directors, Supervisors, and Managers" submitted by the Remuneration Committee, approved the revision of "2016 Directors, Supervisors, and Managers Remuneration Policy" submitted by the Remuneration Committee, and determined the organization of the 2016 regular shareholders meeting.
2.The 13th meeting of the 13th-term Board of Directors: Approved the Consolidated Financial Statements for the first quarter of 2016.

3.The 14th meeting of the 13th-term Board of Directors: Determined the capital increase reference date for the Company's employees to exercise subscription rights for common shares, approved the ex-dividend date for the issuance of cash dividends and related affairs on the termination of the period for the exchange of Company's fourth issuance of unsecured convertible corporate bonds to common shares, approved the price of the Company's fourth issuance of unsecured convertible corporate bonds to common shares due to the distribution of cash dividends for common shares and the suspension of transfer and ex-dividend that adjusted the conversion price etc., approved the Company's reinvestment plans, and approved the Company's plans for the purchase of real estate.

4.The 15th meeting of the 13th-term Board of Directors: Approved the Consolidated Financial Statements for the second quarter of 2016 and approved the Company's business model strategic alliance plan.

5.The 16th meeting of the 13th-term Board of Directors: Approved the Consolidated Financial Statements for the third quarter of 2016.

6.The 17th meeting of the 13th-term Board of Directors: Approved the Company's reinvestment plans, approved the Company's 2017 internal audit operations and inspection plans, approved the Company's 2017 Business Plan, and approved the Company's loans to subsidiaries.

7.The 18th meeting of the 13th-term Board of Directors: Approved the revision of the Company's "2017 Directors, Supervisors, and Managers Remuneration Policy", determined the capital increase reference date for the conversion of the Company's fourth issuance of unsecured convertible corporate bonds to common shares in the fourth quarter of 2016, approved the revision of the "MRM031 Regulations on the Selection and Review of Certifying Accountants", and approved the
Company's assessment of the eligibility, independence, appointment, and the remuneration of CPAs for 2017.

8.The 19th meeting of the 13th-term Board of Directors: Approved the distribution of remuneration for Directors, Supervisors, and employees for 2016, approved the 2016 Business Report, Individual and Consolidated Financial Statements, approved the proposal for earnings distribution in 2016, approved the proposal for distribution of cash dividend from the capital reserve, approved the 2016 Internal Control Self-Assessment of the Design and Implementation of the Internal Control System to be Effective Report, determined the capital increase reference date for the conversion of the Company's fourth issuance of unsecured convertible corporate bonds to common shares in the first quarter of 2017, approved the proposal for the complete reelection of the Company's Directors, approved the revision of the "MRM033 Independent Director Candidate Nomination and Review Standards and Operating Procedures", approved the related affairs for the regular shareholders meeting to process the nomination of candidates for Independent Directors, approved the Board of Directors' nomination of the Company's 14th-term Independent Directors, approved the proposal to the shareholders meeting to approve the waiver of non-competition clauses for newly elected directors and their representatives, approved the revision of the "MRM016 Corporate Governance Principles", approved the revision of the "MRM002 Regulations Governing the Acquisition and Disposal of Assets", approved the revision of the "MRM029 Rules Governing the Scope of Powers of Independent Directors", approved the revision of the "MRM015 Rules of Procedure for Board of Directors Meetings", and determined the organization of the 2017 regular shareholders meeting.

N. Dissenting or qualified opinion of Directors or Supervisors against an important resolution passed by the Board of Directors that is on record or stated in a written statement in the past year and up to the date of report: None.

O. Compilation table for resignation or dismissal of individuals related to the financial report: N/A.

Compilation Table for Resignation or Dismissal of Individuals

April 30, 2017

TITLE	NAME	DATE OF APPOINTMENT	DATE OF DISMISSAL	REASON FOR RESIGNATION OR DISMISSAL

Note: Related individuals of the Company refer to the Chairman, General Manager, chief accounting manager, chief finance manager, chief internal auditor and chief R&D officer etc.

P. Information on Fees to CPA

Name of Accounting Firm	CPA Name		Auditing Period	Remarks
Deloitte & Touche	Chao-Ling Chen	Chiang-Pao Liu	January 1, 2016 to December 31, 2016	

Note: If the Company has changed the company accountant or accounting firm during this year, please list the audit periods and explain the reasons for the replacement in the remarks section.

Unit: NT$1,000

Scale	Fee Category	**Public Expenses for Audit**	**Non-Public Expenses for Audit**	Total
1	Below NT$2,000,000		149	149
2	NT$2,000,000 (inclusive) to NT$4,000,000	2,830		2,830
3	NT$4,000,000 (inclusive) to NT$6,000,000			
4	NT$6,000,000 (inclusive) to NT$8,000,000			
5	NT$8,000,000 (inclusive) to NT$10,000,000			
6	Over NT$10,000,000 (inclusive)			

(I) When non-audit fees paid to the certified public accountant, to the accounting firm of the certified public accountant, and/or to any affiliated enterprise of such accounting firm are equivalent to one quarter or more of the audit fees paid thereto, the amounts of both audit and non-audit fees as well as details of non-audit services shall be disclosed: Not applicable: No such occurrences.

(II) Companies that have switched accounting firms and whose annual audit shared expenses are less than that of the previous year prior to the switch: No such occurrences.

(III) If the audit fee is more than 15% less than that paid in the previous year: No such occurrences.

(IV) Information on change of accountants: N/A.

Q. The Company's Chairman, General manager and Vice President, financial responsible person, or accounting affairs manager who has served in a certified public accountant firm or its affiliates: None.

IV. Fund-raising Conditions

I. Capital and Shares

(I) Type of Stock

Unit: shares; April 30, 2017

Shares Type	Authorized capital					Convertible bonds converted to ordinary stocks
	Current issued shares			Un-issued shares	Total	
	Issued	Not issued	Total			
Registered common stocks	306,193,739	—	306,193,739	53,806,261	360,000,000	—

(II) Capital Formulation Process

Month/Year	Issuance Price	Authorized Capital		Paid-in capital		Notes		
		Number of shares	Amount (NT$)	Number of shares	Amount (NT$)	Source of capital	Subscriptions paid with property other than cash	Others
January 1967	10		200,000		200,000	Establishment	None	—
June 2004	10	250,000,000	2,500,000,000	169,017,046	1,690,170,460	Earned surplus turned capital increase NT$42,519,310 Capital increase shares by capital surplus NT$142,808,050 Employee bonus NT$8,000,000 Corporate bonds turned common shares NT$50,870,120	None	Note 3 and Note 4
December 2004	10	250,000,000	2,500,000,000	170,542,636	1,705,426,360	Corporate bonds turned common shares NT$15,255,900	None	Note 5
July 2005	10	360,000,000	3,600,000,000	205,451,162	2,054,511,620	Earned surplus turned capital increase of NT$170,542,630 Capital increase shares by capital surplus of 170,542,630 Employee bonus NT$8,000,000	None	Note 6
August 2006	10	360,000,000	3,600,000,000	215,723,720	2,157,237,200	Earned surplus turned capital increase of NT$102,725,580	None	Note 7
March 2007	10	360,000,000	3,600,000,000	217,868,720	2,178,687,200	Corporate bonds turned common shares of NT$21,450,000	None	Note 8
August 2007	10	360,000,000	3,600,000,000	226,402,172	2,264,021,070	Earned surplus turned capital increase of NT$21,583,870 Employee bonus NT$5,000,000 Corporate bonds	None	Note 9

Month/Year	Issuance Price	Authorized Capital		Paid-in capital		Notes		
		Number of shares	Amount (NT$)	Number of shares	Amount (NT$)	Source of capital	Subscriptions paid with property other than cash	Others
						turned common shares of NT$58,750,000		
January 2008	10	360,000,000	3,600,000,000	242,097,134	2,420,971,340	Corporate bonds turned common shares of NT$156,950,270	None	Note 10
April 2008	10	360,000,000	3,600,000,000	256,266,592	2,562,665,920	Corporate bonds turned common shares of NT$141,694,580	None	Note 11
July 2008	10	360,000,000	3,600,000,000	264,852,143	2,648,521,430	Corporate bonds turned common shares of NT$85,855,510	None	Note 12
September 2008	10	360,000,000	3,600,000,000	268,027,243	2,680,272,430	Earned surplus turned capital increase of NT$24,751,000 Employee bonus NT$7,000,000	None	Note 13
January 2009	10	360,000,000	3,600,000,000	268,343,956	2,683,439,560	Corporate bonds turned common shares of NT$3,167,130	None	Note 14
April 2009	10	360,000,000	3,600,000,000	267,756,956	2,677,569,560	Capital decrease through voidance of treasury stock of NT$5,870,000	None	Note 15
August 2009	10	360,000,000	3,600,000,000	270,463,409	2,704,634,090	Earned surplus turned capital increase of NT$26,780,440 Corporate bonds turned common shares of NT$284,090	None	Note 16
November 2009	10	360,000,000	3,600,000,000	271,220,197	2,712,201,970	Corporate bonds turned common shares of NT$7,567,880	None	Note 14
January 2010	10	360,000,000	3,600,000,000	272,166,941	2,721,669,410	Corporate bonds turned common shares NT$9,467,440	None	Note 14
April 2010	10	360,000,000	3,600,000,000	272,190,609	2,721,906,090	Corporate bonds turned common shares NT$236,680	None	Note 14
April 2011	10	360,000,000	3,600,000,000	277,257,272	2,772,572,720	Corporate bonds turned common shares NT$ 50,666,630	None	Note 14
April 2013	10	360,000,000	3,600,000,000	276,802,272	2,768,022,720	Capital decrease through voidance of treasury stock NT$5,000,000 Common shares acquired from employees' exercise of stock options NT$450,000	None	Note 17 Note 18

Month/Year	Issuance Price	Authorized Capital		Paid-in capital		Notes		
		Number of shares	Amount (NT$)	Number of shares	Amount (NT$)	Source of capital	Subscriptions paid with property other than cash	Others
October 2013	10	360,000,000	3,600,000,000	276,927,272	2,769,272,720	Common shares acquired from employees' exercise of stock options NT$1,250,000	None	Note 18
January 2014	10	360,000,000	3,600,000,000	276,941,272	2,769,412,720	Common shares acquired from employees' exercise of stock options NT$140,000	None	Note 18
April 2014	10	360,000,000	3,600,000,000	276,993,903	2,769,939,030	Corporate bonds turned common shares NT$526,310	None	Note 19
January 2015	10	360,000,000	3,600,000,000	278,838,014	2,788,380,140	Corporate bonds turned common shares NT$11,111,110 Common shares acquired from employees' exercise of stock options NT$7,330,000	None	Note 18, Note 19
November 2015	10	360,000,000	3,600,000,000	275,638,014	2,756,380,140	Capital decrease through voidance of treasury stock 32,000,000	None	Note 20
March 2016	10	360,000,000	3,600,000,000	276,626,014	2,766,260,140	Common shares acquired from employees' exercise of stock options NT$9,880,000	None	Note 18
January 2017	10	360,000,000	3,600,000,000	299,187,593	2,991,875,930	Corporate bonds turned common shares NT$225,615,790	None	Note 19
April 2017	10	360,000,000	3,600,000,000	306,193,739	3,061,937,390	Corporate bonds turned common shares NT$70,061,460	None	Note 19

Note: Only the information on the capital formulation in the original establishment and in the five most recent years is provided.
Note 1. Implemented in accordance with the Tai-Cai-Zheng-1 No. 0920125972 Letter dated June 12, 2003.
Note 1. Implemented in accordance with the Tai-Cai-Zheng-1 No. 0920123755 Letter dated June 10, 2003.
Note 3. Implemented in accordance with the Tai-Cai-Zheng-1 No. 0930117016 Letter dated May 7, 2004.
Note 4. Implemented in accordance with the Tai-Cai-Zheng-1 No. 0930109967 Letter dated March 30, 2004.
Note 5. Implemented in accordance with the Jin-Guan-Zheng-1 No. 0940121241 Letter dated May 26, 2005.
Note 6. Implemented in accordance with the Jin-Guan-Zheng-1 No. 0950126561 Letter dated May 27, 2006.
Note 7. Implemented in accordance with the Jin-Guan-Zheng-1 No. 0950139326 Letter dated September 8, 2006.
Note 8. Implemented in accordance with the Jin-Guan-Zheng-1 No. 0950139326 Letter dated September 8, 2006.
Note 9. Implemented in accordance with the Jin-Guan-Zheng-1 No. 0950139326 Letter dated September 8, 2006 and Jin-Guan-Zheng-1 No. 0960031859 Letter dated June 25, 2007.
Note 10. Implemented in accordance with the Jin-Guan-Zheng-1 No. 0950139326 Letter dated September 8, 2006.
Note 11. Implemented in accordance with the Tai-Cai-Zheng-1 No. 0930117016 Letter dated May 7, 2004 and Jin-Guan-Zheng-1 No. 0950139326 Letter dated September 8, 2006.
Note 12. Implemented in accordance with the Tai-Cai-Zheng-1 No. 0930117016 Letter dated May 7, 2004 and Jin-Guan-Zheng-1 No. 0950139326 Letter dated September 8, 2006.
Note 13. Implemented in accordance with the Jin-Guan-Zheng-1 No. 0970032274 Letter dated June 27, 2008.
Note 14. Implemented in accordance with the Tai-Cai-Zheng-1 No. 0930117016 Letter dated May 7, 2004.
Note 15. Implemented in accordance with the Jin-Guan-Zheng-3 No. 0950123111 Letter dated June 1, 2006.
Note 16. Implemented in accordance with the Tai-Cai-Zheng-1 No. 0930117016 Letter dated May 7, 2004 and Jin-Guan-Zheng-1 No. 0980030680 Letter dated June 19, 2009.
Note 17. Implemented in accordance with the Jin-Guan-Zheng-Jiao No. 1020000724 Letter dated January 9, 2013.
Note 18. Implemented in accordance with the Jin-Guan-Zheng-Fa No. 0990035442 Letter dated July 9, 2010.
Note 19. Implemented in accordance with the Jin-Guan-Zheng-Fa No. 1020043097 Letter dated November 5, 2013.
Note 20. Implemented in accordance with the Jin-Guan-Zheng-Fa No. 1040044543 Letter dated November 9, 2015.

(III) Information for shelf registration: None.

(IV) Shareholder Structure

April 30, 2017

Quantity \ Shareholder Structure	Government Agencies	Financial Institutions	Other Institutions	Individual Investors	Foreign Institutions and Foreigners	Total
Number of People	—	—	88	37,146	85	37,319
Number of Shares Held	—	—	65,689,464	214,019,102	26,485,173	306,193,739
Shareholding Ratio	—	—	21.45%	69.90%	8.65%	100.00%

(V) List of Primary Shareholders

April 30, 2017

Primary Shareholder Name \ Shares	Number of Shares Held	Shareholding Ratio
Alexander M.T.Su	17,000,719	5.55%
Han De Investment Co., Ltd.	16,850,276	5.50%
Trickle Co., Ltd.	14,662,469	4.79%
Hui Jung Investment Co., Ltd.	8,102,916	2.65%
Johnathon Y.J.Su	7,704,930	2.52%
Cheng Yu Investment Co., Ltd.	6,070,873	1.98%
Alexander M.T.Su 's dedicated trust account in First Commercial Bank	6,000,000	1.96%
Trickle T.C.Chang	5,228,283	1.71%
Pictet Bank's investment account under the trust of HSBC	4,017,000	1.31%
Ching-Yun Su	4,002,000	1.31%

(VI) Information Disclosing the Relationship between any of the Top Ten Shareholders

NAME (NOTE 1)	SHARES HELD PERSONALLY SHARES HELD		SHARES HELD BY SPOUSE AND UNDERAGE CHILDREN		TOTAL SHAREHOLDING BY NOMINEE ARRANGEMENT		TITLES, NAMES AND RELATIONSHIPS APPLICABLE TO TOP 10 SHAREHOLDERS WITH RELATIONSHIPS SPECIFIED BY SFAS NO.6, SPOUSE AND KINSHIP WITHIN THE SECOND DEGREE (NOTE 3)		NOTES
	Number of shares	Percentage of Shares	Number of shares	Percentage of Shares	Number of shares	Percentage of Shares	Name	Relationship	
Alexander M.T.Su	17,000,719	5.55%	1,115,768	0.36%	—	—	Johnathon Y.J.Su Han De Investment Co., Ltd.	Father-son Representative	
Han De Investment Co., Ltd. Representative: Alexander M.T.Su	16,850,276	5.50%	18,116,487	5.92%	—	—	Alexander M.T.Su	The Chairman	
Trickle Co., Ltd.	14,662,469	4.79%	5,228,283	1.71%	—	—	Trickle T.C.Chang	Representative of Institutional	

NAME (NOTE 1)	SHARES HELD PERSONALLY SHARES HELD		SHARES HELD BY SPOUSE AND UNDERAGE CHILDREN		TOTAL SHAREHOLDING BY NOMINEE ARRANGEMENT		TITLES, NAMES AND RELATIONSHIPS APPLICABLE TO TOP 10 SHAREHOLDERS WITH RELATIONSHIPS SPECIFIED BY SFAS NO.6, SPOUSE AND KINSHIP WITHIN THE SECOND DEGREE (NOTE 3)		NOTES
	Number of shares	Percentage of Shares	Number of shares	Percentage of Shares	Number of shares	Percentage of Shares	Name	Relationship	
Representative: Trickle T.C.Chang								Director	
Hui Jung Investment Co., Ltd. Representative: Alexander M.T.Su	8,102,916	2.65%	18,116,487	5.92%	—	—	Alexander M.T.Su	The Chairman	
Johnathon Y.J.Su	7,704,930	2.52%	—	—	—	—	Alexander M.T.Su Cheng Yu Investment Co., Ltd.	Father-son Representative	
Cheng Yu Investment Co., Ltd. Representative: Johnathon Y.J.Su	6,070,873	1.98%	7,704,930	2.52%	—	—	Johnathon Y.J.Su	The Chairman	
Ming-Te Alexander M.T.Su's dedicated trust account in First Commercial Bank	6,000,000	1.96%	18,116,487	6.55%	—	—	Alexander M.T.Su	The Chairman	
Trickle T.C.Chang	5,228,283	1.71%	—	—	—	—	Trickle Co., Ltd.	Corporate Director	
Pictet Bank's investment account under the trust of HSBC	4,017,000	1.31%	—	—	—	—			
Ching-Yun Su	4,002,000	1.31%	—	—	—	—			

Note 1: The names of the top ten shareholders shall be disclosed and the names and representatives of corporate shareholders shall be listed separately.

Note 2: The calculation of the shareholding ratio refers to the ratio of shares held by the individual, the spouse, underage children, or through nominee arrangements.

Note 3: Relationships between the shareholders described above, including institutions and natural persons, shall be disclosed pursuant to the "Regulations Governing the Preparation of Financial Reports by Securities Issuers."

(VII) Shareholding Distribution Status

NT$10 per share April 30, 2017

Shareholding Classification	Number of Shareholders	Number of Shares Held	Shareholding Ratio
1 ~ 999	19,176	1,386,294	0.45%
1,000 ~ 5,000	12,264	27,569,308	9.00%
5,001 ~ 10,000	2,825	22,649,735	7.40%
10,001 ~ 15,000	926	11,441,707	3.74%
15,001 ~ 20,000	599	11,232,892	3.67%
20,001 ~ 30,000	550	14,081,007	4.60%
30,001 ~ 50,000	430	17,139,062	5.60%
50,001 ~ 100,000	312	22,241,648	7.26%
100,001 ~ 200,000	123	17,502,591	5.72%
200,001 ~ 400,000	52	14,605,597	4.77%
400,001 ~ 600,000	15	7,666,019	2.50%
600,001 ~ 800,000	9	6,332,428	2.07%
800,001 ~ 1,000,000	6	5,470,726	1.79%
1,000,001 and above	32	126,874,725	41.44%
Total	37,319	306,193,739	100.00%

(VIII) Market price per share, net worth, earnings, dividends, and the related information for the last 2 years.

Item (Year)		2015 (Distributed in 2016)	2016 (Distributed in 2017)	Current Year up to April 30, 2017 (Note 5)
Market Price Per Share (Note 1)	High	19.30	17.62	24.01
	Low	10.35	15.25	21.88
	Average	15.61	16.32	22.93
Net Value Per Share	Before Distribution	14.98	18.53	19.78
	After Distribution	14.68	16.73	17.98
Earnings Per Share	Weighted Average Shares	277,872,347	279,725,215	304,376,871
	Diluted Earnings Per Share	-1.45	2.62	1.19
Dividends Per Share	Cash Dividend	0.6	1.80	–
	Accumulated Unpaid Dividend	–	–	–
Investment Return Analysis	Price-Earnings Ratio (Note 2)	–	6.11	–
	Price-Dividend Ratio (Note 3)	52.03	9.07	–
	Cash Dividend Yield (Note 4)	1.92%	11.03%	–

Note 1: Source of information is the TWSE website.
Note 2: Price-earnings (P/E) ratio = Average market price/Earnings per share
Note 3: Price-dividend (P/D) ratio = Average market price/Cash dividends per share
Note 4: Cash dividend yield rate = Cash dividend per share/Average market price
Note 5: The net value per share and earnings per share shall include information audited (reviewed) by the CPA in the most recent quarter up to the publication date of the Annual Report; the other fields shall include information from the current year up to the publication date of the Annual Report.

(IX) Dividend Policy and Implementation Status

1. Company Dividend Policy

The Company has adopted a balanced dividend policy to protect shareholder interest and the goal of sustainable development.

The dividend distribution principles requires the distribution of no less than 30% of distributable dividends after the final annual earnings have been taxed in accordance with the preceding regulations, losses in past years have been compensated, the legal surplus reserve and special surplus reserve have been appropriated, and remuneration for Directors and Supervisors and employee bonuses have been distributed. Cash dividends shall be no lower than 30% and stock dividends shall be under 70%.

For the dividend distribution policy specified in the previous Paragraph, the Company may determine the optimal dividend policy in accordance with actual profits, finances, business, operations, and other actual business conditions of the current year while accounting for the capital budgets for the following year. The Board of Directors shall formulate a distribution plan for approval in the shareholders meeting before implementation.

2. Dividend Distribution to be Proposed to the Shareholders' Meeting

		Amount Distributed Per Share (NT$)	Source
Cash Dividend		NT$1.00	Undistributed earnings
Cash Dividend		NT$0.80	Capital reserve
Total	Cash Dividend	NT$1.80	Undistributed earnings and capital surplus
	Total	NT$1.80	

3. Dividend Distribution to be Proposed to the Shareholders' Meeting

Hsin Kuang Steel Co., Ltd.

Table of Distributable Earnings in 2016

Unit: NT$

Distributable earnings	Amount
1. Earnings carried over from the previous year	0.00
2. Actuarial losses on defined benefit plan	(3, 107,053.00)
3. Plus: Annual net profit	747,773,568.00
4. Subtract: Provision for 10% statutory surplus reserve	(74,777,357.00)
5. Plus: Provision for special surplus reserve	211,734 96.00
Total	881,623,954.00
Distribution items	
1. Cash dividend for shareholders	306,193,739.00
2. Undistributed earnings transferred to following year	575,430,215.00
Total	881,623,954.00

* Shareholder dividends: The he cash dividend distributed from the capital surplus is NT$0.80 per share. After approval at the regular shareholders' meeting, the Board of directors shall be authorized to determine an ex-dividend date for dividend distribution.

4. The effects of the stock dividends on the Company's business performances, earnings per share and shareholder ROI

<table>
<tr><th colspan="3">Item</th><th colspan="2">2017
(Estimation)</th></tr>
<tr><td colspan="3">Initial paid-in capital (NT$1,000)</td><td>2,991,876</td><td rowspan="4">Note 1</td></tr>
<tr><td rowspan="3">Status of distribution of shares and dividends for the current year</td><td colspan="2">Cash dividend per share</td><td>NT$1.80</td></tr>
<tr><td colspan="2">Number of shares distributed for each share in earned surplus turned capital increase</td><td>—</td></tr>
<tr><td colspan="2">Share distribution per share when capitalizing capital reserve</td><td>—</td></tr>
<tr><td rowspan="7">Change in operating performance</td><td colspan="2">Operating income (NT$1,000)</td><td colspan="2" rowspan="7">Not applicable
(Note 2)</td></tr>
<tr><td colspan="2">Increase (decrease) ratio of operating profits compared to the same period last year</td></tr>
<tr><td colspan="2">Net profit after tax (NT$1,000)</td></tr>
<tr><td colspan="2">Increase (decrease) ratio of after-tax net earnings compared to the same period last year</td></tr>
<tr><td colspan="2">Earnings per share (NT$)</td></tr>
<tr><td colspan="2">Increase (decrease) ratio of earnings per share compared to the same period last year</td></tr>
<tr><td colspan="2">Average annual rate of return (counting average annual P/E ratio in reverse)</td></tr>
<tr><td rowspan="6">Projected earnings per share and P/E Ratio</td><td rowspan="2">If earned surplus-turned capital increase is completely replaced by distribution of cash dividends</td><td>Projected earnings per share (NT$)</td><td colspan="2" rowspan="6">Not applicable
(Note 2)</td></tr>
<tr><td>Projected average annual rate of return</td></tr>
<tr><td rowspan="2">If capital reserve-turned capital increase is not conducted</td><td>Projected earnings per share (NT$)</td></tr>
<tr><td>Projected average annual rate of return</td></tr>
<tr><td rowspan="2">If capital reserve-turned capital increase is not conducted and earned surplus-turned capital increase is distributed in cash dividend instead</td><td>Projected earnings per share (NT$)</td></tr>
<tr><td>Projected average annual rate of return</td></tr>
</table>

Note 1: The cash dividends to be distributed have yet to be passed in the 2017 General Shareholders Meeting and are distributed from undistributed earnings and capital surplus.

Note 2: According to the "Guidelines for Disclosure of Financial Forecasts by Public Companies", the Company is not required to disclose its financial forecasts for 2017.

(X) Employee Bonus and Director and Supervisor Remuneration

(1)、 According to the revision of the Company Act in May 2015, the employee bonus has been removed from provisions related to earnings distribution and a separate provision has been established to require companies to state in the Articles of Incorporation the fixed amount or percentage of the actual profit for the current year to be distributed as employee remuneration. The Company expects to revise the Company's Articles of Incorporation in the annual meeting of shareholders for 2017 in accordance with the revised regulations. Pursuant to the Company's proposed Articles of Incorporation, if the Company has profit for the year, 3% or less shall be set aside as remuneration for Directors and Supervisors and no less than 3% shall be set aside as remuneration to employees.

(2)、 2016 Distribution of Remuneration to Directors, Supervisors, and Employees:

1. The Company's 2016 Earnings Distribution Statement was approved in the 19th meeting of the Company's 13th-term Board of Directors on March 14, 2017. After the Statement is passed in the resolution of the general shareholders meeting on June 15, 2017 and approved by the competent authority, the Board of Directors shall establish a stock (dividend) distribution dates for implementation.
2. Use of earnings in 2016 fiscal year for distribution of employee remuneration and Director/Supervisor remuneration:

Unit: NT$

Item	2016
Directors and Supervisors Remuneration	25,876,175
Employees Remuneration (distributed in cash)	25,876,175

Note: The amount is consistent with the resolution by the Board of Directors on March 14, 2017. The aforementioned employee cash bonus shall be distributed after resolution in the 2017 Shareholders' Meeting.

3. The ratio of proposed employee stock bonus allocation compared to the individual financial report net income for the quarter and the total employee bonuses: N/A.

(3)、 Use of earnings in 2015 fiscal year for distribution of employee bonus and director/supervisor remuneration:

Unit: NT$

Item	Resolution of the Meeting of the Board of Directors	Actual appropriated amount (Note)
Directors and Supervisors Remuneration	-	-
Employees Remuneration (distributed in cash)	-	-

(XI) Buyback of Treasury Stock:

April 30, 2017

Times of buyback	The eighth
Purpose	To uphold company reputation and shareholders' interests
Buyback period	September 1, 2015 to October 28, 2015
Buyback price range	NT$8.26~NT$20.37
Type and volume of bought-back shares	3,200,000 common shares
Amount spent on buyback	NT$43,186,378
Shares already canceled and transferred	3,200,000 shares
Accumulated shares held	—
Accumulated shares held as percentage of shares issued (%)	—

II. Issuance of Corporate Bonds:

(I) Corporate bond issuance status

Type (Note 2)		Fourth issuance of unsecured convertible corporate bond (Note 5)
Issuance (processing) date		December 20, 2013
Denomination		NT$100,000
Place of issue and trading (Note 3)		R.O.C.
Issue price		Fully issued at face value
Total value		NT$500,000,000
Interest rate		0%
Duration		5 years; date of expiration: December 20, 2018
Guarantor		None
Trustee		E.SUN Commercial Bank
Underwriter		Concord Securities Corporation
Certifying lawyer		Kang-Jung Chan, Attorney, Kang-Jung Chan Law Firm
Certifying CPA		Deloitte & Touche CPAs Yi-Lung Chou and Chao-Ling Chen
Payback method		The bonds can be converted into the Company's common shares in accordance with the conversion clauses in Article 10 of the Regulations on the Issuance and Conversion of Corporate Bonds for the Company's fourth issuance of unsecured corporate bonds. They can also be redeemed in advance in accordance with Article 17 of the Regulations or the creditor may request the Company to redeem the bonds prematurely and receive the principal through a single wire transfer or check.
Principal yet to be paid back		NT$0 (April 30, 2017)
Terms and conditions for redemption or early liquidation		From the day after one month has elapsed from the issuance of convertible corporate bonds till the 40 days prior to the expiration of the issuance period, when the closing price of the Company's regular stocks has exceeded 30% (inclusive) or more of the convertible price for 30 consecutive business days, and if the total amount of unconverted bonds in the convertible corporate bonds is lower than 10% of the issuance amount, the Company may repurchase the convertible bonds based on the yield to call of the bond and implement the proceedings in accordance with Article 17 of the Regulations.
Restrictive terms and conditions (Note 4)		None
Name of credit rating institution, rating date, outcome of corporate bond rating		None
Other rights attached	Converted to ordinary (exchange or subscription) shares, global depository receipts, or other marketable securities as of the date of this annual report.	NT$500,000,000 (April 30, 2017)
	Issuance and conversion (exchange or subscription) method	Please refer to the Regulations pertaining to issuance and conversion.
Issuance and conversion, exchange or subscription methods, and the condition of issuance that may dilute share equity and affect equity rights for the existing shareholders		Please refer to the Regulations pertaining to issuance and conversion.
Name of the commissioned custodian institution for the exchange bid		None

Note 1: The implementation of corporate bonds includes public and private corporate bonds. Public corporate bonds in implementation refer to those validated (authorized) by the FSC; private corporate bonds in implementation refer to those approved in a board meeting resolution.

Note 2: Please add more rows to accommodate additional issuances and entries.

Note 3: To be filled if bonds are issued by foreign companies.

Note 4: If cash dividends distribution or overseas investments are restricted, or if a certain percentage of assets is required to be maintained etc.

Note 5: Private fundraising shall be specified in a prominent manner.

Note 6: The conversion of corporate bonds, exchange of corporate bonds, summary report of issued corporate bonds or bonds with warrant shall be listed in accordance with their properties before disclosing information on conversion corporate bonds, exchange of corporate bonds, summary report of issued corporate bonds or bonds with warrant.

(II) Convertible bond data

Corporate bond type (Note 1)		The 4th domestic unsecured convertible bonds		
Item (Year)		2014	2016	Current fiscal year up to April 30, 2017 (Note 4)
Market price of converted corporate bonds (Note 2)	High	106.50	133.00	-
	Low	97.90	133.00	-
	Average	101.44	133.00	-
Conversion price		NT$16.20 (Case closed on April 30, 2017)		
Issue (processing) date and conversion price at issuance		Date: December 20, 2013 Conversion price at issuance: NT$19.00		
Methods of fulfilling conversion obligations (Note 3)		Issuance of new shares		

Note 1: Please add more rows to accommodate additional issuances and entries.
Note 2: If there are multiple transaction locations for issuance of overseas corporate bonds, they shall be indicated in accordance with the location of issuance.
Note 3: Number of shares delivered or new shares issued.
Note 4: Information of the current year up to the publication date of the annual report.

(III) Information on exchange of corporate bonds: None.
(IV) Information for shelf registration: None.
(V) Information on corporate bonds with warrant: None.

III. Issuance of preferred stocks (with subscription rights): None.

IV. Issuance of global depositary receipts (GDR): None.

V. Exercise of employee stock option plan (ESOP):

April 30, 2017

Tranche of ESOP (Note 2)	Firs time in 2010 Employee stock options (Note 5)
Date of approval by competent authorities	July 9, 2010
Issuance (processing) date (Note 4)	March 15, 2011
Units granted	2,500 units
Units granted to total shares issued and outstanding (%)	0.917%
Duration	5 years; date of expiration: March 14, 2016
Exercise (Note 3)	Issuance of new shares
Vesting schedule and quota (%)	1. Holders will be entitled to exercise 40% employee stock options after the second year of the vesting. 2. Holders will be entitled to exercise 70% employee stock options after the third year of the vesting. 3. Holders will be entitled to exercise 100% employee stock options after the fourth year of the vesting.
Units exercised (shares)	1,905,000 shares
Amount exercised (NT$)	NT$28,387,160
Number of units recovered by the Company for voidance	595 units (March 14, 2016)
Units unexercised (shares)	0 units (March 14, 2016)
Exercise price for unexercised units (NTD)	Date: March 15, 2011 Subscription price per share at issuance: NT$18.60 Current subscription price per share: NT$18.60 (March 14, 2016)
Units unexercised to total outstanding shares (%)	- (March 14, 2016)
Impact on shareholder equity	The Company attracts and retains required professional talents to increase employees' coherence and sense of belonging in the Company in order to jointly create value for the Company and shareholders. The impact on shareholder equity is therefore positive. The impact of discounted employee stock options on the stockholder equity: A. The dilution per share of potential reduced-to-costs amount on the Company's stocks: The reduced-to-costs amount of 2,500,000 shares is approximately NT$39.58 million. The amount amortized in five years results in a dilution of less than NT$0.10 per share on the Company's stocks. B. Describe the financial burden imposed on the Company in the exercise of issued shares: N/A.

Note 1: The implementation of employee share subscription warrants includes employee share subscription warrants in public and private corporate bonds. Public employee share subscription warrants in implementation refer to those validated (authorized) by the FSC; private employee share subscription warrants in implementation refer to those approved in a board meeting resolution.

Note 2: Please add more rows to accommodate additional issuances and entries.

Note 3: The Number of shares delivered or new shares issued shall be indicated.

Note 4: Those with different issuance (processing) dates shall be filled out separately.

Note 5: Private fundraising shall be specified in a prominent manner.

VI. Names of managerial officers receiving ESO and names of top ten employees receiving

ESO, their exercise and subscription:

	Title (Note 1)	Name	Units vested	Units vested as a percentage of total shares issued and outstanding (Note 1)	Executed (Note 2)				Not Executed (Note 2)			
					Subscription Amount	Subscription Price	Subscription Amount	Units vested as a percentage of total shares issued and	Subscription Amount	Subscription Price	Exercise amount	Units vested as a percentage of total shares issued and
Manager	General Manager	Alexander M.T.Su	486,000	0.18%	459,000	14.52	6,663	0.17%	Note 4	—	—	—
	Vice President of Administration	Chao-Lang Hsu										
	Vice President of Operations	Ming-Shan Jheng										
	Vice President of Operations	Fisher C.H.Yu										
	Vice President of Finance and Accounting	Jessica P.H.Liu										
	Assistant Vice President of Finance and Accounting	Lisa H.C.Chien										
	Resigned	Wan-Chin Tsai										
Employees (Note3)	Assistant Vice President	Teng-Kui Kao	642,000	0.23%	615,000	15.03	9,245	0.22%	Note 4	—	—	—
	Assistant Vice President	Kuo-San Yang										
	Assistant Vice President	Frank C.C.Huang										
	Plant director	Ho-Shu Kao										
	Manager	Wen-Chieh Lo										
	Manager	Rui-Fang Li										
	Deputy Manager	Hui-Fen Cheng										
	Plant Director	Chih-Cheng Kao										
	Manager	Wan-Lung Tsai										
	Manager	Sung-Ru Yang										

Note 1: Names and titles of managers and employees (departed or deceased shall be indicated) should be disclosed, but the disclosure can be shown in aggregate acquisition and subscription.

Note 2: Please add more rows to accommodate additional issuances and entries.

Note 3: The top ten employees receiving ESO refer to employees who are not managerial officers.

Note 4: The issuance period of the current **employee** warrants expired on March 14, 2016. Unexercised parts are deemed as invalid.

VII. **Restricted stock awards: None.**

VIII. Mergers, acquisitions or issuance of new shares for acquisition of shares of other companies: None

(I) Mergers, acquisitions or issuance of new shares due to acquisition of shares of other companies that have been completed in the past year and up to the date of report:

1. Evaluative opinions submitted by the lead underwriter for mergers, acquisitions or issuance of new shares for acquisition of shares of other companies in the most recent quarter: None.
2. If the implementation status in the most recent quarter fails to reach expected objectives in terms of progress or performance, the impact to shareholder equities and improvement plans shall be described in detail: None.

(II) Resolutions adopted by the Board of Directors in the past year and up to the date of report approving a merger, acquisition, or issuance of new shares due to acquisition of shares of other companies: None.

IX. **Fund Implementation Status:** The Company has been authorized by the Financial Supervisory Commission in its Jin-Guan-Zheng-Fa No. 1020043097 Letter to issue its fourth issuance of domestic unsecured convertible corporate bonds to raise a total of NT$500 million on November 5, 2013 and the fundraising was completed on December 18, 2013. The funds raised in this round were used for the purchase of land, expansion of plants, and purchase of machinery and equipment.

In response to changes in the external market environment and to effectively implement capital to protect shareholder interests, the Company resolved in the 10th meeting of the 13th-term Board of Directors to pass the revised plan for the implementation of the Company's fourth issuance of domestic unsecured convertible corporate bonds. The original reinvestment amount was changed from the original NT$500 million to NT$428.808 million (a reduction of 71.192 million). The purpose of unused funds was changed to repay bank loans which would increase the Company's fund implementation flexibility and reduce cash outflow from interest expenditures. The changed plan was due for execution in the fourth quarter of 2015.

The Fundraising Plan for the 4th Domestic Unsecured Convertible Corporate Bond before and after Adjustment (Unit: NT$1,000)

Project Item	Total Capital of Plan before Adjustment (merged into segment 2377 above)	Changed Amount	Total Capital of Plan after Adjustment (merged into segment 2377 above)
Purchase of land	283,280	(729)	282,551
Expansion of plants	116,720	(25,256)	91,464
Purchase of Machinery and equipment	100,000	(45,207)	54,793
Repayment of bank loans	0	71,192	71,192
Total	500,000	0	500,000

The potential benefits of the adjusted plan: The change in the purpose of the funds in the original plan allowed for the early repayment of NT$71.192 million. Based on the actual interest rate of the loan of approximately 1.87%, the amount of savings in interest expenditures in 2015 and 2016 are NT$166,000 and NT$1.331 million, respectively.

Deviation from the original expected benefits:

(1) Purchase of land: The benefits in the original plan includes using the funds raised by the Company to pay for the conversion from lease to purchase of the land price of NT$283.28 million. It was expected to lower the additional capital expenditure for the determined future contract price by 1.2 times and create NT$81.818 million in benefits. After the adjustment of the plan, the conversion from lease to purchase of the land price of NT$282.551 million is expected to lower the additional capital expenditure for the determined future contract price by 1.2 times and create NT$82.547 million in benefits.

(2) Expansion of plants and purchase of machinery and equipment: The benefits of expansion of plants and the purchase of machinery and equipment in the original plan could generate gross profits of NT$274.241 million in the next 6 years if all amounts were invested. It is expected that the adjusted plan could generate gross profits of NT$302.595 million in the next 6 years.

(3) Repayment of bank loans: The change in the purpose of the funds in the original plan allowed for the early repayment of NT$71.192 million. Based on the actual interest rate of the loan of approximately 1.87%, the amount of savings in interest expenditures in 2015 and 2016 are NT$166,000 and NT$1.331 million, respectively.

The impact of the adjustment on shareholder equities: The adjusted fundraising plan can increase flexibility in the Company's fund implementation and save interest expenditures. It should provide positive effects to shareholder equities of the Company over the long term.

Summary of the original lead underwriter’s assessment and opinion:

The adjusted amount in the project item does not exceed 20% of the total raised funds and the original lead underwriter is not required to submit an opinion.

V. Business Overview

1. Business activities

a. Business Scope

The contents of the Merging Company's main business operations include: (1). leveling of various steel coils; cutting and stamping of various steel plates, steel section, alloy steel, and special steels; (2). wholesale and retail of various steel and iron plates, iron tubes, hardware, and machinery equipment; (3). processing and manufacture of steel frames, steel tubes, and steel hardware; (4). contracting vendors to build public housing and commercial buildings for sale and lease; (5). import and export of aforementioned products and agency for quotation and tenders; (6). investment in various production businesses, securities investment companies, bank and insurance companies. (7). wholesale and retail of various metal construction materials; (8). Production, purchase, and sales of various metal products (vibration isolation systems for buildings and vibration isolation dampers for bridges); (9) all business items that are not prohibited or restricted by law, except those that are subject to special approval.

b. Revenue Distribution

In the business operation of the Merging Company in 2016, the main ratios of the revenue of its main products in the total sales revenue were 43% for steel plates, 3% for special steel plates, 14% for hot-rolled steel plates, 13% for galvanized steel plates, 14% for stainless steel, 8% for steel sections, and 4% for steel structure components (including damper systems for buildings). The ratios for domestic sales and exports are 96% and 4%.

c. The Company's Current Products and Services

A. Sales and Purchase of current products and materials: steel plates, special steel, patterned and hot-rolled steel plates, stainless steel, steel sections, galvanized steel plates, steel structure components (including vibration isolation systems for buildings and vibration isolation dampers for bridges).

B. Cutting and processing of completed products:

(A). Cut to length of steel plates, special steel, galvanized steel plates, and patterned and hot-rolled steel plates.

(B). Processing of steel plates, special steel, galvanized steel plates, and patterned and hot-rolled steel plates into special sizes.

(C). Cut to length of stainless steel materials or processing for special shapes and sizes.

(D). Polishing and precision processing of stainless steel materials.

(E). Agency for import of steel materials of special specifications and material.

(F). Production and processing of steel structure components, box-columns, steel section columns, and span columns.

(G). Production and processing of patterned worker's board.

d. New products under development

A. Pickled steel plates and pickled steel coils.

B. Joint subcontracting in material supply and cutting services.

2. Market, production and sales

a. Production & Marketing Profile:

The operating revenue of the Merging Company in 2016 was NT$6,411.686 million and the net operating profits was NT$752.1 million, which was a 0.6% decline from 2015while the operating profit increased by 188%. In the development of the domestic steel industry in 2015, the soft landing of the Chinese economy and slowdown in growth of emerging economies contributed to a slowdown in Taiwan's economy growth rate due to lower exports and private consumption, which in turn caused a decline in the domestic steel industry. Domestic and international steel prices bottomed out again as consumer confidence fell, procurement demand stagnated, and demands declined. The continued reduction in public construction budgets also severely impacted the domestic steel industry. In this bad external and internal operating environment, Hsin Kuang Steel established a target for the sales 345,000 metric tons of steel products in 2016. With the hard work of all employees, the total annual production and sales volume was 335,000 metric tons and the achievement rate was 97.1%.

In order to establish the Company's long-term advantages, the Company has implemented the following business strategy guidelines in 2016 to achieve the optimal results: In operations, the Company has adopted a light asset policy and continues to expand production capacity and precision of equipment to adjust for the recovery in the industry cycle. The Company also increased the cutting technologies and quality assurance levels while it actively prepared materials and sped up production in order to make full use of the expertise of the Cutting Center and Logistics Center and make adjustments for more flexible business models. In talent cultivation, the Company actively recruits new hires to increase the overall quality of employees. The Company also authorizes and charges employees with duties since training and cultivation in order to exert the full potential of employees and increase the efficiency and performance of talents. With respect to management, the Company updated computer hardware equipment, integrated Line, Apps, enterprise portals (EIP) and other systems, enhanced real-time communication imaging, strengthened data compilation and analysis for higher accuracy and speed, and developed big data capabilities. The Company continues to build plants and increase cutting and loading equipment in order to cultivate the growth of large-scale operations. In terms of marketing, the Company has strengthened customer services, mobility in distribution and sales, and quickly integrated production and sales information to increase the quality in the management of sales performance and project management as well customer satisfaction. The Company has always insisted upon providing services with its expertise in steel material services and it continues to integrate corporate resources and implementation to enhance the overall core capabilities of the Company. It also invests in digitalization for more efficient corporate operating procedures in order to provide customers with the most comprehensive one-stop services. The Company ensures its outstanding performance in the intensely competitive industry through the management and operations of corporate resources, diverse and comprehensive customer services, and fast logistics distribution and sales services.

b. Market Analysis

1. 1. Sales and service regions main products and services:

   The Company's main products and services include the cutting, processing, and sales of various steel plates and steel sections. It mainly supplies the domestic market and sales channels are spread across more than 2,000 customers across the island.

