TUNG HO STEEL ENTERPRISE CORPORATION

FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

(With Independent Auditors' Report Thereon)

安侯建業聯合會計師事務所
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Independent Auditors' Report

The Board of Directors
Tung Ho Steel Enterprise Corporation

We have audited the accompanying balance sheets of Tung Ho Steel Enterprise Corporation (the "Company") as of December 31, 2015 and 2014 and the related statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2015 and 2014 (restated). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of some of the Company's investee companies accounted for using the equity method were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amount included for these investees, is based solely on the reports of other auditors. The carrying value of these equity-method investments amounted to NT$436,363 thousand and NT$547,245 thousand, constituting 1% and 2% of the total assets as of December 31, 2015 and 2014, respectively. The related investment income of these investments under equity method amounted to NT$77,945 thousand and NT$119,136 thousand, constituting 5% and 9% of income before income tax for the years ended December 31, 2015 and 2014 (restated), respectively.

We conducted our audits in accordance with the Rules Governing Auditing and Certification of Financial Statements by Certified Public Accountants and the auditing standards generally accepted in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Tung Ho Steel Enterprise Corporation as of December 31, 2015 and 2014 (restated), and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers.

As described in Note 3(1), the financial statements of Tung Ho Steel Enterprise Corporation were prepared in conformity with the 2013 version of IFRSs (excluding IFRS 9 "Financial Instruments")endorsed by the Financial Supervisory Commission, R.O.C., the International Accounting Standards, and the IFRIC Interpretations and SIC Interpretations commencing from 2015. The financial statements as of and for the year ended December 31, 2014 were retrospectively restated accordingly.

KPMG

Taipei, Taiwan (the Republic of China)
March 28, 2016

Note to Readers

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with the International Financial Reporting Standards as endorse by the FSC and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the 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 or any difference in the interpretation of the two, the Chinese version shall prevail.

TUNG HO STEEL ENTERPRISE CORPORATION

BALANCE SHEETS

DECEMBER 31, 2015 AND 2014
(Expressed in thousands of New Taiwan Dollars)

Assets	December 31, 2015 Amount	%	December 31, 2014 (Restated) Amount	%
Current assets:				
Cash and cash equivalents (Note 6(1))	$ 3,414,427	11	1,652,958	5
Financial assets at fair value through profit or loss—current (Note 6(2))	193,281	1	335,490	1
Notes receivable, net (Notes 6(6) and 7)	205,550	1	251,877	1
Accounts receivable, net (Notes 6(6) and7)	2,021,508	6	3,006,939	8
Other receivables (Notes 6(6) and 7)	33,165	-	13,424	-
Inventories (Note 7)	4,846,471	16	8,272,262	24
Prepayments	192,156	1	209,077	-
Other current assets	155	-	600	-
Total current assets	10,906,713	36	13,742,697	39
Noncurrent assets:				
Available-for-sale financial assets—noncurrent (Note 6(4))	699,986	2	872,398	3
Financial assets carried at cost—noncurrent (Note 6(5))	327,526	1	345,163	1
Investments accounted for using the equity method (Notes 6(8) and 7)	3,758,962	12	4,213,137	12
Property, plant, and equipment (Notes 6(10) and 7)	12,811,483	41	13,433265	38
Investment property, net (Notes 6(10) and (11))	1,664,929	5	1,651,800	5
Deferred tax assets (Note 6(18))	139,561	-	145,316	-
Other current assets	70,012	-	85,943	-
Prepayment for land and equipment	568,869	2	410,377	1
Refundable deposit (Note 8)	275,331	1	277,943	1
Total noncurrent assets	20,316,659	64	21,435,342	61
Total assets	$ 31,223,372	100	35,178,039	100

Liabilities and equity	December 31, 2015 Amount	%	December 31, 2014(Restated) Amount	%
Current liabilities:				
Short-term borrowings (Note 6(12))	$ 388,284	1	2,799,081	8
Financial liabilities at fair value through profit or loss—current (Notes 6(2) and (14))	84,395	-	40,000	-
Derivative financial liabilities used for hedging—current (Note6(3))	-	-	5,698	-
Notes payable (Note 7)	84,620	-	102,545	-
Accounts payable (Note 7)	643,314	2	1,205,645	4
Other payables (Notes 6(16) and 7)	1,173,597	4	1,256,900	4
Income tax payable	56,858	-	77,436	-
Advance receipts (Note 7)	207,473	1	330,575	1
Corporate bonds payable—current (Note 6(14))	2,425,934	8	2,412,420	7
Total current liabilities	5,064,475	16	8,230,300	24
Non-current liabilities:				
Long-term loans payable (Note 6(13))	2,200,000	7	2,950,000	8
Deferred tax liabilities (Note 6(18))	174,281	1	194,018	1
Net defined benefit liabilities—noncurrent (Note 6(17))	781,773	2	734,627	2
Guarantee deposits (Note 7)	10,902	-	10,446	-
Total noncurrent liabilities	3,166,956	10	3,889,091	11
Total liabilities	8,231,431	26	12,119,391	35
Equity (Notes 6(7)(8)(14)(18)(19)):				
Common stock	9,982,215	32	9,982,215	28
Capital surplus	6,225,993	20	6,225,993	18
Retained earnings				
Legal reserve	3,083,412	10	2,977,253	8
Special reserve	149,309	-	285,140	1
Unappropriated retained earnings	3,387,753	11	3,425,318	10
Total retained earnings	6,620,474	21	6,687,711	19
Other equity interest	163,259	1	162,729	-
Total equity	22,991,941	74	23,058,648	65
Total liabilities and equity	$ 31,223,372	100	35,178,039	100

See accompanying notes to financial statements.

TUNG HO STEEL ENTERPRISE CORPORATION

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Expressed in thousands of New Taiwan