   The ratios of Company's domestic sales in each region are 60% for the Northern Region, 22% for the Central Region, and 18% for the Southern Region. Domestic sales accounted for 96% of sales while exports accounted for 4% of sales.

2. Market share and future supply and demand conditions:

   (1)、 Market Share:

   The Company plays a key role in connecting upstream and downstream industries in the second processing and cutting process between the steel refinery products and the terminal industrial products in the steel industry. The Company has established professional the "Steel Materials Logistics Center", "Steel Materials Cutting Center", "Steel Structure Components Production Center" and an island-wide distribution network to integrate related upstream and downstream industries, fully exert the functions of the satellite system with Hsin Kuang Steel at its center, and assist the Company in production and marketing plans.

   To increase market competitiveness and become the material supply center with the most comprehensive cutting equipment in Taiwan, the Company has purchased fully-automated cutting equipment with high cutting quality and high efficiency each year. The Company shall also increase its market share by adopting the marketing strategy for the "Steel Materials Logistics Center" and an island-wide distribution network.

   The company forms strategic alliances and vertical integration in the industry to jointly take part in public construction tenders and major private construction in order to advance its sales of steel materials and cutting services to joint subcontracting material supply services. The Company's comprehensive services provided to customers and the mutual strengthening and mutual support in various activities in the value chain have formed competitive advantages difficult for competitors to imitate and surpass.

According to statistics compiled by the CommonWealth Magazine, in the rankings of the top 2,000 manufacturers in 2016, the Company's consolidated revenue of NT$6.41 billion placed it in the No. 406 spot and No. 22 spot in metal resources industries. The Company is the only medium to thick steel plate cutting center qualified and registered by the Industrial Development Bureau, Ministry of Economic Affairs. The Company is equipped with a full range of equipment and it provides excellent quality and fast delivery. It is the top supplier in terms of the scale of cutting operations and it provides comprehensive transportation services. These factors have won the Company recognition and trust in the industry.

(2)、 Supply and demand for the future market:

The recovery in the domestic steel industry gains traction as the government invests in the economy and continues to advance large-scale public construction projects. Private investments and increases in industrial plants, office buildings, and other construction also continue to increase demand for steel materials and contribute to the prosperity in the steel industry. The Company plays a key role in connecting the upstream and downstream enterprises in the steel industry as it fulfills the functions of the "Steel Materials Logistics Center", "Steel Materials Cutting Center", and "Steel Structure Components Production Center", which shall continue to grow each year with the growth of the industry.

A. Steel plates

Large-scale domestic public construction projects include: The continued operations of the High Speed Rail, Taoyuan Airport MRT, MRT in Taipei and Kaohsiung, private power plants, Sixth Power Transmission and Construction Project, large-scale steel mills, harbor expansion etc. According to the "Demand Forecast of Steel Products in Taiwan from 2016 to 2021" compiled by Taiwan Steel & Iron Industries Association, long-term projects such as the continued implementation of urban renewal projects and the increase in the area and production in the application for building licenses as well as the recovery of the shipbuilding industry and the increase in its utilization rates shall continue to benefit growth in the steel structure, pipe manufacturing, and machinery industries due to the stable growth in the economy and construction industry. The Association's forecast for the period from 2016 to 2021 places the average growth rate for the demand of steel plates at 1.93%. The demand volume in 2017 is estimated at 1.455 million tons and the demand growth rate is 2.45%. The steel plates purchased by the Company from China Steel account for approximately 15% of its sales volume in thick steel plates. The Company is also a cutting center for medium to thick steel plates registered with the Industrial Development Bureau, Ministry of Economic Affairs. The Company's comprehensive cutting capabilities, professional cutting technologies, and the island-wide distribution network of its logistics center can provide customers with the convenience of a one-stop service and sustain continued growth in the industry.

B. Special Steel Plates

Special steel is widely used and it is the main material for key components. The requirements for quality are also higher and the annual growth rate in Taiwan is approximately 10%. The special steel plates the Company cuts mainly include medium-carbon steel plates and alloy steel plates used for molds. The Company's new equipment ensures accuracy and stable quality and its extensive island-wide sales channels ensure stable growth each year. In 2008, the Company built a second plant in Kaohsiung to expand the production of special steel and provide abundant supply to downstream manufacturers in the Central and Southern Regions. The new plant will increase revenue and contribute to profitability.

C. Hot-Rolled Steel Plates

According to the "Demand Forecast of Steel Products in Taiwan from 2016 to 2021" compiled by Taiwan Steel & Iron Industries Association, long-term development in the main downstream industries for hot-rolled steel plates such as cold-rolled and galvanized steel plates have limited room for growth in demand in the domestic market. The main source of power for growth in demand for hot-rolled products shall be the direct export of cold-rolled and galvanized steel plates. In addition, the production of steel tubes and the automobile industry shall increase with stable economic growth. The Association forecasted that the average growth rate of the demand for hot-rolled steel products from 2016 to 2021 is 3.76% and the demand in 2017 is 4.264 million tons with a demand growth rate of 3.52%. The Association forecasted that the average growth rate of the demand for cold-rolled steel products from 2016 to 2021 is 1.93% and the demand in 2017 is 1.906 million tons with a demand growth rate of 2.47%. The Company's Northern Region Steel Coil Cutting Center and the Central Region Steel Coil Cutting Center have a total of eight sets of steel roll flattening and automated cutting machines and the cut hot-rolled steel plates can be used for computer cases, buildings, auto and motorcycle parts, fuse box components, machinery, hardware components etc. The Company is able to supply the market with 80,000 to 120,000 metric tons of products each year and the supply can be increased in accordance with growing market demand.

According to the "Demand Forecast of Steel Products in Taiwan from 2016 to 2021" compiled by Taiwan Steel & Iron Industries Association, as the domestic construction, auto industry, and auto parts continue their mild growth over the long term, the demand for the hot-rolled galvanized steel products will grow by an average of 2.92% per year from 2016 to 2021. The Association forecasted that the average growth rate of the demand for hot-rolled galvanized steel products in 2017 is 1.13 million tons with a demand growth rate of 2.73%.

According to the "Demand Forecast of Steel Products in Taiwan from 2016 to 2021" compiled by Taiwan Steel & Iron Industries Association, as long-term demand for galvanized steel grows due to the demand for panels, electronic and optical products, the demand for the galvanized steel products will grow by an average of 1.33% per year from 2016 to 2021. The Association forecasted that the demand for galvanized steel products in 2017 is 113,000 tons with a demand growth rate of 2.73%.

The Company is able to supply the market with approximately 20,000 metric tons of hot-rolled galvanized and galvanized steel products each year and the supply can be increased in accordance with growing market demand.

D. Stainless Steel

According to the "Demand Forecast of Steel Products in Taiwan from 2016 to 2021" compiled by Taiwan Steel & Iron Industries Association, as the domestic demand for hot-rolled stainless steel products continues to grow due to growth in petrochemicals and coal products, cold-rolled stainless products, pipe production, and machinery industry, the demand for the hot-rolled stainless steel products will grow by an average of 1.33% per year from 2016 to 2021. The Association forecasted that the demand for hot-rolled stainless steel products in 2017 is 1,265,000 tons with a demand growth rate of 2.02%.

According to the "Demand Forecast of Steel Products in Taiwan from 2016 to 2021" compiled by Taiwan Steel & Iron Industries Association, as the domestic demand for cold-rolled stainless steel products continues to grow due to growth in domestic construction, petrochemicals and coal products, and metal utensils industry, the demand for the cold-rolled stainless steel products will grow by an average of 2.71% per year from 2016 to 2021. The Association forecasted that the demand for cold-rolled stainless steel products in 2017 is 506,000 tons with a demand growth rate of 3.27%.

The Company's Stainless Steel Cutting Center was established in the first quarter of 2001 and it adopted the latest computer statistics control system in the fully-automated plasma cutting equipment. The Company also purchased more cutting equipment in 2004 to provide diverse, high quality, and high precision cutting services in order to create profits in high-added value cutting services. The additional stainless steel flattening and cutting machine set established by the Company in 2005 is now in operations and it can provide downstream customers with stainless steel plates of more diverse sizes and helps the business development of the stainless steel profit center. The stainless steel production and cutting base and the additional stainless steel flattening and cutting machine, the latest shearing machine from Italy, and other equipment established by the Company in 2007 have been in operations since early 2008. They provide downstream customers with higher precision in stainless steel plates and help the business development of the stainless steel profit center. The stainless steel polishing plant established by the Company in 2010 has been in operations since the first quarter of 2011 and it can provide downstream customers with higher precision in stainless steel plates and help the business development of the stainless steel profit center.

E. Steel Sections

The Company's Steel Sections Department mainly conducts sales of imported round steel bars with larger sizes. The main purpose is to provide processing for machinery components, screws, nuts, hand tools, magnetic components for speakers etc. According to the "Demand Forecast of Steel Products in Taiwan from 2016 to 2021" compiled by Taiwan Steel & Iron Industries Association, as the stable growth of the global economy brings forth growth in hand tools, automobiles, motorcycles, related components, and the screws and nuts industry, the demand for the round steel bars will grow by an average of 1. 6% per year from 2016 to 2021. The Association forecasted that the demand for round steel bar in 2017 is 1.261 million tons with a demand growth rate of 2.11%.

F. Comprehensive Analysis

As the economy grows, the government continues to promote large-scale public construction projects and plans the second National Development Plan in the new century. Private investment in new industrial plants, offices, and buildings lead to growth in demand for steel materials from the 4.2 million tons in 1982 to an estimated 44.31 million tons in 2017. The demand continues to grow. China's rapid economy development led to extensive improvements in all hardware constructions and it has become a world-class consumer for steel. Its development has spurred overall demand in the steel industry and the steel industry shall enjoy several years of rapid development in the future. The Company believes that only by innovation of equipment, diversified product lines, increase in product quality, and implementation of corporate resource operations can we survive and prosper in the fiercely competitive market. Therefore we shall continue to make full use of the functions of the "Steel Materials Logistics Center", "Steel Materials Cutting Center", and "Steel Structure Components Production Center" to continue operations and sustain growth in the industry.

(3) 、 Favorable and unfavorable factors for the operating goals and development:

The Company's main business plan in 2017 was to generate profits. It shall increase the ratio of steel cutting services and logistics services for steel products and increase the production of patterned worker's board and polishing and processing of stainless steel. The Company's internal operations goal is to achieve 380,000 metric tons in annual output in 2017. Favorable and adverse factors for the Company's long-term growth and strategy are as follows:

A. Favorable factors:

a. The steel industry is the basis for national development and a key industry for economic development. The industry is closely related to other industries and it forms the basis for industries such as transportation, machinery, shipbuilding, construction, electrical engineering etc. The steel industry has therefore been known as the mother of all industries. Taiwan's long-term economic development and strong capital foundations have facilitated major investments in the steel industry and it is increasingly beneficial to the steel cutting industry.

b. The Company's full range of cutting equipment, its state of art steel structure components production line, product line, and inventories provide more comprehensive services than other firms in the industry to satisfy requirements of different customers. They are assisted by the Company's comprehensive and high-performance distribution services to form the fully functional "Steel Materials Cutting Center", "Steel Product Logistics Center", "Stainless Steel Cutting and Polishing Center", "Surface Galvanized Steel Product Cutting Center", and "Steel Structure Components Production Center".

c. The BOT model adopted in public construction projects will increase the demand for steel, particularly for airports, high-speed rail, industrial and commercial complexes, ultra-high financial buildings, renewal projects for military communities, the Sixth Power Transmission and Construction Project, and MRT systems for metropolitan areas. The Company's has established a central-satellite cooperative system and strategic alliances to advance joint subcontracting in large-scale public and private construction projects, provide professional cutting services and production services for steel structure components, and open up more business opportunities.

d. The expansion in the production and export of steel products has been met by strong demands from Southeast Asia. The demand for steel products for reconstruction in Mainland China and Japan after the earthquakes brings forth faster economic development and a higher demand for steel products. Over the long term, these developments would cause Taiwan to become the supply center for steel products in Asia Pacific.

B. Unfavorable Factors:

a. Steel prices and market demand began their declines in the third quarter of 2011 due to stagnation in the international economy. The steel industry faces more intense competition in vertical supply as new challenges arose in business operations and strategies.

b. Insufficient entry-level laborers and the vast increase in wages due to reduced work hours and labor laws affect production expenditure.

c. The supply and demand order on the market remains to be established in the wake of the liberalization of the steel import and export and the lowered threshold for secondary processing operators.

d. The domestic investment environment has performed poorly in recent years and numerous industries have relocated to Mainland China or Southeast Asian countries. Recent international economic development has not been satisfactory and domestic investment, import/export, and industrial output can no longer sustain past growth rates in the future.

(4)、 Short-Term Business Plan

A. The Company shall expand production levels through more investments, expand the market, and maintain the market share in cutting and logistics.

B. Develop new customers and new applications with sophisticated existing cutting technologies to maintain Hsin Kuang Steel's market share in the global steel materials industry.

C. Advance the promotion of Hsin Kuang Steel's business and services in emerging and developing markets.

(5)、 Long-Term Business Development Plans

A. The Company shall use its exceedingly stable foundations that include over 2,000 long-term domestic and foreign customers, intensive partnerships with upstream domestic and foreign steel mills, integrated domestic logistics networks, availability of storage space and land in the plants, sophisticated cutting equipment, automated transportation equipment and fleets, and young talents with potential to provide comprehensive pre-sales and after-sales services to satisfy customers.

B. The Company shall continue to develop innovative business models from reasonably profitable business models uncovered from the value chain that promotes customer satisfaction and increase the contribution of related applications.

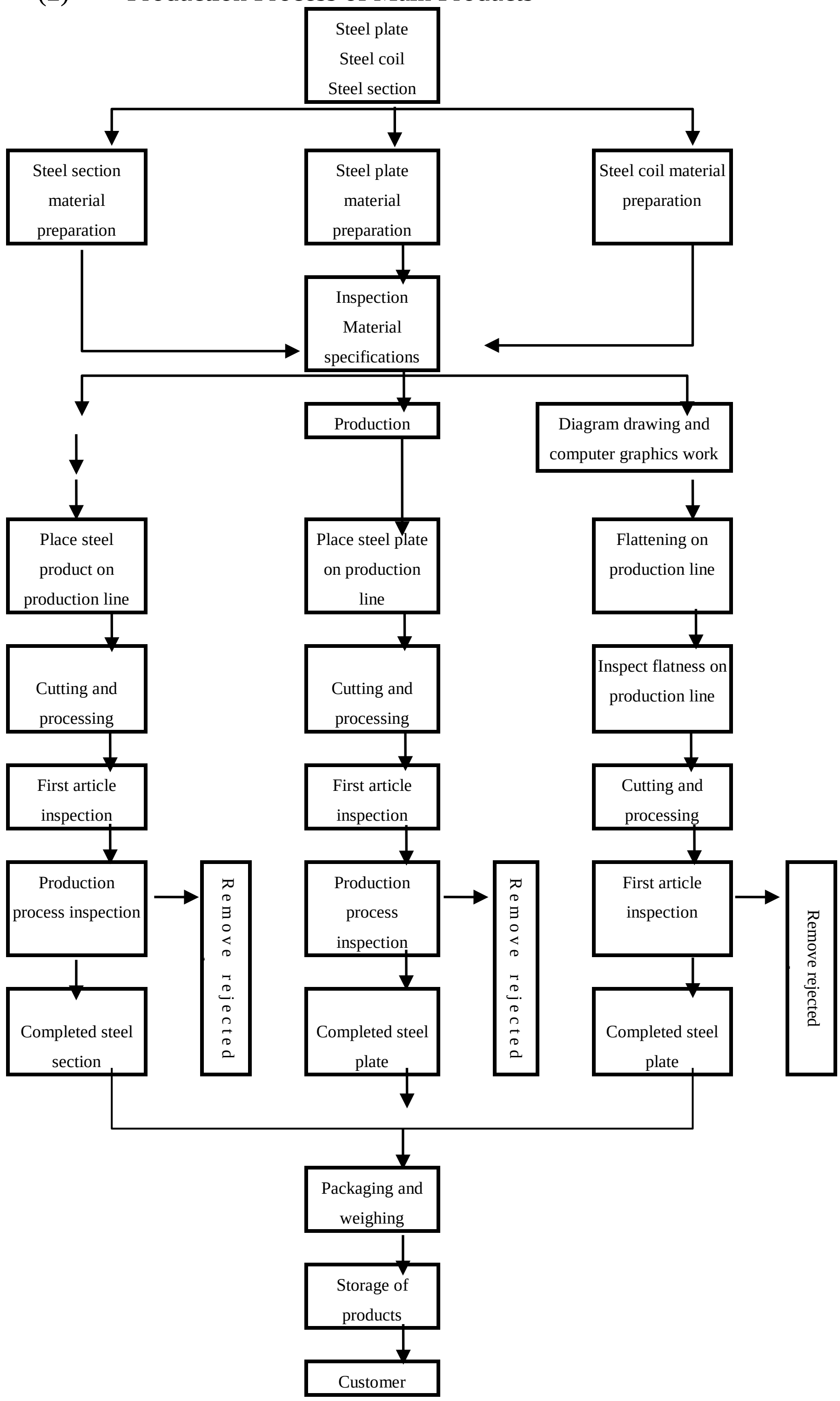
C. The Company shall also provide more integrated services that include integrated strategies for steel products, further enhancement of cutting technologies, and optimal strategic plans to provide customers with higher value.

3. Important Applications and Manufacturing Processes of Main Products

(1)、 Applications of Main Products

<table>
<tr><th colspan="2">Name of Main Product</th><th>Applications</th></tr>
<tr><td colspan="2">Steel Plates</td><td>Steel frame structures (production and installation of steel frame box-columns and BH steel column components), pot bearing for bridges, vibration isolation bearings for buildings, shipbuilding industry, machinery, steel bridge materials, oil pipes, storage tanks, public construction, Taipower high-voltage steel towers, telecommunication towers etc.</td></tr>
<tr><td colspan="2">Special Steel Plates</td><td>Mechanical parts, pressure vessel, wear-resistant steel, hot steel mold, cold steel mold, stamping steel mold, automobile and motorcycle parts, base molds, steel for tools etc.</td></tr>
<tr><td rowspan="3">Hot-Rolled Steel Plates (Steel Coils)</td><td>Patterned Steel Plates (Steel Coils)</td><td>Anti-skid plates, plates for stairs, parking lot equipment plates, walkways for chemical plants, pedals for large vehicles and machinery, patterned worker's boards etc.</td></tr>
<tr><td>Hot-Rolled Steel Plates (Steel Coils)</td><td>Automobile and motorcycle parts, hardware parts, computer cases, steel pipe, light steel, accessories for general household electrical appliances, base for machinery, fuse box etc.</td></tr>
<tr><td>Hot-Dipped Galvanized Steel Plates (Steel Coils)</td><td>Internal/external plating and components for automobiles, case and base for general household electrical appliances, base for washing machines, computer hard drive cases, sliding rails, ducts, air ducts, vending machines and casing and parts, steel doors, building materials etc.</td></tr>
<tr><td colspan="2">Stainless Steel</td><td>Construction steel structure, vessels for petrochemicals, automobile and motorcycle parts, hardware parts, aviation structural materials, steel pipes, light steel, accessories for general household electrical appliances, base for machinery, fuse box etc.</td></tr>
<tr><td colspan="2">Steel Section</td><td>Steel frames for factories, construction steel frame, mechanical parts, automobile and motorcycle parts, axles, crane materials, base and arch steel materials etc.</td></tr>
<tr><td colspan="2">Metal products (vibration isolation systems for buildings and shock-absorbent dampers for bridges)</td><td>The ASBD shock isolation system provides vertical bearing capacity for columns and isolates and reduces the destructive forces of earthquakes from the building. It also uses high-performance energy dissipaters to control the movement of the structure maintain comfort levels suitable for daily lives. There are no special restrictions of its use in buildings and it is suitable for structures using reinforcing steel or special structures such as buildings integrated with mass transportation systems.
Pot bearings for roads, highways, light rails (MRT), high speed rails, bridges, and other buildings, vibration isolation bearings for bridges, elevated bearings for various bridges, special anti-corrosion bearings, electrically insulated bearings, water-resistant materials for high speed rail, dampers, bearings for shear devices, steel shear boxes, anti-uplift devices, vibration resistant/isolation devices, expansion joints, and other component products for steel structures.</td></tr>
</table>

(2)、 Production Process of Main Products



(3)、State of Supply of Main Materials

Main Material	Main Source	Supply Status
Steel plate	China Steel, Japan, Brazil, Korea, Ukraine, China, India	Good
Special Steel	China Steel, Japan, Korea, China	Good
Patterned Steel Plates	Japan, Korea, Brazil	Good
Hot-Rolled Steel Plates	China Steel, Dragon Steel, Japan, Brazil, Korea, Shang Chen Steel	Good
Hot-Dipped Galvanized Steel Plates	China Steel, Japan, Brazil, China	Good
Stainless Steel	Japan, Sweden, Finland, Germany, China, Vietnam	Good
Steel section	Dragon Steel, Feng Hsin Steel, Japan, Korea, Russia	Good

(4)、Names of main customers and suppliers in the last 2 years

A. List of main customers in the last 2 year: None of the Company's customers have exceeded 10% of the Company's annual revenue in transactions in 2016 and 2015.

B. List of main suppliers in the last 2 year: The supply from Company A accounted for over 10% of the Company's annual purchases in 2016. Compared to 2015, the purchases from Company A accounted for over 10% of the Company's annual purchases.

C.

Main supplier information for recent two years

Unit: NT$1,000

	2015				2016				2017 up to the end of the first quarter			
Item	Name	Amount	Total annual net purchase ratio (%)	Relationship with the issuer	Name	Amount	Total annual net purchase ratio (%)	Relationship with the issuer	Name	Amount	Net purchase ratio from the end of the year to the previous quarter (%)	Relationship with the issuer
1	A	1,514,495	28.91	None	A	2,061,981	37.90	None	A	616,132	27.64	None
2									B	455,420	20.43	None
3												
	Other	3,723,748	71.09		Other	3,377,942	62.10		Other	1,157,488	51.93	
	Net Amount for Purchases	5,238,243	100		Net Amount for Purchases	5,439,923	100		Net Amount for Purchases	2,229,040	100	

Note 1: List the names of suppliers who accounted for more than 10% of the purchases of the Company in the last two years, and the ratio to total purchases. However, if name of the supplier cannot be disclosed due to contractual obligations or if the transaction party is an individual and not a related party, the entity may be referenced in code.

Note 2: As of the publication date of the Annual Report, the public listed company or OTC-listed company shall disclose financial information audited or reviewed by the CPA in the most recent period if it is available.

Information of main customers and suppliers in the last 2 years

Unit: NT$1,000

	2015				2016				2017 up to the end of the first quarter			
Item	Name	Amount	Percentage of net sales (%)	Relationship with the issuer	Name	Amount	Percentage of net sales (%)	Relationship with the issuer	Name	Amount	Net sales ratio from the end of the year to the previous quarter (%)	Relationship with the issuer
	Other	6,442,967	100	None	Other	6,398,105	100	None	Other	2,190,028	100	None
	Net sales	6,442,967	100		Net sales	6,398,105	100		Net sales	2,190,028	100	

Note 1: List the names of customers who accounted for more than 10% of the sales of the Company in the last two years, and the ratio to total sales. However, if name of the customer cannot be disclosed due to contractual obligations or if the transaction party is an individual and not a related party, the entity may be referenced in code.

Note 2: As of the publication date of the Annual Report, the public listed company or OTC-listed company shall disclose financial information audited or reviewed by the CPA in the most recent period if it is available.

(5)、 Annual production value for the last 2 years

Unit: quantity: metric tons; value: NT$1,000

Year / Main Product	2015			2016		
	Production Capacity	Production Volume	Production Value	Production Capacity	Production Volume	Production Value
Steel Plates	12,000	7,557	138,417	12,000	7,722	121,484
Special Steel Plates	19,800	6,161	122,495	19,800	6,387	123,293
Hot-Rolled (Patterned) Steel Plates	86,400	60,001	1,093,310	86,400	67,436	1,040,171
Stainless Steel Plates	5,500	10,439	765,292	5,500	10,469	594,145
Steel Structure Components	9,000	6,368	132,945	9,000	10,019	281,366
Total	132,700	90,526	2,252,459	132,700	102,033	2,160,459

Note 1: The production of special steel plates is low because the speed for cutting alloy steel plates is best kept low.

Note 2: Customized cutting was provided for steel plates and steel structure components are the speed is best kept low for precision.

(6)、 Sales value for the last 2 years

Unit: quantity: metric tons; value: NT$1,000

Year	2015				2016			
	Domestic Sales		Exports		Domestic Sales		Exports	
Main Product	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Steel Plates	6,462	130,031	-	-	6,325	132,796	500	10,399
Special Steel Plates	4,279	78,705	1,063	21,337	4,918	86,721	1,031	19,402
Hot-Rolled (Patterned) Steel Plates	61,035	1,006,919	18	298	66,869	1,116,565	125	3,260
Stainless Steel Plates	12,305	845,384	-	-	11,521	719,189	70	4,524
Steel Structure Components	6,422	245,302	215	7,483	8,450	262,435	338	11,329
Steel Sections (Other)	221,692	3,727,468	16,953	380,041	225,687	3,819,969	9,294	211,516
Total	312,195	6,033,809	18,249	409,159	323,770	6,137,675	11,358	260,430

3. Employee information for the last two years until the public date of this report

Year		2015	2016	April 30, 2017
Number of employees	Direct employees	108	102	105
	Indirect employees	43	45	48
	Managers	62	62	60
	Total	213	209	213
Average age (years)		38.19	38.80	38.76
Average years of service (years)		6.58	7.24	7.31
Degree distribution ratios	PhD	-	-	-
	Master's degree	4.23	5.26	4.70
	University	36.15	37.80	38.50
	Senior high school	43.66	38.28	37.56
	Below senior high school	15.96	18.66	19.24

4. Spending on environmental protection

(1)、According to laws and regulations, the Company is required to apply for a permit, submit pollution prevention fees, and set up an exclusively responsible unit/personnel for environmental protection issues: None.

(2)、Investment in primary equipment for prevention of pollution, its usage, and possible benefits: None.

(3)、Improvement on pollutions to the environment made by the Company in the most recent 3 years to the publication date of the Annual Report:

The Company had conducted careful evaluation on environmental protection and prevention of pollutions when it first established the plant and determined adopt products with the lowest pollutants as its main products. The effects on air quality and production of waste water in the production process and the derived byproducts produced after production are described below:

①The Company's main equipment in various plants consists of cutting machines and the Company does not carry out smelting and painting procedures. The waste material and iron scraps have been sold to contracted iron recycling companies for recycling and smelting and therefore there were no air or water pollutions in the production process.

②The inventory of products consists mainly of steel plates and steel sections that do not produce waste.

③The sound produced in the process of lifting and unloading steel plates have been inspected by agents from the Northern Office of the Occupational Safety and Health Administration and determined to be in line with the Noise Control Act.

④The Company actively implements green landscaping for all plants to provide employees with a good work environment. The Company has rigorously carried out environmental protection and pollution prevention tasks in accordance with government regulations.

(4)、Losses due to environmental pollution and total fines during the most recent year and up to the annual report publication date: None.

(5)、Major capital expenditure on environmental protection anticipated for the next 2 years: None.

5. Employees-employer relations

(1)、Employee Welfare

The Company assists employees in adopting corporate culture and fulfilling goals for personal development through employee adaption, professional growth, and career development. The Company allows employees to continue to challenge themselves, set records, and grow with the Company in a diverse and innovative environment. Labor-management relations have therefore been harmonious and the Company has not experienced any labor-management disputes since its establishment. The Company's performance in employee welfare, labor education and training, occupational safety and sanitation, and labor conditions have repeatedly won recognition. The potential for losses due to labor-management disputes in the future is extremely low. The Company was established in 1967. To provide employees with security in their work and lives, the Company has established Work Rules (the Rules have been registered in the Taoyuan County Government Labor Section under Government-Labor No. 125987 Letter) in accordance with the Labor Standards Act. The Company established the Labor Retirement Reserve Supervisory Committee to supervise the appropriation and implementation of the retirement reserve. The Company also established the Employee Welfare Committee to organize annual plans and management of the employee welfare fund.

A.Pension: The Company's retirement regulations are implemented in accordance with regulations of the Labor Standards Act and Labor Pension Act. The balance of the Company's pension reserve fund (as of April 30, 2017) in the Bank of Taiwan (originally at the Central Trust of China and incorporated into the Bank of Taiwan in 2007) was NT$18.209 million. Due to the adoption of the "Pension Fund Accounting Principles" in the No. 18 Statement of Financial Accounting Standards, December 31, 2016 is to be used as the baseline date and the accrued pension liabilities of NT$19,692 has been appropriated into the pension reserve account in 2016 and the interest distribution from the special account has reached NT$22.118 million.

B.Current employees receive: work clothes, work pants, jackets, safety shoes, and helmets.

C.Employees receive coverage in Labor Insurance and National Health Insurance and the Company has purchased group life insurance and accident insurance. The Company also organizes health inspections for employees.

D.Employees' children can apply for scholarships and student aid funds each semester.

E.The Company organizes birthday parties for employees every month.

F.The Company organizes domestic and international travel.

G.Employees are granted marital and bereavement leaves as well as national holidays in accordance with the Labor Standards Act and they enjoy subsidies from the welfare fund.

H.Employees may receive rewards, bonuses, and gifts for Chinese New Year, Dragon Boat Festival, Mid-Autumn Festival, Labor Day, and at year-end parties.

I.Employees receive special leaves in accordance with regulations.

J.Overtime pay for employees are paid in accordance with laws.

K.The Company organizes employee subscription for stocks for them to share the benefits of the Company's operations.

L.The Company organizes employee subscription warrants to encourage their performance and for them to share the benefits of the Company's operations.

(2)、Employee development: The Company values the learning and development of employees. The development strategy for continuous education of employees has always been the Company's key to success and it has become particularly important under the challenging economic conditions. The Company systematically provides a series of general knowledge, professional, and management training courses for employees of different levels. The courses include lectures given by external experts and the Company also cultivates internal lecturers. The Company organized a total of 57 courses in 2016. The total training hours was 10,848 hours and a total of 263 employees participated in training. The average employee training hours amounted to 41 hours and the total training expenditure was NT$1.68 million.

The training courses provided by the Company include:

- ●Training for managers: The Company plans management development training activities in accordance with the requirements for management capabilities and responsibilities of various management tasks. Contents include: Core courses for junior managers, core courses for middle-level managers, core courses for senior managers, and other elective courses.
- ●General training: General training refers to training activities for general knowledge required of entire Company or all levels that are conducted in accordance with government regulations or company policies. These courses include: industrial safety training courses, safety and sanitation training courses, quality related training courses, plant emergency response training courses, and personal performance management courses.
- ●Professional / occupational training: Technical and professional training required by various functional units such as: equipment and engineering courses, manufacturing process training courses, accounting and taxation courses, information technology courses etc.
- ●Direct employee training: Direct employee training refers to training for technicians on the assembly line to acquire knowledge, technical capabilities and attitude required for work and to obtain permit for operating machinery such as: direct technical skills training courses, technician training courses, training courses for section chiefs of the manufacturing department etc.
- ●Training for new recruits: These courses include training before starting work, basic training for new recruits, and on-the-job guidance.

The Company has established the "Employee Training and Education Regulations" to encourage employees to participate in diversified external training in addition to the work instructions they receive. These courses include short-term study courses and long-term degree and credit courses for which the Company provides education subsidies to meet requirements for company operations and personal development.

(3)、Employee activities: The Employee Welfare Committee is established for the benefits of employees and it meticulously plans various activities and welfare facilities to create a lively work environment and raise employee morale. The expenditure of the Employee Welfare Committee and the Company totaled NT$5.382 million in 2016 and the funds were used for related employee benefits and activities. The Company organized scholarships for employees' children, arts and culture performances, employee tours, hiking events, and family day events in 2016.

(4)、Bonus system: All employees are entitled to bonuses and allotment of shares which fully integrates performance with remuneration in order to fulfill the business philosophy of "employees are all members of the company". The Company repurchased company shares to distribute to employees in 2006 and the Company has organized its first employee subscription warrants in 2011. These actions have provided employees with positive encouragement.

(5)、Protection of intellectual property rights: The Company started the implementation of "confidential information protection" plan in 2000 to ensure appropriate protection of company information.

(6)、Pension System and Implementation Status

The Company's pension system is implemented completely in accordance with the Labor Standards Act and the Labor Pension Act. The Company appropriates 2% of total salary as pension reserve to be deposited into and used exclusively by the dedicated account of the Labor Retirement Reserve Supervisory Committee. Since the establishment of the Labor Retirement Reserve Supervisory Committee, a total of 21 employees have retired and pension funds of NT$37.813 million have been distributed (including 2 retirees and distribution of NT$3.385 million in pension in 2016). The new labor retirement system requires an appropriation of 10% (including 4% from the employee) to be deposited in the statuary labor pension institute.

(7)、Labor-management agreement status: The Company values two-way communication and is strives to provide open and transparent communication channels between managers and employees and between peer employees. The Company also continues to strengthen two-way and instantaneous communication with employees on the existing foundation in order to promote harmonious labor-management relations and create mutual prosperity for the Company and employees. To maintain smooth two-way communication management and exchanges, the Company organizes cross-level meetings, communication meetings for supervisors of each level, and employee satisfaction surveys. The Company also provides employee complaint mechanisms and employee opinion channels in the Company to heed and resolve employees' opinions and ideas.

(8)、Disclose the losses suffered due to industrial relation disputes in recent years up to the publication date of this annual report as well as estimations for similar losses in the future and coping measures. If the loss cannot be reasonably estimated, make a statement to that effect: None.

(9)、Has there been litigations during the most recent year and up to the publication date of the Annual Report and did labor-management relations require mediation: No.

6. Important Contracts: Important supply and seals contracts, technical collaboration contracts, engineering contracts, long-term loan contracts that are currently effective or expiring in the most recent year that may affect investor rights and benefits.

Nature of contract	Contracting parties	Start and end dates of the contract	Content	Restrictions
Long-term loan contract	Chang Hwa Bank	May 2012 to May 2017	Loan of NT$10.4 million	Provided machinery and equipment as collateral
Long-term loan contract	Chang Hwa Bank	August 2016 to August 2020	Loan of NT$40 million	Unsecured loan
Long-term loan contract	Chang Hwa Bank	July 2016 to July 2019	Loan of NT$185.5 million used for the purchase of land in Sin-Ji Industrial Park.	Provided the land as collateral
Syndicated loan agreement	Land Bank of Taiwan	July 2014 to July 2019	Syndicated loan of NT$2.5 billion used to cover the cost of land for the 5th Phase project in Guanyin Plant, factories, machinery, equipment, repayment of loans from financial institutions, and funds required for operations.	Provided the land and factories as collateral

VI. Financial Overview

I.Condensed balance sheet and composite income sheet for the 5 most recent years

(1)Condensed consolidated balance sheet

Units: in NT$1,000

Item \ Year		Financial information for the recent 5 years (Note 1) 2012	2013	2014	2015	2016	Current Year up to March 31, 2017 Financial information (Note 3)
Current assets		8,043,696	7,997,598	8,239,940	6,239,268	6,566,789	7,921,087
Property, plant, and equipment (Note 2)		2,202,794	2,215,073	2,846,204	2,834,422	3,033,067	3,021,429
Intangible assets		163	-	-	-	-	-
Other assets (Note 2)		2,136,459	2,142,579	2,004,924	1,616,561	2,321,300	2,404,978
Total Assets		12,383,112	12,355,250	13,091,068	10,690,251	11,921,156	13,347,494
Current liabilities	Before distribution	6,284,220	5,365,149	5,493,439	4,996,081	4,715,936	5,700,864
	After distribution	6,422,598	5,642,142	5,772,277	4,996,081	5,022,130	6,007,058
Non-current liabilities		848,565	1,488,656	2,121,842	1,533,660	1,632,283	1,387,700
Total liabilities	Before distribution	7,132,785	6,853,805	7,615,281	6,529,741	6,348,219	7,088,564
	After distribution	7,271,163	7,130,798	7,894,119	6,529,741	6,654,413	7,314,758
Equity attributable to owners of parent company		5,191,635	5,443,826	5,429,240	4,130,338	5,544,693	6,057,022
Capital		2,772,573	2,769,413	2,788,380	2,756,380	2,991,876	3,061,937
Capital reserve		983,650	1,030,797	1,049,463	1,045,575	1,016,806	1,057,749
Retained earnings	Before distribution	1,349,953	1,541,857	1,494,071	810,751	1,555,418	1,919,132
	After distribution	1,211,575	1,264,863	1,215,233	810,751	1,249,224	1,612,938
Other equity		94,278	101,759	97,326	(482,368)	(19,407)	18,204
Treasury stock		(8,819)	-	-	-	-	–
Non-controlling equity		58,692	57,619	46,547	30,172	28,244	201,908
Equity Total	Before distribution	5,250,327	5,501,445	5,475,787	4,160,510	5,572,937	6,258,930
	After distribution	5,111,949	5,224,451	5,196,949	4,160,510	5,266,743	5,952,736

Note 1: All years that have not been certified by a CPA shall be indicated.

Note2: The implementation date and reappraised value of assets that have been reappraised in the current year shall be disclosed.

Note 3: As of the publication date of the Annual Report, the public listed company or OTC-listed company shall disclose and analyze financial information audited or reviewed by the CPA in the most recent period if it is available. Financial information from of the current year up to March 31, 2017 has been reviewed by the CPA.

Note 4: Please fill in the numbers after distribution based on the circumstances of the shareholders' meetings for the following year.

Note 5: Financial information that has been required by the competent authority to correct or recompile shall be provided with the corrected or recompiled figures and the status and reasons shall be indicated.

(2) Condensed individual balance sheet

Units: in NT$1,000

Item \ Year		Financial information for the recent 5 years (Note 1) 2012	2013	2014	2015	2016	Current Year up to March 31, 2017 Financial information (Note 3) (Exempted from disclosure)
Current assets		7,465,014	7,402,360	7,630,383	5,652,653	5,907,450	
Property, plant, and equipment (Note 2)		2,166,216	2,184,919	2,823,380	2,818,446	2,807,392	
Intangible assets		-	-	-	-	-	
Other assets (Note 2)		2,465,980	2,513,146	2,482,505	2,074,519	2,672,835	
Total Assets		12,097,210	12,100,425	12,936,268	10,545,618	11,387,677	
Current liabilities	Before distribution	6,064,117	5,172,970	5,388,144	4,882,491	4,422,613	
	After distribution	6,202,495	5,449,963	5,666,982	4,882,491	4,728,807	
Non-current liabilities		841,458	1,483,629	2,118,884	1,532,789	1,420,371	
Total liabilities	Before distribution	6,905,575	6,656,599	7,507,028	6,415,280	5,842,984	
	After distribution	7,043,953	6,933,592	7,785,866	6,415,280	6,149,178	
Equity attributable to owners of parent company		5,191,635	5,443,826	5,429,240	4,130,338	5,544,693	
Capital		2,772,573	2,769,413	2,788,380	2,756,380	2,991,876	
Capital reserve		983,650	1,030,797	1,049,463	1,045,575	1,016,806	
Retained earnings	Before distribution	1,349,953	1,541,857	1,494,071	810,751	1,555,418	
	After distribution	1,211,575	1,264,864	1,215,233	810,751	1,249,224	
Other equity		94,278	101,759	97,326	(482,368)	(19,407)	
Treasury stock		(8,819)	-	-	-	-	
Equity Total	Before distribution	5,191,635	5,443,826	5,429,240	4,130,338	5,544,693	
	After distribution	5,053,257	5,166,833	5,150,402	4,130,338	5,238,499	

Note 1: All years that have not been certified by a CPA shall be indicated.

Note2: The implementation date and reappraised value of assets that have been reappraised in the current year shall be disclosed.

Note 3: As of the publication date of the Annual Report, the public listed company or OTC-listed company shall disclose and analyze financial information audited or reviewed by the CPA in the most recent period if it is available. According to the "Regulations Governing the Preparation of Financial Reports by Securities Issuers", the Company is not required to prepare individual financial statements for March 31, 2017.

Note 4: Please fill in the numbers after distribution based on the circumstances of the shareholders' meetings for the following year.

Note 5: Financial information that has been required by the competent authority to correct or recompile shall be provided with the corrected or recompiled figures and the status and reasons shall be indicated.

(3) Statements of income

Unit: NT$1,000 except NT$ for EPS

Year / Item	Financial information for the recent 5 years (Note 1)					Current Year up to March 31, 2017 Financial information (Note 2)
	2012	2013	2014	2015	2016	
Operating revenue	7,583,332	8,623,884	8,653,502	6,449,699	6,411,686	2,200,495
Gross profit	(166,949)	479,286	498,165	(568,373)	916,989	407,232
Operating income/loss	(229,569)	448,154	484,744	(855,123)	752,100	322,616
Non-operating income and expenses	(27,540)	(96,352)	(217,251)	433,214	59,180	92,646
Net income before tax	(257,109)	351,802	267,493	(421,909)	811,280	415,262
Profit for the year from continuing operation (merged into segment 2898)	(216,400)	332,683	222,461	(408,779)	749,784	364,616
Loss from discontinued operations	-	-	-	-	-	-
Current period net income (loss)	(216,400)	332,683	222,461	(408,779)	749,784	364,616
Other comprehensive income (Net income after tax)	(64,547)	6,642	(6,629)	(582,437)	459,814	37,586
Total comprehensive income of this period	(280,947)	339,325	215,832	(991,216)	1,209,598	402,202
Profit attributable to owners of parent company	(215,638)	331,162	231,451	(401,876)	747,774	363,714
Net income attributable to non-controlling interests	(762)	1,521	(8,990)	(6,903)	2,010	902
Comprehensive income (loss) attributable to owners of parent company	(280,159)	337,763	224,774	(984,176)	1,207,628	401,325
Comprehensive income (loss) attributable to non-controlling interests	(788)	1,562	(8,942)	(7,040)	1,970	877
Earnings Per Share	(0.78)	1.20	0.83	(1.45)	2.67	1.19

Note 1: All years that have not been certified by a CPA shall be indicated.

Note 2: As of the publication date of the Annual Report, the public listed company or OTC-listed company shall disclose and analyze financial information audited or reviewed by the CPA in the most recent period if it is available. Financial information from of the current year up to March 31, 2017 has been reviewed by the CPA.

Note 3: The losses of discontinued operations shall be represented by the net value after deducting income tax.

Note 4: Financial information that has been required by the competent authority to correct or recompile shall be provided with the corrected or recompiled figures and the status and reasons shall be indicated.

(4) Individual comprehensive income statement

Unit: NT$1,000 except NT$ for EPS

Year / Item	Financial information for the recent 5 years (Note 1)					Current Year up to March 31, 2017 Financial information (Note 2) (Exempted from disclosure)
	2012	2013	2014	2015	2016	
Operating revenue	7,326,922	8,408,375	8,384,276	6,373,639	6,262,775	
Gross profit	(208,657)	403,328	487,796	(551,955)	898,030	
Operating income/loss	(269,528)	378,361	501,277	(824,579)	740,452	
Non-operating income and expenses	13,222	(23,805)	(232,470)	408,781	68,238	
Net income before tax	(256,306)	354,556	268,807	(415,798)	808,690	
Profit for the year from continuing operation (merged into segment 2935)	(215,638)	331,162	231,451	(401,876)	747,774	
Loss from discontinued operations	-	-	-	-	-	
Current period net income (loss)	(215,638)	331,162	231,451	(401,876)	747,774	
Other comprehensive income (Net income after tax)	(64,521)	6,601	(6,677)	(582,300)	459,854	
Total comprehensive income of this period	(280,159)	337,763	224,774	(984,176)	1,207,628	
Earnings per share	(0.78)	1.20	0.83	(1.45)	2.67	

Note 1: All years that have not been certified by a CPA shall be indicated.

Note 2: As of the publication date of the Annual Report, the public listed company or OTC-listed company shall disclose and analyze financial information audited or reviewed by the CPA in the most recent period if it is available. According to the "Regulations Governing the Preparation of Financial Reports by Securities Issuers", the Company is not required to prepare individual financial statements for March 31, 2017.

Note 3: The losses of discontinued operations shall be represented by the net value after deducting income tax.

Note 4: Financial information that has been required by the competent authority to correct or recompile shall be provided with the corrected or recompiled figures and the status and reasons shall be indicated.

(5) Names of the certification accountants and their audit opinions for the last 5 years

Year	CPA	Opinions for the Audit Report
2016	Chao-Ling Chen, Chiang-Pao Liu	Standard unqualified opinion
2015	Chao-Ling Chen, Chiang-Pao Liu	Standard unqualified opinion
2014	Chao-Ling Chen, Chiang-Pao Liu (Note 1)	Standard unqualified opinion
2013	Yi-Lung Chou, Chao-Ling Chen	Modified unqualified opinion
2012	Yi-Lung Chou, Chao-Ling Chen	Modified unqualified opinion

Note: Reason for replacement of certified public accountants:

Hsin Kuang Steel Co., Ld. originally appointed CPAs Yi-Lung Chou and Chao-Ling Chen of Deloitte & Touche for the audit of financial reports. Due to internal structural adjustments of Deloitte & Touche, the financial reports starting in the fourth quarter of 2014 have been audited by CPAs Chao-Ling Chen and Chiang-Pao Liu.

3. Financial analysis for the 5 most recent years

(1) Consolidated financial analysis

Analysis Item (Note 3) \ Year (Note 1)		Financial analysis of the most recent 5 years: 2012	2013	2014	2015	2016	Current Year up to March 31, 2017 (Note 2)
Financial structure (%)	Liability to assets ratio	57.60	55.47	58.17	61.08	53.25	53.11
	Long-term capital to property, plant, and equipment ratio	276.87	315.57	269.33	202.70	237.56	253.08
Solvency (%)	Current ratio	128.00	149.07	150.46	125.39	139.25	138.95
	Liquidity ratio	71.30	98.27	85.10	79.11	90.32	89.83
	Times interest earned	-1.46	4.33	3.23	-2.87	9.62	16.98
Operation performance	Receivables turnover ratio (times)	3.25	3.14	3.14	2.66	2.89	3.64
	Average days of collection	112.00	116.00	116.00	137.00	126.00	100
	Inventory turnover ratio (times)	2.38	2.65	2.63	2.42	2.41	2.84
	Payables turnover ratio (times)	25.30	19.31	17.81	25.66	18.32	19.22
	Average days of sale	153.16	137.66	138.66	151.00	151.00	129
	Property, plant, and equipment turnover ratio (times)	3.44	3.89	3.07	2.30	2.11	2.91
	Total assets turnover ratio (times)	0.61	0.70	0.66	0.6	0.54	0.66
Profitability	Return on assets (%)	-1.07	3.40	2.53	-2.70	7.37	11.57
	Return on equity (%)	-3.92	6.19	4.05	-8.48	15.41	24.65
	Pre-tax profit to paid-in capital ratio (%)	-9.27	12.70	9.59	-15.31	27.12	54.25
	Net profit ratio (%)	-2.85	3.86	2.57	-6.34	11.69	22.09
	Earnings per share (NT$)	-0.78	1.20	0.83	-1.45	2.67	1.19
Cash flow	Cash flow ratio (%)	—	21.87	0.59	31.37	12.76	—
	Cash flow adequacy ratio (%)	21.29	68.13	51.56	96.40	79.86	81.69
	Cash re-investment ratio (%)	—	13.70	0.00	25.19	5.55	—
Leverage	Operating leverage	0.10	1.49	1.54	0.71	1.40	1.25
	Financial leverage	0.69	1.31	1.33	0.89	1.14	1.09

Please explain reasons for changes in financial ratios in the last two years: (Analysis can be omitted for the change is less than 20%)

1. The consolidated interest protection multiples increased by 435%: Mainly due to the losses in operations of the previous period and interest produced in operations of this period.
2. Reduction in the accounts payable turnover rate: Due to stable demand in domestic and international steel markets, the continued rise in international iron ore prices, reduction in supplies from China, and continued price increases in China Steel's wholesale price, Hsin Kuang Steel Group did not increase inventory for future production. Therefore the accounts payable at the end of the year increased and the accounts payable turnover rate fell.
3. The status where the consolidated return on assets, consolidated return on equity, consolidated pre-tax profit to paid-in capital ratio, consolidated net profit ratio and consolidated earnings per share were all positive: Mainly due to the net profits generated in the operations of this period.
4. The decrease of cash flow ratio, cash flow adequacy ratio, and cash reinvestment ratio: Mainly due to the large capital expenditure in this period and the net cash inflow from operations is smaller than the net outflow of capital expenditure.
5. The increase in operating leverage and financial leverage: Mainly caused by the net profit generated in the operations in this period, and the reduction in variable costs and interest expenditures from the previous period.

(2)Individual financial analysis

Analysis Item (Note 3) / Year (Note 1)		Financial analysis of the most recent 5 years					Current Year up to March 31, 2017 (Exempted from disclosure)
		2012	2013	2014	2015	2016	
Financial structure (%)	Liability to assets ratio	57.08	55.01	58.03	60.83	51.31	
	Long-term capital to property, plant, and equipment ratio	278.51	317.05	269.75	202.38	248.10	
Solvency (%)	Current ratio	123.10	143.10	142.08	116.29	133.57	
	Liquidity ratio	69.30	93.30	76.92	70.10	83.02	
	Times interest earned	-1.52	4.44	3.29	-2.88	9.95	
Operation performance	Receivables turnover ratio (times)	3.21	3.09	3.03	2.63	2.88	
	Average days of collection	113.73	117.97	120.42	139.00	127.00	
	Inventory turnover ratio (times)	2.16	2.74	2.63	2.44	2.42	
	Payables turnover ratio (times)	22.86	19.89	18.41	26.78	17.49	
	Average days of sale	169.26	133.43	138.70	150.00	151.00	
	Property, plant, and equipment turnover ratio (times)	3.38	3.85	3.00	2.28	2.23	
	Total assets turnover ratio (times)	0.61	0.69	0.65	0.60	0.55	
Profitability	Return on assets (%)	-1.11	3.44	2.63	-2.69	7.50	
	Return on equity (%)	-3.94	6.23	4.26	-8.41	15.46	
	Pre-tax profit to paid-in capital ratio (%)	-9.27	12.80	9.64	-15.08	27.03	
	Net profit ratio (%)	-2.94	3.94	2.76	-6.31	11.94	
	Earnings per share (NT$)	-0.78	1.20	0.83	-1.45	2.67	
Cash flow	Cash flow ratio (%)	-	21.48	-	32.07	15.08	
	Cash flow adequacy ratio (%)	22.37	44.10	55.72	102.94	82.65	
	Cash re-investment ratio (%)	-	13.06	-	25.27	6.59	
Leverage	Operating leverage	0.34	1.51	1.48	0.73	1.38	
	Financial leverage	0.73	1.37	1.31	0.89	1.14	

Please explain reasons for changes in financial ratios in the last two years: (Analysis can be omitted for the change is less than 20%)

1.The consolidated interest protection multiples increased by 445%: Mainly due to the losses in operations of the previous period and interest produced in operations of this period.

2.Reduction in the accounts payable turnover rate: Due to stable demand in domestic and international steel markets, the continued rise in international iron ore prices, reduction in supplies from China, and continued price increases in China Steel's wholesale price, Hsin Kuang Steel Group did not increase inventory for future production. Therefore the accounts payable at the end of the year increased and the accounts payable turnover rate fell.

3.The status where the consolidated return on assets, consolidated return on equity, consolidated pre-tax profit to paid-in capital ratio, consolidated net profit ratio and consolidated earnings per share were all positive: Mainly due to the net profits generated in the operations of this period.

6. The decrease of cash flow ratio, cash flow adequacy ratio, and cash reinvestment ratio: Mainly due to the large capital expenditure in this period and the net cash inflow from operations is smaller than the net outflow of capital expenditure.

4.The increase in operating leverage and financial leverage: Mainly caused by the net profit generated in the operations in this period, and the reduction in variable costs and interest expenditures from the previous period.

Note 1: All years that have not been certified by a CPA shall be indicated.

Note 2: As of the publication date of the Annual Report, the public listed company or OTC-listed company shall disclose and analyze financial information audited or reviewed by the CPA in the most recent period if it is available. Financial information from of the current year up to March 31, 2017 has been reviewed by the CPA.

Note 3: The calculation formula for the items of analysis is stated below:

1. Financial structure
   (1) Ratio of liabilities to assets = Total liabilities/Total assets
   (2) Ratio of long-term capital to real estate properties, plants and equipment = (Total equity+Non-current liabilities)/net amount of real estate properties, plants and equipment
2. Solvency
   (1) Current ratio = Current assets/Current liabilities
   (2) Quick ratio = (current assets – inventory – prepaid expense) / current liabilities.
   (3) Interest Protection Multiples = PBIT/Interest expenses for this period
3. Operating ability
   (1) Receivables turnover (including accounts receivable and notes receivable generated from operation) = net sales/remaining sum of average receivables (including accounts payable and notes payable generated from operation) for every period
   (2) Average collection period = 365/receivables turnover
   (3) Inventory turnover = cost of sales/average inventory
   (4) Payables turnover (including accounts payable and notes payable generated from operation) = cost of sales/remaining sum of average payables (including accounts payable and notes payable generated from operation) for every period
   (5) Average days in sales = 365/Inventory turnover
   (6) Turnover of real estate properties, plants and equipment = net sales/average net amount of real estate properties, plants and equipment
   (7) Total asset turnover rate = net sales / average total assets
4. Profitability
   (1) Return on assets ＝ [net income + interest expense (1– tax rate)] / average total assets
   (2) Return on equity = profit and loss after tax/average total equity
   (3) Net profit margin = net income / net sales
   (4) Earnings per share = (net income (loss) attributable to owners of parent company – dividends on preferred shares) / weighted average number of issued shares. (Note 4)
5. Cash Flow
   (1) Cash flow ratio = net cash flow from operating activities / current liabilities.
   (2) Net cash flow adequacy ratio = Net cash flow from operating activities for the most recent five years / (capital expenditures + inventory increase + cash dividend) for the most recent five years.
   (3) Cash flow reinvestment ratio = (Net cash flow from operating activities – cash dividend) / gross fixed assets value + long-term investment + other assets + working capital). (Note 5)
6. Leverage:
   (1) Operation balance = (net operating income - changes in operating costs and expenses)/operating income (Note 6).
   (2) Financial leverage = operating income / (operating income - interest expenses).

Note 4: Special attention shall be paid to the following matters when using the calculation formula of earning per share above:

1. It should be based on the weighted average number of shares of common stock rather than the number of issued shares at the end of the year.
2. Where there is cash replenishment or treasury stock transaction, the circulation period should be considered when calculating the weight average number of shares.
3. In the case of capital increase by surplus or by capital reserve, the annual and semi-annual earnings per share of previous years shall be retrospectively adjusted in accordance with the proportion of capital increase without considering the issuance period of such capital increase.
4. If the preferred share cannot be converted into cumulative preferred shares, then the dividend of the year (whether it has been issued or not) shall be deducted from net income after tax (NIAT), or included as a net loss after tax. If a preferred stock is designated as non-cumulative, the dividend of the preferred stock should be deducted from the net profit after tax if net profit after tax exists; no adjustment is required in case of loss.

Note 5: Special attention should be paid to the following matters when measuring cash flow analysis:

1. Net cash flow from operating activities is the net cash inflow from operating activities in the cash flow statement.
2. Capital expenditure is the annual cash outflow of capital investment.
3. The increase in inventory is counted only when the balance at the end of the period is greater than the balance at the beginning of the period. If the inventory decreases at the end of the year, it is counted as zero.
4. Cash dividends include the cash dividends of common stocks and preferred stocks.
5. Gross value of PP&E shall refer to the total value of PP&E minus accumulated depreciation.

Note 6: The issuer should divide the operating costs and operating expenses into fixed and variable ones depending on the nature. If it involves estimation or subjective judgment, attention should be paid to rationality and the consistency should be maintained.

Note 7: Paid-in capital ratios before the opening of a foreign company should be changed to net worth ratio calculation instead.

4. Supervisors' Audit Report for the most recent year

We have examined the 2016 financial statements, together with business report, earning distribution proposal prepared by the Board of Directors and audited and certified by Deloitte & Touche and did not find any discrepancy. We hereby produce this report in accordance with provisions specified in Article 219 of the Company Act and submit it for your review.

Hsin Kuang Steel Co., Ltd.

Supervisor: Wen-Lung Li

Supervisor: Shih-Yang Chen

Supervisor: Yung-Yu Chiu

March 15, 2017

5. If the company and its affiliated companies had instances of financial difficulties from the recent year to the publication date of this annual report, the effects of the financial difficulties must be listed in detail:

The Company and affiliates did not encounter financial difficulties as of April 30, 2017.

6. Stand Alone Financial Statements and Independent Auditors' Report: Please refer to page 112 to 172.

7. The latest accountant audited consolidated financial statements for parent and subsidiary companies: Please refer to page 173 to 237.

VII. Review of Financial Conditions, Financial Performance and Risk Management

1. Review and analysis of financial conditions and performance

(I) 1. Analysis of financial status in the most recent 2 years

Year / Item	2016	2015	Difference	
			Amount	%
Current assets	6,566,789	6,239,268	327,521	5.25
Property, plant and equipment	3,033,067	2,834,422	198,645	7.01
Intangible assets	-	-	-	-
Other assets	2,321,300	1,616,561	704,739	43.59
Total Assets	11,921,156	10,690,251	1,230,905	11.51
Current liabilities	4,715,936	4,996,081	(280,145)	(5.61)
Non-current liabilities	1,632,283	1,533,660	98,623	6.43
Total liabilities	6,348,219	6,529,741	(181,522)	(2.78)
Capital	2,991,876	2,756,380	235,496	8.54
Capital reserve	1,016,806	1,045,575	(28,769)	(2.75)
Retained earnings	1,555,418	810,751	744,667	91.85
Other equity	(19,407)	(482,368)	462,961	(95.98)
Treasury stock	-	-	-	-
Non-controlling equity	28,244	30,172	(1,928)	(6.39)
Total stockholders' equity	5,572,937	4,160,510	1,412,427	33.95

1. The Company should describe the main reasons and impact of any material change in the company's assets, liabilities, or shareholders' equity during the past two fiscal years (changes that exceed 20% between periods and a value of NT$10 million) and future response plans.

Accounts	2016	2015	Difference		Reason for changes and description of future response plans
			Amount	%	
Cash and cash equivalents	668,153	998,296	(330,143)	-33%	The profits and cash inflow generated by business activities increased in the current period but capital expenditure and repayment of loans led to net cash outflow.
Financial assets at fair value through profit and loss - current	823,390	608,933	214,457	35%	The Company increased purchases of stocks due to better performance of the domestic stock market and the evaluated interests increased from the previous period.
Available- for-sale financial assets - current	330,402	240,181	90,221	38%	Caused by the rise in price of China Steel stocks and the increased benefits in asset appraisal.
Available- for-sale financial assets - non-current	1,908,377	1,444,121	464,256	32%	
Prepayment	42,915	21,705	21,210	98%	Caused by the increase of prepayment for purchase of materials in this period.
Other accounts receivable	68,178	6,735	61,443	912%	Caused by the accounts for the disposition of indirectly invested subsidiary in Mainland China in this period.
Deferred income tax assets	6,629	54,105	(47,476)	-88%	Caused by the five-year tax exemption for profits in this period and deductibles for losses.
Other non-current assets	95,256	78,535	16,721	21%	Caused by losses in 2015 and the distribution of 2014 cash dividends.
Short-term bills payable	189,774	698,402	(508,628)	73%	Caused by the fund distribution in this period that reduced the amount of short-term bills held.
Bills payable	420,766	85,566	335,200	392%	Caused by the continued increase in China Steel's wholesale prices in this period and increased purchase of material from suppliers in this period.
Accounts payable	68,644	24,806	43,838	177%	
Other accounts payable	235,508	72,146	163,362	226%	Caused by the appropriated remuneration for other shareholders, Directors, Supervisors, and employees for the disposition of indirectly invested subsidiary in Mainland China in this period.
Current income tax liabilities	11,157	417	10,740	2,576%	Caused by the due income tax to be paid after deducting the five-year tax exemption for operating profits in this period and deductibles for losses.
Long-term loans due within one year	318,884	450,577	(131,693)	-29%	Caused by the conversion of corporate bonds into common shares in this period.
					Caused by the increases in

(II) Analysis of financial performance in the most recent 2 years

Account \ Year	2016 Subtotal	2016 Total	2015 Subtotal	2015 Total	Amount increase	Percentage of change
Net operating revenue		6,411,686		6,449,699	(38,013)	(0.59)
Operating costs		(5,494,697)		(7,018,072)	1,523,375	(21.71)
Gross profit		916,989		(568,373)	1,485,362	(261.34)
Operating expenses		(243,878)		(192,850)	(51,028)	26.46
Net value of other revenue and expenses		78,989		(93,900)	172,889	(184.12)
Operating profit		752,100		(855,123)	1,607,223	(187.95)
Non-operating income and expenses						
Other income	11,729		14,025		(2,296)	(16.37)
Other interest and losses	140,895		524,180		(383,285)	(73.12)
Financial costs	(94,132)		(105,840)		11,708	(11.06)
Share of profits on equity-accounted associated companies and joint ventures	688		849		(161)	(18.96)
Total Non-operating income and expenses		59,180		433,214	(374,034)	(86.34)
Pre-tax profit or loss of continuing operations		811,280		(421,909)	1,233,189	(292.29)
Income tax expense		(61,496)		13,130	74,626	(568.36)
Current net profit (loss)		749,784		(408,779)	1,158,563	(283.42)
Other comprehensive income						
Translation differences in financial statements from foreign operations	(8,529)		7,672		(16,201)	(211.17)
Unrealized income on valuation of available-for-sale financial assets	471,450		(587,503)		1,058,953	(180.25)
Actuarial losses on defined benefit plan	(3,107)		(2,606)		(501)	19.22
Other comprehensive income (net income after-tax)		459,814		(582,437)	1,042,251	178.94
Total comprehensive income of this period		1,209,598		(991,216)	2,200,814	(222.03)

Analysis of changes in proportion: (for accounts with changes of over 20%)

1. Operating cost: Mainly caused by the continued increase in international iron ore prices and China Steel's wholesale price in this period. The cost of certain inventories was lower. Material preparation required 1 to 4 months and must be purchased in advance. This led to the price increase in sales prices the same period to exceed the price increase from purchase costs.
2. Gross profit, operating profit, current net profit: The unchanged demand in domestic and international steel markets, the bottoming out and increase of international iron ore prices at the end of 2015, reduction in supplies from China, the anti-dumping duties imposed by the Ministry of Finance on steel, and continued price increases in China Steel's wholesale price caused continuous increase in steel prices and a relative increase in gross profit.
3. Operating expenses: Mainly caused by the appropriation of 3% of profits generated in this period as employee remuneration and remuneration for Directors and Supervisors in accordance with the Company's Articles of Incorporation.
4. Other interest and losses: Mainly caused by the improvement of the global economy in 2016 from 2015, the election of an outsider President in the US presidential elections, increase in revenue for most companies in 2016 from 2015, continued rise of domestic and international stock markets that caused net profits in the evaluation of financial assets.
5. Non-operating income and expenses: Mainly due to interest from the disposition of land and factories of Xinwu Plant in 2015.
6. Income tax expenses: Mainly due to the increase in net profits before tax in 2016 from 2015.
7. Translation differences in financial statements from foreign operations: Mainly caused by the value of the NTD against the USD which increased at the end of 2016 from levels in 2015?
8. Unrealized income on valuation of available-for-sale financial assets: The unrealized income on valuation of available-for-sale financial assets is mainly caused by continuous increase of steel prices in this period, increase in iron ore prices, and continued increase in stock prices of China Steel which increased by NT$6.70 per share (from NT$17.95 to NT$24.65).

(III) Major changes that have occurred or are expected to occur in operating policies, market conditions, or other internal or external factors of the Company in the most recent 2 years that would cause material impact on the continuing operation.

Analysis of changes in gross margin:

Unit: NT$1,000

	Addition or reduction changes between periods	Reason for the difference			
		Difference in sales prices	Difference cost	Difference in product sales combination	Difference in volume
Operating profit	1,485,362	(42,925)	1,511,952	35,837	(19,502)
Description	Gross profits changed by NT$1,485,362 from the previous period mainly due to unchanged domestic and international demand for steel, the rise of iron ore prices from the end of 2015, and reduction in supplies from China. Taiwan started imposing anti-dumping duties on certain countries (Korea, Brazil, Ukraine etc.) and China Steel continued to increase wholesale prices. Although the cost of purchases increased, the increase in unit sales prices exceeded the increase in unit purchase prices and therefore increased gross profits.				

(IV) Main factors and basis for determining future sales volume and the continued growth or decline of the Company's expected sales volume: The Company shall reduce production based on the economic development of the domestic steel industry in 2017. With a reduction in supplies, steel price and growth may stabilize. Investment in plants by private companies and domestic infrastructure projects will increase domestic demand for steel products and therefore the Company estimates the total sales volume in 2017 to be approximately 380,000 metric tons.

2. Cash flow review and analysis

Unit: NT$1,000

Balance at start of year (December 31, 2015) ①	Net cash flow from operating activities (2016) □②	Net cash flow from investment and operating activities (2016)	Cash balance (December 31, 2016) ① + ②- ③	Improvement plan for insufficient liquidity	
				Investment plan	Financial plan
998,296	601,656	(931,799)	668,153	None	None

1. Analysis on the cash flow changes of the current year:
   (1) Cash inflow from operating activities amounted to approximately NT$601.656 million: Mainly due to net profit after tax, depreciation and amortization expenses.
   (2) Cash outflow from investment activities amounted to approximately NT$301.114 million: Mainly due to capital expenditure.
   (3) Cash outflow from financing activities amounted to approximately NT$631.678 million: Mainly due to distribution of cash dividends and repayment of long-term bank loans.
2. Improvement plans for insufficient liquidity and liquidity analysis: There were no instances of insufficient liquidity.
3. Cash flow analysis for the coming year: N/A.
3. Cash liquidity analysis of the most recent two years:

Year / Item	December 31, 2016	December 31, 2015	Change (%)
Cash flow ratio (%)	12.76	31.37	(59.32%)
Cash flow adequacy ratio (%)	79.86	96.40	(17.16%)
Cash re-investment ratio (%)	5.55	25.19	(77.97%)

Interpretation of ratio variations:

Despite the Company's net profits before tax in 2016, the variation was caused by the substantial increase in the balance for accounts receivable for business activities and capital expenditure as well as reduced cash flow in operating activities and investment activities.

3. The effects that significant capital expenditures have on financial operations in the recent year: None

4. Reinvestment policy, main reasons for profit/losses resulting therefrom, improvement plan, and investment plans for the upcoming year:

The Company's various investment amounts have not exceeded 5% of paid-in capital.

The Company's reinvestments accounted for in the equity method were for long-term strategic purposes. The Company's profits from reinvestments accounted for in the equity method in 2016 amounted to NT$106.45 million and its performance in profitability improved from the previous year mainly due to internal factors such as profits in the Company's sales of a subsidiary company in China - Shanghai Advanced Tooling Tek, the favorable policies generated by the election of a new President, the anti-dumping duties imposed on steel products from certain sources imposed by the Ministry of Finance, China Steel's increase of steel wholesale prices each quarter, and continued rise in the domestic stock market etc. External factors include the Brexit referendum, US presidential elections, slowdown in economic growth in mainland China due to industrial structural adjustments, and a fragile financial system in advanced economies etc. In the future, the Company shall continue to conduct prudent assessments of investment projects based on the principle of long-term strategic goals.

5. Risk analysis and assessment of the most recent year up to the publication date of this report

The Board of Directors plays a critical role in identifying and managing economic risks.

The Company and its subsidiaries are committed to adopt cost-effective methods to integrate and manage potential risks in strategies, operations, finances, and other hazardous risks that may impact operations and profits.

The Company is committed to its corporate goals and the responsibility of maintaining long-term sustainability in industrial and social development. The Company has established corporate risk management for the purpose of providing appropriate risk management for all stakeholders. The Company's risk management focuses on "strategic risks", "operational risks", "financial risks", "hazardous risks", and "risks associated with climate change and non-compliance with related regulations on environmental protection or climate change or other international laws and agreements".

(I) The effects that interest rates, exchange rate fluctuations, and inflation have on company earnings and losses as well as response measures:

The Company's income/expenses on interest and the profit/loss on exchange as a ratio of net operating revenue

Item	2016 (Unit: NT$1,000; year)
Net interest income (expenses)	(93,147)
Net exchange income (loss)	42,603
Net interest income (expenses) as a ratio of net operating revenue	-1.45%
Net profit (loss) on exchange as a ratio of net operating revenue	0.66%

①. Interest rate change

The Company's interest rate risks derive mainly from liabilities and financial investment produced in supporting business activities. The Company's income and expenses on interest are mainly affected by changes in interest rates in Taiwan and the United States. To lower interest rate risks, the Company operates mainly with cash income from operations and only issues long-term corporate bonds with fixed interest rates from time to time to satisfy funding requirements. In financial investments, the Company mainly invests in high fluidity short-term fixed income bonds with high ratings to ensure the security of the principal and to maintain liquidity. However, these hedging operations can only lower parts of the risks and cannot fully eliminate the financial impact caused by fluctuations in interest rates.

②. Exchange rate change

More than half of the Company's material procurement expenditure is paid in foreign currencies such as USD, Euro, and Japanese Yen. In addition, most of the Company's revenue is in TWD. Therefore, any significant changes in international exchange rates may have unfavorable effects on the Company's finances. The Brexit referendum and the election of Donald Trump as the US President caused frequent and substantial fluctuations in exchange rates. Due to the Company's adoption of forward foreign exchange hedging positions, the 1.65% decrease in the average value of TWD against USD from 2015 to 2016 did not cause negative impact on the Company. The Company's net profits from exchange in 2016 amounted to NT$42.603 million. The Company mainly uses forward foreign exchange contracts to lower the exchange rate risks for assets and liabilities.

The current substantial increase in the exchange rate of the NTD against USD in 2017 can provide positive effects on the Company's profits.

③. Inflation, deflation, and overall fluctuations in the market

When the market reacts in anticipation for inflation or deflation, the resulting changes often severely impact the global economy. Both high inflation and deflation will decrease market efficiency, interrupt investment decisions, and cause negative macroeconomic and microeconomic effects. The uncertainty in major economies across the world and negative interest rate policies exacerbated the market fluctuations in anticipation of inflation or deflation. The market fluctuations brought forth by changes in the economy may not affect the Company in significant ways but would indirectly affect the commitment of countries across the world to invest in capital in infrastructure development.

In 2016, the inflation rate in Taiwan (using the Consumer Price Index of the Directorate-General of Budget, Accounting and Statistics) was approximately 1.40% The Company does not believe that inflation or deflation in Taiwan would have major impact or effect on the results of the Company's operations in 2016. However, the Company cannot guarantee that major changes in the nature, scale, or scope of future inflation or deflation would not negatively impact the results of the Company's operations.

④. Financial risks

The Company's main materials are purchased from foreign countries. Therefore the planning for capital requirements becomes relatively challenging when major fluctuations appear in bonds, interest rates, exchange rates, and stock markets. In the next few years, the Company shall require medium-sized capital to maintain operations and expand productivity and locations for the operations of the logistics network. The Company's capacity for continuous financing relies on many uncertain factors including:

- The Company's future financial status, operating performance, and cash flow
- Status of market financing activities
- Market financing activities of the steel industry
- Social, economic, political, and other conditions in Taiwan and other regions

(II) Policies of engaging in high-risk, high-leverage investments, lending to others, providing endorsement and guarantee, and derivatives transactions, profit/loss analysis, and future response measures

The Company has not conducted high-risk or high-leverage financial investments from the beginning of 2016 up to publication date of the Annual Report. The Company loaned NT$13 million to Hsin Ho Fa Metal Co., Ltd., a subsidiary of the Company with 83.37% of shares held by the Company. The Company provided endorsement and guarantee of NT$7.4 million to Hsin Kuang Alga Engineering Co., Ltd., a subsidiary of the Company with 68.16% of shares held by the Company.

①. All transactions in derivative financial products conducted by the Company are for hedging purposes and not operations for transactions or for profits. For details on transaction, please refer to the "Financial Conditions" in the Annual Report (page 88).

②. The fair market value of financial investments for the purpose of transactions and for preparation for sales may change due to market conditions and changed costs that would affect related rates of return.

③. To control risks in financial transaction, the Company has established internal management regulations and operating procedures that strengthen financial and operational foundations in accordance with related regulations of the Securities and Futures Bureau. These management regulations include the "Procedures for Loaning of Funds to Others", "Procedures for Acquisition or Disposal of Assets", and the "Procedures Making of Endorsements and Guarantees".

(III) Risks in impairment loss and response measures

The Company follows regulations in the International Accounting Standards and when there are signs of impairment of assets, the Company is required to conduct impairment assessment on its investments and tangible and intangible assets. When certain conditions are met, the Company is required to recognize impairment loss.

The impairment loss in parts of the Company's investment in TWSE-listed companies, TPEx-listed companies, or companies not listed on the TWSE or TPEx are disclosed in "Financial Conditions" of the Annual Report (page88) and quarterly financial reports.

The Company has established related systems to conduct management of impairment of assets. However, the Company cannot predict the extent or time of asset impairment in the future and whether it may negatively impact the Company's net profits after tax.

(IV) Future R&D projects and estimated R&D expenditure: N/A.

(V) Major changes in government policies and laws at home and broad and the impact on Company finance and business:

The Company's management keeps continuous watch over any changes in policies and regulations that might affect the Company business and operations, and has established related risk management procedures. Important changes in regulations regarding the operations of the Company from the beginning of 2016 up to the publication date of the Annual Report.

The Company has complied with the revised Labor Standards Act announced on December 21, 2016 to modify related internal regulations such as adjusting the payment standards for working overtime on rest days and increasing special leaves. The changes will increase the Company's operating costs.

In environmental protection regulations, the "Greenhouse Gas Reduction and Management Act" promulgated in July 2015 was established in response to climate change. Its related subsidiary legislation is currently in progress. With regard to the "Greenhouse Gas Emissions Inventory, Registration and Management Act" promulgated in 2016", the Company has commenced the implementation of related regulations and promoted the green energy plan. The Company shall keep continuous watch over any changes in regulations to ensure compliance. In addition, the revised "Waste Disposal Act" promulgated in January 2017 focused on the revision of the definition of waste and expanded its scope to increase liabilities for enterprises that generate waste. The Company shall urge outsourced contractors to comply with regulations and the Company shall continue to focus on waste management in order to ensure legal requirements.

In addition to the aforementioned regulations, changes in other related policies and regulations would not cause material impact on the Company's finances and operations.

(VI) Impact of Technological and Market Changes on the Company’s Finances and Business and Countermeasures:

From the beginning of 2016 till the publication date of the Annual Report, the Company has continued to expand the automated cutting equipment and increased the production line for components. In the future, the Company shall increase the production of products to satisfy customer requirements with existing technologies for cutting and production of components.

The steel product market has always been affected by economic cycles and the characteristics of the market also impact the manufacturing and service industry for steel products. Most customers of the Company are in public engineering industries, automobile industry, machinery production industry, electrical component industry etc. Therefore the Company's revenue and profits are also affected by customers' purchase orders.

The steel product industry faces critical and continuous economic decline and overcapacity in Mainland China. The Company's current and future business requirements all come from these industrial customers. The economic decline in the aforementioned industries and overcapacity will lower the demand for the entire steel manufacturing and service industry as well as the Company. If the Company cannot reduce cost or adopt other measures to effectively offset the impact of reduced demand, its revenue, profits, and profitability will be impacted.

In response to constant changes in the steel product industry and technologies, the key to Company's competitive niche is the continued enhancement of precision processing to produce more advanced steel products. If the Company cannot foresee the requirements for enhancing technologies and quickly develop innovative business models, or if competitors unexpectedly obtain more advanced technologies, the Company may not be able to obtain purchase orders under competitive conditions. Despite the Company's continuous efforts on maintaining advantages in R&D, the Company's competitiveness will be weakened if it cannot maintain its lead in technologies or business models.

(VII) Impact of corporate image change on risk management and response measures:

The company upholds its core values of "ethical, harmonious, innovation, and sharing" as well as comprehensive corporate governance, outstanding operational performance and the long-term goal of "creating sustainable development, fairness, and justice to build a beautiful Taiwan". The Company has established a good corporate image in Taiwan and across the world. In addition, the Company has established departments to take charge of brand management, customer services, public relations, employee relations, investor relations, risk management, internal controls, and a charity foundation to integrate the strengths of the entire Company and attain better performance on the existing foundations of a good corporate image. The Company also prepares response measures to prevent and control potential risks.

In recent years, the Company has emphasized the prevention tasks for natural disasters such as typhoons, earthquakes, pollution or man-made disasters. The Company led the industry by installing solar power generation systems in the Kaohsiung Plant and use solar-powered street lights to reduce carbon emissions. The Company has also established extensive response plans including required procedures and steps for the formulation of dedicated response teams. In the event of a crisis, the Company shall use the response plans to thoroughly analyze the reason for the incident, affected scope, alternative plans, and various solutions and provide suitable prevention measures as well as methods for reconstruction. The responsibility of each project response team is to minimize employee casualty, business interruptions, and financial impacts in the event of an incident and to maintain smooth operations. The Company has not experienced any risks that affected the normal operations and corporate image from the beginning of 2016 up to publication date of the Annual Report.

(VIII) Expected benefits and potential risks of merger and acquisition:

The Company has not experienced any risks associated with mergers or acquisitions from the beginning of 2016 up to publication date of the Annual Report.

(IX) Expected benefits and potential risks of capacity expansion:

To satisfy customer demand, the Company has continued to expand precision processing capacity at the Guanyin Plant in Taoyuan since 2010. Overall, the Company's capacity in 2016 is better than the previous year and the annual average capacity utilization rate is 81%. The capacity expansion and improvement of production technologies will increase operating costs. Examples include the required purchase of machinery and equipment and the training or expansion of personnel. If the Company cannot increase revenue to pay for the aforementioned increase in cost, the expenditures would have negative impact on the Company's finances.

To accommodate future market demand, the Company is now constructing a predictive and evaluative system to assess the benefits of capacity expansion or reduction. As of the publication date of the Annual Report, the performance of the Company's capacity expansion in 2016 has met expectations.

(X) Risks associated with over-concentration in purchase or sale:

The Company has thousands of customers across Taiwan. The total net income from sales to the top ten customers in 2015 and 2016 accounted for approximately 26% and 15% of the Company's net revenue from sales and the largest customer accounted for 9% and 5%. Therefore there was no over-concentration of sales.

The Company is required to obtain raw material such as steel plates, special steel plates, alloy steel plates, hot-rolled steel plates, galvanized steel products, and stainless steel products at appropriate times. There has been instances where certain foreign suppliers adjusted prices temporarily or delayed delivery due to economic growth in the steel market. In addition, due to the characteristics of the industry, certain raw materials purchased by the Company are supplied by a single supplier. If alternative sources cannot be found, there could be risks of not being able to satisfy requirements. If the Company cannot obtain necessary raw material or if the prices of raw materials increase substantially and the increased cost cannot be transferred to the customer, the Company's revenue and profits will decline. Therefore, the Company tries to purchase raw materials from different suppliers or from different regions to ensure stable supply of raw materials and to lower the risks of concentrated purchases.

The Company's business growth and continued capacity expansion also rely on whether we could obtain sufficient equipment and related services from a limited number of suppliers. The supply in the equipment market is often limited and requires extended lead time. In the heavy processing machinery and related industries, the lead time for machinery procurement can be as long as six months. To reduce such risks, the Company provides suppliers with demand forecasts to arrange production schedules for machines. The Company also discusses with suppliers to establish mutually-agreed business models in order to advance the preparation of components that require longer lead times and reduce the lead time for purchasing equipment. If the Company cannot promptly obtain reasonably priced equipment required for production, it may not satisfy customer purchase orders and cause negative financial and operational impact.

(XI) Impact of mass transfer of equity by or change of directors, supervisors, or shareholders holding more than 10% interest on the Company and associated risks:

The Company's existing shareholders have not sold the Company's common stocks in large quantities. E.g.: Chairman Ming-Te Su, one of the Company's major shareholders, has implemented few large transfers or exchange of shares from 1997 to 2016. The Company's Directors, Supervisors, or major shareholders holding more than 10% of the company shares have not implemented large transfers or exchange of shares that could affect the normal operations of the Company from the beginning of 2016 up to publication date of the Annual Report.

(XII) Impact of change of management rights on the Company and associated risks:

The Company has not experienced any risks associated with changes in management rights from the beginning of 2016 up to publication date of the Annual Report.

(XIII) Any litigious, non-litigious or administrative litigation event as of the publication date of the Annual Report:

The Company has not experienced any major litigation from the beginning of 2016 up to publication date of the Annual Report and has no current major pending litigations.

(XIV) Litigation events involving the Director, Supervisor, General Manager, de facto responsible person, major shareholders holding more than 10% interest, or subsidiary of the Company up to publication date of the Annual Report:

The company's Directors, Supervisors, General Manager, de facto responsible person, major shareholders holding more than 10% interest, or subsidiaries of the Company have not been involved in major litigation from the beginning of 2016 up to publication date of the Annual Report and there are no current major pending litigations.

(XV) Hazardous risk:

The Company dedicates full effort on maintaining comprehensive risk management for the protection of natural resources and the security of employees and assets. It also develops response plans and procedures with regard to risk prevention, emergency responses, crisis management, and continuous operations for all conceivable emergencies and natural disasters.

The Company focuses on emergency responses to various disasters such as typhoons, floods or droughts caused by climate change, earthquakes, pollution, interruptions in the information system, contagious diseases (such as H1N1 influenza), and interruption of the supply of materials, water, electricity, and public facilities. The Company has established work teams at all points of operations to respond to the aforementioned incidents to ensure the continued operations.

Despite multiple earthquakes in 2016, the buildings and production equipment of the Company's points of operations were earthquake-resistant structures built in accordance with regulations. Therefore the Company has not experienced any related risks from the beginning of 2016 up to publication date of the Annual Report.

(XVI) Cybersecurity risks:

The Company is equipped with comprehensive Internet and computer security protection system to monitor or sustain the Company's production, operations, and accounting systems. However, the Company cannot guarantee that its computer systems are free from computer virus attacks with by third parties that may paralyze the system. The cyber-attacks infiltrate the Company's internal network system illegally and cause damage to the Company's operations and the Company's reputation. Under severe cyber-attacks, the Company's system may lose important corporate information. Cyber-attacks may also attempt to steal the Company's trade secrets, other intellectual properties, and confidential information. E.g. exclusive information of customers or other stakeholders or personal information of employees. Malicious hackers could also inject computer viruses, destructive software or ransomware into the Company's network system to disrupt the Company's operations, regain control over the computer systems to blackmail the Company, or to obtain confidential information. These attacks could cause delays or interruption of purchase orders which would lead to damage due to delayed deliveries, or the Company may have to bear extensive costs to rebuild the security protection system. If these technical issues caused by cyber-attacks cannot be resolved promptly to ensure the credibility and availability of the Company's information or to regain control of the Company's computer system, they could seriously impact the Company's financial performance as well as its commitment to customers and stakeholders.

(XVII) Other critical risks:

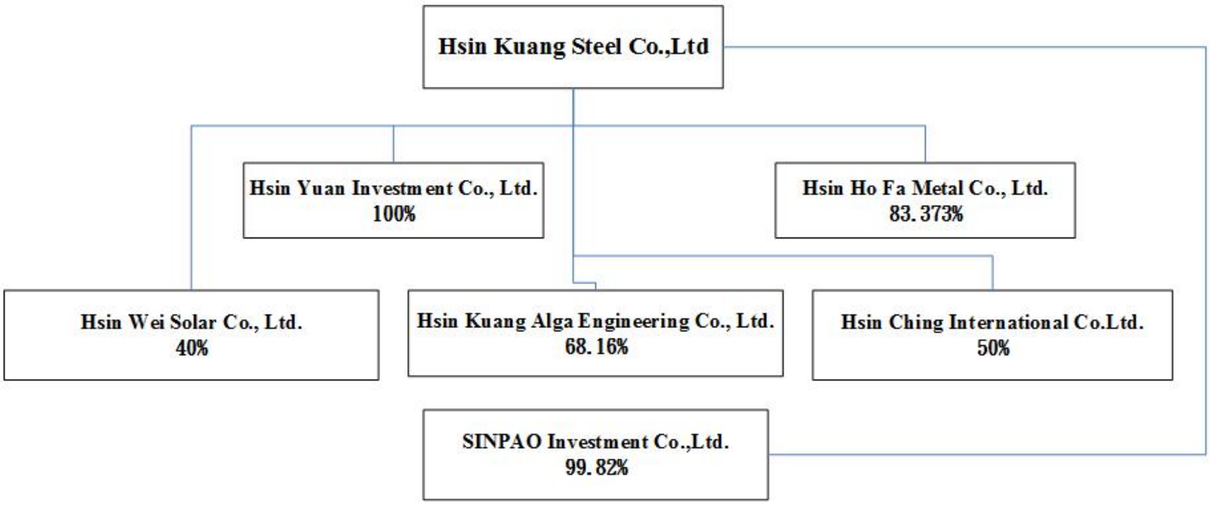
The Company has not experienced any other critical risks from the beginning of 2016 up to publication date of the Annual Report.

6. Other Items: None.

VIII. Important Notice

I. Profiles on affiliates and subsidiaries

(I) Diagram of Affiliates



(II) Basic information of the various affiliated enterprises

As of December 31, 2016

Unit: NT$1,000

Name	Date of establishment	Address	Paid-in capital	Principal business or core products
Hsin Yuan Investment Co., Ltd.	September 22, 1998	25F-1, No. 97, Section 4, Chongxin Road, Sanchong District, New Taipei City	170,000	Capital investment
Sinpao Investment Co., LTD(B.V.I)	November 13, 2001	TrustNet Chambers Road Town Tortola British Virgin Islands	US$4.181 million	Capital investment
Hsin Ho Fa Metal Co., Ltd.	January 28, 2003	25F-1, No. 97, Section 4, Chongxin Road, Sanchong District, New Taipei City	110,000	Wholesale of metal construction materials
Hsin Kuang Alga Engineering Co., Ltd.	November 2, 2009	25F-1, No. 97, Section 4, Chongxin Road, Sanchong District, New Taipei City	125,000	Metal architectural components manufacturing
Hsin Wei Solar Co., Ltd.	September 28, 2010	25F-1, No. 97, Section 4, Chongxin Road, Sanchong District, New Taipei City	28,000	Power generation for non-metallic use
Hsin Ching International Co., Ltd.	December 18, 2015	25F-1, No. 97, Section 4, Chongxin Road, Sanchong District, New Taipei City	55,000	Lease and storage

Note1: The offshore company Sinpao Investment Co., Ltd. established on the British Virgin Islands directly invested in Shanghai Advanced Tooling Tek in China and has been approved by the Investment Commission of the Ministry of Economic Affairs in its Tou-Sheng-2 No. 90013374 Letter dated June 4, 2001. As of December 31, 2016,the Company has disposed its shares in Shanghai Advanced Tooling Tek.

(III)Profiles on shareholders deemed to have dominant-subordinate relations: None.

As of December 31, 2016, there were no such occurrences at the Company.

(IV)Businesses covered by the affiliated enterprises' overall operations

Businesses covered by the affiliated enterprises' overall operations mainly include "cutting and logistics distribution services in the steel industry" and "metal architectural components manufacturing". The business scope of other affiliated enterprises include "investment business", "lease and storage", and "power generation for non-metallic use".

(V) Information of Directors, Supervisors, and General Managers of affiliated enterprises

Unit: share: %

Name	Title	Name or Representative	Shares Held	
			Number of shares	Shareholding Ratio
Hsin Yuan Investment Co., Ltd.	Chairman & General Manager	Alexander M.T.Su	—	—
	Director	Pao-Kui Chang	—	—
	Director	Jessica P.H.Liu	—	—
	Supervisor	Trickle T.C.Chang	—	—
	Hsin Kuang Steel holds 17,000,000 shares (shareholding ratio: 100%)			
SINPAO INVESTMENT CO., LTD(B.V.I)	Chairman	Ming-Te Su	—	—
	Hsin Kuang Steel holds US$4,173,543 (shareholding ratio: 99.82%)			
Hsin Ho Fa Metal Co., Ltd.	Chairman & General Manager	Alexander M.T.Su	—	—
	Director	Teng-Kui Kao	—	—
	Director	Representative of Top East Steel & Iron Company Ltd.: Chih-Yuan Huang	237,650	2.16
	Supervisor	Tai-Tou Chang	475,300	4.32
	Hsin Kuang Steel holds 9,170,030 shares (shareholding ratio: 83.37%)			
Hsin Kuang Alga Engineering Co., Ltd.	Chairman	Alexander M.T.Su	—	—
	Director & General Manager	Jessica P.H.Liu	—	—
	Director	Teng-Kui Kao	—	—
	Director	Representative of Istrong Enterprise Co., Ltd.: Jung-Lin Lu	3,268,000	26.144
	Director	Representative of Hsin Kuang Alga Engineering Co., Ltd.: Jung-Lin Lu	485,000	3.88
	Supervisor	Chao-Lang Hsu	—	—
	Hsin Kuang Steel holds 8,520,000 shares (shareholding ratio: 68.16%)			
Hsin Wei Solar Co., Ltd.	Chairman	Representative of Wei Sheng Investment & Development Co., Ltd.: Kui-Kuang Chen	1,680,000	60.00
	Director	Representative of Wei Sheng Investment & Development Co., Ltd.: Chin-Hui Chen		
	Director	Alexander M.T.Su	—	—

Name	Title	Name or Representative	Shares Held	
			Number of shares	Shareholding Ratio
	Supervisor	Jessica P.H.Liu	—	—
	Hsin Kuang Steel holds 1,120,000 shares (shareholding ratio: 40%)			
Hsin Ching International Co., Ltd.	Chairman	Alexander M.T.Su	—	—
	Director	Ming-Shan Jheng	—	—
	Director	Jessica P.H.Liu	—	—
	Director	Representative of Li Hsin Investment Co., Ltd.: Ho-Chou Huang	1,650,000	30.00
	Director	Representative of Li Hsin Investment Co., Ltd.: Ho-Ching Huang		
	Director	Representative of Chuan Da Investment Co., Ltd.: Ho-Tung Huang	935,000	17.00
	Supervisor	Lisa H.C.Chien	—	—
	Supervisor	Representative of Honova Resources Ltd.: Hsiao-Yu Chang	165,000	3.00
	Hsin Kuang Steel holds 2,750,000 shares (shareholding ratio: 50%)			

(VI) Status of operation for various affiliated enterprises

As of December 31, 2016

Unit: NT$1,000, unless otherwise specified

Name	Capital	Total value of assets	Total value of liabilities	Net value	Operating revenue	Operating profit (loss)	Net income (loss) of this period	Earnings (loss) per share (NTD)
Hsin Yuan Investment Co., Ltd.	170,000	222,580	39,761	182,819	13,572	1,868	1,868	0.11
SINPAO INVESTMENT CO., LTD(B.V.I)	US$4,181	US$8,304	US$3,210	US$5,094	US$0	(US$163)	US$3,540	Not applicable
Hsin Ho Fa Metal Co., Ltd.	110,000	462,887	323,905	138,982	104,360	6,120	12,218	1.11
Hsin Kuang Alga Engineering Co., Ltd.	125,000	94,670	79,910	14,760	51,493	(476)	(3,361)	(0.27)
Hsin Wei Optoelectronics Co., Ltd.	28,000	115,827	85,225	30,602	14,160	4,208	1,760	0. 63
Hsin Ching International Co., Ltd.	55,000	54,969	-	54,969	-	(31)	(31)	-

Note 1: The losses of Hsin Kuang Alga Engineering Co., Ltd. are caused by the net expenditures in its initial establishment that are listed in the current period.

Note 2: Hsin Ching International Co., Ltd. was established on December 18, 2015 and its main businesses are storage and lease. It is in the initial stage of development and only incurred expenses for its establishment.

Note 3: Hsin Yuan Investment Co., Ltd. adopts corporate accounting principles and income and costs on related investment in securities are expressed by net values. Therefore the operating income is lower than 2015.

(VII)Consolidated financial statement of affiliates

Affiliated enterprises that should be included in the consolidated financial statements of 2016 as provided by the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” are the same as what should be included in the consolidated financial statements of parent and subsidiary companies as provided in IFRS No. 10, and the relevant information that should be disclosed in the consolidated financial statements of affiliates has been disclosed in the consolidated financial statements of the parent and its subsidiaries. The Company shall not be required to prepare separate consolidated financial statements of affiliates.

(VIII)Reports from affiliates and subsidiaries: None

II. Status of private solicitation for marketable securities handling for the recent year up to the publication date of this annual report: None.

III. Holding or disposal of this company's shares by a subsidiary company in the last year, up to the publication date of this report: None.

IV. Other supplemental information: None.

V. Status of private solicitation for marketable securities handling by subsidiaries for the recent year up to the publication date of this annual report: None.

IX. Corporate events with material impact on shareholders' equity or stock prices set forth in Subparagraph 2, Paragraph 2, Article 36 of Securities and Exchange Act in the past year and up to the date of report: None.

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Hsin Kuang Steel Company Limited

Opinion

We have audited the accompanying financial statements of Hsin Kuang Steel Company Limited (the "Company"), which comprise the balance sheets as of December 31, 2016 and 2015, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

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 Taiwan, the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with The Norm of Professional Ethics for Certified Public Accountant of Taiwan, 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 financial statements for the year ended December 31, 2016. These matters were addressed in the context of our audit of the 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 Company's financial statements for the year ended December 31, 2016 are stated as follows:

<u>Estimated impairment of trade receivables</u>

As of December 31, 2016, the net amount of notes receivable, trade receivables and overdue receivables, in New Taiwan dollars ("NT$"), was NT$2,269,098 thousand, representing 20% of the Company's total assets. When the management estimates the recoverability of note receivables, trade receivables and overdue receivables, it is based on the objective impairment evidence of the individual receivables and the condition of collateral or other credit enhancements. When there is no objective impairment evidence, the allowance for impairment loss recognized against trade receivables is based on historical experience with the counterparties and the aging of receivables. Since the amount of trade receivables is significant for the financial statements and the estimation of impairment of notes receivable, trade receivables and overdue receivables is subject to management's judgment, it has been identified as a key audit matter.

Refer to Notes 4, 5 and 9 to the accompanying financial statements for the accounting policies and related information on the estimated impairment of trade receivables.

For our audit procedures performed in respect of the above area, we:

1. Understood and tested the design and operating effectiveness of key control over the estimated impairment of trade receivables;

2. Obtained the accounting policies for the provision of impairment of trade receivables and the aging report in order to confirm whether the sales customers have credit insurance or collateral, assessed the overall economic situation, and assessed the reasonableness of management's assumptions on the estimated impairment of trade receivables and the reasonableness of the customer credit management;

3. Tested the completeness and accuracy of the aging of receivables, compared the aging report to those of previous years, reviewed the bad debt write-offs in the current year and the prior year, and checked the recoverability of outstanding debts;

4. Examined and assessed the reasonableness of the overdue receivables of subsequent-to-period-end cash receipts, and considered if additional provisions were required.

Write-down of inventory

As of December 31, 2016, the inventory of the Company amounted to NT$2,197,079 thousand, representing 19% of the Company's total assets. The Company mainly engages in the sale, cutting and logistics of various steel products. In this mode of operation, the Company must reserve all kinds of steel products in response to market and customer demand. As the steel industry is highly affected by fluctuations of international steel prices, it may lead to changes in the value of inventory, which will affect the net realizable value of inventory. Since the amount of inventory is significant for the financial statements and the provision of the valuation of inventory is subject to management's judgment, in particular, the decision on the net realizable value of inventory, which is estimated based on past selling prices and actual transactions, it has been identified as a key audit matter.

Refer to Notes 4, 5 and 10 to the financial statements for the accounting policies and related information on the write-down of inventory.

For our audit procedures performed in respect of the above area, we:

1. Understood and tested the design and operating effectiveness of key controls over the write-down of inventory;

2. Compared the wholesale steel price charts of China Steel Corporation to the reasonableness of management's provision for the inventory write-downs;

3. Checked the data used by the management in calculating the allowance for inventory write-downs, tested the completeness and accuracy of the year-end inventory valuation, which included testing the data used for the net realizable value by the management, and recalculated the amount of impairment loss.

Responsibilities of Management and those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including management and supervisors, are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 Taiwan, 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 financial statements.

As part of an audit in accordance with the auditing standards generally accepted in Taiwan, 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 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 Company'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 Company'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 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 Company to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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 the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the 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 financial statements for the year ended December 31, 2016 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Chao-Ling Chen and Chiang-Pao Liu.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 14, 2017

<u>Notice to Readers</u>

The accompanying financial statements are intended only to present the 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 financial statements are those generally applied in the Republic of China.

For the convenience of readers, the independent auditors' report and the accompanying 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 financial statements shall prevail. Also, as stated in Note 4 to the financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.

HSIN KUANG STEEL COMPANY

BALANCE SHEETS
(In Thousands of New Taiwan Dollars)

	December 31, 2016		December 31, 2015 (Audited after Restated)		January 1, 2015 (Audited after Restated)	
ASSETS	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS						
Cash and cash equivalents (Note 6)	$ 512,490	4	$ 911,349	9	$ 336,587	3
Financial assets at fair value through profit or loss - current (Notes 4 and 7)	522,760	5	355,254	4	560,918	4
Available-for-sale financial assets - current (Notes 4 and 8)	330,402	3	240,181	2	352,570	3
Notes receivable (Notes 4, 5, 9, 29 and 30)	972,621	9	975,740	9	1,107,899	8
Trade receivables (Notes 4, 5, 9 and 29)	1,253,978	11	1,142,735	11	1,606,084	12
Other receivables (Notes 9 and 29)	13,651	-	6,732	-	811	-
Current tax assets (Notes 4 and 23)	-	-	85	-	-	-
Prepayments	38,464	-	14,251	-	65,125	-
Inventories (Notes 4, 5 and 10)	2,197,079	19	1,930,517	18	3,437,579	27
Non-current assets held for sale (Notes 4 and 13)	-	-	-	-	73,920	1
Other current financial assets (Notes 4, 11 and 30)	65,576	1	73,392	1	88,640	1
Other current assets (Note 15)	429	-	2,417	-	250	-
Total current assets	5,907,450	52	5,652,653	54	7,630,383	59
NON-CURRENT ASSETS						
Available-for-sale financial assets - non-current (Notes 4, 8 and 30)	1,811,627	16	1,444,121	14	1,919,686	15
Investments accounted for using equity method (Notes 4 and 12)	512,323	4	557,723	5	498,300	4
Property, plant and equipment (Notes 4, 13 and 30)	2,807,392	25	2,818,446	27	2,823,380	22
Investment properties, net (Note 14)	271,313	2	-	-	-	-
Deferred tax assets (Notes 4 and 23)	6,422	-	54,105	-	39,813	-
Other non-current assets (Notes 4, 5, 9 and 15)	71,150	1	18,570	-	24,706	-
Total non-current assets	5,480,227	48	4,892,965	46	5,305,885	41
TOTAL	$ 11,387,677	100	$ 10,545,618	100	$ 12,936,268	100
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Short-term borrowings (Notes 4 and 16)	$ 3,202,344	28	$ 3,512,306	33	$ 4,577,509	36
Short-term bills payable (Notes 4 and 16)	189,774	2	698,402	7	279,723	2
Financial liabilities at fair value through profit or loss - current (Notes 4 and 7)	91	-	13,652	-	8,335	-
Notes payable (Notes 4, 17 and 29)	433,608	4	81,433	1	370,890	3
Trade payables (Notes 4, 17 and 29)	73,151	-	25,348	-	39,557	-
Other payables (Note 18)	128,613	1	67,985	1	82,185	1
Current tax liabilities (Notes 4 and 23)	10,679	-	-	-	9,150	-
Liabilities directly associated with non-current assets held for sale	-	-	-	-	3,382	-
Current portion of long-term borrowings (Notes 4, 16 and 19)	308,418	3	448,497	4	-	-
Other current liabilities	75,935	1	34,868	-	17,413	-
Total current liabilities	4,422,613	39	4,882,491	46	5,388,144	42
NON-CURRENT LIABILITIES						
Bonds payable (Notes 4 and 19)	-	-	-	-	438,334	3
Long-term borrowings (Notes 4 and 16)	1,396,658	12	1,495,278	14	1,643,898	13
Net defined benefit liabilities - non-current (Notes 4 and 20)	19,692	-	37,211	1	36,594	-
Other non-current liabilities	300	-	300	-	58	-
Deferred tax liabilities (Notes 4 and 23)	3,721	-	-	-	-	-
Total non-current liabilities	1,420,371	12	1,532,789	15	2,118,884	16
Total liabilities	5,842,984	51	6,415,280	61	7,507,028	58
EQUITY (Notes 4 and 21)						
Share capital	2,991,876	26	2,756,380	26	2,788,380	22
Capital surplus	1,016,806	9	1,045,575	10	1,049,463	8
Retained earnings						
Legal reserve	579,610	5	579,610	6	556,465	4
Special reserve	231,141	2	-	-	-	-
Unappropriated earnings	744,667	7	231,141	2	937,606	7
Total retained earnings	1,555,418	14	810,751	8	1,494,071	11
Other equity	(19,407)	-	(482,368)	(5)	97,326	1
Total equity	5,544,693	49	4,130,338	39	5,429,240	42
TOTAL	$ 11,387,677	100	$ 10,545,618	100	$ 12,936,268	100

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

HSIN KUANG STEEL COMPANY

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

	For the Years Ended December 31			
	2016		2015	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4 and 29)	$ 6,262,775	100	$ 6,373,639	100
OPERATING COSTS	(5,364,745)	(86)	(6,925,594)	(109)
GROSS PROFIT (LOSS)	898,030	14	(551,955)	(9)
OPERATING EXPENSES				
Selling and marketing expenses	(138,688)	(2)	(137,362)	(2)
General and administrative expenses	(88,534)	(1)	(41,669)	(1)
Total operating expenses	(227,222)	(3)	(179,031)	(3)
OTHER OPERATING INCOME AND EXPENSES (Note 22)	69,644	1	(93,593)	(1)
PROFIT (LOSS) FROM OPERATIONS	740,452	12	(824,579)	(13)
NON-OPERATING INCOME AND EXPENSES				
Other income (Note 22)	11,534	-	13,930	-
Other gains and losses (Note 22)	40,570	1	526,842	8
Finance costs (Note 22)	(90,316)	(2)	(104,006)	(1)
Share of profit or loss of subsidiaries and joint ventures	106,450	2	(27,985)	-
Total non-operating income and expenses	68,238	1	408,781	7
PROFIT (LOSS) BEFORE INCOME TAX FROM CONTINUING OPERATIONS	808,690	13	(415,798)	(6)
INCOME TAX (EXPENSE) BENEFIT (Notes 4 and 23)	(60,916)	(1)	13,922	-
NET PROFIT (LOSS) FOR THE YEAR	747,774	12	(401,876)	(6)
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified to profit or loss:				
Remeasurement of defined benefit plan	(3,107)	-	(2,606)	-
	(3,107)	-	(2,606)	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	(8,489)	-	7,809	-

(Continued)

HSIN KUANG STEEL COMPANY

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

	For the Years Ended December 31			
	2016		2015	
	Amount	%	Amount	%
Unrealized gain (loss) on available-for-sale financial assets	471,450	7	(587,503)	(9)
	462,961	7	(579,694)	(9)
Other comprehensive income (loss) for the year, net of income tax	459,854	7	(582,300)	(9)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	$ 1,207,628	19	$ (984,176)	(15)
EARNINGS PER SHARE (Note 24)				
From continuing operations				
Basic	$ 2.67		$ (1.45)	
Diluted	$ 2.62		$ (1.45)	

The accompanying notes are an integral part of the financial statements. (Concluded)

HSIN KUANG STEEL COMPANY

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

	Share Capital			Retained Earnings			Other Equity			
	Shares (In Thousands)	Amount	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Treasury Shares	Total Equity
BALANCE AT JANUARY 1, 2015	278,838	$ 2,788,380	$ 1,049,463	$ 556,465	$ -	$ 937,606	$ 9,714	$ 87,612	$ -	$ 5,429,240
Appropriation of 2014 earnings										
Legal reserve	-	-	-	23,145	-	(23,145)	-	-	-	-
Cash dividends distributed by the Company	-	-	-	-	-	(278,838)	-	-	-	(278,838)
Other changes in capital surplus										
Changes in percentage of ownership interest in subsidiaries	-	-	465	-	-	-	-	-	-	465
Recognition of employee share options by the Company	-	-	6,833	-	-	-	-	-	-	6,833
Net loss for the year ended December 31, 2015	-	-	-	-	-	(401,876)	-	-	-	(401,876)
Other comprehensive income (loss) for the year ended December 31, 2015, net of income tax	-	-	-	-	-	(2,606)	7,809	(587,503)	-	(582,300)
Total comprehensive income (loss) for the year ended December 31, 2015	-	-	-	-	-	(404,482)	7,809	(587,503)	-	(984,176)
Buy-back of ordinary shares	-	-	-	-	-	-	-	-	(43,186)	(43,186)
Cancelation of treasury shares	(3,200)	(32,000)	(11,186)	-	-	-	-	-	43,186	-
BALANCE AT DECEMBER 31, 2015	275,638	2,756,380	1,045,575	579,610	-	231,141	17,523	(499,891)	-	4,130,338
Special reserve under Rule No. 1010012865 issued by the FSC	-	-	-	-	231,141	(231,141)	-	-	-	-
Appropriation of 2015 earnings										
Share dividends distributed from capital surplus	-	-	(165,976)	-	-	-	-	-	-	(165,976)
Other changes in capital surplus										
Recognition of employee share options by the Company	-	-	1,424	-	-	-	-	-	-	1,424
Changes in percentage of ownership interest in subsidiaries	-	-	66	-	-	-	-	-	-	66
Convertible bonds converted to ordinary shares	22,562	225,616	131,370	-	-	-	-	-	-	356,986
Net profit for the year ended December 31, 2016	-	-	-	-	-	747,774	-	-	-	747,774
Other comprehensive income (loss) for the year ended December 31, 2016, net of income tax	-	-	-	-	-	(3,107)	(8,489)	471,450	-	459,854
Total comprehensive income (loss) for the year ended December 31, 2016	-	-	-	-	-	744,667	(8,489)	471,450	-	1,207,628
Issue of ordinary shares under employee share options	988	9,880	4,347	-	-	-	-	-	-	14,227
BALANCE AT DECEMBER 31, 2016	299,188	$ 2,991,876	$ 1,016,806	$ 579,610	$ 231,141	$ 744,667	$ 9,034	$ (28,441)	$ -	$ 5,544,693

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

HSIN KUANG STEEL COMPANY

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

	For the Years Ended December 31 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax	$ 808,690	$ (415,798)
Adjustments for:		
Depreciation expenses	73,330	79,730
Amortization expenses	529	739
Recognition (reversal) of provisions	8,793	(3,601)
Net (gain) loss on fair value changes of financial assets held for trading	(8,308)	174,428
Net (gain) loss on fair value changes of financial liabilities held for trading	(5,556)	5,317
Finance costs	90,316	104,006
Compensation costs of employee share options	1,424	6,833
Loss (gain) on disposal of property, plant and equipment	3,156	(390,688)
Net gain on disposal of available-for-sale financial assets	-	(417)
Share of (profit) loss of subsidiaries, associates and joint ventures	(106,450)	27,985
Interest income	(913)	(853)
Dividend income	(57,495)	(85,735)
Impairment loss recognized on available-for-sale financial assets	1,715	-
(Reversal of) write-down of inventories	(302,350)	294,711
Net (gain) loss on foreign currency exchange	(1,908)	100,167
Net defined benefit liabilities	(21,262)	(1,989)
Changes in operating assets and liabilities		
(Increase) decrease in financial assets held for trading	(159,198)	31,236
Decrease in notes receivable	3,559	131,967
(Increase) decrease in trade receivables	(167,711)	468,303
Increase in other receivables	(6,919)	(5,920)
Decrease in inventories	35,788	1,212,351
(Increase) decrease in prepayments	(24,213)	50,874
Decrease in other current assets	2,073	2,532
Increase (decrease) in notes payable	352,175	(289,457)
Increase (decrease) in trade payables	47,803	(14,209)
Increase (decrease) in other payables	58,039	(7,637)
Increase in other current liabilities	41,068	14,073
Interest received	913	853
Income tax paid	(48)	(9,605)
Net cash generated from operating activities	667,040	1,480,196
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of available-for-sale financial assets	(442)	-
Proceeds from the capital reduction on available-for-sale financial assets	12,450	868
Net cash outflow on acquisition of subsidiaries	(16,625)	(89,195)

(Continued)

HSIN KUANG STEEL COMPANY

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

	For the Years Ended December 31	
	2016	**2015**
Decrease in prepayments for investments	-	11,766
Proceeds from the capital reduction of associates	-	4,000
Decrease in other financial assets	7,816	15,248
Proceeds from disposal of non-current assets held for sale	-	459,935
Payments for property, plant and equipment	(52,642)	(68,566)
Proceeds from disposal of property, plant and equipment	1,605	2,491
Payments for investment properties	(239,222)	-
(Increase) decrease in refundable deposits	(16,738)	1,088
Increase in prepayments for equipment	(49,771)	(10,079)
Dividends received from subsidiaries and associates	161,903	6,061
Other dividends received	57,495	85,735
Net cash (used in) generated from investing activities	(134,171)	419,352
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	8,184,440	11,445,320
Repayments of short-term borrowings	(8,481,302)	(12,615,307)
(Decrease) increase in short-term bills payable	(510,000)	420,000
Proceeds from long-term borrowings	600,000	-
Repayments of long-term borrowings	(500,000)	(150,000)
Proceeds from guarantee deposits received	-	242
Dividends paid	(165,976)	(278,838)
Proceeds from issue of ordinary shares under employee share options	14,227	-
Payments for buy-back of ordinary shares	-	(43,186)
Interest paid	(73,117)	(103,017)
Net cash used in financing activities	(931,728)	(1,324,786)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(398,859)	574,762
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	911,349	336,587
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 512,490	$ 911,349

The accompanying notes are an integral part of the financial statements. (Concluded)

HSIN KUANG STEEL COMPANY

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

1. GENERAL INFORMATION

Hsin Kuang Steel Company (the "Company") was incorporated in January 1967. The original paid-in-capital was $200 thousands, and then ordinary shares were issued for promoting business expansion and a sound financial structure. The Company's share was approved to be listed on the Taipei Exchange in April 1997 and then was approved to transfer to the Taiwan Stock Exchange in August 2000. The Company's shares have been listed on the Taiwan Stock Exchange since September 2000 under the approval of the Financial Supervisory Commission of the Republic of China (the "ROC").

The Company mainly engages in the cutting, stamping and sale of various steel products, including steel coils, steel plates, stainless steel, alloy steel and special steel.

These financial statements are presented in the Company's functional currency, the New Taiwan dollar.

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Company's board of directors on March 14, 2017.

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

a. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) endorsed by the Financial Supervisory Commission (FSC) and applicable from 2017

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

New, Amended or Revised Standards and Interpretations	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2010-2012 Cycle	July 1, 2014 (Note 2)
Annual Improvements to IFRSs 2011-2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016 (Note 3)
Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception"	January 1, 2016
Amendment to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"	January 1, 2016
IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016
Amendment to IAS 1 "Disclosure Initiative"	January 1, 2016
Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"	January 1, 2016
Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants"	January 1, 2016
Amendment to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014
Amendment to IAS 27 "Equity Method in Separate Financial Statements"	January 1, 2016
Amendment to IAS 36 "Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets"	January 1, 2014
Amendment to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
IFRIC 21 "Levies"	January 1, 2014

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

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

Note 3: The amendment to IFRS 5 is applied prospectively to changes in a method of disposal that occur in annual periods beginning on or after January 1, 2016; the remaining amendments are effective for annual periods beginning on or after January 1, 2016.

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

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

The amendment clarifies that the recoverable amount of an asset or a cash-generating unit is disclosed only when an impairment loss on the asset has been recognized or reversed during the period. Furthermore, if the recoverable amount of an item of property, plant and equipment for which an impairment loss has been recognized or reversed is its fair value less costs of disposal, the Company is required to disclose the fair value hierarchy. If the fair value measurements are categorized within Level 2 or Level 3, the valuation technique and key assumptions used to measure the fair value are disclosed. The discount rate used is disclosed if such fair value less costs of disposal is measured by using the present value technique. The amendment will be applied retrospectively

2) IFRIC 21 “Levies”

IFRIC 21 provides guidance on when to recognize a liability for a levy imposed by a government. It addresses the accounting for a liability whose timing and amount is certain and the accounting for a provision whose timing or amount is not certain. The Company accrues a related liability when the transaction or activity that triggers the payment of the levy occurs. Therefore, if the obligating event occurs over a period of time (such as the generation of revenue over a period of time), the liability is recognized progressively. If an obligation to pay a levy is triggered upon reaching a minimum threshold (such as a minimum amount of revenue or sales generated), the liability is recognized when that minimum threshold is reached.

3) Annual Improvements to IFRSs 2010-2012 Cycle

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

The amended IFRS 2 changes the definitions of a “vesting condition” and a “market condition” and adds definitions for a “performance condition” and a “service condition”. The amendment clarifies that a performance target can be based on the operations (i.e. a non-market condition) of the Company or another entity in the same Company or the market price of the equity instruments of the Company or another entity in the same Company (i.e. a market condition); that a performance target can relate either to the performance of the Company as a whole or to some part of it (e.g. a division); and that the period for achieving a performance condition must not extend beyond the end of the related service period. In addition, a share market index target is not a performance condition because it not only reflects the performance of the Company but also of other entities outside the Company. The share-based payment arrangements with market conditions, non-market conditions or non-vesting conditions will be accounted for differently, and the aforementioned amendment will be applied prospectively to those share-based payments granted on or after January 1, 2017.

IFRS 3 was amended to clarify that contingent consideration should be measured at fair value, irrespective of whether the contingent consideration is a financial instrument within the scope of IFRS 9 or IAS 39. Changes in fair value should be recognized in profit or loss. The amendment will be applied prospectively to business combinations with acquisition dates on or after January 1, 2017.

The amended IFRS 8 requires the Company to disclose the judgments made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have “similar economic characteristics”. The amendment also clarifies that a reconciliation of the total of the reportable segments’ assets to the entity’s assets should only be provided if the segments’ assets are regularly provided to the chief operating decision-maker. The judgments made in applying aggregation criteria should be disclosed retrospectively upon the initial application of the amendment in 2017.

When the amended IFRS 13 becomes effective in 2017, the short-term receivables and payables with no stated interest rates will be measured at their invoice amounts without discounting, if the effect of not discounting is immaterial.

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

4) Annual Improvements to IFRSs 2011-2013 Cycle

Several standards, including IFRS 3, IFRS 13 and IAS 40 "Investment Property", were amended in this annual improvement.

IFRS 3 was amended to clarify that IFRS 3 does not apply to the accounting for the formation of all types of joint arrangements in the financial statements of a joint arrangement itself. The amendment will be applied prospectively starting from January 1, 2017.

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

IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive and the application of both standards may be required to determine whether an investment property acquired is an acquisition of an asset or a business combination. The amendment will be applied prospectively to acquisitions of investment property on or after January 1, 2017.

5) Amendment to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"

The amendment requires that the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3, is required to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs with the exception of those principles that conflict with the guidance in IFRS 11. Accordingly, a joint operator that is an acquirer of such an interest has to:

- Measure most identifiable assets and liabilities at fair value;
- Expense acquisition-related costs (other than debt or equity issuance costs);
- Recognize deferred taxes;
- Recognize any goodwill or bargain purchase gain;
- Perform impairment tests for the cash generating units to which goodwill has been allocated;
- Disclose required information relevant for business combinations.

The amendment also applies to the formation of a joint operation if, and only if, an existing business is contributed to the joint operation on its formation by one of the parties that participates in the joint operation.

The amendment does not apply to the acquisition of an interest in a joint operation when the parties sharing control are under common control before and after the acquisition.

The above amendment will be applied to interests in joint operations acquired on or after January 1, 2017. Amounts of interests in joint operations acquired in prior periods are not adjusted.

6) Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"

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

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

The amended IAS 38 "Intangible Assets" clarifies that there is a rebuttable presumption that an amortization method that is based on revenue that is generated by an activity that includes the use of an intangible asset is not appropriate. This presumption can be overcome only in the following limited circumstances:

a) In which an intangible asset is expressed as a measure of revenue (for example, a contract that specifies that the entity's use of the intangible asset will expire upon achievement of a revenue threshold); or

b) When it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

7) Annual Improvements to IFRSs 2012-2014 Cycle

Several standards including IFRS 5 "Non-current assets held for sale and discontinued operations", IFRS 7, IAS 19 and IAS 34 were amended in this annual improvement.

IFRS 5 was amended to clarify that a reclassification between non-current assets (or a disposal Company) "held for sale" and non-current assets "held for distribution to owners" does not constitute a change to a plan of sale or distribution. Therefore, the previous accounting treatment is not reversed. The amendment also explains that assets that no longer meet the criteria for "held for distribution to owners" and do not meet the criteria for "held for sale" should be treated in the same way as assets that cease to be classified as held for sale. The amendment will be applied prospectively to transactions that occur on or after January 1, 2017.

8) Amendments to IFRS 10, IFRS 12 and IAS 28 "'Investment Entities: Applying the Consolidation Exception"

The amendments clarified that the Company (an investment entity) should consolidate subsidiaries that are not themselves investment entities but entities whose main purpose is to provide services and activities that are related to the investment activities of the parent investment entity.

Moreover, the Company will enhance the disclosures related to its subsidiaries measured at fair value according to the amended IFRS 12 when it becomes effective in 2017. The disclosures will be made retrospectively.

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

The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed by the FSC for application starting from 2017. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include 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 Company or is the spouse or second immediate family of the chairman of the board of directors or president of the Company 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 Company has significant transactions. If the transactions or balance with a specific related party is 10% or more of the Company's respective total transactions or balance, such transactions should be separately disclosed by the name of each related party.

The amendments also require additional disclosure if there is a significant difference between the actual operations after a business combination and the expected benefits on the acquisition date.

Except for the above impacts, as of the date the financial statements were authorized for issue, the Company continues assessing other possible impacts that application of the aforementioned amendments and the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers will have on the Company's financial position and financial performance and will disclose these other impacts when the assessment is completed.

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

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

The FSC announced that IFRS 9 and IFRS 15 will take effect starting January 1, 2018. As of the date that these financial statements were authorized for issue, the FSC had not announced the effective dates of other new IFRSs.

New, Amended or Revised Standards and Interpretations	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2014-2016 Cycle	January 1, 2018 (Note 2)
Amendment 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
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendments to IFRS 15 “Clarifications to IFRS15 Revenue from Contracts with Customers”	January 1, 2018
IFRS 16 “Leases”	January 1, 2019
Amendment to IAS 7 “Disclosure Initiative”	January 1, 2017
Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017
Amendments to IAS 40 “Transfers of Investment Property”	January 1, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 1, 2018

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

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

The initial application of the above New IFRSs, whenever applied, would not have any material impact on the Company’s accounting policies, except for the following:

1) IFRS 9 “Financial Instruments”

<u>Recognition and measurement of financial assets</u>

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

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

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

Except for above, all other financial assets are measured at fair value through profit or loss. However, the Company 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 gains or losses previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

<u>The impairment of financial assets</u>

IFRS 9 requires that impairment losses on financial assets is recognized by using the expected credit loss model. A credit loss allowance is required for financial assets measured at amortized cost, financial assets mandatorily measured at FVTOCI, lease receivables, contract assets arising from IFRS 15 “Revenue from Contracts with Customers”, certain written loan commitments and financial guarantee contracts. A loss allowance for the 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since 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 purchased or originated credit-impaired financial assets, the Company takes into account the expected credit losses on initial recognition in calculating the credit-adjusted effective interest rate. Subsequently, any changes in expected losses are recognized as a loss allowance with a corresponding gain or loss recognized in profit or loss.

<u>Transition</u>

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

2) Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”

The amendments stipulated that, when an entity sells or contributes assets that constitute a business (as defined in IFRS 3) to an associate or joint venture, the gain or loss resulting from the transaction is recognized in full. Also, when an entity loses control of a subsidiary that contains a business but retains significant influence or joint control, the gain or loss resulting from the transaction is recognized in full.

Conversely, when an entity sells or contributes assets that do not constitute a business to an associate or joint venture, the gain or loss resulting from the transaction is recognized only to the extent of the unrelated investors’ interest in the associate or joint venture, i.e. the entity’s share of the gain or loss is eliminated. Also, when an entity loses control of a subsidiary that does not contain a business but retains significant influence or joint control in an associate or a joint venture, the gain or loss resulting from the transaction is recognized only to the extent of the unrelated investors’ interest in the associate or joint venture, i.e. the entity’s share of the gain or loss is eliminated.

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

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers and will supersedes IAS 18 “Revenue”, IAS 11 “Construction Contracts” and a number of revenue-related interpretations starting from January 1, 2018.

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

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

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

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

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

When IFRS 16 becomes effective, the Company 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.

5) Amendment to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”

The amendment clarifies that the difference between the carrying amount of a debt instrument measured at fair value and its tax base gives rise to a temporary difference, even though there are unrealized losses on that asset, irrespective of whether the Company expects to recover the carrying amount of the debt instrument by sale or by holding it and collecting contractual cash flows.

In addition, in determining whether to recognize a deferred tax asset, the Company 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 a deduction against income of a specific type, and in which case, a deductible temporary difference is assessed in combination only with other deductible temporary differences of an appropriate type. The amendment also stipulates that, when determining whether to recognize a deferred tax asset, the estimate of probable future taxable profit may include some of the Company’s assets for more than their carrying amount if there is sufficient evidence that it is probable that the Company 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.

6) Amendment to IFRS 2 “Classification and Measurement of Share-based Payment Transactions”

The amendment requires that market conditions and non-vesting conditions should be taken into account and vesting conditions, other than market conditions, should not be taken into account when estimating the fair value of cash-settled share-based payments at the measurement date. Instead, they should be taken into account by adjusting the number of awards included in the measurement of the liability arising from the transaction. This amendment applies to share-based payment transactions that are unvested at the date the Company first applies the amendment and to share-based payment transactions with a grant date on or after the date the Company first applies the amendment.

7) Annual Improvements to IFRSs 2014-2016 Cycle

Several standards, including IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in Associates and Joint Ventures,” were amended in this annual improvement.

The amendment to IFRS 12 clarified that, when an entity’s interest in a subsidiary, a joint venture or an associate is classified as held for sale or is included in a disposal that is classified as held for sale, the entity is not required to disclose summarized financial information of that subsidiary, joint venture or associate in accordance with IFRS 12. However, all other requirements in IFRS 12 apply to interests in entities classified as held for sale in accordance with IFRS 5.

The amendment to IAS 28 clarified that when an investment in an associate or a joint venture is held by or is held indirectly through an entity that is a venture capital organization, or a mutual fund, or a unit trust, or similar entities (including investment-linked insurance funds), the Company may elect to measure that investment at fair value through profit or loss. The Company shall make this election separately for each associate or joint venture at initial recognition of the associate or joint venture.

The Company shall apply the aforementioned amendments retrospectively.

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

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

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

9) IFRIC 22 "Foreign Currency Transactions and Advance Consideration"

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

The Company shall apply IFRIC 22 either retrospectively or prospectively to all assets, expenses and income in the scope of the interpretation initially recognized on or after (a) the beginning of the reporting period in which the entity first applies IFRIC 22 or (b) the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies IFRIC 22.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

For the convenience of readers, the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the ROC. 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 financial statement shall prevail.

a. Statement of compliance

The accompanying financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (the "Accounting Standards Used in Preparation of the Financial Statement").

b. Basis of preparation

The accompanying financial statements have been prepared on a historical cost basis except for financial instruments which are measured at fair value.

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

1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
2) 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
3) Level 3 inputs are unobservable inputs for the asset or liability.

When preparing the parent company only financial statements, the Company used equity method to account for its investment in subsidiaries, associates and jointly controlled entities. In order for the amounts of the net profit for the year, other comprehensive income for the year and total equity in the financial statements to be the same with the amounts attributable to the owner of the Company in its the financial statements, adjustments arising from the differences in accounting treatment between Company basis and basis were made to investments accounted for by equity method, share of profit or loss of subsidiaries, associates and joint ventures, share of other comprehensive income of subsidiaries, associates and joint ventures and accumulated earnings, as appropriate, in the financial statements.

c. Classification of current and non-current assets and liabilities

Current assets include:

1) Assets held primarily for the purpose of trading;
2) Assets expected to be realized within twelve months after the reporting period; and
3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Current liabilities include:

1) Liabilities held primarily for the purpose of trading;
2) Liabilities due to be settled within twelve months after the reporting period, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the financial statements are authorized for issue; and
3) Liabilities for which the Company does not have an unconditional right to defer settlement for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Assets and liabilities that are not classified as current are classified as non-current.

d. Foreign currencies

In preparing the financial statements, 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 the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. 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:

1) Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
2) Exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
3) Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investments.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising from the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, and in which cases, the exchange differences are also recognized directly in other comprehensive income.

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

For the purposes of presenting parent company only financial statements, the functional currencies of the Company (including subsidiaries, associates, joint ventures and branches in other countries that use currency different from the currency of the Company) are translated into the presentation currency, the New Taiwan dollar as follows: assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; and income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income.

On the disposal of a foreign operation (i.e. a disposal of the Company's entire interest in a foreign operation or a disposal involving a loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In relation to a partial disposal of a subsidiary that does not result in the Company losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to the non-controlling interests of the subsidiary and is not recognized in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences recognized in other comprehensive income is reclassified to profit or loss.

e. Inventories

Inventories consist of raw materials and finished goods and are stated at the lower of cost or the net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. The 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 on the balance sheet date.

f. Investments in subsidiaries

The Company uses the equity method to account for its investments in subsidiaries.

A subsidiary is an entity that is controlled by the Company.

Under the equity method, an investment in a subsidiary is initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the subsidiary. The Company also recognizes the changes in the share of equity of subsidiaries.

Changes in the Company's ownership interest in a subsidiary that do not result in the Company losing control of the subsidiary are equity transactions. The Company recognizes directly in equity any difference between the carrying amount of the investment and the fair value of the consideration paid or received.

When the Company's share of losses of a subsidiary exceeds its interest in that subsidiary (which includes any carrying amount of the investment accounted for by the equity method and long-term interests that, in substance, form part of the Company's net investment in the subsidiary), the Company continues recognizing its share of further losses.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets and liabilities of a subsidiary recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

The Company assesses its investment for any impairment by comparing the carrying amount with the estimated recoverable amount as assessed based on the entire financial statements of the invested in company. An impairment loss is recognized when the carrying amount exceeds the recoverable amount. If the recoverable amount of the investment subsequently increases, the Company recognizes the reversal of the impairment loss; the adjusted post-reversal carrying amount should not exceed the carrying amount that would have been recognized (net of amortization or depreciation) had no impairment loss been recognized in prior years. An impairment loss recognized on goodwill cannot be reversed in a subsequent period.

When the Company loses control of a subsidiary, it recognizes the investment retained in the former subsidiary at its fair value at the date when control is lost. The difference between the fair value of the retained investment plus any consideration received and the carrying amount of the previous investment at the date when control is lost is recognized as a gain or loss in profit or loss. Besides, the Company accounts for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Company had directly disposed of the related assets or liabilities.

Profits or losses resulting from downstream transactions are eliminated in full only in the financial statements. Profits and losses resulting from upstream transactions and transactions between subsidiaries are recognized only in the parent company's financial statements only to the extent of interests in the subsidiaries that are not related to the Company.

g. Investment in associates and joint ventures

An associate is an entity over which the Company has significant influence and which is neither a subsidiary nor an interest in a joint venture. A joint venture is a joint arrangement whereby the Company and other parties that have joint control of the arrangement have rights to the net assets of the arrangement.

The Company uses the equity method to account for its investments in associates and joint ventures.

Under the equity method, investments in an associate and a joint venture are initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the associate and joint venture. The Company also recognizes the changes in the Company's share of the equity of associates and joint venture.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets and liabilities of an associate or a joint venture at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

When the Company subscribes for additional new shares of an associate and joint venture at a percentage which is different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Company's proportionate interest in the associate and joint venture. The Company records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in the Company's share of the equity of associates and joint ventures. If the Company's ownership interest is reduced due to its non-subscription of new shares of an associate and joint venture, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate and joint venture 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 Company's share of losses of an associate and a joint venture equals or exceeds its interest in that associate and a joint venture (which includes any carrying amount of the investment accounted for by the equity method and long-term interests that, in substance, form part of the Company's net investment in the associate and joint venture), the Company discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Company has incurred legal obligations or constructive obligations, or made payments on behalf of that associate and joint venture.

The entire carrying amount of an investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Company discontinues the use of the equity method from the date on which its investment ceases to be an associate and a joint venture. Any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate and the joint venture attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate and the joint venture. The Company accounts for all amounts previously recognized in other comprehensive income in relation to that associate and joint venture on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the Company continues to apply the equity method and does not remeasure the retained interest.

When the Company transacts with its associates and joint venture, profits or losses resulting from the transactions with the associate and joint venture are recognized in the Company's financial statements.

h. Property, plant and equipment

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

Property, plant and equipment in the course of construction are carried at cost, less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Such assets are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for their intended use.

Depreciation on property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effects of any changes in estimates 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.

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

j. Impairment of tangible assets

At the end of each reporting period, the Company reviews the carrying amounts of its 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 Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The 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 for the asset or cash-generating unit (net of depreciation) had no impairment loss been recognized in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

k. Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset is available for immediate sale in its present condition. To meet the criteria for the sale being highly probable, an appropriate level of management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within 1 year from the date of classification.

When the Company is committed to a sale plan involving the disposal of an investment or a portion of an investment in an associate or a joint venture, only the investment or the portion of the investment that will be disposed of is classified as held for sale when all of the classification criteria are met, and the Company discontinues the use of the equity method in relation to the portion that is classified as held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method. If the Company ceases to have significant influence or joint control over an investment after the disposal takes place, the Company accounts for any retained interest that has not been classified as held for sale in accordance with the accounting policies for financial instruments.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell. The recognition of depreciation of those assets would cease.

When a subsidiary, joint operation, joint venture, associate, or a portion of an interest in a joint venture or an associate previously classified as held for sale no longer meets the criteria to be so classified, it is measured at the carrying amount that would have been recognized had such interests not been classified as held for sale. Financial statements for the periods since classification as held for sale are amended accordingly.

l. Financial instruments

Financial assets and financial liabilities are recognized when the Company 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.

1) 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 are classified into the following categories: Financial assets at fair value through profit or loss, available-for-sale financial assets, and loans and receivables.

i. Financial assets at fair value through profit or loss

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

Financial assets at fair value through profit or loss are stated at their fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss does not incorporate any dividends or interest earned on financial assets. Fair value is determined in the manner described in Note 28.

ii. 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. Changes in the carrying amounts of available-for-sale monetary financial assets relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method 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 will be reclassified to profit or loss when the investment is disposed of or is determined to be impaired.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Company's right to receive the dividends is established.

iii. Loans and receivables

Loans and receivables (including trade receivables, cash and cash equivalents, other receivables - loan receivables, and other financial assets) are measured at amortized cost using the effective interest method, less any impairment, except for short-term receivables when the effect of discounting is immaterial.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

b) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence, as a result of one or more events that occurred after the initial recognition of the financial asset, that the estimated future cash flows of the investment have been affected.

Financial assets carried at amortized cost, such as trade receivables, are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days as well as observable changes in national or local economic conditions that correlate with a default on receivables.

For financial assets carried at amortized cost, 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 equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

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. In respect of available-for-sale debt securities, the impairment loss is subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment 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 notes receivable where the carrying amount is reduced through the use of an allowance account. When trade receivables and notes receivable are considered uncollectable, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectable trade receivables and notes receivable that are written off against the allowance account.

c) Derecognition of financial assets

The Company 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 is recognized in profit or loss.

2) Equity instruments

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

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

A repurchase of the Company’s own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company’s own equity instruments.

3) Financial liabilities

a) <u>Subsequent measurement</u>

Except for the following situation, all 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 either held for trading or is designated as at fair value through profit or loss.

  Financial liabilities that are held for trading are stated at fair value, with any gain or loss arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss does not incorporate any interest or dividends paid on the financial liability. Fair value is determined in the manner described in Note 28.

b) Derecognition of financial liabilities

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

4) Convertible bonds

The derivative financial liabilities and conversion option components of convertible bonds issued by the Company are classified separately as financial liabilities and equity. Items that will be settled other than by the exchange of a fixed amount of cash or other financial assets for a fixed number of the Company’s own equity instruments are classified as derivative financial instruments.

On initial recognition, the derivative financial liabilities and conversion option components of convertible bonds are recognized at fair value.

In subsequent periods, the non-derivative financial liability components of convertible bonds are measured at amortized cost using the effective interest method. The derivative financial liability components are measured at fair value, and changes in fair value are recognized in profit or loss.

Transaction costs that relate to the issue of convertible notes are allocated to the derivative financial liability components and the non-derivative financial liability components in proportion to their relative fair values. Transaction costs relating to the derivative financial liability components are recognized immediately in profit or loss. Transaction costs relating to the non-derivative financial liability components are included in the carrying amount of the liability component.

5) Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, interest rate swaps and futures trading.

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 the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, and in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. When the fair value of a derivative financial instrument is positive, the derivative is recognized as a financial asset; when the fair value of derivative financial instrument is negative, the derivative is recognized as a financial liability.

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative; their risks and characteristics are not closely related to those of the host contracts; and the contracts are not measured at fair value through profit or loss.

m. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Allowance for sales returns and the liability for returns are recognized at the time of sale based on the seller’s reliable estimate of future returns and based on past experience and other relevant factors.

1) Sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Company; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Company does not recognize sales revenue on materials delivered to subcontractors because this delivery does not involve a transfer of risks and rewards of material ownership.

2) Dividend and interest income

Dividend income from investments is recognized when a shareholder’s right to receive payment has been established provided that it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time basis by reference to the principal outstanding and at the applicable effective interest rate.

n. Leasing

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

1) The Company as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and amortized on a straight-line basis over the lease term.

2) The Company as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

o. 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.

Other than those stated above, all borrowing costs are recognized in profit or loss in the year in which they are incurred.

p. Employee benefits

1) 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 services.

2) 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 costs, net interest and remeasurement) under the defined retirement benefit plan are determined using the projected unit credit method. Service costs (including current service costs) and net interest on the net defined benefit liability (asset) are recognized as employee benefits expenses 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 it occurs. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

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

p. Employee share options

Employee share options are granted to employees and others providing similar services.

The fair value at the grant date of the employee share options is expensed on a straight-line basis over the vesting period, based on the Company's best estimates of the number of shares or options that are expected to ultimately vest, with a corresponding increase in capital surplus - employee share options. It is recognized as an expense in full at the grant date if vested immediately.

At the end of each reporting period, the Company revises its estimate of the number of employee share options expected to vest. The impact of the revision of the original estimates is recognized in profit or loss such that the cumulative expenses reflect the revised estimate, with a corresponding adjustment to the capital surplus - employee share options.

q. Taxation

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

1) Current tax

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.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities 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 and unused loss carry forward 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 Company 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 that they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and is 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 the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

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

3) Current and deferred tax for the year

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

a. Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Company takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise.

As of December 31, 2016 and 2015, the amount of notes receivable, trade receivables and overdue receivables was NT$2,269,098 thousand and NT$2,124,931 thousand, respectively. (After deducting the allowance for impairment loss, the amount was NT$19,916 thousand and NT$37,326 thousand, respectively).

b. Write-down of inventory

The net realizable value of inventory is the estimated selling price in the ordinary course of business less the estimated costs of completion and disposal. The estimation of net realizable value was based on current market conditions and historical experience with product sales of a similar nature. Changes in market conditions may have a material impact on the estimation of the net realizable value.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2016	**2015**
Cash on hand	$ 493	$ 636
Checking accounts and demand deposits	511,997	910,713
	$ 512,490	$ 911,349

The market rate intervals of cash in the bank at the end of the reporting period were as follows:

	December 31	
	2016	**2015**
Bank balance	0.05%-0.10%	0.01%-0.13%

As of December 31, 2016 and 2015, the time deposits with an original maturity of more than 3 months were NT$65,576 thousand and NT$73,392 thousand, respectively, which were classified as other financial assets - current. See Note 11 for further information.

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2016	**2015**
Financial assets held for trading		
Derivative financial assets (not under hedge accounting)		
Foreign exchange forward contracts (a)	$ 8,609	$ 56,390
Non-derivative financial assets		
Domestic quoted shares	511,276	298,864
Mutual funds	2,875	-
Financial assets at FVTPL - current	$ 522,760	$ 355,254
Financial liabilities held for trading		
Derivative financial liabilities (not under hedge accounting)		
Convertible options (Note 19)	$ 91	$ 13,652
Financial liabilities at FVTPL - current	$ 91	$ 13,652

At the end of the reporting period, outstanding foreign exchange forward contracts not under hedge accounting were as follows:

	Currency	**Maturity Date**	**Notional Amount (In Thousands)**
December 31, 2016			
Buy	NTD/USD	January-October 2017	NTD856,017/USD26,937
Sell	USD/NTD	January 2017	NTD32,883/USD1,033
December 31, 2015			
Buy	NTD/USD	January-June 2016	NTD820,998/USD26,642

The Company entered into foreign exchange forward contracts to manage exposures to exchange rate fluctuations of foreign currency denominated assets and liabilities. Those contracts did not meet the criteria of hedge effectiveness and, therefore, were not accounted for using hedge accounting.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2016	2015
Current		
Domestic listed shares and emerging market shares	$ 330,402	$ 240,181
Non-current		
Domestic listed shares and emerging market shares	$ 1,402,581	$ 1,021,352
Unlisted shares - ROC	60,823	74,546
Unlisted shares - other countries	348,223	348,223
	$ 1,811,627	$ 1,444,121

Refer to Note 30 for information relating to available-for-sale financial assets pledged as security.

9. NOTES RECEIVABLE, TRADE RECEIVABLES, OTHER RECEIVABLES AND OVERDUE RECEIVABLES

	December 31	
	2016	2015
Notes receivable		
Notes receivable - operating	$ 973,962	$ 977,521
Less: Allowance for impairment loss	(1,341)	(1,781)
	$ 972,621	$ 975,740
Trade receivables		
Trade receivables	$ 1,257,154	$ 1,148,101
Less: Allowance for impairment loss	(3,176)	(5,366)
	$ 1,253,978	$ 1,142,735
Other receivables		
Loan receivables	$ 13,000	$ -
Others	651	6,732
	$ 13,651	$ 6,732
Overdue receivables		
Overdue receivables	$ 57,898	$ 36,635
Less: Allowance for impairment loss	(15,399)	(30,179)
	$ 42,499	$ 6,456

a. Notes receivable and trade receivables

The average credit period of sales of goods was 90 days. No interest was charged on trade receivables. In determining the recoverability of a trade receivable, the Company considered any change in the credit quality of the trade receivable since the date credit was initially granted to the end of the reporting period. The Company recognized an allowance for impairment loss of 100% against all receivables over 365 days less the collateral provided because historical experience was that receivables that are past 365 days since due are not recoverable. An allowance for impairment loss was recognized against trade receivables between 90 days and 365 days based on the estimated irrecoverable amounts determined by reference to past default experience of the counterparties and an analysis of their current financial positions.

The carrying amounts of the trade receivables balances that were past due at the end of the reporting period were NT$59,663 thousand and NT$220,996 thousand on December 31, 2016 and 2015, respectively, which are disclosed in the aging analysis below. The Company did not recognize an allowance for impairment loss, because there was no significant change in the credit quality and the amounts. The Company did not hold any collateral or other credit enhancements for these balances. In addition, the Company does not have the legal right to off-set the trade receivable and the counterparty of the same transaction.

The aging of trade receivables that were past due but not impaired was as follows:

	December 31	
	2016	**2015**
Up to 90 days	$ -	$ -
91-365 days	44,462	220,996
Over 365 days	15,201	-
	$ 59,663	$ 220,996

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

The movements of the allowance for doubtful trade receivables were as follows:

	For the Year Ended December 31	
	2016	**2015**
Beginning of the year	$ 7,147	$ 7,997
Add: Impairment losses recognized on receivables	648	2,083
Less: Impairment losses reversed	(3,278)	(2,933)
End of the year	$ 4,517	$ 7,147

b. Other receivables - loan receivables

The maturity date of loans to related parties were as follows:

	December 31	
Maturity Date	**2016**	**2015**
December 2017	$ 13,000	$ -

The principal was expected to be received in full on the maturity date and with no interest expense.

c. Overdue receivables

The carrying amounts of the overdue receivable balances that were past due at the end of the reporting period were NT$42,499 thousand and NT$6,456 thousand as of December 31, 2016 and 2015, respectively. As shown in the aging analysis below, the Company did not recognize an allowance for impairment loss, because there was no significant change in the credit quality of the receivables. The Company considered the overdue receivables to still be collectable and held collateral for these balances to enhance the collectability. In addition, the Company does not have the legal right to off-set the overdue receivables and the accounts payable to the counterparties.

The aging of overdue receivables that were past due but not impaired was as follows:

	December 31	
	2016	**2015**
Up to 90 days	$ -	$ -
90-365 days	7,168	3,456
Over 365 days	35,331	3,000
	$ 42,499	$ 6,456

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

The movements of the allowance for doubtful overdue receivables were as follows:

	For the Year Ended December 31	
	2016	2015
Beginning of the year	$ 30,179	$ 32,930
Add: Impairment losses recognized on receivables	12,334	2,029
Less: Impairment losses reversed	(911)	(4,780)
Less: Amounts written off during the year as uncollectable	(24,705)	-
Less: Amounts recovered during the year	(1,498)	-
End of the year	$ 15,399	$ 30,179

The Company recognized an impairment loss on overdue receivables amounting to NT$15,399 thousand and NT$30,179 thousand as of December 31, 2016 and 2015, respectively. These amounts mainly related to customers that were pursuing legal claims. The Company carried out a review of the recoverable amount of those overdue receivables and determined that the carrying amount exceeded the recoverable amount. The review led to the recognition of an impairment loss. The Company held chattel pledged as collateral over these balances.

The carrying amount of the notes receivable pledged as collateral for borrowings is disclosed in Note 30.

10. INVENTORIES

	December 31	
	2016	2015
Finished goods	$ 358,469	$ 255,342
Raw materials	1,837,543	1,661,641
Raw materials in transit	1,067	13,534
	$ 2,197,079	$ 1,930,517

The allowance for inventory devaluation for the years ended December 31, 2016 and 2015 was NT$440 thousand and NT$302,790 thousand, respectively.

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2016 and 2015 was NT$5,364,745 thousand and NT$6,925,594 thousand, respectively. The cost of goods sold included a reversal of inventory write-downs of NT$302,350 thousand and inventory write-downs of NT$294,711 thousand. Previous write-downs were reversed as a result of increased selling prices in steel markets.

11. OTHER CURRENT FINANCIAL ASSETS

	December 31	
	2016	2015
Time deposits with original maturities of more than three months	$ 65,576	$ 73,392

a. The market interest rates of the time deposits with an original maturity of more than 3 months were 0.2%-1% and 0.2%-1% per annum, respectively, as of December 31, 2016 and 2015.
b. Refer to Note 30 for information relating to other current financial assets pledged as security.

12. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31	
	2016	2015
Investments in subsidiaries	$ 472,598	$ 517,923
Investments in associates	12,241	12,300
Investments in joint ventures	27,484	27,500
	$ 512,323	$ 557,723

a. Investments in subsidiaries

	December 31	
	2016	2015
Hsin Yuan Investment Co., Ltd.	$ 182,820	$ 180,951
Sinpao Investment Co., Ltd.	163,849	217,119
Hsin Ho Fa Metal Co., Ltd.	115,869	107,502
Hsin Kuang Alga Engineering Co., Ltd.	10,060	12,351
	$ 472,598	$ 517,923

	Proportion of Ownership and Voting Rights	
	December 31	
Name of Subsidiary	2016	2015
Hsin Yuan Investment Co., Ltd.	100.00%	100.00%
Sinpao Investment Co., Ltd.	99.82%	99.66%
Hsin Ho Fa Metal Co., Ltd. (Note 26)	83.37%	81.96%
Hsin Kuang Alga Engineering Co., Ltd.	68.16%	68.16%

b. Investments in associates

	December 31	
	2016	2015
Associates that are not individually material	$ 12,241	$ 12,300

		Proportion of Ownership and Voting Rights	
		December 31	
Name of Associate	Nature of Activities	2016	2015
Hsin Wei Solar Co., Ltd.	Non-metallic power generation	40.00%	40.00%
E-Tech Steel Co., Ltd.	Steel structure	29.96%	29.96%

Aggregate information of associates that are not individually material is as follows:

	December 31	
	2016	2015
The Company’s share of:		
Profit from continuing operations	$ 704	$ 849
Other comprehensive income	-	-
Total comprehensive income for the year	$ 704	$ 849

The investments accounted for by the equity method and the share of profit or loss and other comprehensive income of those investments for the years ended December 31, 2016 and 2015 was based on the associates’ financial statements audited by auditors for the same years.

c. Investments in joint ventures

	December 31	
	2016	2015
Material joint ventures	$ 27,484	$ 27,500

The summarized financial information below represents amounts shown in the joint ventures’ financial statements prepared in accordance with IFRSs adjusted by the Company for equity accounting purposes.

Hsin Ching Co., Ltd.

	December 31	
	2016	2015
Cash and cash equivalents	$ 4,906	$ 55,000
Current assets	$ 54,906	$ -
Non-current assets	63	-
Equity	$ 54,969	$ 55,000
Proportion of the Company's ownership	50%	50%
Equity attributable to the Company	$ 27,484	$ 27,500
Carrying amount	$ 27,484	$ 27,500

	For the Year Ended December 31	
	2016	2015
Net loss for the year	$ (31)	$ -
Other comprehensive income	-	-
Total comprehensive income for the year	$ (31)	$ -

13. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Buildings	Equipment	Transportation Equipment	Miscellaneous Equipment	Construction in Progress and Devices Awaiting Inspection	Total
Cost							
Balance at January 1, 2015 as restated	$ 1,812,725	$ 802,881	$ 466,777	$ 121,358	$ 14,578	$ 124,218	$ 3,342,537
Additions	2,840	1,918	11,965	547	635	59,410	77,315
Disposals	-	-	(3,798)	(10,548)	-	-	(14,346)
Reclassified	9,388	97,508	60,833	7,410	-	(175,139)	-
Balance at December 31, 2015	$ 1,824,953	$ 902,307	$ 535,777	$ 118,767	$ 15,213	$ 8,489	$ 3,405,506
Accumulated depreciation and impairment							
Balance at January 1, 2015	$ -	$ 161,528	$ 272,941	$ 76,845	$ 7,843	$ -	$ 519,157
Depreciation expenses	-	22,976	41,281	13,660	1,813	-	79,730
Disposals	-	-	(2,035)	(9,792)	-	-	(11,827)
Balance at December 31, 2015	$ -	$ 184,504	$ 312,187	$ 80,713	$ 9,656	$ -	$ 587,060
Carrying amounts at December 31, 2015	$ 1,824,953	$ 717,803	$ 223,590	$ 38,054	$ 5,557	$ 8,489	$ 2,818,446
Cost							
Balance at January 1, 2016 as restated	$ 1,824,953	$ 902,307	$ 535,777	$ 118,767	$ 15,213	$ 8,489	$ 3,405,506
Additions	10,332	2,183	18,312	5,238	3,362	13,065	52,492
Disposals	-	(8,244)	(6,761)	(7,083)	-	-	(22,088)
Reclassified	13,500	200	6,466	8,627	-	(15,381)	13,412
Balance at December 31, 2016	$ 1,848,785	$ 896,446	$ 553,794	$ 125,549	$ 18,575	$ 6,173	$ 3,449,322
Accumulated depreciation and impairment							
Balance at January 1, 2016	$ -	$ 184,504	$ 312,187	$ 80,713	$ 9,656	$ -	$ 587,060
Additions	-	24,068	37,813	9,187	1,130	-	72,198
Disposals	-	(3,508)	(6,737)	(7,083)	-	-	(17,328)
Balance at December 31, 2016	$ -	$ 205,064	$ 343,263	$ 82,817	$ 10,786	$ -	$ 641,930
Carrying amounts at December 31, 2016	$ 1,848,785	$ 691,382	$ 210,531	$ 42,732	$ 7,789	$ 6,173	$ 2,807,392

The above items of property, plant and equipment were depreciated on a straight-line basis over their estimated useful lives as follows:

Buildings	
Main buildings	40-55 years
Engineering buildings	3-20 years
Equipment	
Main equipment	5-20 years
Equipment maintenance	3-5 years
Transportation equipment	
Truck and automotive	5-8 years
Stacker	5-9 years
Automotive accessories	3 years
Miscellaneous equipment	
Computer equipment	5 years
Office and engineering equipment	3-10 years

As of December 31, 2016, the Company purchased land located in Guanyin of 4,505.55 square meters which had a carrying amount of NT$31,381 thousand for operation use from 2005 to 2014. As the law stipulates, the Company shall not have ownership of land registered for agricultural purposes. Thus, the Company shall sign a real estate trust contract with an individual to hold the land.

On November 4, 2014, the board of directors resolved to dispose of a parcel of freehold land located in Taishan and Linkou, which were reclassified to non-current assets held for sale. No impairment loss was recognized on the classification of the land as held for sale. Because the Company can’t complete the sale within 2 years of the classification as held for sale, the land no longer meets the criteria to be so classified and was reclassified to property, plant and equipment. The financial statements for the periods since the classification as held for sale were amended accordingly. The carrying amount of the land amended was NT$25,222 thousand as of December 31, 2016, December 31, 2015 and January 1, 2015.

Property, plant and equipment pledged as collateral for bank borrowings are set out in Note 30.

14. INVESTMENT PROPERTIES

	Investment Properties - Land	Investment Properties - Buildings	Investment Properties - Machinery and Equipment	Total
Cost				
Balance at January 1, 2015	$ -	$ -	$ -	$ -
Additions	210,306	19,391	9,525	239,222
Reclassified	3,376	29,847	-	33,223
Balance at December 31, 2015	$ 213,682	$ 49,238	$ 9,525	$ 272,445
Accumulated depreciation and impairment				
Balance at January 1, 2016	$ -	$ -	$ -	$ -
Depreciation expenses	-	699	433	1,132
Balance at December 31, 2016	$ -	$ 699	$ 433	$ 1,132
Carrying amounts at December 31, 2016	$ 213,682	$ 48,539	$ 9,092	$ 271,313

The investment properties were depreciated using the straight-line method over their estimated useful lives as follows:

Main buildings	25 years
Crane equipment	10 years

The management of the Company used the valuation model that market participants would use in determining the fair value, and the fair value was measured by using Level 3 inputs. The valuation was arrived at by reference to market evidence of transaction prices for similar properties. The fair value was as follows:

	December 31	
	2016	2015
Fair value	$ 313,726	$ -

15. OTHER ASSETS

	December 31	
	2016	2015
Current		
Others	$ 429	$ 2,417
Non-current		
Refundable deposits	$ 22,473	$ 5,735
Overdue receivables	42,499	6,456
Repayments for buildings and freehold land	5,700	5,371
Others	478	1,008
	$ 71,150	$ 18,570

16. BORROWINGS

a. Short-term borrowings

	December 31	
	2016	2015
Secured borrowings (Notes 28 and 30)		
Bank loans	$ 350,000	$ 700,000
Letters of credit	288,958	483,464
	638,958	1,183,464
Unsecured borrowings		
Line of credit borrowings (Note 28)	150,000	880,000
Letters of credit	2,413,386	1,448,842
	2,563,386	2,328,842
	$ 3,202,344	$ 3,512,306

The range of weighted average effective interest rates on bank loans was 1.2%-2.6% and 1.1%-2.1% per annum as of December 31, 2016 and 2015, respectively.

b. Short-term bills payable

	December 31	
	2016	2015
Commercial papers (Note 28)	$ 190,000	$ 700,000
Less: Unamortized discount on bills payable	(226)	(1,598)
	$ 189,774	$ 698,402

Outstanding short-term bills payable were as follows:

December 31, 2016

Promissory Institutions	Nominal Amount	Discount Amount	Carrying Amount	Interest Rate	Collateral
Commercial papers					
A bank	$ 150,000	$ 157	$ 149,843	1.2%	-
B bank	40,000	69	39,931	1.3%	-
	$ 190,000	$ 226	$ 189,774		

December 31, 2015

Promissory Institutions	Nominal Amount	Discount Amount	Carrying Amount	Interest Rate	Collateral
Commercial papers					
A bank	$ 200,000	$ 263	$ 199,737	1.5%-1.6%	-
B bank	170,000	622	169,378	1.5%	-
C bank	150,000	69	149,931	1.4%	-
D bank	100,000	460	99,540	1.5%	-
E bank	80,000	184	79,816	1.7%	-
	$ 700,000	$ 1,598	$ 698,402		

c. Long-term borrowings

	December 31 2016	December 31 2015
Secured borrowings (Notes 28 and 30)		
Syndicated bank loans - Land Bank of Taiwan and other banks (1)	$ 1,600,000	$ 1,500,000
Less: Current portions	(200,000)	-
Syndicated loan fees	(3,342)	(4,722)
Long-term borrowings	$ 1,396,658	$ 1,495,278

1) In August and September 2014 and December 2016, the Company acquired syndicated bank loans secured by the Company's freehold land and buildings (refer to Note 30) in the amount of NT$1,000,000 thousand and NT$600,000 thousand, respectively, and both will be repayable in August 2019. The grace period of the loans acquired in 2014 was 2.5 years. From the date of expiry of the grace period, the repayment of principal and interest is divided into six installments every six months. The first to the fifth installments are 10% of the outstanding balance of the loan, and the sixth installment shall be all of the remaining outstanding principal and the interest balance.

The loans acquired in 2016 had a revolving credit line. Interest shall be paid by month, and on the expiry date the loan shall be extended or settled. After 3 years of the first use of the loans, the credit line shall be reduced to 80% of the original credit line and to 60% after 4 years. The outstanding principal and interest shall be settled on the credit line adjustment day, and all of the remaining outstanding principal and interest shall be fully settled at the maturity date of this credit.

Under the agreements, the Company's current ratio, net-debt ratio and times interest earned ratio should meet some criteria which were based on the consolidated financial statements of the Company. If the Company breaches the financial ratios specified in the agreements, the Company shall amend the status of its financial ratios to meet the agreed upon ratios within five months from April 1 of the following auditing year, and this will not be considered as breach of the agreement. The Company was in compliance with the syndicated credit facility agreements based on the consolidated financial statements of the Company for the years ended December 31, 2016. The weighted average effective interest rates were 1.7% per annum and 1.8% per annum in 2016 and 2015, respectively.

17. NOTES PAYABLE AND TRADE PAYABLES

	December 31	
	2016	2015
Notes payable		
Operating	$ 433,608	$ 81,433
Trade payables		
Operating	$ 73,151	$ 25,348

18. OTHER PAYABLES

	December 31	
	2016	2015
Interest payable	$ 12,911	$ 7,515
Salaries and bonuses payable	84,406	20,429
Other accrued expenses payable	31,296	40,041
	$ 128,613	$ 67,985

19. BONDS PAYABLE

As of December 20, 2013, the Company issued 5 thousand 0% NTD denominated unsecured convertible bonds in Taiwan, with an aggregate principal amount of NT$500,000 thousand.

Each bond entitles the holder to convert it into ordinary shares of the Company at a conversion price of NT$19. If the Company increases its ordinary shares after the bond issuance, the conversion price will be adjusted by Article 11 of the Company's 4th Unsecured Convertible Bond Conversion Method. Conversion may occur at any time between January 20, 2014 and December 10, 2018. The holder can notify the Company 30 days before the expiry of 3 to 4 years from issuance to request the accrued interest based on the denomination of the bonds (the 3-year interest compensation is 3.03%, 4-year interest compensation is 4.06%) and redeem the bonds by cash.

The convertible bonds contained two components: The host liability instrument and the conversion option derivative instrument. The effective interest rate of the host liability on initial recognition was 2.28% per annum, and the conversion option derivative instruments were measured at fair value through profit or loss.

Movements of the host liability instrument were as follows:

	December 31	
	2016	2015
Proceeds from issuance	$ 500,000	$ 500,000
Equity component	(42,450)	(42,450)
Conversion option derivative instrument	(10,950)	(10,950)
The host liability instrument at date issued	446,600	446,600
Interest charged at an effective interest rate	48,317	22,897
Convertible bonds converted into ordinary shares	(386,500)	(21,000)
The host liability instrument at December 31, 2016	108,418	448,497
Less: Current portions	(108,418)	(448,497)
Denominated unsecured convertible bonds	$ -	$ -

Movements of the conversion option derivative instruments were as follows:

	For the Year Ended December 31	
	2016	2015
Beginning of the year	$ 13,652	$ 8,335
Fair value changes (gain) loss	(5,556)	5,317
Converted into ordinary shares	(8,005)	-
End of the year	$ 91	$ 13,652

20. RETIREMENT BENEFIT PLANS

a. Defined contribution plan

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

b. Defined benefit plan

The defined benefit plan adopted by the Company in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the 6 months before retirement. The Company contributes amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Company 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 Company 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 Company has no right to influence the investment policy and strategy.

The amounts included in the balance sheets in respect of the Company's defined benefit plan were as follows:

	December 31	
	2016	2015
Present value of defined benefit obligation	$ 39,082	$ 37,816
Fair value of plan assets	(19,390)	(605)
Deficit	19,692	37,211
Net defined benefit liability	$ 19,692	$ 37,211

Movements in net defined benefit liability were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability
Balance at January 1, 2015	$ 41,394	$ (4,800)	$ 36,594
Service costs			
Current service costs	507	-	507
Net interest expense (income)	673	(91)	582
Recognized in profit or loss	1,180	(91)	1,089
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(18)	(18)
Actuarial loss - changes in demographic assumptions	996	-	996
Actuarial loss - changes in financial assumptions	1,092	-	1,092
Actuarial loss - experience adjustments	1,070	-	1,070

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability
Recognized in other comprehensive income	3,158	(18)	3,140
Contributions from the employer	-	(3,612)	(3,612)
Benefits paid	(7,916)	7,916	-
Balance at December 31, 2015	37,816	(605)	37,211
Service costs			
Current service costs	351	-	351
Net interest expense (income)	473	(17)	456
Recognized in profit or loss	824	(17)	807
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(84)	(84)
Actuarial loss - changes in demographic assumptions	932	-	932
Actuarial loss - changes in financial assumptions	402	-	402
Actuarial loss - experience adjustments	2,493	-	2,493
Recognized in other comprehensive income	3,827	(84)	3,743
Contributions from the employer	-	(22,069)	(22,069)
Benefits paid	(3,385)	3,385	-
Balance at December 31, 2016	$ 39,082	$ (19,390)	$ 19,692

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

	For the Year Ended December 31	
	2016	2015
Operating costs	$ 244	$ 506
Selling and marketing expenses	$ 468	$ 484
General and administrative expenses	$ 95	$ 99

Through the defined benefit plan under the Labor Standards Law, the Company is exposed to the following risks:

1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
2) Interest risk: A decrease in the corporate bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.
3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

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

	December 31	
	2016	2015
Discount rates	1.125%	1.250%
Expected rates of salary increase	1.500%	1.500%

If possible reasonable changes 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	
	2016	2015
Discount rates		
Increase 0.25%	$ (847)	$ (773)
Decrease 0.25%	$ 877	$ 800
Expected rates of salary increase		
Increase 0.25%	$ 856	$ 779
Decrease 0.25%	$ (830)	$ (756)

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

	December 31	
	2016	2015
The expected contributions to the plan for the next year	$ 1,678	$ 860
The average duration of the defined benefit obligation	8.7 years	8.2 years

21. EQUITY

a. Share capital

Ordinary shares

	December 31	
	2016	2015
Number of shares authorized (in thousands)	360,000	360,000
Shares authorized	$ 3,600,000	$ 3,600,000
Number of shares issued and fully paid (in thousands)	299,188	275,638
Shares issued	$ 2,991,876	$ 2,756,380

The share issued had a par value of NT$10. Each share entitles the rights to dividends and to vote.

For the year ended December 31, 2016, the shares increased due to employees' exercising their employee share options, converting bonds payable into ordinary shares, and cancelling treasury shares.

b. Capital surplus

	December 31	
	2016	2015
Issuance of ordinary shares (1)	$ 962,237	$ 961,466
Treasury share transactions (1)	7,754	7,754
Conversion of bonds (1)	9,637	40,667
Changes in percentage of ownership interest in subsidiaries (2)	531	465
Employee share options (3)	36,647	35,223
	$ 1,016,806	$ 1,045,575

1) Such capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Company's capital surplus and once a year).
2) Such capital surplus arises from the effects of changes in ownership interest in a subsidiary resulting from equity transactions other than actual disposals or acquisitions, or from changes in capital surplus of subsidiaries accounted for by using the equity method.
3) Such capital surplus may not be used for any purpose.

c. Retained earnings and dividend policy

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The shareholders held their regular meeting on June 15, 2016 and, in that meeting, resolved amendments to the Company's Articles of Incorporation (the "Articles"), particularly the amendment to the policy on dividend distribution and the addition of the policy on distribution of employees' compensation.

Under the dividend policy as set forth in the amended Articles, where the Company made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders. For the policies on the distribution of employees' compensation and remuneration of directors and supervisors before and after the amendment, refer to Note 22(a)-6 "Employee benefits expense".

To ensure the interests of shareholders and the Company's sustainable development, the Company adopts a balanced dividend policy.

The dividend payment principle shall not be less than 30% of the remaining of the following items: a profit in a fiscal year with the provisions of the preceding paragraph utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside a special reserve, distributing remuneration of the directors and supervisors and bonus of employees. Among the dividend payment, no less than 30% shall be paid in cash and no more than 70% shall be distributed as stocks. In accordance with the principle on dividend payment as set out in the preceding paragraph, the Company shall, in accordance with the actual operating, finance and business conditions and the actual profit of the year, consider the capital budget plan for the following year, determine the most appropriate dividend policy, after implementing the decisions mandated by resolutions in the shareholders' meeting.

An appropriation of earnings to a legal reserve shall be made until the legal reserve equals the Company's paid-in capital. The legal reserve may be used to offset deficits. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

Items referred to under Rule No. 1010012865 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs" should be appropriated to a special reserve by the Company.

Except for non-ROC resident shareholders, all shareholders receiving dividends are allowed a tax credit equal to their proportionate share of the income tax paid by the Company.

The appropriations of earnings for 2015 and 2014 approved in the shareholders' meetings on June 15, 2016 and June 10, 2015, respectively, were as follows:

	Appropriation of Earnings		**Dividends Per Share (NT$)**	
	For the Year Ended December 31		**For the Year Ended December 31**	
	2015	**2014**	**2015**	**2014**
Legal reserve	$ -	$ 23,145	$ -	$ -
Cash dividends	-	278,838	-	1.0
Cash dividends from by capital surplus	165,976	-	0.6	-

The appropriation of earnings for 2016 was proposed by the Company's board of directors on March 14, 2017. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	**Dividends Per Share (NT$)**
Legal reserve	$ 74,777	$ -
Cash dividends	306,194	1.0
Cash dividends from capital surplus	244,955	0.8

The appropriation of earnings for 2016 is subject to resolution in the shareholders' meeting to be held on June 15, 2017.

d. Special reserves

	For the Year Ended December 31	
	2016	**2015**
Beginning at January 1	$ -	$ -
Appropriation in respect of		
Debit to other equity items	231,141	-
Balance at December 31	$ 231,141	$ -

e. Others equity items

1) Exchange differences on translating the financial statements of foreign operations

	For the Year Ended December 31	
	2016	**2015**
Balance at January 1	$ 17,523	$ 9,714
Exchange differences arising on translating the financial statements of foreign operations	(8,489)	7,809
Balance at December 31	$ 9,034	$ 17,523

Exchange differences relating to the translation of the results and net assets of the Company's foreign operations from its functional currencies to the Company's presentation currency (the New Taiwan dollar) were recognized directly in other comprehensive income and accumulated in the foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve were reclassified to profit or loss on the disposal of the foreign operation.

2) Unrealized gain (loss) on available-for-sale financial assets

	For the Year Ended December 31	
	2016	**2015**
Balance at January 1	$ (499,891)	$ 87,612
Unrealized gain arising on revaluation of available-for-sale financial assets	471,450	(587,503)
Balance at December 31	$ (28,441)	$ (499,891)

Unrealized gains or losses on available-for-sale financial assets represents the cumulative gains and losses arising on the revaluation of available-for-sale financial assets that have been recognized in other comprehensive income, net of amounts reclassified to profit or loss when those assets have been disposed of or are determined to be impaired.

f. Treasury shares

Purpose of Buy-Back	**Shares Cancelled (In Thousands of Shares)**
Number of shares at January 1, 2015	-
Increase during the year	4,319
Decrease during the year	(4,319)
Number of shares at December 31, 2015	-

Under the Securities and Exchange Act, the Company shall neither pledge treasury shares nor exercise shareholders' rights on these shares, such as the rights to dividends and to vote.

22. NET PROFIT AND OTHER COMPREHENSIVE INCOME (LOSS) FROM CONTINUING OPERATIONS BONDS PAYABLE

a. Net profit (loss) from continuing operations

Net profit from continuing operations was as follows:

1) Other operating income and expenses

	For the Year Ended December 31	
	2016	2015
Gain (loss) on evaluation of financial assets	$ 13,864	$ (179,745)
Gain on disposal of investments	-	417
Impairment loss on available-for-sale financial assets	(1,715)	-
Dividends	57,495	85,735
	$ 69,644	$ (93,593)

2) Other income

	For the Year Ended December 31	
	2016	2015
Interest income - bank deposits	$ 913	$ 853
Rental income	5,432	1,536
Others	5,189	11,541
	$ 11,534	$ 13,930

3) Other gains and losses

	For the Year Ended December 31	
	2016	2015
Gain (loss) on disposal of property, plant and equipment	$ (3,156)	$ 390,688
Net foreign exchange gains (losses)	43,726	136,154
	$ 40,570	$ 526,842

4) Finance costs

	For the Year Ended December 31	
	2016	2015
Interest on bank loans	$ 81,980	$ 97,998
Interest on convertible bonds	8,901	10,163
Less: Amounts included in the cost of qualifying assets	(565)	(4,155)
	$ 90,316	$ 104,006

Information about capitalized interest was as follows:

	For the Year Ended December 31	
	2016	2015
Capitalized interest	$ 565	$ 4,155
Capitalization rate	2.5%	2.5%

5) Depreciation and amortization

	For the Year Ended December 31	
	2016	2015
Property, plant and equipment	$ 72,198	$ 79,730
Investment property	1,132	-
Long-term prepayments	529	739
	$ 73,859	$ 80,469
An analysis of depreciation by function		
Operating costs	$ 61,044	$ 64,224
Operating expenses	12,286	15,506
	$ 73,330	$ 79,730
An analysis of amortization by function		
Operating costs	$ 529	$ 739
Operating expenses	-	-
	$ 529	$ 739

6) Employee benefits expense

	For the Year Ended December 31	
	2016	2015
Short-term benefits	$ 220,156	$ 128,543
Post-employment benefits (Note 20)		
Defined contribution plan	3,996	4,042
Defined benefit plan	807	1,089
	$ 224,959	$ 133,674
An analysis of employee benefits expense by function		
Operating costs	$ 77,455	$ 64,806
Operating expenses	147,504	68,868
	$ 224,959	$ 133,674

a) Employees' compensation and remuneration of directors and supervisors for 2016 and 2015

In compliance with the Company Act as amended in May 2015 and the amended Articles of Incorporation of the Company approved by the shareholders in their meeting on June 15, 2016, the Company accrued employees' compensation and remuneration of directors and supervisors at the rates of no less than 3% and no higher than 3%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors. The employees' compensation and remuneration of directors and supervisors for the years ended December 31, 2016 and 2015 which have been approved by the Company's board of directors on March 14, 2017 and March 15, 2016, respectively, were as follows:

Accrual rate

	For the Year Ended December 31	
	2016	2015
Employees' compensation	3%	-
Remuneration of directors and supervisors	3%	-

The Company has no accrued employees' compensation for the year ended December 31, 2015 because of a loss before income tax.

Amount

	For the Year Ended December 31			
	2016		2015	
	Cash	Shares	Cash	Shares
Employees' compensation	$ 25,876	$ -	$ -	$ -
Remuneration of directors and supervisors	25,876	-	-	-

If there is a change in the amounts after the parent only financial statements were authorized for issuance, the differences are recorded as a change in the accounting estimate.

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

b) Bonus to employees and remuneration of directors and supervisors for 2014

The bonus to employees and the remuneration of directors and supervisors for 2014 approved in the shareholders' meeting on June 10, 2015 and the amounts recognized in the financial statements were as follows:

	For the Year Ended December 31, 2014	
	Cash	Shares
Bonus to employees	$ 6,249	$ -
Remuneration of directors and supervisors	6,249	-

The bonus to employees and the remuneration of directors and supervisors for 2014 approved in the shareholders' meeting on June 10, 2015 were as follows:

	For the Year Ended December 31, 2014	
	Bonus to Employees	Remuneration of Directors and Supervisors
Amounts approved in shareholders' meeting	$ 6,249	$ 6,249
Amounts recognized in annual financial statements	$ 6,587	$ 6,587

The differences were adjusted to profit and loss for the year ended December 31, 2015.

Information on the bonus to employees and remuneration of directors and supervisors resolved by the shareholders in their meeting in 2015 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

7) Gain or loss on foreign currency exchange

	For the Year Ended December 31	
	2016	2015
Foreign exchange gains	$ 151,011	$ 339,595
Foreign exchange losses	(107,285)	(203,441)
	$ 43,726	$ 136,154

23. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Major components of tax expense (income) recognized in profit or loss

	For the Year Ended December 31	
	2016	2015
Current tax		
In respect of the current year	$ 10,726	$ -
Adjustments for previous years	-	(164)
	10,726	(164)
Deferred tax		
In respect of the current year	50,190	(13,758)
Income tax benefit recognized in profit or loss	$ 60,916	$ (13,922)

A reconciliation of accounting profit and income tax expenses is as follows:

	For the Year Ended December 31	
	2016	2015
Profit (loss) before tax from continuing operations	$ 808,690	$ (415,798)
Income tax expense calculated at the statutory rate	$ 137,477	$ (70,686)
Non-taxable income	(8,651)	(39,466)
Tax-exempt income	(14,295)	(14,575)
Unrecognized loss carryforwards	-	88,552
Used loss carryforwards	(63,718)	-
Unrecognized deductible temporary differences	10,103	22,417
Adjustments for prior years' tax	-	(164)
Income tax expense (benefit) recognized in profit or loss	$ 60,916	$ (13,922)

The applicable tax rate used above is the corporate tax rate of 17% payable by the Company.

As the status of the 2017 appropriation of earnings is uncertain, the potential income tax consequences of the 2016 unappropriated earnings are not reliably determinable.

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2016	2015
Deferred tax		
In respect of the current year:		
Translation of foreign operations	$ 1,850	$ -
Remeasurement on defined benefit plan	(636)	(534)
	1,214	(534)
Total income tax recognized in other comprehensive income	$ 1,214	$ (534)

c. Current tax assets and liabilities

	December 31	
	2016	2015
Current tax assets		
Tax refund receivable	$ -	$ 85
Current tax liabilities		
Income tax payable	$ 10,679	$ -

d. Deferred tax assets and liabilities

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

For the year ended December 31, 2016

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre-hensive Income	Closing Balance
Deferred tax assets				
Temporary differences				
Reversal of write-down of inventories	$ 51,474	$ (51,399)	$ -	$ 75
FVTPL financial assets	(9,586)	9,586	-	-
Convertible bonds	537	(537)	-	-
Net (gain) loss on foreign currency exchange	4,306	(325)	-	3,981
Defined benefit obligation	5,345	(3,615)	636	2,366
Allowance for impaired receivables	2,029	(2,029)	-	-
	$ 54,105	$ (48,319)	$ 636	$ 6,422
Deferred tax liabilities				
Temporary differences				
FVTPL financial assets	$ -	$ 1,463	$ -	$ 1,463
Convertible bonds	-	407	-	407
Exchange difference on foreign operations	-	-	1,851	1,851
	$ -	$ 1,871	$ 1,851	$ 3,721

For the year ended December 31, 2015

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre-hensive Income	Closing Balance
Deferred tax assets				
Temporary differences				
Write-downs of inventory	$ 1,374	$ 50,100	$ -	$ 51,474
FVTPL financial assets	(28,172)	18,586	-	(9,586)
Impairment loss on available-for-sale financial assets	22,417	(22,417)	-	-
Convertible bonds	(366)	903	-	537
Net (gain) loss on foreign currency exchange	21,334	(17,028)	-	4,306
Defined benefit obligation	5,240	(429)	534	5,345
Allowance for uncollectable accounts	2,269	(240)	-	2,029
	24,096	29,475	534	54,105
Loss carryforwards	15,717	(15,717)	-	-
	$ 39,813	$ 13,758	$ 534	$ 54,105

e. Deductible temporary differences and unused loss carryforwards for which no deferred tax assets have been recognized in the balance sheets

	December 31	
	2016	**2015**
Loss carryforwards		
Expire in 2022	$ -	$ 15,248
Expire in 2025	7,982	56,867
	$ 7,982	$ 72,115
Deductible temporary differences		
Share of unrealized income of foreign associates	$ (3,223)	$ (13,674)
Impairment loss on available-for-sale financial assets	22,708	22,417
	$ 19,485	$ 8,743

g. Information about unused loss carryforwards and tax exemptions

Loss carryforwards as of December 31, 2016 comprised:

Unused Amount	**Expiry Year**
$ 46,952	2025

As of December 31, 2016, profits attributable to the following expansion projects were exempt from income tax for a 5-year period:

Expansion of Construction Project	**Tax-exemption Period**
Production of metal products manufacturing investment plan	January 1, 2013-December 31, 2017

h. Integrated income tax

	December 31	
	2016	**2015**
Unappropriated earnings		
Generated on and after January 1, 1998	$ 744,667	$ 231,141
Shareholder-imputed credits account (“ICA”)	$ 101,055	$201,442

	For the Year Ended December 31	
	2016 (Expected)	**2015**
Creditable ratio for distribution of earnings	13.57%	-

The profit for 2015 is expected to be appropriated to a special reserve, so the Company didn’t calculated the creditable ratio for the year.

Under the Income Tax Law of the ROC, for distribution of earnings generated after January 1, 1998, the imputation credits allocated to ROC resident shareholders of the Company were calculated based on the creditable ratio as of the date of the dividend distribution. The actual imputation credits allocated to shareholders of the Company was based on the balance of the ICA as of the date of the dividend distribution. Therefore, the expected creditable ratio for the earnings may differ from the actual creditable ratio to be used in allocating imputation credits to shareholders.

h. Income tax assessments

The tax returns through 2014 and income tax on unappropriated earnings through 2013 have been assessed by the tax authorities.

24. EARNINGS PER SHARE

Unit: NT$ Per Share

	For the Year Ended December 31	
	2016	2015
Basic earnings per share		
From continuing operations	$ 2.67	$ (1.45)
Diluted earnings per share		
From continuing operations	$ 2.62	$ (1.45)

The earnings and weighted average number of ordinary shares outstanding in the computation of earnings per share from continuing operations were as follows:

Net Profit (Loss) for the Year

	For the Year Ended December 31	
	2016	2015
Profit (loss) for the period attributable to owners of the Company	$ 747,774	$ (401,876)
Effect of dilutive ordinary shares:		
Interest on convertible bonds (after tax)	7,388	-
Earnings (deficit) used in the computation of diluted earnings per share	$ 755,162	$ (401,876)

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

	For the Year Ended December 31	
	2016	2015
Weighted average number of ordinary shares in computation of basic earnings per share	279,725	277,872
Effect of potentially dilutive ordinary shares:		
Convertible bonds	7,006	-
Employees' compensation or bonus issued to employees	1,198	-
Weighted average number of ordinary shares used in the computation of diluted earnings per share	287,929	277,872

If the Company offered to settle compensation or bonuses paid to employees in cash or shares, the Company assumed that the entire amount of the compensation or bonus will be settled in shares and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

25. SHARE-BASED PAYMENT ARRANGEMENTS

Employee Share Option Plan of the Company

Qualified employees of the Company and its subsidiaries were granted 2,500 options in March 2011. Each option entitles the holder to subscribe for one thousand ordinary shares of the Company. The options granted were valid for 5 years and exercisable at 40% after the second anniversary, at 70 % after the third anniversary and at 100 % after the fourth anniversary from the grant date. The options were granted at an exercise price equal to the closing price of the Company's ordinary shares listed on the Taiwan Stock Exchange on the grant date. For any subsequent changes in the Company's capital, the exercise price is adjusted accordingly.

Information on employee share options was as follows:

	For the Year Ended December 31			
	2016		2015	
	Number of Options (In Thousands)	Weighted-average Exercise Price (NT$)	Number of Options (In Thousands)	Weighted-average Exercise Price (NT$)
Balance at January 1	1,134	$15.25	1,161	$15.25
Options granted	-	-	-	
Options forfeited	(146)	-	(27)	
Options exercised	(988)	14.40	-	
Balance at December 31	-		1,134	
Options exercisable, end of year	-		1,134	
Weighted-average fair value of options granted (NT$)	$ -		$ 15.8324	

26. PARTLY ACQUIRED OR DISPOSED OF SUBSIDIARIES - NO IMPACT ON CONTROL

In January and August 2016, the Company subscribed for additional new shares of Hsin Ho Fa Metal Co., Ltd. at a percentage different from its existing ownership percentage, increasing its continuing interest from 81.96% to 83.37%.

The above transactions were accounted for as equity transactions, since the Company did not cease to have control over the subsidiary.

27. CAPITAL MANAGEMENT

The Company manages its capital to ensure that entities in the Company will be able to continue as going concerns while maximizing the return to shareholders through the optimization of the debt and equity balance. The Company's overall strategy has remained unchanged over the past five years.

The capital structure of the Company consists of net debt (borrowings offset by cash and cash equivalents) and equity of the Company (comprising issued capital, reserves, retained earnings, other equity and non-controlling interests) and equity attributable to owners of the Company (comprising issued capital, reserves, retained earnings and other equity).

The Company is not subject to any externally imposed capital requirements.

The key management personnel of the Company review the Company's capital structure on a quarterly basis. As part of this review, the key management personnel consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the key management personnel, in order to balance the overall capital structure, the Company may adjust the amount of dividends paid to shareholders, the number of new shares issued or repurchased, and/or the amount of new debt issued or existing debt redeemed.

28. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments that are not measured at fair value

The management believes that the carrying amounts of financial assets and liabilities that are not measured at fair value approximate their fair values:

	December 31			
	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Other financial assets - current	$ 65,576	$ 65,576	$ 73,392	$ 73,392
Other loans and receivables	2,794,588	2,794,588	3,036,280	3,036,280
Financial liabilities				
Financial liabilities measured at amortized cost:				
Bank loans	4,799,002	4,799,002	5,007,584	5,007,584
Short-term bills payable	189,774	189,774	698,402	698,402
Trade and other payables directly related to non-current assets held for sale	635,372	635,372	174,766	174,766
Convertible bonds	108,418	108,418	448,497	448,497

The method and assumptions used by the Company for estimating the tools not measured at fair value are as follows:

1) The fair values of financial instruments included cash and cash equivalents, trades receivables, other receivables - loans receivable, overdue receivables, trade payables, other financial assets, short-term borrowings, and short-term bills payable, are estimated using the carrying amount at the end of the reporting period because the maturity date is close to the reporting date or the payment price is close to the carrying amount.
2) The fair values of long-term loans are determined using the discounted cash flow. Future cash flows are discounted at a long-term borrowing rate of the Company. The Company accounted for the carrying amount of the long-term loans at the end of the reporting period as their fair values.
3) The fair value of the liability component of convertible bonds is estimated using an amortized cost basis under the effective interest method, and the conversion options component of the convertible bonds is recognized at fair value. The fair value of the liability component of the convertible bonds is recognized at the carrying amount at the end of the reporting period.

b. Financial instruments measured at fair value on a recurring basis

1) Fair value hierarchy

December 31, 2016

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial assets	$ -	$ 8,609	$ -	$ 8,609
Non-derivative financial assets held for trading	514,151	-	-	514,151
	$ 514,151	$ 8,609	$ -	$ 522,760
Available-for-sale financial assets				
Securities listed in ROC				
Equity securities	$ 1,732,983	$ -	$ -	$ 1,732,983
Unlisted securities - ROC				
Equity securities	-	-	60,823	60,823
Unlisted securities - other countries				
Equity securities	-	-	348,223	348,223
	$ 1,732,983	$ -	$ 409,046	$ 2,142,029
Financial liabilities at FVTPL				
Derivative financial liabilities	$ -	$ 91	$ -	$ 91

December 31, 2015

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial assets	$ -	$ 56,390	$ -	$ 56,390
Non-derivative financial assets held for trading	298,864	-	-	298,864
	$ 298,864	$ 56,390	$ -	$ 355,254
Available-for-sale financial assets				
Securities listed in ROC				
Equity securities	$ 1,261,533	$ -	$ -	$ 1,261,533
Unlisted securities - ROC				
Equity securities	-	-	74,546	74,546
Unlisted securities - other countries				
Equity securities	-	-	348,223	348,223
	$ 1,261,533	$ -	$ 422,769	$ 1,684,302
Financial liabilities at FVTPL				
Derivative financial liabilities	$ -	$ 13,652	$ -	$ 13,652

There were no transfers between Levels 1 and 2 in the current and prior periods.

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

	Available-for-sale Financial Assets	
	For the Year Ended December 31	
	2016	2015
Beginning of the year	$ 422,769	$ 423,220
Recognized in profit or loss (included in other gains and losses)		
Unrealized	(1,715)	-
Purchases	442	-
Sales	(12,450)	(451)
End of the year	$ 409,046	$ 422,769

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

Financial Instruments	Valuation Techniques and Inputs
Derivatives - foreign currency forward contracts	Discounted cash flow. Future cash flows are estimated based on observable forward exchange rates at the end of the reporting period and contract forward rates discounted at a rate that reflects the credit risk of various counterparties.
Derivatives - conversion option component of convertible bonds	The value of the bonds payable and redemption and put options are estimated based on the binomial CB pricing model and historical volatility, risk-free interest rate, discount rate and liquidity risk at the end of the reporting period.

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

The fair values of unlisted equity securities - ROC were determined using the income approach. In this approach, the discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of these investees. The significant unobservable inputs used are listed in the table below. An increase in long-term revenue growth rates or long-term pre-tax operating margin or a decrease in the weighted average cost of capital or the discount for lack of marketability used in isolation would result in increases in the fair values.

c. Categories of financial instruments

	December 31	
	2016	2015
Financial assets		
Fair value through profit or loss (FVTPL) - held for trading	$ 522,760	$ 355,254
Loans and receivables (1)	2,794,588	3,036,280
Available-for-sale financial assets	2,142,029	1,684,302
Financial liabilities		
Fair value through profit or loss (FVTPL) - held for trading	91	13,652
Amortized cost (2)	5,732,566	6,329,249

1) The balance includes loans and receivables measured at amortized cost, which comprise cash and cash equivalents, notes receivable, trade receivables, other receivables - loans receivable and overdue receivables.

2) The balance includes financial liabilities measured at amortized cost, which comprise short-term and long-term loans, short-term bills payable, trade and other payables, and bonds issued.

d. Financial risk management objectives and policies

The Company's major financial instruments include equity investments, derivative financial instruments, notes receivable, trade receivables, overdue receivables, short-term bills payable, notes payables, trade payables, other payables, bonds payable and borrowings. The Company's Corporate Treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Company through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

The Company sought to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives was governed by the Company's policies approved by the board of directors, which provided written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits was reviewed by the internal auditors on a continuous basis. The Company did not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

1) Market risk

The Company's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates (see (a) below) and interest rates (see (b) below). The Company entered into a variety of derivative financial instruments to manage its exposure to foreign currency risk and interest rate risk, including:

a) Forward foreign exchange contracts to hedge the exchange rate risk arising on the import and export of steel plates;

b) Interest rate swaps to mitigate the risk of rising interest rates.

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

Foreign currency risk

The Company had foreign currency sales and purchases, which exposed the Company to foreign currency risk. Exchange rate exposures were managed within approved policy parameters utilizing forward foreign exchange contracts.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities were as follows:

	December 31	
	2016	**2015**
Assets		
USD	$ 98,078	$ 165,663
EUR	-	5,536
Liabilities		
USD	1,949,448	1,249,116
EUR	-	5,000
JPY	7,014	-

Sensitivity analysis

The Company was mainly exposed to the USD and EUR.

The following table details the Company's sensitivity to a 1% increase and decrease in the New Taiwan dollar (the functional currency) against the relevant foreign currencies. The sensitivity rate used when reporting foreign currency risk internally to key management personnel and representing management's assessment of the reasonably possible change in foreign exchange rates is 1%. The sensitivity analysis included only outstanding foreign currency denominated monetary items and foreign currency forward contracts designated as cash flow hedges, and adjusts their translation at the end of the reporting period for a 1% change in foreign currency rates. A positive number below indicates an increase in pre-tax profit and other equity associated when the New Taiwan dollar strengthens 1% against the relevant currency. For a 1% weakening of the New Taiwan dollar against the relevant currency, there would be an equal and opposite impact on pre-tax profit and other equity and the balances below would be negative.

	USD Impact			
	For the Year Ended December 31			
	2016		2015	
Profit or loss	$ 18,542	(i)	$ 10,826	(i)

	EUR Impact			
	For the Year Ended December 31			
	2016		2015	
Profit or loss	$ -	(ii)	$ 5	(ii)

	JPY Impact			
	For the Year Ended December 31			
	2016		2015	
Profit or loss	$ 71	(iii)	$ -	(iii)

i. This was mainly attributable to the exposure outstanding on USD letters of credit and receivables, which were not hedged at the end of the reporting period.
ii. This was mainly attributable to the exposure outstanding on EUR receivables, which were not hedged at the end of the reporting period.
iii. This was mainly attributable to the exposure outstanding on JPY letters of credit, which were not hedged at the end of the reporting period.

The Company's sensitivity to foreign currency increased during the current year mainly due to the accession purchases which resulted in higher USD letters of credit.

In management's opinion, the sensitivity analysis was unrepresentative of the inherent foreign exchange risk because the exposure at the end of the reporting period did not reflect the exposure during the period.

2) Interest rate risk

The Company was exposed to interest rate risk because entities in the Company borrowed funds at both fixed and floating interest rates. The risk is managed by the Company by maintaining an appropriate mix of fixed and floating rate borrowings and using interest rate swap contracts and forward interest rate contracts. Hedging activities are evaluated regularly to align with interest rate views and the defined risk appetite, ensuring that the most cost-effective hedging strategies are applied.

The carrying amount of the Company's financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows:

	December 31	
	2016	2015
Cash flow interest rate risk		
Financial assets	$ 200,640	$ 264,422
Financial liabilities	4,988,776	5,705,987

<u>Sensitivity analysis</u>

The sensitivity analysis below was determined based on the Company's exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 1% increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 1% higher/lower and all other variables were held constant, the Company's pre-tax profit for the years ended December 31, 2016 and 2015 would decrease/increase by NT$41,440 thousand and NT$52,063 thousand, respectively, which was mainly a result of the changes in the variable interest rate bank deposits and loans.

3) Other price risk

The Company was exposed to equity price risk through its investments in listed equity securities. The Company has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis

The sensitivity analysis below was determined based on the exposure to equity price risks at the end of the reporting period.

If equity prices had been 1% higher/lower, pre-tax profit for years ended December 31, 2016 and 2015 would have increased/decreased by NT$5,184 thousand and NT$2,977 thousand, respectively, as a result of the changes in the fair value of held-for-trading investments, and the pre-tax other comprehensive income for the years ended December 31, 2016 and 2015 would increase/decrease by NT$17,576 thousand and NT$12,665 thousand, respectively, as a result of the changes in the fair value of available-for-sale shares.

The Company's sensitivity to available-for-sale investments and held-for-trading investments has not changed significantly from the prior year.

4) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Company. As at the end of the reporting period, the Company's maximum exposure to credit risk, which would cause a financial loss to the Company due to the failure of counterparties to discharge an obligation provided by the Company could arise from the carrying amount of the respective recognized financial assets as stated in the balance sheets and trade receivables of activities.

In order to minimize credit risk, the management of the Company has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Company reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowances are made for irrecoverable amounts. In this regard, management believes the Company's credit risk was significantly reduced.

Ongoing credit evaluation is performed on the financial condition of trade receivables and, where appropriate, credit guarantee insurance cover is purchased.

The Company did not have significant credit risk exposure to any single counterparty or any Company of counterparties having similar characteristics. The Company defines counterparties as having similar characteristics if they are related entities. The concentration of credit risk to any other counterparty did not exceed 10% of the gross monetary assets at any time during 2016 and 2015.

The Company's concentration of credit risk by geographical locations was mainly in Taiwan, which accounted for 92% and 85% of the total trade receivable as of December 31, 2016 and 2015, respectively.

The credit risk on derivatives was limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

5) Liquidity risk

The Company manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Company's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking and reserve borrowing facilities, and continuously monitoring forecasted and actual cash flows as well as matching the maturity profiles of financial assets and liabilities. As of December 31, 2016 and 2015, the Company had available unutilized short-term bank loan facilities of NT$5,180,582 thousand and NT$3,592,882 thousand, respectively.

a) Liquidity and interest risk rate tables

The following table details the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed upon repayment periods. The tables had been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Company can be required to pay. The tables included both interest and principal cash flows.

To the extent that interest flows are at floating rate, the undiscounted amount was derived from the interest rate curve at the end of the reporting period.

December 31, 2016

	Weighted-Average Effective Interest Rate (%)	On Demand or Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	5+ Years
Non-derivative financial liabilities						
Non-interest bearing	-	$ 252,941	$ 254,272	$ 119,116	$ 5,218	$ 954
Variable interest rate liabilities	1.81	556,887	765,070	2,266,819	1,400,000	-
		$ 809,828	$ 1,019,342	$ 2,385,935	$ 1,405,218	$ 954

December 31, 2015

	Weighted-Average Effective Interest Rate (%)	On Demand or Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	5+ Years
Non-derivative financial liabilities						
Non-interest bearing	-	$ 100,411	$ 37,633	$ 13,169	$ 8,202	$ -
Variable interest rate liabilities	1.82	784,104	1,640,432	1,786,173	1,495,278	-
		$ 884,515	$ 1,678,065	$ 1,799,342	$ 1,503,480	$ -

The following table details the Company's expected maturity for some of its non-derivative financial assets. The table below was drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The inclusion of information on non-derivative financial assets is necessary in order to understand the Company's liquidity risk management as the liquidity is managed on a net asset and liability basis. In order to understand the liquidity risk management of the Company on the basis of net assets and net liabilities, the following information is necessary for non-derivative financial assets:

December 31, 2016

	Weighted-Average Effective Interest Rate (%)	On Demand or Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	5+ Years
Non-derivative financial assets						
Non-interest bearing	-	$ 1,230,341	$ 908,218	$ 141,189	$ -	$ 3,000
Variable interest rate assets	0.46	135,064	36,014	29,562	-	-
		$ 1,365,405	$ 944,232	$ 170,751	$ -	$ 3,000

December 31, 2015

	Weighted-Average Effective Interest Rate (%)	On Demand or Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	5+ Years
Non-derivative financial assets						
Non-interest bearing	-	$ 371,167	$ 679,904	$ 1,070,861	$ -	$ 3,000
Variable interest rate assets	0.32	203,070	48,895	12,457	-	-
		$ 574,237	$ 728,799	$ 1,083,318	$ -	$ 3,000

The amount included above for variable interest rate instruments for both non-derivative financial assets and liabilities was subject to change if changes in variable interest rates differ from those estimates of interest rates determined at the end of the reporting period.

b) Financing facilities

	December 31 2016	December 31 2015
Bank loan facilities expired on 2019 which may be extended upon mutual agreement:		
Amount used	$ 4,988,776	$ 5,705,986
Amount unused	6,083,924	4,878,758
	$ 11,072,700	$ 10,584,744

29. TRANSACTIONS WITH RELATED PARTIES

Besides information disclosed elsewhere in the other notes, details of transactions between the Company and other related parties are disclosed below.

a. Sale of goods

Line Items	For the Year Ended December 31 2016	For the Year Ended December 31 2015
Subsidiaries	$ 1,895	$ 20,395
The directors of the related party are the same as those of the Company	86	322
	$ 1,981	$ 20,717

b. Purchase of goods and operating costs

Line Items	For the Year Ended December 31 2016	For the Year Ended December 31 2015
Subsidiaries	$ 18,627	$ 53,503
The supervisor of the related party is the chairman of the Company	3,182	2,431
	$ 21,809	$ 55,934

The Company’s sale and payment terms and conditions to related parties were comparable to unrelated parties.

c. Receivables from related parties (excluding loans to related parties)

Line Items	For the Year Ended December 31 2016	2015
Subsidiaries	$ 8,598	$ 30,356
The directors of the related party are the same as those of the Company	-	121
	$ 8,598	$ 30,477

d. Payables to related parties

Line Items	For the Year Ended December 31 2016	2015
Subsidiaries	$ 19,518	$ 12,076
The supervisor of the related party is the chairman of the Company	1,060	760
	$ 20,578	$ 12,836

The outstanding trade payables from related parties are unsecured and will be paid in cash. The outstanding trade receivables from related parties are unsecured. For the years ended December 31, 2016 and 2015, no impairment loss was recognized for trade receivables from related parties.

e. Property, plant and equipment acquired

Line Items	For the Year Ended December 31 2016	2015
Subsidiaries	$ 13,088	$ 241

f. Loans to related parties

Line Items	For the Year Ended December 31 2016	2015
Other receivables		
Subsidiaries	$ 13,000	$ -

g. Endorsements and guarantees

Line Items	For the Year Ended December 31 2016	2015
Subsidiaries		
Amount endorsed	$ 7,400	$ 7,400
Amount utilized	7,400	7,400

h. Compensation of key management personnel

The amount of the remuneration of directors and key executives were as follows:

	For the Year Ended December 31 2016	2015
Short-term employee benefits	$ 37,650	$ 14,117

The remuneration of directors and key executives was determined by the remuneration committee based on the performance of individuals and market trends.

30. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for bank borrowings and lease guarantees:

	December 31	
	2016	2015
Notes receivable	$ 225,140	$ 204,302
Pledge deposits (classified as other financial assets - current)	65,576	73,392
Available-for-sale financial assets - non-current	234,175	170,525
Freehold land	725,630	716,351
Buildings, net	332,768	294,880
	$ 1,583,289	$ 1,459,450

31. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Company as of December 31, 2016 and 2015 were as follows:

Significant Commitments

a. As of December 31, 2016 and 2015, unused letters of credit for purchases of raw materials and machinery and equipment amounted to the following:

	December 31	
	2016	2015
TWD	$ 248,882	$ 74,146
USD	40,239	4,118
JPY	20,900	-
EUR	-	82

b. Unrecognized commitments were as follows:

	December 31	
	2016	2015
Acquisition of property, plant and equipment	$ 13,073	$ 13,787

32. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

December 31, 2016

	Foreign Currencies	Exchange Rate		Carrying Amount
Financial assets				
Monetary items				
USD	$ 3,791	32.25	(USD:TWD)	$ 121,869
EUR	36	33.9	(EUR:TWD)	1,442
JPY	61	0.2756	(JPY:TWD)	16
RMB	1	4.617	(RMB:TWD)	7
				$ 123,334
Non-monetary items				
USD	5,081	32.825	(USD:TWD)	$ 163,850
Financial liabilities				
Monetary items				
USD	60,448	32.825	(USD:TWD)	$ 1,949,448
JPY	25,451	0.276	(JPY:TWD)	7,014
				$ 1,956,462

December 31, 2015

	Foreign Currencies	Exchange Rate		Carrying Amount
Financial assets				
Monetary items				
USD	$ 5,270	32.825	(USD:TWD)	$ 172,844
EUR	198	35.88	(EUR:TWD)	7,321
JPY	61	0.2695	(JPY:TWD)	16
				$ 180,181
Non-monetary items				
USD	6,614	32.825	(USD:TWD)	$ 217,119
Financial liabilities				
Monetary items				
USD	38,054	32.825	(USD:TWD)	$ 1,249,116
EUR	139	35.88	(EUR:TWD)	5,000
				$ 1,254,116

33. SEGMENT INFORMATION

The segment information for 2016 and 2015 is disclosure in the Company's consolidated financial statements.

DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES

The entities that are required to be included in the combined financial statements of Hsin Kuang Steel Company Limited as of and for the year ended December 31, 2016, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the International Financial Reporting Standard 10 "Consolidated Financial Statements". In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Hsin Kuang Steel Company Limited and subsidiaries do not prepare a separate set of combined financial statements.

Very truly yours,

HSIN KUANG STEEL COMPANY LIMITED

By

Alexander Su
Chairman

March 14, 2017

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Hsin Kuang Steel Company Limited

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2016 and 2015, and their consolidated financial performance and their 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 Taiwan , 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 Taiwan, 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 Company in accordance with The Norm of Professional Ethics for Certified Public Accountant of Taiwan, the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

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

<u>Estimated impairment of trade receivables</u>

As of December 31, 2016, the net amount of notes receivable, trade receivables and overdue receivables, in New Taiwan dollars ("NT$"), was NT$2,339,922 thousand, representing 20% of the Company and its subsidiaries' total assets. When the management estimates the recoverability of note receivables, trade receivables and overdue receivables, it is based on the objective impairment evidence of the individual receivables and the condition of collateral or other credit enhancements. When there is no objective impairment evidence, the allowance for impairment loss recognized against trade receivables is based on historical experience with the counterparties and the aging of receivables. Since the amount of trade receivables is significant for the consolidated financial statements and the estimation of impairment of notes receivable, trade receivables and overdue receivables is subject to management's judgment, it has been identified as a key audit matter.

Refer to Notes 4, 5 and 9 to the accompanying consolidated financial statements for the accounting policies and related information on the estimated impairment of trade receivables.

For our audit procedures performed in respect of the above area, we:

1. Understood and tested the design and operating effectiveness of key control over the estimated impairment of trade receivables;
2. Obtained the accounting policies for the provision of impairment of trade receivables and the aging report in order to confirm whether the sales customers have credit insurance or collateral, assessed the overall economic situation, and assessed the reasonableness of management's assumptions on the estimated impairment of trade receivables and the reasonableness of the customer credit management;
3. Tested the completeness and accuracy of the aging of receivables, compared the aging report to those of previous years, reviewed the bad debt write-offs in the current year and the prior year, and checked the recoverability of outstanding debts;
4. Examined and assessed the reasonableness of the overdue receivables of subsequent-to-period-end cash receipts, and considered if additional provisions were required.

<u>Write-down of inventory</u>

As of December 31, 2016, the inventory of the Company and its subsidiaries amounted to NT$2,263,475 thousand, representing 19% of the Company and its subsidiaries' total assets. The Company and its subsidiaries mainly engage in the sale, cutting and logistics of various steel products. In this mode of operation, the Company and its subsidiaries must reserve all kinds of steel products in response to market and customer demand. As the steel industry is highly affected by fluctuations of international steel prices, it may lead to changes in the value of inventory, which will affect the net realizable value of inventory. Since the amount of inventory is significant for the consolidated financial statements and the provision of the valuation of inventory is subject to management's judgment, in particular, the decision on the net realizable value of inventory, which is estimated based on past selling prices and actual transactions, it has been identified as a key audit matter.

Refer to Notes 4, 5 and 11 to the consolidated financial statements for the accounting policies and related information on the write-down of inventory.

For our audit procedures performed in respect of the above area, we:

1. Understood and tested the design and operating effectiveness of key controls over the write-down of inventory;
2. Compared the wholesale steel price charts of China Steel Corporation to the reasonableness of management's provision for the inventory write-downs;
3. Checked the data used by the management in calculating the allowance for inventory write-downs, tested the completeness and accuracy of the year-end inventory valuation, which included testing the data used for the net realizable value by the management, and recalculated the amount of impairment loss.

Other Matters

We have also audited the parent company only financial statements of Hsin Kuang Steel Company Limited as of and for the years ended December 31, 2016 and 2015 on which we have issued an unmodified opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated

Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and 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 of Taiwan, the Republic of China, 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 Company and its subsidiaries' 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 Company and its subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including management and supervisors, are responsible for overseeing the Company'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 Taiwan, 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 Company and its subsidiaries' 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 Company and its subsidiaries' 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 Company and its subsidiaries 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 Company and its subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Chao-Ling Chen and Chiang-Pao Liu.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 14, 2017

<u>*Notice to Readers*</u>

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. Also, as stated in Note 4 to the consolidated financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.

HSIN KUANG STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In Thousands of New Taiwan Dollars)

	December 31, 2016		December 31, 2015 (Audited after Restated)		January 1, 2015 (Audited after Restated)	
ASSETS	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS						
Cash and cash equivalents (Note 6)	$ 668,153	6	$ 998,296	9	$ 398,927	3
Financial assets at fair value through profit or loss - current (Notes 4, 7 and 31)	823,390	7	608,933	6	846,768	6
Available-for-sale financial assets - current (Notes 4 and 8)	330,402	3	240,181	2	352,570	3
Notes receivable (Notes 4, 5, 9 and 33)	966,558	8	956,937	9	1,087,652	8
Trade receivables (Notes 4, 5, 9 and 32)	1,330,865	11	1,181,404	11	1,616,925	12
Amounts due from customers for construction contracts (Notes 4 and 10)	2,345	-	7,723	-	39,430	-
Other receivables	68,178	-	6,735	-	3,246	-
Current tax assets (Notes 4 and 26)	-	-	99	-	-	-
Prepayments	42,915	-	21,705	-	79,466	1
Inventories (Notes 4, 5 and 11)	2,263,475	19	1,983,998	19	3,500,985	27
Non-current assets held for sale (Notes 4 and 12)	-	-	150,509	1	219,041	2
Other current financial assets (Notes 4, 13 and 33)	70,073	1	80,307	1	94,778	1
Other current assets (Note 18)	435	-	2,441	-	152	-
Total current assets	6,566,789	55	6,239,268	58	8,239,940	63
NON-CURRENT ASSETS						
Available-for-sale financial assets - non-current (Notes 4, 8 and 33)	1,908,377	16	1,444,121	14	1,919,686	15
Investments accounted for using equity method (Notes 4 and 15)	39,725	-	39,800	-	16,494	-
Property, plant and equipment (Notes 4, 16 and 33)	3,033,067	26	2,834,422	27	2,846,204	22
Investment properties, net (Notes 4 and 17)	271,313	2	-	-	-	-
Deferred tax assets (Notes 4 and 26)	6,629	-	54,105	-	39,910	-
Other non-current assets (Notes 4, 5, 9 and 18)	95,256	1	78,535	1	28,834	-
Total non-current assets	5,354,367	45	4,450,983	42	4,851,128	37
TOTAL	$ 11,921,156	100	$ 10,690,251	100	$ 13,091,068	100
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Short-term borrowings (Notes 4 and 19)	$ 3,395,094	28	$ 3,615,554	34	$ 4,646,478	36
Short-term bills payable (Notes 4 and 19)	189,774	2	698,402	7	279,723	2
Financial liabilities at fair value through profit or loss - current (Notes 4 and 7)	91	-	13,652	-	8,335	-
Notes payable (Notes 4, 20 and 31)	420,766	3	85,566	1	374,117	3
Trade payables (Notes 4, 20 and 31)	68,644	-	24,806	-	62,416	-
Other payables (Note 21)	235,508	2	72,146	1	85,669	1
Current tax liabilities (Notes 4 and 26)	11,157	-	417	-	11,626	-
Liabilities directly associated with non-current assets held for sale	-	-	-	-	3,382	-
Current portion of long-term borrowings (Notes 4, 19 and 22)	318,884	3	450,577	4	2,080	-
Other current liabilities	76,018	1	34,961	-	19,613	-
Total current liabilities	4,715,936	39	4,996,081	47	5,493,439	42
NON-CURRENT LIABILITIES						
Bonds payable (Notes 4 and 22)	-	-	-	-	438,334	3
Long-term borrowings (Notes 4 and 19)	1,608,558	14	1,496,145	14	1,646,845	13
Deferred tax liabilities (Notes 4 and 26)	3,733	-	4	-	11	-
Net defined benefit liabilities - non-current (Notes 4 and 23)	19,692	-	37,211	-	36,594	-
Other non-current liabilities	300	-	300	-	58	-
Total non-current liabilities	1,632,283	14	1,533,660	14	2,121,842	16
Total liabilities	6,348,219	53	6,529,741	61	7,615,281	58
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 4 and 24)						
Share capital	2,991,876	25	2,756,380	26	2,788,380	21
Capital surplus	1,016,806	9	1,045,575	10	1,049,463	8
Retained earnings						
Legal reserve	579,610	5	579,610	6	556,465	5
Special reserve	231,141	2	-	-	-	-
Unappropriated earnings	744,667	6	231,141	2	937,606	7
Total retained earnings	1,555,418	13	810,751	8	1,494,071	12
Other equity	(19,407)	-	(482,368)	(5)	97,326	1
Total equity attributable to owners of the Company	5,544,693	47	4,130,338	39	5,429,240	42
NON-CONTROLLING INTERESTS	28,244	-	30,172	-	46,547	-
Total equity	5,572,937	47	4,160,510	39	5,475,787	42
TOTAL	$ 11,921,156	100	$ 10,690,251	100	$ 13,091,068	100

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

HSIN KUANG STEEL CORPORATION AND SUBSIDIARIES

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

	For the Years Ended December 31			
	2016		2015	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4 and 32)				
Sales	$ 6,398,105	117	$ 6,442,967	92
Other operating revenue	13,581	-	6,732	-
Total operating revenue	6,411,686	117	6,449,699	92
OPERATING COSTS				
Cost of goods sold (Notes 11, 23, 25 and 32)	5,484,318	100	6,995,578	100
Construction costs	-	-	1,809	-
Other operating costs	10,379	-	20,685	-
Total operating costs	5,494,697	100	7,018,072	100
GROSS PROFIT (LOSS)	916,989	17	(568,373)	(8)
OPERATING EXPENSES				
Selling and marketing expenses (Notes 23 and 25)	(148,301)	(2)	(147,912)	(2)
General and administrative expenses (Notes 23 and 25)	(95,577)	(2)	(44,938)	(1)
Total operating expenses	(243,878)	(4)	(192,850)	(3)
OTHER OPERATING INCOME AND EXPENSES (Note 25)	78,989	1	(93,900)	(1)
PROFIT (LOSS) FROM OPERATIONS	752,100	14	(855,123)	(12)
NON-OPERATING INCOME AND EXPENSES				
Other income (Note 25)	11,729	-	14,025	-
Other gains (Note 25)	140,895	3	524,180	8
Finance costs (Note 25)	(94,132)	(2)	(105,840)	(2)
Share of profit or loss of associates and joint ventures	688	-	849	-
Total non-operating income and expenses	59,180	1	433,214	6
PROFIT (LOSS) BEFORE INCOME TAX FROM CONTINUING OPERATIONS	811,280	15	(421,909)	(6)
INCOME TAX (EXPENSE) BENEFIT (Notes 4 and 26)	(61,496)	(1)	13,130	-
NET PROFIT (LOSS) FOR THE YEAR	749,784	14	(408,779)	(6)

(Continued)

HSIN KUANG STEEL CORPORATION AND SUBSIDIARIES

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

	For the Years Ended December 31			
	2016		2015	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified to profit or loss:				
Remeasurement of defined benefit plans	(3,107)	-	(2,606)	-
	(3,107)	-	(2,606)	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	(8,529)	-	7,672	-
Unrealized gain (loss) on available-for-sale financial assets	471,450	8	(587,503)	(8)
	462,921	8	(579,831)	(8)
Other comprehensive income (loss) for the year, net of income tax	459,814	8	(582,437)	(8)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	$ 1,209,598	22	$ (991,216)	(14)
NET PROFIT (LOSS) ATTRIBUTABLE TO:				
Owners of the Company	$ 747,774	14	$ (401,876)	(6)
Non-controlling interests	2,010	-	(6,903)	-
	$ 749,784	14	$ (408,779)	(6)
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:				
Owners of the Company	$ 1,207,628	22	$ (984,176)	(14)
Non-controlling interests	1,970	-	(7,040)	-
	$ 1,209,598	22	$ (991,216)	(14)
EARNINGS (LOSSES) PER SHARE (Note 27)				
From continuing operations				
Basic	$ 2.67		$ (1.45)	
Diluted	$ 2.62		$ (1.45)	

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

HSIN KUANG STEEL CORPORATION AND SUBSIDIARIES

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

	Equity Attributable to Owners of the Company											
	Share Capital			Retained Earnings			Other Equity					
	Shares (In Thousands)	Amount	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Treasury Shares	Total	Non-controlling Interests	Total Equity
BALANCE AT JANUARY 1, 2015	$ 278,838	$ 2,788,380	$ 1,049,463	$ 556,465	$ -	$ 937,606	$ 9,714	$ 87,612	$ -	$ 5,429,240	$ 46,547	$ 5,475,787
Appropriation of 2014 earnings												
Legal reserve	-	-	-	23,145	-	(23,145)	-	-	-	-	-	-
Cash dividends distributed by the Company	-	-	-	-	-	(278,838)	-	-	-	(278,838)	-	(278,838)
Cash dividends distributed by the subsidiaries	-	-	-	-	-	-	-	-	-	-	(1,581)	(1,581)
Other changes in capital surplus:												
Changes in percentage of ownership interest in subsidiaries	-	-	465	-	-	-	-	-	-	465	(7,754)	(7,289)
Recognition of employee share options by the Company	-	-	6,833	-	-	-	-	-	-	6,833	-	6,833
Net loss for the year ended December 31, 2015	-	-	-	-	-	(401,876)	-	-	-	(401,876)	(6,903)	(408,779)
Other comprehensive income (loss) for the year ended December 31, 2015, net of income tax	-	-	-	-	-	(2,606)	7,809	(587,503)	-	(582,300)	(137)	(582,437)
Total comprehensive income (loss) for the year ended December 31, 2015	-	-	-	-	-	(404,482)	7,809	(587,503)	-	(984,176)	(7,040)	(991,216)
Buy-back of ordinary shares	-	-	-	-	-	-	-	-	(43,186)	(43,186)	-	(43,186)
Cancelation of treasury shares	(3,200)	(32,000)	(11,186)	-	-	-	-	-	43,186	-	-	-
BALANCE AT DECEMBER 31, 2015	275,638	2,756,380	1,045,575	579,610	-	231,141	17,523	(499,891)	-	4,130,338	30,172	4,160,510
Special reserve reversed under Rule No. 1010012865 issued by the FSC	-	-	-	-	231,141	(231,141)	-	-	-	-	-	-
Appropriation of 2015 earnings												
Share dividends distributed from capital surplus	-	-	(165,976)	-	-	-	-	-	-	(165,976)	-	(165,976)
Cash dividends distributed by the subsidiaries	-	-	-	-	-	-	-	-	-	-	(1,938)	(1,938)
Other changes in capital surplus:												
Recognition of employee share options by the Company	-	-	66	-	-	-	-	-	-	66	(1,960)	(1,894)
Changes in percentage of ownership interest in subsidiaries	-	-	1,424	-	-	-	-	-	-	1,424	-	1,424
Convertible bonds converted to ordinary shares	22,562	225,616	131,370	-	-	-	-	-	-	356,986	-	356,986
Net profit for the year ended December 31, 2016	-	-	-	-	-	747,774	-	-	-	747,774	2,010	749,784
Other comprehensive income (loss) for the year ended December 31, 2016	-	-	-	-	-	(3,107)	(8,489)	471,450	-	459,854	(40)	459,814
Total comprehensive income (loss) for the year ended December 31, 2016	-	-	-	-	-	744,667	(8,489)	471,450	-	1,207,628	1,970	1,209,598
Issue of ordinary shares under employee share options	988	9,880	4,347	-	-	-	-	-	-	14,227	-	14,227
BALANCE AT DECEMBER 31, 2016	$ 299,188	$ 2,991,876	$ 1,016,806	$ 579,610	$ 231,141	$ 744,667	$ 9,034	$ (28,441)	$ -	$ 5,544,693	$ 28,244	$ 5,572,937

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

HSIN KUANG STEEL CORPORATION AND SUBSIDIARIES

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

	For the Years Ended December 31	
	2016	**2015**
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax	$ 811,280	$ (421,909)
Adjustments for:		
Depreciation expense	75,797	86,806
Amortization expense	1,031	1,046
Recognition (reversal) of provisions	8,793	(3,601)
Net (gain) loss on fair value change of financial assets held for trading	(9,136)	197,720
Net (gain) loss on fair value change of financial liabilities held for trading	(5,556)	5,317
Finance costs	94,132	105,840
Compensation costs of employee share options	1,424	6,833
Loss (gain) on disposal of property, plant and equipment	3,926	(390,688)
Net gain on disposal of available-for-sale financial assets	-	(417)
Share of (profit) loss of associates and joint ventures	(688)	(849)
Interest income	(985)	(910)
Dividend income	(61,876)	(88,320)
Gain on disposal of associates	(102,218)	-
Impairment loss recognized on available-for-sale financial assets	1,715	-
(Reversal of) write-down of inventories	(305,355)	296,223
Net loss on foreign currency exchange	782	99,742
Net defined benefit liabilities	(21,262)	(1,989)
Changes in operating assets and liabilities		
(Increase) decrease in financial assets held for trading	(205,321)	40,115
(Increase) decrease in notes receivable	(9,181)	130,523
(Increase) decrease in trade receivables	(205,929)	440,475
Increase in other receivables	(61,443)	(3,599)
Decrease in amounts due from customers for construction contracts	5,378	31,707
Decrease in inventories	25,878	1,220,764
(Increase) decrease in prepayments	(21,210)	57,761
Decrease in other current assets	2,105	2,615
Increase (decrease) in notes payable	335,200	(288,551)
Increase (decrease) in trade payables	42,425	(37,417)
Increase (decrease) in other payables	160,674	(6,809)
Increase in other current liabilities	41,057	11,966
Cash generated from operating activities	601,437	1,490,394
Interest received	985	910
Income tax paid	(766)	(12,380)
Net cash generated from operating activities	601,656	1,478,924
CASH FLOWS FROM INVESTING ACTIVITIES		

(Continued)

HSIN KUANG STEEL CORPORATION AND SUBSIDIARIES

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

	For the Years Ended December 31	
	2016	**2015**
Purchase of available-for-sale financial assets	(39,142)	-
Proceeds from the capital reduction on available-for-sale financial assets	12,450	868
Acquisition of joint ventures	-	(27,500)
Increase in prepayments for investments	-	(44,529)
Proceeds from the capital reduction of associates	-	4,000
Proceeds from disposal of non-current assets held for sale	246,137	459,935
Payments for property, plant and equipment	(278,057)	(69,035)
Proceeds from disposal of property, plant and equipment	14,084	2,732
Payments for investment properties	(239,222)	-
Decrease in other current financial assets	10,234	14,471
Increase in prepayments for equipment	(49,771)	(10,291)
Dividends received from associates	763	1,042
Other dividends received	61,876	88,320
(Increase) decrease in refundable deposits	(40,466)	1,338
Net cash (used in) generated from investing activities	(301,114)	421,351
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	8,558,258	11,589,999
Repayments of short-term borrowings	(8,766,874)	(12,725,565)
(Decrease) increase in short-term bills payable	(510,000)	420,000
Proceeds from long-term borrowings	823,900	-
Repayments of long-term borrowings	(504,481)	(152,080)
Proceeds from guarantee deposits received	-	242
Dividends paid	(165,976)	(278,838)
Proceeds from issue of ordinary shares under employee share options	14,227	-
Payments for buy-back of ordinary shares	-	(43,186)
Interest paid	(76,834)	(104,791)
Decrease in non-controlling interests	(3,898)	(9,335)
Net cash used in financing activities	(631,678)	(1,303,554)
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	993	2,648
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(330,143)	599,369
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	998,296	398,927
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	$ 668,153	$ 998,296

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

HSIN KUANG STEEL CORPORATION AND SUBSIDIARIES

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

1. ORGANIZATION AND OPERATIONS

Hsin Kuang Steel Company Limited (the “Company”) was incorporated in January 1967. The original paid-in-capital was $200 thousands, and then ordinary shares were issued for promoting business expansion and a sound financial structure. The Company’s share was approved to be listed on the Taipei Exchange in April 1997 and then was approved to transfer to the Taiwan Stock Exchange in August 2000. The Company’s shares have been listed on the Taiwan Stock Exchange since September 2000 under the approval of the Financial Supervisory Commission of the Republic of China (the “ROC”).

The Company mainly engages in the cutting, stamping and sale of various steel products, including steel coils, steel plates, stainless steel, alloy steel and special steel.

The consolidated entities were as follows:

Hsin Yuan Investment Co., Ltd. was incorporated on September 22, 1998. The entity mainly engages in investment in various kinds of manufacturing, securities investment, banking and insurance, etc.

Hsin Ho Fa Metal Co., Ltd. was incorporated on January 28, 2003. The entity engages in the sale of metal products for architecture.

Sinpao Investment Co., Ltd. was incorporated in British Virgin Island (B.V.I) in 2001. The entity is a holding company of overseas investments.

Hsin Kuang Alga Engineering Co., Ltd. was incorporated on November 10, 2009. The entity mainly engages in the manufacture and sales of metal products.

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

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company’s board of directors on March 14, 2017.

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

a. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) endorsed by the Financial Supervisory Commission (FSC) and applicable from 2017

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

New, Amended or Revised Standards and Interpretations	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2010-2012 Cycle	July 1, 2014 (Note 2)
Annual Improvements to IFRSs 2011-2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016 (Note 3)
Amendments to IFRS 10, IFRS 12 and IAS 28 “Investment Entities: Applying the Consolidation Exception”	January 1, 2016
Amendment to IFRS 11 “Accounting for Acquisitions of Interests in Joint Operations”	January 1, 2016
IFRS 14 “Regulatory Deferral Accounts”	January 1, 2016
Amendment to IAS 1 “Disclosure Initiative”	January 1, 2016
Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization”	January 1, 2016
Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plants”	January 1, 2016

New, Amended or Revised Standards and Interpretations	Effective Date Announced by IASB (Note 1)
Amendment to IAS 19 “Defined Benefit Plans: Employee Contributions”	July 1, 2014
Amendment to IAS 36 “Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets”	January 1, 2014
Amendment to IAS 39 “Novation of Derivatives and Continuation of Hedge Accounting”	January 1, 2014
IFRIC 21 “Levies”	January 1, 2014

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

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

Note 3: The amendment to IFRS 5 is applied prospectively to changes in a method of disposal that occur in annual periods beginning on or after January 1, 2016; the remaining amendments are effective for annual periods beginning on or after January 1, 2016.

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

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

   The amendment clarifies that the recoverable amount of an asset or a cash-generating unit is disclosed only when an impairment loss on the asset has been recognized or reversed during the period. Furthermore, if the recoverable amount of an item of property, plant and equipment for which an impairment loss has been recognized or reversed is its fair value less costs of disposal, the Company and its subsidiaries are required to disclose the fair value hierarchy. If the fair value measurements are categorized within Level 2 or Level 3, the valuation technique and key assumptions used to measure the fair value are disclosed. The discount rate used is disclosed if such fair value less costs of disposal is measured by using the present value technique. The amendment will be applied retrospectively

2) IFRIC 21 “Levies”

   IFRIC 21 provides guidance on when to recognize a liability for a levy imposed by a government. It addresses the accounting for a liability whose timing and amount is certain and the accounting for a provision whose timing or amount is not certain. The Company and its subsidiaries accrue a related liability when the transaction or activity that triggers the payment of the levy occurs. Therefore, if the obligating event occurs over a period of time (such as the generation of revenue over a period of time), the liability is recognized progressively. If an obligation to pay a levy is triggered upon reaching a minimum threshold (such as a minimum amount of revenue or sales generated), the liability is recognized when that minimum threshold is reached.

3) Annual Improvements to IFRSs 2010-2012 Cycle

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

   The amended IFRS 2 changes the definitions of a “vesting condition” and a “market condition” and adds definitions for a “performance condition” and a “service condition”. The amendment clarifies that a performance target can be based on the operations (i.e. a non-market condition) of the Company and its subsidiaries or another entity in the same group or the market price of the equity instruments of the Company and its subsidiaries or another entity in the same group (i.e. a market condition); that a performance target can relate either to the performance of the Company and its subsidiaries as a whole or to some part of it (e.g. a division); and that the period for achieving a performance condition must not extend beyond the end of the related service period. In addition, a share market index target is not a performance condition because it not only reflects the performance of the Company and its subsidiaries but also of other entities outside the Company and its subsidiaries. The share-based payment arrangements with market conditions, non-market conditions or non-vesting conditions will be accounted for differently, and the aforementioned amendment will be applied prospectively to those share-based payments granted on or after January 1, 2017.

IFRS 3 was amended to clarify that contingent consideration should be measured at fair value, irrespective of whether the contingent consideration is a financial instrument within the scope of IFRS 9 or IAS 39. Changes in fair value should be recognized in profit or loss. The amendment will be applied prospectively to business combinations with acquisition dates on or after January 1, 2017.

The amended IFRS 8 requires the Company and its subsidiaries to disclose the judgments made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have “similar economic characteristics”. The amendment also clarifies that a reconciliation of the total of the reportable segments’ assets to the entity’s assets should only be provided if the segments’ assets are regularly provided to the chief operating decision-maker. The judgments made in applying aggregation criteria should be disclosed retrospectively upon the initial application of the amendment in 2017.

When the amended IFRS 13 becomes effective in 2017, the short-term receivables and payables with no stated interest rates will be measured at their invoice amounts without discounting, if the effect of not discounting is immaterial.

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

4) Annual Improvements to IFRSs 2011-2013 Cycle

Several standards, including IFRS 3, IFRS 13 and IAS 40 “Investment Property”, were amended in this annual improvement.

IFRS 3 was amended to clarify that IFRS 3 does not apply to the accounting for the formation of all types of joint arrangements in the financial statements of a joint arrangement itself. The amendment will be applied prospectively starting from January 1, 2017.

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

IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive and the application of both standards may be required to determine whether an investment property acquired is an acquisition of an asset or a business combination. The amendment will be applied prospectively to acquisitions of investment property on or after January 1, 2017.

5) Amendment to IFRS 11 “Accounting for Acquisitions of Interests in Joint Operations”

The amendment requires that the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3, is required to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs with the exception of those principles that conflict with the guidance in IFRS 11. Accordingly, a joint operator that is an acquirer of such an interest has to:

- Measure most identifiable assets and liabilities at fair value;
- Expense acquisition-related costs (other than debt or equity issuance costs);
- Recognize deferred taxes;
- Recognize any goodwill or bargain purchase gain;
- Perform impairment tests for the cash generating units to which goodwill has been allocated;
- Disclose required information relevant for business combinations.

The amendment also applies to the formation of a joint operation if, and only if, an existing business is contributed to the joint operation on its formation by one of the parties that participates in the joint operation.

The amendment does not apply to the acquisition of an interest in a joint operation when the parties sharing control are under common control before and after the acquisition.

The above amendment will be applied to interests in joint operations acquired on or after January 1, 2017. Amounts of interests in joint operations acquired in prior periods are not adjusted.

6) Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization”

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

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

   The amended IAS 38 “Intangible Assets” clarifies that there is a rebuttable presumption that an amortization method that is based on revenue that is generated by an activity that includes the use of an intangible asset is not appropriate. This presumption can be overcome only in the following limited circumstances:

   a) In which an intangible asset is expressed as a measure of revenue (for example, a contract that specifies that the entity’s use of the intangible asset will expire upon achievement of a revenue threshold); or
   b) When it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

7) Annual Improvements to IFRSs 2012-2014 Cycle

   Several standards including IFRS 5 “Non-current assets held for sale and discontinued operations”, IFRS 7, IAS 19 and IAS 34 were amended in this annual improvement.

   IFRS 5 was amended to clarify that a reclassification between non-current assets (or a disposal group) “held for sale” and non-current assets “held for distribution to owners” does not constitute a change to a plan of sale or distribution. Therefore, the previous accounting treatment is not reversed. The amendment also explains that assets that no longer meet the criteria for “held for distribution to owners” and do not meet the criteria for “held for sale” should be treated in the same way as assets that cease to be classified as held for sale. The amendment will be applied prospectively to transactions that occur on or after January 1, 2017.

8) Amendments to IFRS 10, IFRS 12 and IAS 28 “'Investment Entities: Applying the Consolidation Exception”

   The amendments clarified that the Company and its subsidiaries (an investment entity) should consolidate subsidiaries that are not themselves investment entities but entities whose main purpose is to provide services and activities that are related to the investment activities of the parent investment entity.

   Moreover, the Company and its subsidiaries will enhance the disclosures related to its subsidiaries measured at fair value according to the amended IFRS 12 when it becomes effective in 2017. The disclosures will be made retrospectively.

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

   The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed by the FSC for application starting from 2017. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include 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 Company and its subsidiaries or is the spouse or second immediate family of the chairman of the board of directors or president of the Company and its subsidiaries 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 Company and its subsidiaries have significant transactions. If the transactions or balance with a specific related party is 10% or more of the Company and its subsidiaries’ respective total transactions or balance, such transactions should be separately disclosed by the name of each related party.

The amendments also require additional disclosure if there is a significant difference between the actual operations after a business combination and the expected benefits on the acquisition date.

Except for the above impacts, as of the date the consolidated financial statements were authorized for issue, the Company and its subsidiaries continue assessing other possible impacts that application of the aforementioned amendments and the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers will have on the Company and its subsidiaries' financial position and financial performance, and will disclose these other impacts when the assessment is completed.

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

The Company and its subsidiaries have not applied the following IFRSs issued by the IASB but not yet endorsed by the FSC.

The FSC announced that IFRS 9 and IFRS 15 will take effect starting January 1, 2018. As of the date that these consolidated financial statements were authorized for issue, the FSC had not announced the effective dates of other new IFRSs.

New, Amended or Revised Standards and Interpretations	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2014-2016 Cycle	(Note 2)
Amendment to IFRS 2 "Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
Amendments to IFRS 9 and IFRS 7 "Mandatory Effective Date of IFRS 9 and Transition Disclosures"	January 1, 2018
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendments to IFRS 15 "Clarifications to IFRS15 Revenue from Contracts with Customers"	January 1, 2018
IFRS 16 "Leases"	January 1, 2019
Amendment to IAS 7 "Disclosure Initiative"	January 1, 2017
Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of Investment Property"	January 1, 2018

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

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

The initial application of the above New IFRSs, whenever applied, would not have any material impact on the Company and its subsidiaries' accounting policies, except for the following:

1) IFRS 9 "Financial Instruments"

<u>Recognition and measurement of financial assets</u>

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 Company and its subsidiaries' debt instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, their classification and measurement are as follows:

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

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

Except for above, all other financial assets are measured at fair value through profit or loss. However, the Company and its subsidiaries 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 gains or losses previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

The impairment of financial assets

IFRS 9 requires that impairment losses on financial assets is recognized by using the expected credit loss model. A credit loss allowance is required for financial assets measured at amortized cost, financial assets mandatorily measured at FVTOCI, lease receivables, contract assets arising from IFRS 15 “Revenue from Contracts with Customers”, certain written loan commitments and financial guarantee contracts. A loss allowance for the 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since 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 purchased or originated credit-impaired financial assets, the Company and its subsidiaries 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.

Transition

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

2) Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”

The amendments stipulated that, when an entity sells or contributes assets that constitute a business (as defined in IFRS 3) to an associate or joint venture, the gain or loss resulting from the transaction is recognized in full. Also, when an entity loses control of a subsidiary that contains a business but retains significant influence or joint control, the gain or loss resulting from the transaction is recognized in full.

Conversely, when the Company and its subsidiaries sell or contribute assets that do not constitute a business to an associate or joint venture, the gain or loss resulting from the transaction is recognized only to the extent of the unrelated investors’ interest in the associate or joint venture, i.e. the Company and its subsidiaries’ share of the gain or loss is eliminated. Also, when the Company and its subsidiaries lose control of a subsidiary that does not contain a business but retains significant influence or joint control in an associate or a joint venture, the gain or loss resulting from the transaction is recognized only to the extent of the unrelated investors’ interest in the associate or joint venture, i.e. the Company and its subsidiaries’ shares of the gain or loss are eliminated.

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

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers and will supersedes IAS 18 “Revenue”, IAS 11 “Construction Contracts” and a number of revenue-related interpretations.

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

- Identify the contract with the customer;
- Identify the performance obligations in the contract;

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

When IFRS 15 and the related amendment are effective, the Company and its subsidiaries may elect to apply this standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this standard recognized at the date of initial application.

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

The application of IFRS 16 is not expected to have a material impact on the accounting of the Company and its subsidiaries as lessor.

When IFRS 16 becomes effective, the Company and its subsidiaries 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.

5) Amendment to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"

The amendment clarifies that the difference between the carrying amount of a debt instrument measured at fair value and its tax base gives rise to a temporary difference, even though there are unrealized losses on that asset, irrespective of whether the Company and its subsidiaries expect to recover the carrying amount of the debt instrument by sale or by holding it and collecting contractual cash flows.

In addition, in determining whether to recognize a deferred tax asset, the Company and its subsidiaries 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 a deduction against income of a specific type, and in which case, a deductible temporary difference is assessed in combination only with other deductible temporary differences of an appropriate type. The amendment also stipulates that, when determining whether to recognize a deferred tax asset, the estimate of probable future taxable profit may include some of the Company and its subsidiaries' assets for more than their carrying amount if there is sufficient evidence that it is probable that the Company and its subsidiaries 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.

6) Amendment to IFRS 2 "Classification and Measurement of Share-based Payment Transactions"

The amendment requires that market conditions and non-vesting conditions should be taken into account and vesting conditions, other than market conditions, should not be taken into account when estimating the fair value of cash-settled share-based payments at the measurement date. Instead, they should be taken into account by adjusting the number of awards included in the measurement of the liability arising from the transaction. This amendment applies to share-based payment transactions that are unvested at the date the Company and its subsidiaries first apply the amendment and to share-based payment transactions with a grant date on or after the date the Company and its subsidiaries first apply the amendment.

7) Annual Improvements to IFRSs 2014-2016 Cycle

Several standards, including IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures," were amended in this annual improvement.

The amendment to IFRS 12 clarified that, when the Company and its subsidiaries' interest in a subsidiary, a joint venture or an associate is classified as held for sale or is included in a disposal that is classified as held for sale, the Company and its subsidiaries are not required to disclose summarized financial information of that subsidiary, joint venture or associate in accordance with

IFRS 12.

The amendment to IAS 28 clarified that when an investment in an associate or a joint venture is held by or is held indirectly through an entity that is a venture capital organization, or a mutual fund, or a unit trust, or similar entities (including investment-linked insurance funds), the Company and its subsidiaries may elect to measure that investment at fair value through profit or loss. The Company and its subsidiaries shall make this election separately for each associate or joint venture at initial recognition of the associate or joint venture.

The Company and its subsidiaries shall apply the aforementioned amendments retrospectively.

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

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

The Company and its subsidiaries may elect to apply the amendments prospectively and reclassify the property as required to reflect the conditions that exist at the date of initial application. Any adjustment to the carrying amount upon reclassification is recognized in the opening balance of other equity at that date. The Company and its subsidiaries are also required to disclose the reclassified amounts and such amounts should be included in the reconciliation of the carrying amount of investment property. Alternatively, the Company and its subsidiaries may elect to apply the amendments retrospectively if, and only if, that is possible without the use of hindsight.

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

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

The Company and its subsidiaries shall apply IFRIC 22 either retrospectively or prospectively to all assets, expenses and income in the scope of the interpretation initially recognized on or after (a) the beginning of the reporting period in which the entity first applies IFRIC 22 or (b) the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies IFRIC 22.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

For the convenience of readers, the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the ROC. 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 consolidated financial statement shall prevail.

a. 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 as endorsed and issued into effect by the FSC.

b. Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis except for financial instruments which are measured at fair value.

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

1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
2) 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
3) Level 3 inputs are unobservable inputs for the asset or liability.

c. Classification of current and non-current assets and liabilities

Current assets include:

1) Assets held primarily for the purpose of trading;
2) Assets expected to be realized within twelve months after the reporting period; and
3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Current liabilities include:

1) Liabilities held primarily for the purpose of trading;
2) Liabilities due to be settled within twelve months after the reporting period, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the consolidated financial statements are authorized for issue; and
3) Liabilities for which the Company does not have an unconditional right to defer settlement for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Assets and liabilities that are not classified as current are classified as non-current.

d. Basis of consolidation

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

Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statements of profit and loss and other comprehensive income from the effective date of acquisition up to the effective date of disposal, as appropriate.

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

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

Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Company’s ownership interests in subsidiaries that do not result in the Company losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Company’s interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Company.

See Note 14 for the detailed information of subsidiaries (including the percentage of ownership and main business).

e. Foreign currencies

In preparing the consolidated financial statements, 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 the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. 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:

1) Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
2) Exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
3) Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investments.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising from the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, and in which cases, the exchange differences are also recognized directly in other comprehensive income.

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

For the purposes of presenting consolidated financial statements, the functional currencies of the Company and its group entities (including subsidiaries, associates, joint ventures and branches in other countries that use currency different from the currency of the Company) are translated into the presentation currency, the New Taiwan dollar as follows: assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; and income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income attributed to the owners of the Company and non-controlling interests, as appropriate.

On the disposal of a foreign operation (i.e. a disposal of the Company and its subsidiaries' entire interest in a foreign operation, or a disposal involving the loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In relation to a partial disposal of a subsidiary that does not result in the Company losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to the non-controlling interests of the subsidiary and is not recognized in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences recognized in other comprehensive income is reclassified to profit or loss.

f. Inventories

Inventories consist of raw materials, finished goods and work-in-process and are stated at the lower of cost or the net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. The 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 on the balance sheet date.

g. Investment in associates and joint ventures

An associate is an entity over which the Company and its subsidiaries have significant influence and which is neither a subsidiary nor an interest in a joint venture. A joint venture is a joint arrangement whereby the Company and its subsidiaries and other parties that have joint control of the arrangement have rights to the net assets of the arrangement.

The Company and its subsidiaries use the equity method to account for their investments in associates and joint ventures.

Under the equity method, investments in an associate and a joint venture are initially recognized at cost and adjusted thereafter to recognize the Company and its subsidiaries' share of the profit or loss and other comprehensive income of the associate and joint venture. The Company and its subsidiaries also recognize the changes in the Company and its subsidiaries' share of the equity of associates and joint venture.

Any excess of the cost of acquisition over the Company and its subsidiaries' share of the net fair value of the identifiable assets and liabilities of an associate or a joint venture at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Company and its subsidiaries' share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

When the Company and its subsidiaries subscribe for additional new shares of an associate and joint venture at a percentage which is different from their existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Company and its subsidiaries' proportionate interests in the associate and joint venture. The Company and its subsidiaries record such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in the Company and its subsidiaries' share of the equity of associates and joint ventures. If the Company and its subsidiaries' ownership interests are reduced due to their non-subscription of new shares of an associate and joint venture, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate and joint venture 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 Company and its subsidiaries' share of losses of an associate and a joint venture equals or exceeds their interests in that associate and a joint venture (which includes any carrying amount of the investment accounted for by the equity method and long-term interests that, in substance, form part of the Company and its subsidiaries' net investment in the associate and joint venture), the Company and its subsidiaries discontinue recognizing their share of further losses. Additional losses and liabilities are recognized only to the extent that the Company and its subsidiaries have incurred legal obligations or constructive obligations, or made payments on behalf of that associate and joint venture.

The entire carrying amount of an investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Company and its subsidiaries discontinue the use of the equity method from the date on which their investments cease to be an associate and a joint venture. Any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate and the joint venture attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate and the joint venture. The Company and its subsidiaries accounts for all amounts previously recognized in other comprehensive income in relation to that associate and joint venture on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the Company and its subsidiaries continue to apply the equity method and do not remeasure the retained interest.

When the Company and its subsidiaries transact with their associates and joint venture, profits or losses resulting from the transactions with the associate and joint venture are recognized in the consolidated financial statements only to the extent that interests in the associate and the joint venture are not related to the Company and its subsidiaries.

h. Property, plant and equipment

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

Property, plant and equipment in the course of construction are carried at cost, less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Such assets are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for their intended use.

Depreciation on property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effects of any changes in estimates 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.

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

j. Impairment of tangible assets

At the end of each reporting period, the Company and its subsidiaries review 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 Company and its subsidiaries estimate the recoverable amount of the cash-generating unit to which the asset belongs.

The 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 for the asset or cash-generating unit (net of depreciation) had no impairment loss been recognized in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

k. Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset is available for immediate sale in its present condition. To meet the criteria for the sale being highly probable, an appropriate level of management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within 1 year from the date of classification.

When the Company and its subsidiaries are committed to a sale plan involving the disposal of an investment or a portion of an investment in an associate or a joint venture, only the investment or the portion of the investment that will be disposed of is classified as held for sale when all of the classification criteria are met, and the Company and its subsidiaries discontinue the use of the equity method in relation to the portion that is classified as held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method. If the Company and its subsidiaries cease to have significant influence or joint control over an investment after the disposal takes place, the Company and its subsidiaries account for any retained interest that has not been classified as held for sale in accordance with the accounting policies for financial instruments.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell. The recognition of depreciation of those assets would cease.

When a subsidiary, joint operation, joint venture, associate, or a portion of an interest in a joint venture or an associate previously classified as held for sale no longer meets the criteria to be so classified, it is measured at the carrying amount that would have been recognized had such interests not been classified as held for sale. Financial statements for the periods since classification as held for sale are amended accordingly.

l. Financial instruments

Financial assets and financial liabilities are recognized when the Company and its subsidiaries become 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.

1) 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 are classified into the following categories: Financial assets at fair value through profit or loss, available-for-sale financial assets, and loans and receivables.

i. Financial assets at fair value through profit or loss

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

Financial assets at fair value through profit or loss are stated at their fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss does not incorporate any dividends or interest earned on financial assets. Fair value is determined in the manner described in Note 31.

ii. 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. Changes in the carrying amounts of available-for-sale monetary financial assets relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method 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 will be reclassified to profit or loss when the investment is disposed of or is determined to be impaired.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Company and its subsidiaries' right to receive the dividends is established.

iii. Loans and receivables

Loans and receivables (including trade receivables, cash and cash equivalents, other receivables - loan receivables, and other financial assets) are measured at amortized cost using the effective interest method, less any impairment, except for short-term receivables when the effect of discounting is immaterial.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

b) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence, as a result of one or more events that occurred after the initial recognition of the financial asset, that the estimated future cash flows of the investment have been affected.

Financial assets carried at amortized cost, such as trade receivables, are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Company and its subsidiaries' past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days as well as observable changes in national or local economic conditions that correlate with a default on receivables.

For financial assets carried at amortized cost, 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 equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

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. In respect of available-for-sale debt securities, the impairment loss is subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment 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 notes receivable where the carrying amount is reduced through the use of an allowance account. When trade receivables and notes receivable are considered uncollectable, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectable trade receivables and notes receivable that are written off against the allowance account.

c) Derecognition of financial assets

The Company and its subsidiaries 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 is recognized in profit or loss.

2) Equity instruments

Debt and equity instruments issued by the Company and its subsidiaries are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments issued by a Company and its subsidiaries are recognized at the proceeds received, net of direct issue costs.

A repurchase of the Company’s own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company’s own equity instruments.

3) Financial liabilities

a) Subsequent measurement

Except for the following situation, all 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 either held for trading or is designated as at fair value through profit or loss.

  Financial liabilities that are held for trading are stated at fair value, with any gain or loss arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss does not incorporate any interest or dividends paid on the financial liability. Fair value is determined in the manner described in Note 31.

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.

4) Convertible bonds

The derivative financial liabilities and conversion option components of convertible bonds issued by the Company and its subsidiaries are classified separately as financial liabilities and equity. Items that will be settled other than by the exchange of a fixed amount of cash or other financial assets for a fixed number of the Company’s own equity instruments are classified as derivative financial instruments. On initial recognition, the derivative financial liabilities and conversion option components of convertible bonds are recognized at fair value.

In subsequent periods, the non-derivative financial liability components of convertible bonds are measured at amortized cost using the effective interest method. The derivative financial liability components are measured at fair value, and changes in fair value are recognized in profit or loss.

Transaction costs that relate to the issue of convertible notes are allocated to the derivative financial liability components and the non-derivative financial liability components in proportion to their relative fair values. Transaction costs relating to the derivative financial liability components are recognized immediately in profit or loss. Transaction costs relating to the non-derivative financial liability components are included in the carrying amount of the liability component.

5) Derivative financial instruments

The Company and its subsidiaries enter into a variety of derivative financial instruments to manage their exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, interest rate swaps and futures trading.

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 the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, and in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. When the fair value of a derivative financial instrument is positive, the derivative is recognized as a financial asset; when the fair value of derivative financial instrument is negative, the derivative is recognized as a financial liability.

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative; their risks and characteristics are not closely related to those of the host contracts; and the contracts are not measured at fair value through profit or loss.

m. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Allowance for sales returns and the liability for returns are recognized at the time of sale based on the seller’s reliable estimate of future returns and based on past experience and other relevant factors.

1) Sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- The Company and its subsidiaries have transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Company and its subsidiaries retain neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Company and its subsidiaries; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Company and its subsidiaries do not recognize sales revenue on materials delivered to subcontractors because this delivery does not involve a transfer of risks and rewards of material ownership.

2) Dividend and interest income

Dividend income from investments is recognized when a shareholder’s right to receive payment has been established provided that it is probable that the economic benefits will flow to the Company and its subsidiaries and the amount of income can be measured reliably.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and its subsidiaries and the amount of income can be measured reliably. Interest income is accrued on a time basis by reference to the principal outstanding and at the applicable effective interest rate.

n. Construction contracts

When the outcome of a construction contract can be estimated reliably, revenue and costs are recognized by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred to date relative to the estimated total contract costs. Variations in contract work, claims and incentive payments are included to the extent the amount can be measured reliably and its receipt is considered probable.

When it is probable that total contract costs will exceed the total contract revenue, the expected loss is recognized as an expense immediately.

When contract costs incurred to date plus recognized profits less recognized deficits exceed progress billings, the surplus is shown as the gross amount due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognized profits less recognized deficits, the surplus is shown as the gross amount due to customers for contract work. Amounts received before the related work is performed are included in the consolidated balance sheets as a liability, as other current liabilities. Amounts billed for work performed but not yet paid by the customer are included in the consolidated balance sheets under trade receivables.

o. Leasing

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

1) The Company and its subsidiaries as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and amortized on a straight-line basis over the lease term.

2) The Company and its subsidiaries as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

p. 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.

Other than those stated above, all borrowing costs are recognized in profit or loss in the year in which they are incurred.

q. Employee benefits

1) 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 services.

2) 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 costs, net interest and remeasurement) under the defined retirement benefit plan are determined using the projected unit credit method. Service costs (including current service costs) and net interest on the net defined benefit liability (asset) are recognized as employee benefits expenses 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 it occurs. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

The net defined benefit liability (asset) represents the actual deficit (surplus) in the Company and its subsidiaries' defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plan or reductions in future contributions to the plan.

r. Employee share options

Employee share options are granted to employees and others providing similar services.

The fair value at the grant date of the employee share options is expensed on a straight-line basis over the vesting period, based on the Company and its subsidiaries' best estimates of the number of shares or options that are expected to ultimately vest, with a corresponding increase in capital surplus - employee share options. It is recognized as an expense in full at the grant date if vested immediately.

At the end of each reporting period, the Company and its subsidiaries revise their estimate of the number of employee share options expected to vest. The impact of the revision of the original estimates is recognized in profit or loss such that the cumulative expenses reflect the revised estimate, with a corresponding adjustment to the capital surplus - employee share options.

s. Taxation

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

1) Current tax

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.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities 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 and unused loss carry forward 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 Company and its subsidiaries are 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 that they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and is 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 the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which a liability is settled or an asset is realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company and its subsidiaries expect, at the end of the reporting period, to recover or settle the carrying amount of their assets and liabilities.

3) Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, and in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company and its subsidiaries' 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.

a. Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Company and its subsidiaries takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise.

As of December 31, 2016 and 2015, the amount of notes receivable, trade receivables and overdue receivables was NT$2,339,922 thousand and NT$2,144,797 thousand, respectively. (After deducting the allowance for impairment loss, the amount was NT$19,916 thousand and NT$37,326 thousand, respectively).

b. Write-down of inventory

The net realizable value of inventory is the estimated selling price in the ordinary course of business less the estimated costs of completion and disposal. The estimation of net realizable value was based on current market conditions and historical experience with product sales of a similar nature. Changes in market conditions may have a material impact on the estimation of the net realizable value.

6. CASH AND CASH EQUIVALENTS

	December 31 2016	December 31 2015
Cash on hand	$ 786	$ 1,038
Checking accounts and demand deposits	667,367	997,258
	$ 668,153	$ 998,296

The market rate intervals of cash in the bank at the end of the reporting period were as follows:

	December 31 2016	December 31 2015
Bank balance	0.01%-0.1%	0.01%-0.13%

As of December 31, 2016 and 2015, the time deposits with an original maturity of more than 3 months were NT$70,073 thousand and NT$80,307 thousand, respectively, which were classified as other financial assets - current. See Note 13 for further information.

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31 2016	December 31 2015
Financial assets held for trading		
Derivative financial assets (not under hedge accounting)		
Foreign exchange forward contracts (a)	$ 8,775	$ 56,546
Non-derivative financial assets		
Domestic quoted shares	811,740	552,387
Mutual funds	2,875	-
Financial assets at FVTPL - current	$ 823,390	$ 608,933
Financial liabilities held for trading		
Derivative financial liabilities (not under hedge accounting)		
Convertible options	$ 91	$ 13,652
Financial liabilities at FVTPL - current	$ 91	$ 13,652

a. At the end of the reporting period, outstanding foreign exchange forward contracts not under hedge accounting were as follows:

	Currency	Maturity Date	Notional Amount (In Thousands)
December 31, 2016			
Buy	NTD/USD	2017.01-2017.10	NTD872,691/USD27,460
Sell	USD/NTD	2017.01	NTD32,883/USD1,033
December 31, 2015			
Buy	NTD/USD	2016.01-2016.06	NTD837,881/USD27,163

The Company and its subsidiaries entered into foreign exchange forward contracts to manage exposures to exchange rate fluctuations of foreign currency denominated assets and liabilities. Those contracts did not meet the criteria of hedge effectiveness and, therefore, were not accounted for using hedge accounting.

b. Refer to Note 33 for information relating to financial instruments at fair value through profit or loss as security.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2016	2015
Current		
Domestic listed shares and emerging market shares	$ 330,402	$ 240,181
Non-current		
Domestic listed shares and emerging market shares	$ 1,402,581	$ 1,021,352
Unlisted shares - ROC	60,823	74,546
Unlisted shares - other countries	444,973	348,223
Available-for-sale financial assets	$ 1,908,377	$ 1,444,121

Refer to Note 33 for information relating to available-for-sale financial assets pledged as security.

9. NOTES RECEIVABLE, TRADE RECEIVABLES AND OVERDUE RECEIVABLES

	December 31	
	2016	2015
Notes receivable		
Notes receivable - operating	$ 967,899	$ 958,718
Less: Allowance for impairment loss	(1,341)	(1,781)
	$ 966,558	$ 956,937
Trade receivables		
Trade receivables	$ 1,334,041	$ 1,186,770
Less: Allowance for impairment loss	(3,176)	(5,366)
	$ 1,330,865	$ 1,181,404
Overdue receivables		
Overdue receivables	$ 57,898	$ 36,635
Less: Allowance for impairment loss	(15,399)	(30,179)
	$ 42,499	$ 6,456

a. Notes receivable and trade receivables

The carrying amounts of the trade receivables balances that were past due at the end of the reporting period were NT$71,328 thousand and NT$220,996 thousand on December 31, 2016 and 2015, respectively, which are disclosed in the aging analysis below. The Company and its subsidiaries did not recognize an allowance for impairment loss, because there was no significant change in the credit quality and the amounts. The Company and its subsidiaries did not hold any collateral or other credit enhancements for these balances. In addition, the Company and its subsidiaries did not have the legal right to off-set the trade receivable and the counterparty of the same transaction.

The aging of trade receivables that were past due but not impaired was as follows:

	December 31	
	2016	**2015**
Up to 90 days	$ -	$ -
91-365 days	56,127	220,996
Over 365 days	15,201	-
	$ 71,328	$ 220,996

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

The movements of the allowance for doubtful trade receivables were as follows:

	For the Year Ended December 31	
	2016	**2015**
Beginning of the year	$ 7,147	$ 7,997
Add: Impairment losses recognized on receivables	648	2,083
Less: Impairment losses reversed	(3,278)	(2,933)
End of the year	$ 4,517	$ 7,147

b. Overdue receivables

The carrying amounts of the overdue receivable balances that were past due at the end of the reporting period were NT$42,499 thousand and NT$6,456 thousand as of December 31, 2016 and 2015, respectively. As shown in the aging analysis below, the Company and its subsidiaries did not recognize an allowance for impairment loss, because there was no significant change in the credit quality of the receivables. The Company and its subsidiaries considered the overdue receivables to still be collectable and held collateral for these balances to enhance the collectability. In addition, the Company and its subsidiaries did not have the legal right to off-set the overdue receivables and the accounts payable to the counterparties.

The aging of overdue receivables that were past due but not impaired was as follows:

	December 31	
	2016	**2015**
Up to 90 days	$ -	$ -
90-365 days	7,168	3,456
Over 365 days	35,331	3,000
	$ 42,499	$ 6,456

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

The movements of the allowance for doubtful overdue receivables were as follows:

	For the Year Ended December 31	
	2016	**2015**
Beginning of the year	$ 30,179	$ 32,930
Add: Impairment losses recognized on receivables	12,334	2,029
Less: Impairment losses reversed	(911)	(4,780)
Less: Amounts written off during the year as uncollectable	(24,705)	-
Less: Amounts recovered during the year	(1,498)	-
End of the year	$ 15,399	$ 30,179

The Company and its subsidiaries recognized an impairment loss on overdue receivables amounting to NT$15,399 thousand and NT$30,179 thousand as of December 31, 2016 and 2015, respectively. These amounts mainly related to customers that were pursuing legal claims. The Company and its subsidiaries carried out a review of the recoverable amount of those overdue receivables and determined that the carrying amount exceeded the recoverable amount. The review led to the recognition of an impairment loss. The Company and its subsidiaries held chattel pledged as collateral over these balances.

The carrying amount of the notes receivable pledged as collateral for borrowings is disclosed in Note 33.

10. AMOUNTS DUE FROM CUSTOMERS FOR CONSTRUCTION CONTRACTS

	December 31	
	2016	**2015**
Amount due from customers for construction contracts		
Construction costs incurred plus recognized profits less recognized losses to date	$ 105,611	$ 105,611
Less: Progress billings	(103,266)	(97,888)
	$ 2,345	$ 7,723

The cost incurred for the construction contracts for the years ended December 31, 2016 and 2015 was $0 thousand and $1,809 thousand, respectively.

11. INVENTORIES

	December 31	
	2016	**2015**
Finished goods	$ 361,176	$ 268,285
Work-in-progress	-	1,281
Raw materials	1,864,882	1,698,331
Raw materials in transit	37,417	16,101
	$ 2,263,475	$ 1,983,998

The allowance for inventory devaluation for the years ended December 31, 2016 and 2015 was NT$907 thousand and NT$306,262 thousand, respectively.

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2016 and 2015 was NT$5,484,318 thousand and NT$6,995,578 thousand, respectively. The cost of goods sold included a reversal of inventory write-downs of NT$305,355 thousand and inventory write-downs of NT$296,223 thousand. Previous write-downs were reversed as a result of increased selling prices in steel markets.

12. NON-CURRENT ASSETS HELD FOR SALE

	December 31	
	2016	**2015**
Associates held for sale	$ -	$ 150,509

a. The Company has completed the disposal of the property, plant and equipment from the factory in Hsinwu on January 19, 2015, and the profit from the disposal was NT$386,015 thousand.
b. Sinpao Investment Company has completed the disposal of associates by using the equity method on March 31, 2016, and the profit from the disposal was NT$102,218 thousand.

13. OTHER FINANCIAL ASSETS

	December 31	
	2016	**2015**
Current		
Time deposits with original maturities of more than three months (Note)	$ 70,073	$ 80,307

Note: The market interest rates of the time deposits with an original maturity of more than 3 months were 0.2%-1.2% and 0.2%-1% per annum, respectively, as of December 31, 2016 and 2015.

Refer to Note 33 for information relating to other current financial assets pledged as security.

14. SUBSIDIARIES

a. Subsidiaries included in the consolidated financial statements

Investor	Investee	Nature of Activities	Proportion of Ownership December 31 2016	2015
Hsin Kuang Steel Corporation	Hsin Yuan Investment Co., Ltd.	Securities investment	100.00	100.00
	Hsin Ho Fa Metal Co., Ltd.	Sale of metal products for architecture	83.37	81.96
	Sinpao Investment Co., Ltd.	Investment	99.82	99.66
	Hsin Kuang Alga Engineering Co., Ltd.	Manufacture of metal structures and architectural components	68.16	68.16

15. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31 2016	2015
Investments in associates	$ 12,241	$ 12,300
Investments in joint ventures	27,484	27,500
	$ 39,725	$ 39,800

a. Investments in associates

	December 31 2016	2015
Associates that are not individually material	$ 12,241	$ 12,300

Aggregate information of associates that are not individually material

	For the Year Ended December 31 2016	2015
The Company and its subsidiaries' share of:		
Profit from continuing operations	$ 704	$ 849
Other comprehensive income	-	-
Total comprehensive income for the year	$ 704	$ 849

The investments accounted for by the equity method and the share of profit or loss and other comprehensive income of those investments for the years ended December 31, 2016 and 2015 was based on the associates' financial statements audited by auditors for the same years.

b. Investments in joint ventures

	December 31 2016	2015
Material joint ventures	$ 27,484	$ 27,500

The summarized financial information below represents amounts shown in the joint ventures' parent company only financial statements prepared in accordance with IFRSs adjusted by the Company and its subsidiaries for equity accounting purposes.

Hsin Ching Co., Ltd.

	December 31	
	2016	2015
Cash and cash equivalents	$ 4,906	$ 55,000
Current assets	$ 54,906	$ -
Non-current assets	63	-
Equity	$ 54,969	$ 55,000
Proportion of the Company's ownership	50%	50%
Equity attributable to the Company	$ 27,484	$ 27,500
Carrying amount	$ 27,484	$ 27,500

	For the Year Ended December 31	
	2016	2015
Net loss for the year	$ (31)	$ -
Other comprehensive income	-	-
Total comprehensive loss for the year	$ (31)	$ -

16. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Buildings	Equipment	Transportation Equipment	Miscellaneous Equipment	Construction in Progress and Devices Awaiting Inspection	Total
Cost							
Balance at January 1, 2015 after restatement	$ 1,812,725	$ 802,881	$ 497,132	$ 124,959	$ 32,814	$ 124,218	$ 3,394,729
Additions	2,840	1,918	12,101	547	968	59,410	77,784
Disposals	-	-	(3,798)	(11,461)	-	-	(15,259)
Reclassified	9,388	97,508	60,833	7,410	-	(175,139)	-
Balance at December 31, 2015	$ 1,824,953	$ 902,307	$ 566,268	$ 121,455	$ 33,782	$ 8,489	$ 3,457,254
Accumulated depreciation and impairment							
Balance at January 1, 2015	$ -	$ 161,528	$ 287,039	$ 79,385	$ 20,573	$ -	$ 548,525
Depreciation expenses	-	22,976	45,213	13,993	4,624	-	86,806
Disposals	-	-	(2,035)	(10,464)	-	-	(12,499)
Balance at December 31, 2015	$ -	$ 184,504	$ 330,217	$ 82,914	$ 25,197	$ -	$ 622,832
Carrying amounts at December 31, 2015	$ 1,824,953	$ 717,803	$ 236,051	$ 38,541	$ 8,585	$ 8,489	$ 2,834,422
Cost							
Balance at January 1, 2016 after restatement	$ 1,824,953	$ 902,307	$ 566,268	$ 121,455	$ 33,782	$ 8,489	$ 3,457,254
Additions	235,747	2,183	18,312	5,238	3,362	13,065	277,907
Disposals	-	(8,244)	(37,252)	(8,205)	(18,569)	-	(72,270)
Reclassified	13,500	200	6,466	8,627	-	(15,381)	13,412
Balance at December 31, 2016	$ 2,074,200	$ 896,446	$ 553,794	$ 127,115	$ 18,575	$ 6,173	$ 3,676,303
Accumulated depreciation and impairment							
Balance at January 1, 2016	$ -	$ 184,504	$ 330,217	$ 82,914	$ 25,197	$ -	$ 622,832
Depreciation expenses	-	24,068	40,060	9,221	1,316	-	74,665
Disposals	-	(3,508)	(27,014)	(8,012)	(15,727)	-	(54,261)
Balance at December 31, 2016	$ -	$ 205,064	$ 343,263	$ 84,123	$ 10,786	$ -	$ 643,236
Carrying amounts at December 31, 2016	$ 2,074,200	$ 691,382	$ 210,531	$ 42,992	$ 7,789	$ 6,173	$ 3,033,067

The above items of property, plant and equipment were depreciated on a straight-line basis over the estimated useful lives as follows:

Building	
Main buildings	40-55 years
Engineering buildings	3-20 years
Equipment	
Main equipment	5-20 years
Equipment maintenance	3-5 years
Transportation equipment	
Truck and automotive	5-8 years
Stacker	5-9 years
Automotive accessories	3 years
Miscellaneous equipment	
Computer equipment	5 years
Office and engineering equipment	3-10 years

As of December 31, 2016, the Company and its subsidiaries purchased land located in Guanyin of 4,505.55 square meters which had a carrying amount of NT$31,381 thousand for operation use from 2005 to 2014. As the law stipulates, Company shall not have ownership of land registered for agricultural purposes. Thus, the Company shall sign a real estate trust contract with an individual to hold the land.

On November 4, 2014, the Company's board of directors resolved to dispose of a parcel of freehold land located in Taishan and Linkou, which were reclassified to non-current assets held for sale. No impairment loss was recognized on the classification of the land as held for sale. Because the Company can't complete the sale within 2 years of the classification as held for sale, the land no longer meets the criteria to be so classified and was reclassified to property, plant and equipment. The financial statements for the periods since the classification as held for sale were amended accordingly. The carrying amount of the land amended was NT$25,222 thousand as of December 31, 2016, December 31, 2015 and January 1, 2015.

Property, plant and equipment pledged as collateral for bank borrowings are set out in Note 33.

17. INVESTMENT PROPERTIES

	Investment Properties - Land	Investment Properties - Buildings	Investment Properties - Machinery and Equipment	Total
Cost				
Balance at January 1, 2015	$ -	$ -	$ -	$ -
Additions	210,306	19,391	9,525	239,222
Reclassified	3,376	29,847	-	33,223
Balance at December 31, 2015	$ 213,682	$ 49,238	$ 9,525	$ 272,445
Accumulated depreciation and impairment				
Balance at January 1, 2016	$ -	$ -	$ -	$ -
Depreciation expenses	-	699	433	1,132
Balance at December 31, 2016	$ -	$ 699	$ 433	$ 1,132
Carrying amounts at December 31, 2016	$ 213,682	$ 48,539	$ 9,092	$ 271,313

The investment properties were depreciated using the straight-line method over their estimated useful lives as follows:

Main buildings	25 years
Crane equipment	10 years

The management of the Company used the valuation model that market participants would use in determining the fair value, and the fair value was measured by using Level 3 inputs. The valuation was arrived at by reference to market evidence of transaction prices for similar properties. The fair value was as follows:

	December 31	
	2016	2015
Fair value	$ 313,726	$ -

18. OTHER ASSETS

	December 31	
	2016	2015
Current		
Others	$ 435	$ 2,441
Non-current		
Refundable deposits	$ 46,278	$ 5,812
Overdue receivables	42,499	6,456
Prepayments for investments	-	59,085
Repayments for buildings and freehold land	5,700	5,371
Others	779	1,811
	$ 95,256	$ 78,535

19. BORROWINGS

a. Short-term borrowings

	December 31	
	2016	2015
Secured borrowings (Notes 31 and 33)		
Bank loans	$ 379,550	$ 716,775
Letters of credit	288,958	483,464
	668,508	1,200,239
Unsecured borrowings		
Line of credit borrowings (Note 31)	219,850	945,125
Letters of credit	2,506,736	1,470,190
	2,726,586	2,415,315
	$ 3,395,094	$ 3,615,554

The range of weighted average effective interest rates on bank loans was 1.2%-2.7% and 1.1%-2.1% per annum as of December 31, 2016 and 2015, respectively.

b. Short-term bills payable

	December 31	
	2016	2015
Commercial paper (Note 31)	$ 190,000	$ 700,000
Less: Unamortized discount on bills payable	(226)	(1,598)
	$ 189,774	$ 698,402

Outstanding short-term bills payable were as follows:

December 31, 2016

Promissory Institutions	Nominal Amount	Discount Amount	Carrying Amount	Interest Rate	Collateral
Commercial paper					
A bank	$ 150,000	$ 157	$ 149,843	1.2%	Without
B bank	40,000	69	39,931	1.3%	Without
	$ 190,000	$ 226	$ 189,774		

December 31, 2015

Promissory Institutions	Nominal Amount	Discount Amount	Carrying Amount	Interest Rate	Collateral
Commercial paper					
A bank	$ 200,000	$ 263	$ 199,737	1.5%-1.6%	Without
B bank	170,000	622	169,378	1.5%	Without
C bank	150,000	69	149,931	1.4%	Without
D bank	100,000	460	99,540	1.5%	Without
E bank	80,000	184	79,816	1.7%	Without
	$ 700,000	$ 1,598	$ 698,402		

c. Long-term borrowings

	December 31 2016	December 31 2015
Secured borrowings (Notes 31 and 33)		
Syndicated bank loans - Land Bank of Taiwan and other banks (1)	$ 1,600,000	$ 1,500,000
Bank loans - Chang Hwa Bank Sanchungpu Branch (2)	-	2,947
Bank loans - Chang Hwa Bank Sanchungpu Branch (3)	185,500	-
	1,785,500	1,502,947
Unsecured borrowings (Note 31)		
Bank loans - Chang Hwa Bank Sanchungpu Branch (4)	36,866	-
Less: Current portions	(210,466)	(2,080)
Syndicated loan fees	(3,342)	(4,722)
Long-term borrowings	$ 1,608,558	$ 1,496,145

1) In August and September 2014 and December 2016, the Company and its subsidiaries acquired syndicated bank loans secured by the Company and its subsidiaries' freehold land and buildings (refer to Note 33) in the amount of NT$1,000,000 thousand and NT$600,000 thousand, respectively, and both will be repayable in August 2019. The grace period of the loans acquired in 2014 was 2.5 years. From the date of expiry of the grace period, the repayment of principal and interest is divided into six installments every six months. The first to the fifth installments are 10% of the outstanding balance of the loan, and the sixth installment shall be all of the remaining outstanding principal and the interest balance.

The loans acquired in 2016 had a revolving credit line. Interest shall be paid by month, and on the expiry date the loan shall be extended or settled. After 3 years of the first use of the loans, the credit line shall be reduced to 80% of the original credit line and to 60% after 4 years. The outstanding principal and interest shall be settled on the credit line adjustment day, and all of the remaining outstanding principal and interest shall be fully settled at the maturity date of this credit.

Under the agreements, the Company and its subsidiaries' current ratio, net-debt ratio and times interest earned ratio should meet some criteria which were based on the consolidated financial statements of the Company and its subsidiaries. If the Company and its subsidiaries breach the financial ratios specified in the agreements, the Company and its subsidiaries shall amend the status of their financial ratios to meet the agreed upon ratios within five months from April 1 of the following auditing year, and this will not be considered as breach of the agreement. The Company and its subsidiaries were in compliance with the syndicated credit facility agreements based on the consolidated financial statements of the Company and its subsidiaries for the years ended December 31, 2016. The weighted average effective interest rates were 1.7% per annum and 1.8% per annum in 2016 and 2015, respectively.

2) In May 2012 the Company and its subsidiaries acquired bank loans secured by the Company and its subsidiaries' equipment (refer to Note 33) in the amount of NT$10,400 thousand, which will mature in May 2017. From June 2012, the repayment of principal is divided into sixty installments, and each repayment principal is NT$173 thousand. The weighted average effective interest rates were 2.0% per annum in both 2016 and 2015.
3) In July 2016 the Company and its subsidiaries acquired bank loans secured by the Company and its subsidiaries' freehold land (refer to Note 33) in the amount of NT$185,500 thousand, which will mature in July 2019. Interest shall be paid by month and the principal shall be fully settled at the maturity date of this credit. The weighted average effective interest rates was 1.6% per annum in 2016.
4) In August 2016 the Company and its subsidiaries acquired an unsecured bank loan in the amount of NT$38,400 thousand, which will mature in August 2020. From August 2016, the repayment of principal is divided into sixteen installments and each repayment principal is NT$2,400 thousand. The weighted average effective interest rates was 2.0% per annum in 2016.

20. NOTES PAYABLE AND TRADE PAYABLES

	December 31	
	2016	2015
Notes payable		
Operating	$ 420,766	$ 85,566
Trade payables		
Operating	$ 68,644	$ 24,806

21. OTHER PAYABLES

	December 31	
	2016	2015
Interest payable	$ 13,073	$ 7,578
Salaries and bonuses payable	88,301	22,095
Other payables	104,072	-
Other accrued expenses payable	30,062	42,473
	$ 235,508	$ 72,146

22. BONDS PAYABLE

As of December 20, 2013, the Company issued 5 thousand 0% NTD denominated unsecured convertible bonds in Taiwan, with an aggregate principal amount of NT$500,000 thousand.

Each bond entitles the holder to convert it into ordinary shares of the Company at a conversion price of NT$19. If the Company increases its ordinary shares after the bond issuance, the conversion price will be adjusted by Article 11 of the Company's 4th Unsecured Convertible Bond Conversion Method. Conversion may occur at any time between January 20, 2014 and December 10, 2018. The holder can notify the Company 30 days before the expiry of 3 to 4 years from issuance to request the accrued interest based on the denomination of the bonds (the 3-year interest compensation is 3.03%, 4-year interest compensation is 4.06%) and redeem the bonds by cash.

The convertible bonds contained two components: the host liability instrument and the conversion option derivative instrument. The effective interest rate of the host liability on initial recognition was 2.28% per annum, and the conversion option derivative instruments were measured at fair value through profit or loss.

Movements of the host liability instrument were as follows:

	December 31	
	2016	**2015**
Proceeds from issuance	$ 500,000	$ 500,000
Equity components	(42,450)	(42,450)
Conversion option derivative instruments	(10,950)	(10,950)
The host liability instrument at date issued	446,600	446,600
Interest charged at an effective interest rate	48,317	22,897
Convertible bonds converted into ordinary shares	(386,500)	(21,000)
The host liability instrument at December 31, 2016	108,418	448,497
Less: Current portions	(108,418)	(448,497)
Denominated unsecured convertible bonds	$ -	$ -

Movements of the conversion option derivative instruments were as follows:

	For the Year Ended December 31	
	2016	**2015**
Beginning of the year	$ 13,652	$ 8,335
Fair value changes (gain) loss	(5,556)	5,317
Converted into ordinary shares	(8,005)	-
End of the year	$ 91	$ 13,652

23. RETIREMENT BENEFIT PLANS

a. Defined contribution plan

The Company, Hsin Yuan Company, Hsin Ho Fa Company and Hsin Kuang Alga Company adopted a pension plan under the Labor Pension Act (the "LPA"), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

b. Defined benefit plan

The defined benefit plan adopted by the Company and its subsidiaries in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the 6 months before retirement. The Company contribute amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Company and its subsidiaries assess 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 Company and its subsidiaries are 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 Company and its subsidiaries have no right to influence the investment policy and strategy.

The amounts included in the consolidated balance sheets in respect of the Company and its subsidiaries' defined benefit plan were as follows:

	December 31	
	2016	2015
Present value of defined benefit obligation	$ 39,082	$ 37,816
Fair value of plan assets	(19,390)	(605)
Deficit	19,692	37,211
Net defined benefit liability	$ 19,692	$ 37,211

Movements in net defined benefit liability were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability
Balance at January 1, 2015	$ 41,394	$ (4,800)	$ 36,594
Service costs			
Current service costs	507	-	507
Net interest expense (income)	673	(91)	582
Recognized in profit or loss	1,180	(91)	1,089
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(18)	(18)
Actuarial loss - changes in demographic assumptions	996	-	996
Actuarial loss - changes in financial assumptions	1,092	-	1,092
Actuarial loss - experience adjustments	1,070	-	1,070
Recognized in other comprehensive income	3,158	(18)	3,140
Contributions from the employer	-	(3,612)	(3,612)
Benefits paid	(7,916)	7,916	-
Balance at December 31, 2015	37,816	(605)	37,211
Service costs			
Current service costs	351	-	351
Net interest expense (income)	473	(17)	456
Recognized in profit or loss	824	(17)	807
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(84)	(84)
Actuarial loss - changes in demographic assumptions	932	-	932
Actuarial loss - changes in financial assumptions	402	-	402
Actuarial loss - experience adjustments	2,493	-	2,493
Recognized in other comprehensive income	3,827	(84)	3,743
Contributions from the employer	-	(22,069)	(22,069)
Benefits paid	(3,385)	3,385	-
Balance at December 31, 2016	$ 39,082	$ (19,390)	$ 19,692

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

	For the Year Ended December 31	
	2016	**2015**
Operating costs	$ 244	$ 506
Selling and marketing expenses	$ 468	$ 484
General and administrative expenses	$ 95	$ 99

Through the defined benefit plan under the Labor Standards Law, the Company is exposed to the following risks:

1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
2) Interest risk: A decrease in the corporate bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.
3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

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

	December 31	
	2016	**2015**
Discount rates	1.125%	1.250%
Expected rates of salary increase	1.500%	1.500%

If possible reasonable changes 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	
	2016	**2015**
Discount rates		
Increase 0.25%	$ (847)	$ (773)
Decrease 0.25%	$ 877	$ 800
Expected rates of salary increase		
Increase 0.25%	$ 856	$ 779
Decrease 0.25%	$ (830)	$ (756)

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

	December 31	
	2016	**2015**
The expected contributions to the plan for the next year	$ 1,678	$ 860
The average duration of the defined benefit obligation	8.7 years	8.2 years

24. EQUITY

a. Share capital

Ordinary shares

	December 31	
	2016	**2015**
Number of shares authorized (in thousands)	360,000	360,000
Shares authorized	$ 3,600,000	$ 3,600,000
Number of shares issued and fully paid (in thousands)	299,188	275,638
Shares issued	$ 2,991,876	$ 2,756,380

The share issued had a par value of NT$10. Each share entitles the rights to dividends and to vote.

For the year ended December 31, 2016, the shares increased due to employees' exercising their employee share options, converting bonds payable into ordinary shares, and cancelling treasury shares.

b. Capital surplus

	December 31	
	2016	**2015**
Issuance of ordinary shares (1)	$ 962,237	$ 961,466
Treasury share transactions (1)	7,754	7,754
Conversion of bonds (1)	9,637	40,667
Changes in percentage of ownership interest in subsidiaries (2)	531	465
Employee share options (3)	36,647	35,223
	$ 1,016,806	$ 1,045,575

1) Such capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Company's capital surplus and once a year).
2) Such capital surplus arises from the effects of changes in ownership interest in a subsidiary resulting from equity transactions other than actual disposals or acquisitions, or from changes in capital surplus of subsidiaries accounted for by using the equity method.
3) Such capital surplus may not be used for any purpose.

c. Retained earnings and dividend policy

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The shareholders held their regular meeting on June 15, 2016 and, in that meeting, resolved amendments to the Company's Articles of Incorporation (the "Articles"), particularly the amendment to the policy on dividend distribution and the addition of the policy on distribution of employees' compensation.

Under the dividend policy as set forth in the amended Articles, where the Company made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders. For the policies on the distribution of employees' compensation and remuneration of directors and supervisors before and after the amendment, refer to Note 25(a)-6 "Employee benefits expense".

To ensure the interests of shareholders and the Company's sustainable development, the Company adopts a balanced dividend policy.

The dividend payment principle shall not be less than 30% of the remaining of the following items: a profit in a fiscal year with the provisions of the preceding paragraph utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside a special reserve, distributing remuneration of the directors and supervisors and bonus of employees. Among the dividend payment, no less than 30% shall be paid in cash and no more than 70% shall be distributed as stocks. In accordance with the principle on dividend payment as set out in the preceding paragraph, the Company shall, in accordance with the actual operating, finance and business conditions and the actual profit of the year, consider the capital budget plan for the following year, determine the most appropriate dividend policy, after implementing the decisions mandated by resolutions in the shareholders' meeting.

An appropriation of earnings to a legal reserve shall be made until the legal reserve equals the Company's paid-in capital. The legal reserve may be used to offset deficits. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

Items referred to under Rule No. 1010012865 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs" should be appropriated to a special reserve by the Company.

Except for non-ROC resident shareholders, all shareholders receiving dividends are allowed a tax credit equal to their proportionate share of the income tax paid by the Company.

The appropriations of earnings for 2015 and 2014 approved in the shareholders' meetings on June 15, 2016 and June 10, 2015, respectively, were as follows:

	Appropriation of Earnings		**Dividends Per Share (NT$)**	
	For the Year Ended December 31		**For the Year Ended December 31**	
	2015	**2014**	**2015**	**2014**
Legal reserve	$ -	$ 23,145	$ -	$ -
Cash dividends	-	278,838	-	1.0
Cash dividends from capital surplus	165,976	-	0.6	-

The appropriation of earnings for 2016 was proposed by the Company's board of directors on March 14, 2017. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	**Dividends Per Share (NT$)**
Legal reserve	$ 74,777	$ -
Cash dividends	306,194	1.0
Cash dividends distributed from capital surplus	244,955	0.8

The appropriation of earnings for 2016 is subject to resolution in the shareholders' meeting to be held on June 15, 2017.

d. Special reserves

	For the Year Ended December 31	
	2016	**2015**
Beginning at January 1	$ -	$ -
Appropriation in respect of Debit to other equity items	231,141	-
Balance at December 31	$ 231,141	$ -

e. Others equity items

1) Exchange differences on translating the financial statements of foreign operations

	For the Year Ended December 31	
	2016	**2015**
Balance at January 1	$ 17,523	$ 9,714
Exchange differences arising on translating the financial statements of foreign operations	(8,489)	7,809
Balance at December 31	$ 9,034	$ 17,523

Exchange differences relating to the translation of the results and net assets of the Company's foreign operations from its functional currencies to the Company's presentation currency (the New Taiwan dollar) were recognized directly in other comprehensive income and accumulated in the foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve were reclassified to profit or loss on the disposal of the foreign operation.

2) Unrealized gain (loss) on available-for-sale financial assets

	For the Year Ended December 31	
	2016	2015
Balance at January 1	$ (499,891)	$ 87,612
Unrealized gain arising on revaluation of available-for-sale financial assets	471,450	(587,503)
Balance at December 31	$ (28,441)	$ (499,891)

Unrealized gains or losses on available-for-sale financial assets represents the cumulative gains and losses arising on the revaluation of available-for-sale financial assets that have been recognized in other comprehensive income, net of amounts reclassified to profit or loss when those assets have been disposed of or are determined to be impaired.

f. Non-controlling interests

	For the Year Ended December 31	
	2016	2015
Balance at January 1	$ 30,172	$ 46,547
Attributable to non-controlling interests:		
Dividends distributed by subsidiaries	(1,938)	(1,581)
Share of profit (loss) for the year	2,010	(6,903)
Share of other comprehensive loss of associates accounted for using the equity method	(40)	(137)
Acquisition of non-controlling interests in subsidiaries (Note 29)	(1,960)	(7,754)
Balance at December 31	$ 28,244	$ 30,172

g. Treasury shares

Purpose of Buy-Back	Shares Cancelled (In Thousands of Shares)
Number of shares at January 1, 2015	-
Increase during the year	4,319
Decrease during the year	(4,319)
Number of shares at December 31, 2015	-

Under the Securities and Exchange Act, the Company shall neither pledge treasury shares nor exercise shareholders’ rights on these shares, such as the rights to dividends and to vote.

25. NET PROFIT AND OTHER COMPREHENSIVE INCOME (LOSS) FROM CONTINUING OPERATIONS BONDS PAYABLE

a. Net profit (loss) from continuing operations

Net profit (loss) from continuing operations was attributable to:

	For the Year Ended December 31	
	2016	2015
Owners of the Company	$ 747,774	$ (401,876)
Non-controlling interests	2,010	(6,903)
	$ 749,784	$ (408,779)

Net profit from continuing operations was as follows:

1) Other operating income and expenses

	For the Year Ended December 31	
	2016	2015
Gain (loss) on evaluation of financial assets	$ 18,828	$ (182,637)
Gain on disposal of investments	-	417
Impairment loss on available-for-sale financial assets	(1,715)	-
Dividends	61,876	88,320
	$ 78,989	$ (93,900)

2) Other income

	For the Year Ended December 31	
	2016	2015
Interest income - bank deposits	$ 985	$ 910
Rental income	5,432	1,536
Others	5,312	11,579
	$ 11,729	$ 14,025

3) Other gains and losses

	For the Year Ended December 31	
	2016	2015
(Loss) gain on disposal of property, plant and equipment	$ (3,926)	$ 390,688
Gain on disposal of associates	102,218	-
Net foreign exchange gains (losses)	42,603	133,492
	$ 140,895	$ 524,180

4) Finance costs

	For the Year Ended December 31	
	2016	2015
Interest on bank loans	$ 85,796	$ 99,832
Interest on convertible bonds	8,901	10,163
Less: Amounts included in the cost of qualifying assets	(565)	(4,155)
	$ 94,132	$ 105,840

Information about capitalized interest was as follows:

	For the Year Ended December 31	
	2016	2015
Capitalized interest	$ 565	$ 4,155
Capitalization rate	2.5%	2.5%

5) Depreciation and amortization

	For the Year Ended December 31	
	2016	2015
Property, plant and equipment	$ 74,665	$ 86,806
Investment property	1,132	-
Long-term prepayments	1,031	1,046
	$ 76,828	$ 87,852
An analysis of depreciation by function		
Operating costs	$ 63,443	$ 70,986

	For the Year Ended December 31	
	2016	2015
Operating expenses	12,354	15,820
	$ 75,797	$ 86,806
An analysis of amortization by function		
Operating costs	$ 701	$ 786
Operating expenses	330	260
	$ 1,031	$ 1,046

6) Employee benefits expense

	For the Year Ended December 31	
	2016	2015
Short-term benefits	$ 233,909	$ 142,073
Post-employment benefits (Note 23)		
Defined contribution plan	4,871	4,568
Defined benefit plan	807	1,089
	$ 239,587	$ 147,730
An analysis of employee benefits expense by function		
Operating costs	$ 83,422	$ 71,994
Operating expenses	156,165	75,736
	$ 239,587	$ 147,730

a) Employees' compensation and remuneration of directors and supervisors for 2016 and 2015

In compliance with the Company Act as amended in May 2015 and the amended Articles of Incorporation of the Company approved by the shareholders in their meeting on June 15, 2016, the Company accrued employees' compensation and remuneration of directors and supervisors at the rates of no less than 3% and no higher than 3%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors. The employees' compensation and remuneration of directors and supervisors for the years ended December 31, 2016 and 2015 which have been approved by the Company's board of directors on March 14, 2017 and March 15, 2016, respectively, were as follows:

Accrual rate

	For the Year Ended December 31	
	2016	2015
Employees' compensation	3%	-
Remuneration of directors and supervisors	3%	-

Amount

	For the Year Ended December 31			
	2016		2015	
	Cash	Shares	Cash	Shares
Employees' compensation	$ 25,876	$ -	$ -	$ -
Remuneration of directors and supervisors	25,876	-	-	-

If there is a change in the amounts after the parent only financial statements were authorized for issuance, the differences are recorded as a change in the accounting estimate.

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

b) Bonus to employees and remuneration of directors and supervisors for 2014

The bonus to employees and the remuneration of directors and supervisors for 2014 approved in the shareholders' meeting on June 10, 2015 and the amounts recognized in the financial statements were as follows:

	For the Year Ended December 31, 2014	
	Cash	Shares
Bonus to employees	$ 6,249	$ -
Remuneration of directors and supervisors	6,249	-

The bonus to employees and the remuneration of directors and supervisors for 2014 approved in the shareholders' meeting on June 10, 2015 were as follows:

	For the Year Ended December 31, 2014	
	Bonus to Employees	Remuneration of Directors and Supervisors
Amounts approved in shareholders' meeting	$ 6,249	$ 6,249
Amounts recognized in annual financial statements	$ 6,587	$ 6,587

The differences were adjusted to profit and loss for the year ended December 31, 2015.

Information on the bonus to employees and remuneration of directors and supervisors resolved by the shareholders in their meeting in 2015 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

7) Gain or loss on foreign currency exchange

	For the Year Ended December 31	
	2016	2015
Foreign exchange gains	$ 154,104	$ 350,615
Foreign exchange losses	(111,501)	(217,123)
	$ 42,603	$ 133,492

26. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Major components of tax expense (income) recognized in profit or loss

	For the Year Ended December 31	
	2016	2015
Current tax		
In respect of the current year	$ 11,514	$ 702
Adjustments for previous years	(8)	(164)
	11,506	538
Deferred tax		
In respect of the current year	49,990	(13,668)
Income tax benefit recognized in profit or loss	$ 61,496	$ (13,130)

A reconciliation of accounting profit and income tax expenses is as follows:

	For the Year Ended December 31	
	2016	**2015**
Profit (loss) before income tax	$ 811,280	$ (421,909)
Income tax expense calculated at the statutory rate	$ 137,918	$ (71,724)
Nondeductible expenses in determining taxable income	9,487	(39,986)
Tax-exempt income	(16,304)	(16,266)
Unpaid taxable income	(7)	-
Additional income tax under the Alternative Minimum Tax Act	-	71
Unrecognized loss carryforwards	779	92,522
Used loss carryforwards	(63,718)	-
Unrecognized deductible temporary differences	9,848	22,417
Effects of different tax rates of group entities operating in other jurisdictions	(16,499)	-
Adjustments for prior years' tax	(8)	(164)
Income tax expense (benefit) recognized in profit or loss	$ 61,496	$ (13,130)

The applicable tax rate used above is the corporate tax rate of 17% payable by the Company and its subsidiaries in the ROC.

As the status of the 2017 appropriation of earnings is uncertain, the potential income tax consequences of the 2016 unappropriated earnings are not reliably determinable.

b. Current tax assets and liabilities

	For The Year Ended December 31	
	2016	**2015**
Current tax assets		
Tax refund receivable	$ -	$ 99
Current tax liabilities		
Income tax payable	$ 11,157	$ 417

c. Deferred tax balances

Movements of deferred tax assets and deferred tax liabilities for the years ended December 31, 2016 and 2015 were as follows:

	For The Year Ended December 31, 2016			
	Opening Balance	**Recognized in Profit or Loss**	**Recognized in Other Compre-hensive Income**	**Closing Balance**
Deferred tax assets				
Temporary differences				
Write-downs of inventory	$ 51,474	$ (51,399)	$ -	$ 75
FVTPL financial assets	(9,586)	9,586	-	-
Convertible bonds	537	(537)	-	-
Net (gain) loss on foreign currency exchange	4,306	(118)	-	4,188
Defined benefit obligation	5,345	(3,615)	636	2,366
Allowance for impaired receivables	2,029	(2,029)	-	-
	$ 54,105	$ (48,112)	$ 636	$ 6,629

	For The Year Ended December 31, 2016			
	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre-hensive Income	Closing Balance
Deferred tax liabilities				
Temporary differences				
FVTPL financial assets	$ 4	$ 1,471	$ -	$ 1,475
Convertible bonds	-	407	-	407
Exchange difference on foreign operations	-	-	1,851	1,851
	$ 4	$ 1,878	$ 1,851	$ 3,733

	For The Year Ended December 31, 2015			
	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre-hensive Income	Closing Balance
Deferred tax assets				
Temporary differences				
Write-downs of inventory	$ 1,707	$ 49,767	$ -	$ 51,474
FVTPL financial assets	(28,041)	18,455	-	(9,586)
Impairment loss on available-for-sale financial assets	22,417	(22,417)	-	-
Convertible bonds	(366)	903	-	537
Net (gain) loss on foreign currency exchange	20,967	(16,661)	-	4,306
Defined benefit obligation	5,240	(429)	534	5,345
Allowance for uncollectable accounts	2,269	(240)	-	2,029
	24,193	29,378	534	54,105
Loss carryforwards	15,717	(15,717)	-	-
	$ 39,910	$ 13,661	$ 534	$ 54,105
Deferred tax liabilities				
Temporary differences				
FVTPL financial assets	$ 11	$ (7)	$ -	$ 4

(Concluded)

d. Deductible temporary differences and unused loss carryforwards for which no deferred tax assets have been recognized in the balance sheets

	For The Year Ended December 31	
	2016	2015
Loss carryforwards		
Expire in 2020	$ 2,174	$ 2,287
Expire in 2021	4,143	4,143
Expire in 2022	2,192	17,440
Expire in 2023	-	91
Expire in 2024	5,185	5,185
Expire in 2025	11,604	60,489
Expire in 2026	779	-
	$ 26,077	$ 89,635
Deductible temporary differences		
Write-downs of inventory	$ 80	$ -
Net loss on foreign currency exchange	31	-
Share of unrealized income of foreign associates	(3,223)	(13,674)
Impairment loss on available-for-sale financial assets	22,708	22,417
	$ 19,596	$ 8,743

f. Information about unused loss carryforwards and tax exemptions

Loss carryforwards as of December 31, 2016 comprised:

Name of Associate	Year of Loss	Unused Amount	Expiry Year
The Company	2015	$ 46,952	2025
Hsin Kuang Alga Engineering Co., Ltd.	2010	$ 12,791	2020
	2011	24,367	2021
	2012	12,896	2022
	2014	30,498	2024
	2015	21,308	2025
	2016	4,585	2026
		$ 106,445	

As of December 31, 2016, profit attributable to the following expansion projects were exempt from income tax for a 5-year period:

Expansion of Construction Project	Tax-exemption Period
Production of metal products manufacturing investment plan	January 1, 2013-December 31, 2017

g. Integrated income tax

	December 31	
	2016	2015
Unappropriated earnings		
Generated on and after January 1, 1998	$ 744,667	$ 231,141
Shareholder-imputed credits account (“ICA”)	$ 101,055	$ 201,442

The expected creditable ratio for the distribution earnings for 2016 is 13.57%. The profit for 2015 is expected to be appropriated to a special reserve, so the Company didn’t calculated the creditable ratio for the year.

Under the Income Tax Law of the ROC, for distribution of earnings generated after January 1, 1998, the imputation credits allocated to ROC resident shareholders of the Company were calculated based on the creditable ratio as of the date of the dividend distribution. The actual imputation credits allocated to shareholders of the Company was based on the balance of the ICA as of the date of the dividend distribution. Therefore, the expected creditable ratio for the earnings may differ from the actual creditable ratio to be used in allocating imputation credits to shareholders.

h. Income tax assessments

The tax returns through 2014 and income tax on unappropriated earnings through 2013 have been assessed by the tax authorities.

27. EARNINGS (DEFICIT) PER SHARE

Unit: NT$ Per Share

	For the Year Ended December 31	
	2016	**2015**
Basic earnings per share		
From continuing operations	$ 2.67	$ (1.45)
Diluted earnings per share		
From continuing operations	$ 2.62	$ (1.45)

The earnings and weighted average number of ordinary shares outstanding in the computation of earnings per share from continuing operations were as follows:

Net Profit (Loss) for the Year

	For the Year Ended December 31	
	2016	**2015**
Profit (loss) for the period used in the computation of basic earnings per share	$ 747,774	$ (401,876)
Effect of dilutive ordinary shares:		
Interest on convertible bonds (after tax)	7,388	-
Earnings (deficit) used in the computation of diluted earnings per share	$ 755,162	$ (401,876)

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

	For the Year Ended December 31	
	2016	**2015**
Weighted average number of ordinary shares in computation of basic earnings per share	279,725	277,872
Effect of potentially dilutive ordinary shares:		
Convertible bonds	7,006	-
Employees' compensation or bonus issued to employees	1,198	-
Weighted average number of ordinary shares used in the computation of diluted earnings per share	287,929	277,872

If the Company offered to settle compensation or bonuses paid to employees in cash or shares, the Company assumed that the entire amount of the compensation or bonus will be settled in shares and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

28. SHARE-BASED PAYMENT ARRANGEMENTS

Employee Share Option Plan of the Company and its Subsidiaries

Qualified employees of the Company and its subsidiaries were granted 2,500 options in March 2011. Each option entitles the holder to subscribe for one thousand ordinary shares of the Company. The options granted were valid for 5 years and exercisable at 40% after the second anniversary, at 70 % after the third anniversary and at 100 % after the fourth anniversary from the grant date. The options were granted at an exercise price equal to the closing price of the Company's ordinary shares listed on the Taiwan Stock Exchange on the grant date. For any subsequent changes in the Company's capital, the exercise price is adjusted accordingly.

Information on employee share options was as follows:

	For the Year Ended December 31			
	2016		2015	
	Number of Options (In Thousands)	Weighted-average Exercise Price (NT$)	Number of Options (In Thousands)	Weighted-average Exercise Price (NT$)
Balance at January 1	1,134	$15.25	1,161	$15.00
Options granted	-	-	-	
Options forfeited	(146)	-	(27)	
Options exercised	(988)	14.40	-	
Balance at December 31	-		1,134	
Options exercisable, end of year	-		1,134	
Weighted-average fair value of options granted ($)	$ -		$ 15.8324	

29. PARTLY ACQUIRED OR DISPOSED OF SUBSIDIARIES - NO IMPACT ON CONTROL

In January and August 2016, the Company and its subsidiaries subscribed for additional new shares of Hsin Ho Fa Metal Co., Ltd. at a percentage different from their existing ownership percentage, increasing their continuing interests from 81.96% to 83.37%.

The above transactions were accounted for as equity transactions, since the Company and its subsidiaries did not cease to have control over the subsidiary.

30. CAPITAL MANAGEMENT

The Company and its subsidiaries manage their capital to ensure that entities in the Company and its subsidiaries will be able to continue as going concerns while maximizing the return to shareholders through the optimization of the debt and equity balance. The Company and its subsidiaries' overall strategy has remained unchanged over the past five years.

The capital structure of the Company and its subsidiaries consists of net debt (borrowings offset by cash and cash equivalents) and equity of the Company and its subsidiaries (comprising issued capital, reserves, retained earnings, other equity and non-controlling interests) and equity attributable to owners of the Company (comprising issued capital, reserves, retained earnings and other equity).

The Company and its subsidiaries are not subject to any externally imposed capital requirements.

The key management personnel of the Company and its subsidiaries review the Company and its subsidiaries' capital structure on a quarterly basis. As part of this review, the key management personnel consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the key management personnel, in order to balance the overall capital structure, the Company and its subsidiaries may adjust the amount of dividends paid to shareholders, the number of new shares issued or repurchased, and/or the amount of new debt issued or existing debt redeemed.

31. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments that are not measured at fair value

The management believes that the carrying amounts of financial assets and liabilities that are not measured at fair value approximate their fair values:

	December 31			
	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Other financial assets - current	$ 70,073	$ 70,073	$ 80,307	$ 80,307
Other loans and receivables	3,008,075	3,008,075	3,143,093	3,143,093
Financial liabilities				
Financial liabilities measured at amortized cost:				
Bank loans	5,214,118	5,214,118	5,113,779	5,113,779
Short-term bills payable	189,774	189,774	698,402	698,402
Trade and other payables directly related to non-current assets held for sale	724,918	724,918	182,518	182,518
Convertible bonds	108,418	108,418	448,497	448,497

The method and assumptions used by the Company for estimating the tools not measured at fair value are as follows:

1) The fair values of financial instruments included cash and cash equivalents, trades receivables, other receivables - loans receivable, overdue receivables, trade payables, other financial assets, short-term borrowings, and short-term bills payable, are estimated using the carrying amount at the end of the reporting period because the maturity date is close to the reporting date or the payment price is close to the carrying amount.
2) The fair values of long-term loans are determined using the discounted cash flow. Future cash flows are discounted at a long-term borrowing rate of the Company and its subsidiaries. The Company and its subsidiaries accounted for the carrying amount of the long-term loans at the end of the reporting period as their fair values.
3) The fair value of the liability component of convertible bonds is estimated using an amortized cost basis under the effective interest method, and the conversion options component of the convertible bonds is recognized at fair value. The fair value of the liability component of the convertible bonds is recognized at the carrying amount at the end of the reporting period.

b. Financial instruments measured at fair value on a recurring basis

1) Fair value hierarchy

December 31, 2016

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial assets	$ -	$ 8,775	$ -	$ 8,775
Non-derivative financial assets held for trading	814,615	-	-	814,615
	$ 814,615	$ 8,775	$ -	$ 823,390
Available-for-sale financial assets				
Securities listed in ROC				
Equity securities	$ 1,732,983	$ -	$ -	$ 1,732,983
Unlisted securities - ROC				
Equity securities	-	-	60,823	60,823
Unlisted securities - other countries				
Equity securities	-	-	444,973	444,973
	$ 1,732,983	$ -	$ 505,796	$ 2,238,779
Financial liabilities at FVTPL				
Derivative financial liabilities	$ -	$ 91	$ -	$ 91

December 31, 2015

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial assets	$ -	$ 56,546	$ -	$ 56,546
Non-derivative financial assets held for trading	552,387	-	-	552,387
	$ 552,387	$ 56,546	$ -	$ 608,933
Available-for-sale financial assets				
Securities listed in ROC				
Equity securities	$ 1,261,533	$ -	$ -	$ 1,261,533
Unlisted securities - ROC				
Equity securities	-	-	74,546	74,546
Unlisted securities - other countries				
Equity securities	-	-	348,223	348,223
	$ 1,261,533	$ -	$ 422,769	$ 1,684,302
Financial liabilities at FVTPL				
Derivative financial liabilities	$ -	$ 13,652	$	$ 13,652

(Concluded)

There were no transfers between Levels 1 and 2 in the current and prior periods.

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

	For the Year Ended December 31	
	2016	2015
Beginning of the year	$ 422,769	$ 423,220
Recognized in profit or loss (included in other gains and losses)		
Unrealized	(1,715)	-
Purchases	97,192	(451)
Sales	(12,450)	-
End of the year	$ 505,796	$ 422,769

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

Financial Instruments	Valuation Techniques and Inputs
Derivatives - foreign currency forward contracts	Discounted cash flow. Future cash flows are estimated based on observable forward exchange rates at the end of the reporting period and contract forward rates discounted at a rate that reflects the credit risk of various counterparties.
Derivatives - conversion option component of convertible bonds	The value of the bonds payable and redemption and put options are estimated based on the binomial CB pricing model and historical volatility, risk-free interest rate, discount rate and liquidity risk at the end of the reporting period.

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

The fair values of unlisted equity securities - ROC were determined using the income approach. In this approach, the discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of these investees. The significant unobservable inputs used are listed in the table below. An increase in long-term revenue growth rates or long-term pre-tax operating margin or a decrease in the weighted average cost of capital or the discount for lack of marketability used in isolation would result in increases in the fair values.

c. Categories of financial instruments

	December 31	
	2016	2015
<u>Financial assets</u>		
Fair value through profit or loss (FVTPL) - held for trading	$ 823,390	$ 608,933
Loans and receivables (1)	3,008,075	3,143,093
Available-for-sale financial assets	2,238,779	1,684,302
<u>Financial liabilities</u>		
Fair value through profit or loss (FVTPL) - held for trading	91	13,652
Amortized cost (2)	6,237,228	6,443,196

1) The balance includes loans and receivables measured at amortized cost, which comprise cash and cash equivalents, notes receivable, trade receivables, and overdue receivables.
2) The balance includes financial liabilities measured at amortized cost, which comprise short-term and long-term loans, short-term bills payable, trade and other payables, and bonds issued.

d. Financial risk management objectives and policies

The Company and its subsidiaries' major financial instruments include equity investments, derivative financial instruments, notes receivable, trade receivables, overdue receivables, short-term bills payable, notes payables, trade payables, other payables, bonds payable and borrowings. The Company and its subsidiaries' Corporate Treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Company and its subsidiaries through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

The Company and its subsidiaries sought to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives was governed by the Company and its subsidiaries' policies approved by the board of directors, which provided written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits was reviewed by the internal auditors on a continuous basis. The Company and its subsidiaries did not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

1) Market risk

The Company and its subsidiaries' activities exposed them primarily to the financial risks of changes in foreign currency exchange rates (see (a) below) and interest rates (see (b) below). The Company and its subsidiaries entered into a variety of derivative financial instruments to manage their exposure to foreign currency risk and interest rate risk, including:

a) Forward foreign exchange contracts to hedge the exchange rate risk arising on the import and export of steel plates;

b) Interest rate swaps to mitigate the risk of rising interest rates.

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

a) Foreign currency risk

Several subsidiaries of the Company had foreign currency sales and purchases, which exposed the Company and its subsidiaries to foreign currency risk. Exchange rate exposures were managed within approved policy parameters utilizing forward foreign exchange contracts.

The carrying amounts of the Company and its subsidiaries' foreign currency denominated monetary assets and monetary liabilities (including those eliminated on consolidation) were as follows:

	December 31	
	2016	**2015**
Assets		
USD	$ 98,078	$ 165,663
EUR	-	5,536
RMB	67,525	-
Liabilities		
USD	2,042,924	1,270,526
EUR	-	16,100
JPY	7,014	-
RMB	103,514	-

Sensitivity analysis

The Company and its subsidiaries were mainly exposed to the USD, JPY, RMB, and EUR.

The following table details the Company and its subsidiaries' sensitivity to a 1% increase and decrease in the New Taiwan dollar (the functional currency) against the relevant foreign currencies. The sensitivity rate used when reporting foreign currency risk internally to key management personnel and representing management's assessment of the reasonably possible change in foreign exchange rates is 1%. The sensitivity analysis included only outstanding foreign currency denominated monetary items and foreign currency forward contracts designated as cash flow hedges, and adjusts their translation at the end of the reporting period for a 1% change in foreign currency rates. A positive number below indicates an increase in pre-tax profit and other equity associated when the New Taiwan dollar strengthens 1% against the relevant currency. For a 1% weakening of the New Taiwan dollar against the relevant currency, there would be an equal and opposite impact on pre-tax profit and other equity and the balances below would be negative.

	USD Impact	
	For the Year Ended December 31	
	2016	2015
Profit or loss	$ 19,479 (i)	$ 11,040 (i)

	EUR Impact	
	For the Year Ended December 31	
	2016	2015
Profit or loss	$ - (ii)	$ 106 (ii)

	JPY Impact	
	For the Year Ended December 31	
	2016	2015
Profit or loss	$ 71 (iii)	$ - (iii)

	RMB Impact	
	For the Year Ended December 31	
	2016	2015
Profit or loss	$ 336 (iv)	$ - (iv)

i. This was mainly attributable to the exposure outstanding on USD letters of credit and receivables, which were not hedged at the end of the reporting period.
ii. This was mainly attributable to the exposure outstanding on EUR trade payables, letters of credit and receivables, which were not hedged at the end of the reporting period.
iii. This was mainly attributable to the exposure outstanding on JPY other receivables, which were not hedged at the end of the reporting period.
iv. This was mainly attributable to the exposure outstanding on RMB other receivables and other payables, which were not hedged at the end of the reporting period.

The Company and its subsidiaries' sensitivity to foreign currency increased during the current year mainly due to the accession purchases which resulted in higher USD letters of credit.

In management's opinion, the sensitivity analysis was unrepresentative of the inherent foreign exchange risk because the exposure at the end of the reporting period did not reflect the exposure during the period.

b) Interest rate risk

The Company and its subsidiaries were exposed to interest rate risk because group entities of the Company and its subsidiaries borrowed funds at both fixed and floating interest rates. The risk is managed by the Company and its subsidiaries by maintaining an appropriate mix of fixed and floating rate borrowings and using interest rate swap contracts and forward interest rate contracts. Hedging activities are evaluated regularly to align with interest rate views and the defined risk appetite, ensuring that the most cost-effective hedging strategies are applied.

The carrying amount of the Company and its subsidiaries' financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows:

	December 31	
	2016	**2015**
Cash flow interest rate risk		
Financial assets	$ 351,604	$ 353,622
Financial liabilities	5,403,892	5,812,181

Sensitivity analysis

The sensitivity analysis below was determined based on the Company and its subsidiaries' exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 1% increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 1% higher/lower and all other variables were held constant, the Company and its subsidiaries' pre-tax profit for the years ended December 31, 2016 and 2015 would decrease/increase by NT$42,034 thousand and NT$52,665 thousand, respectively, which was mainly a result of the changes in the variable interest rate bank deposits and loans.

c) Other price risk

The Company and its subsidiaries were exposed to equity price risk through their investments in listed equity securities. The Company and its subsidiaries have appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis

The sensitivity analysis below was determined based on the exposure to equity price risks at the end of the reporting period.

If equity prices had been 1% higher/lower, pre-tax profit for years ended December 31, 2016 and 2015 would have increased/decreased by NT$8,225 thousand and NT$5,511 thousand, respectively, as a result of the changes in the fair value of held-for-trading investments, and the pre-tax other comprehensive income for the years ended December 31, 2016 and 2015 would increase/decrease by NT$17,576 thousand and NT$12,665 thousand, respectively, as a result of the changes in the fair value of available-for-sale shares.

The Company and its subsidiaries' sensitivity to available-for-sale investments and held-for-trading investments has not changed significantly from the prior year.

2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Company and its subsidiaries. As at the end of the reporting period, the Company and its subsidiaries' maximum exposure to credit risk, which would cause a financial loss to the Company and its subsidiaries due to the failure of counterparties to discharge an obligation provided by the Company and its subsidiaries could arise from the carrying amount of the respective recognized financial assets as stated in the balance sheets and trade receivables of activities.

In order to minimize credit risk, the management of the Company and its subsidiaries have delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Company and its subsidiaries review the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowances are made for irrecoverable amounts. In this regard, management believes the Company and its subsidiaries' credit risk was significantly reduced.

The Company and its subsidiaries' trade receivables are from a large number customers. Ongoing credit evaluation is performed on the financial condition of trade receivables and, where appropriate, credit guarantee insurance cover is purchased.

Ongoing credit evaluation is performed on the financial condition of trade receivables and, where appropriate, credit guarantee insurance cover is purchased.

The Company and its subsidiaries did not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Company and its subsidiaries defines counterparties as having similar characteristics if they are related entities. The concentration of credit risk to any other counterparty did not exceed 10% of the gross monetary assets of the Company and its subsidiaries at any time during 2016 and 2015.

The Company and its subsidiaries' concentration of credit risk by geographical locations was mainly in Taiwan, which accounted for 92% and 85% of the total trade receivable as of December 31, 2016 and 2015, respectively.

The credit risk on derivatives was limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

3) Liquidity risk

The Company and its subsidiaries manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Company and its subsidiaries' operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the Company and its subsidiaries' short, medium and long-term funding and liquidity management requirements. The Company and its subsidiaries manage liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, and continuously monitoring forecasted and actual cash flows as well as matching the maturity profiles of financial assets and liabilities. As of December 31, 2016 and 2015, the Company and its subsidiaries have available unutilized short-term bank loan facilities of $5,306,912 thousand and $6,380,754 thousand.

a) Liquidity and interest risk rate tables

The following table details the Company and its subsidiaries' remaining contractual maturity for its non-derivative financial liabilities with agreed upon repayment periods. The tables had been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Company and its subsidiaries can be required to pay. The tables included both interest and principal cash flows.

To the extent that interest flows are at floating rate, the undiscounted amount was derived from the interest rate curve at the end of the reporting period.

December 31, 2016

	Weighted-Average Effective Interest Rate (%)	On Demand or Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	5+ Years
Non-derivative financial liabilities						
Non-interest bearing	-	$ 237,200	$ 254,441	$ 224,064	$ 5,385	$ 954
Variable interest rate liabilities	1.73	653,333	807,995	2,330,665	1,611,900	-
		$ 890,533	$ 1,062,436	$ 2,554,729	$ 1,617,285	$ 954

December 31, 2015

	Weighted-Average Effective Interest Rate (%)	On Demand or Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	5+ Years
Non-derivative financial liabilities						
Non-interest bearing	-	$ 91,773	$ 40,469	$ 26,663	$ 8,202	$ -
Variable interest rate liabilities	1.82	790,814	1,674,178	1,851,044	1,496,145	-
		$ 882,587	$ 1,714,647	$ 1,877,707	$ 1,504,347	$ -

The following table details the Company and its subsidiaries' expected maturity for some of its non-derivative financial assets. The table below was drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The inclusion of information on non-derivative financial assets is necessary in order to understand the Company and its subsidiaries' liquidity risk management as the liquidity is managed on a net asset and liability basis. In order to understand the liquidity risk management of the Company and its subsidiaries on the basis of net assets and net liabilities, the following information is necessary for non-derivative financial assets:

December 31, 2016

	Weighted-Average Effective Interest Rate (%)	On Demand or Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	5+ Years
Non-derivative financial assets						
Non-interest bearing	-	$ 1,213,062	$ 972,457	$ 142,587	$ 9,470	$ 3,000
Variable interest rate assets	0.28	281,530	40,511	29,562	-	-
		$ 1,494,542	$ 1,012,968	$ 172,149	$ 9,470	$ 3,000

December 31, 2015

	Weighted-Average Effective Interest Rate (%)	On Demand or Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	5+ Years
Non-derivative financial assets						
Non-interest bearing	-	$ 342,996	$ 691,332	$ 1,106,164	$ 1,012	$ 3,293
Variable interest rate assets	0.26	285,355	55,810	12,457	-	-
		$ 628,351	$ 747,142	$ 1,118,621	$ 1,012	$ 3,293

The amount included above for variable interest rate instruments for both non-derivative financial assets and liabilities was subject to change if changes in variable interest rates differ from those estimates of interest rates determined at the end of the reporting period.

b) Financing facilities

	December 31	
	2016	2015
Bank loan facilities expired on 2019 which may be extended upon mutual agreement:		
Amount used	$ 5,403,892	$ 5,812,181
Amount unused	6,213,388	6,666,630
	$ 11,617,280	$ 12,478,811

32. TRANSACTIONS WITH RELATED PARTIES

Besides information disclosed elsewhere in the other notes, details of transactions between the Company and its subsidiaries and other related parties are disclosed below.

a. Sale of goods

	For the Year Ended December 31	
Line Items	2016	2015
The directors of the related party are the same as those of the Company	$ 86	$ 322

b. Purchase of goods and operating costs

Line Items	For the Year Ended December 31 2016	2015
The supervisor of the related party is the chairman of the Company	$ 3,182	$ 2,431

The Company and its subsidiaries' sale and payment terms and conditions to related parties were comparable to unrelated parties.

c. Receivables from related parties (excluding loans to related parties)

Line Items	For the Year Ended December 31 2016	2015
The directors of the related party are the same as those of the Company	$ -	$ 121

d. Payables to related parties

Line Items	For the Year Ended December 31 2016	2015
The supervisor of the related party is the chairman of the Company	$ 1,060	$ 760

The outstanding trade payables from related parties are unsecured and will be paid in cash. The outstanding trade receivables from related parties are unsecured. For the years ended December 31, 2016 and 2015, no impairment loss was recognized for trade receivables from related parties.

e. Endorsements and guarantees

Line Items	For the Year Ended December 31 2016	2015
Subsidiaries		
Amount endorsed	$ 7,400	$ 7,400
Amount utilized	7,400	7,400

f. Compensation of key management personnel

The amount of the remuneration of directors and key executives were as follows:

	For the Year Ended December 31 2016	2015
Short-term employee benefits	$ 39,466	$ 14,459

The remuneration of directors and key executives was determined by the remuneration committee based on the performance of individuals and market trends.

33. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for bank borrowings and lease guarantees:

	December 31 2016	2015
Notes receivable	$ 225,140	$ 204,302
Financial assets at fair value through profit or loss - current	52,318	29,784
Pledge deposits (classified as other financial assets - current)	65,804	80,307
Available-for-sale financial assets - non-current	234,175	170,525
Freehold land	951,044	716,351
Buildings, net	332,768	294,880
Machinery and equipment, net	-	1,215
Miscellaneous equipment, net	-	1,698
	$ 1,861,249	$ 1,499,062

34. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Company and its subsidiaries as of December 31, 2016 and 2015 were as follows:

Significant Commitments

a. As of December 31, 2016 and 2015, unused letters of credit for purchases of raw materials and machinery and equipment amounted to the following:

	December 31	
	2016	**2015**
TWD	$ 248,882	$ 74,146
USD	41,620	4,172
JPY	20,900	-
EUR	-	82

b. Unrecognized commitments were as follows:

	December 31	
	2016	**2015**
Acquisition of property, plant and equipment	$ 13,073	$ 13,787

35. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Company and its subsidiaries' significant financial assets and liabilities denominated in foreign currencies were as follows:

December 31, 2016

	Foreign Currencies	**Exchange Rate**		**Carrying Amount**
Financial assets				
Monetary items				
USD	$ 3,822	32.25	(USD:TWD)	$ 122,870
EUR	106	33.9	(EUR:TWD)	3,822
JPY	61	0.2756	(JPY:TWD)	16
RMB	33,257	4.77	(RMB:TWD)	158,612
				$ 285,320
Financial liabilities				
Monetary items				
USD	$ 63,346	32.25	(USD:TWD)	$ 2,042,924
JPY	25,451	0.2756	(JPY:TWD)	7,014
RMB	19,728	4.99	(RMB:TWD)	103,514
				$ 2,153,452

December 31, 2015

	Foreign Currencies	Exchange Rate		Carrying Amount
Financial assets				
Monetary items				
USD	$ 5,425	32.825	(USD:TWD)	$ 177,925
EUR	308	35.88	(EUR:TWD))	11,291
JPY	61	0.2695	(JPY:TWD))	16
				$ 189,232
Non-monetary items				
USD	4,585	32.825	(USD:TWD)	$ 150,509
Financial liabilities				
Monetary items				
USD	38,706	32.825	(USD:TWD)	$ 1,270,526
EUR	449	35.88	(EUR:TWD)	16,100
				$ 1,286,626

36. SEGMENT INFORMATION

Information reported to the chief operating decision-maker for the purpose of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. Specifically, the Company and its subsidiaries’ reportable segments under IFRS 8 “Operating Segments” were as follows:

- Steel:
    - direct sales
    - manufacturing sales
- Investments

a. Segments revenue and results

The following was an analysis of the Company and its subsidiaries' revenue and results from continuing operations by reportable segments.

	Steel - Direct Sales	Steel - Manufacturing Sales	Construction Revenue	Investments	Total
For the year ended December 31, 2016					
Revenue from external customers	$ 4,022,235	$ 2,375,870	$ -	$ 13,581	$ 6,411,686
Inter-segment revenue	20,523	-	-	-	174,255
Segment revenue	4,042,758	2,375,870	-	13,581	6,585,941
Eliminations	(20,523)	-	-	-	(174,255)
Consolidated revenue	$ 4,022,235	$ 2,375,870	$ -	$ 13,581	$ 6,411,686
Segment income	$ 740,408	$ 173,379	$ -	$ (3,202)	$ 916,989
Share of profits of associates accounted for using the equity method					688
Rental income					5,432
Interest income					985
Loss on disposal of property, plant and equipment					(3,926)
Gain (loss) on disposal of associates					102,218
Net foreign exchange (gains) losses					42,603
Gain (loss) on evaluation of financial assets					18,828
Impairment loss on available-for sale financial assets					(1,715)
Allocation of central administration costs and directors' salaries					(238,566)
Finance costs					(94,132)
Dividends					61,876
Profit before tax (continuing operations)					$ 811,280
For the year ended December 31, 2015					
Revenue from external customers	$ 4,088,079	$ 2,354,888	$ -	$ 6,732	$ 6,449,699
Inter-segment revenue	73,898	-	-	-	73,898
Segment revenue	4,161,977	2,354,888	-	6,732	6,523,597
Eliminations	(73,898)	-	-	-	(73,898)
Consolidated revenue	$ 4,088,079	$ 2,354,888	$ -	$ 6,732	$ 6,449,699
Segment income	$ (378,156)	$ (174,455)	$ (1,809)	$ (13,953)	$ (568,373)
Share of profits of associates accounted for using the equity					849
Rental income					1,536
Interest income					910
Gain (loss) on disposal of property, plant and equipment					390,688
Gain (loss) on disposal of financial assets					2,628
Net foreign exchange (gains) losses					133,492
Gain (loss) on evaluation of financial assets					(184,848)
Allocation of central administration costs and directors' salaries					(181,271)
Finance costs					(105,840)
Dividends					88,320
Loss before tax (continuing operations)					$ (421,909)

The segments revenue reported above is generated from transactions with external customer.

b. Segment total assets and liabilities

	December 31	
	2016	**2015**
Segment assets from continuing operations		
Steel - direct sales	$ 5,874,920	$ 5,373,561
Steel - manufacturing sales	1,293,153	1,325,509
Investments	3,806,403	3,219,842
Total segment assets	10,974,476	9,918,912
Unallocated	946,680	771,339
Consolidated total assets	$ 11,921,156	$ 10,690,251
Segment liabilities from continuing operations		
Steel - direct sales	$ 3,268,494	$ 4,088,912
Steel - manufacturing sales	681,389	2,418,214
Investments	1,881,814	22,615
Total segment assets	5,831,697	6,529,741
Unallocated	516,522	-
Consolidated total liabilities	$ 6,348,219	$ 6,529,741

For the purpose of monitoring segment performance and allocating resources between segments:

1) All assets were allocated to reportable segments other than interests in associates accounted for using the equity method, other financial assets, and current and deferred tax assets. Assets used jointly by reportable segments were allocated on the basis of the revenue earned by individual reportable segments; and
2) All liabilities were allocated to reportable segments other than borrowings, other financial liabilities, current and deferred tax liabilities. Liabilities for which reportable segments are jointly liable were allocated in proportion to segment assets.

c. Revenue from major products and services

The following is an analysis of the Company and its subsidiaries' revenue from continuing operations from its major products and services.

	For the Year Ended December 31	
	2016	**2015**
Steel - direct sales	$ 4,022,235	$ 4,088,079
Steel - manufacturing sales	2,375,870	2,354,888
Investments	13,581	6,732
	$ 6,411,686	$ 6,449,699

d. Geographical information

The Company and its subsidiaries operate in the principal geographical area of Taiwan.

The revenue of the Company and its subsidiaries from continuing operations and from external customers by location of operations are detailed below.

	For the Year Ended December 31	
	2016	**2015**
Taiwan	$ 6,171,186	$ 6,039,909
Others	240,500	409,790
	$ 6,411,686	$ 6,449,699

e. Information about major customers

No revenue from any individual customer exceeds 10% of the Company and its subsidiaries' total revenue for the years ended December 31, 2016 and 2015.

HSIN KUANG STEEL CO., LTD

Chairman: Alexander M.T.Su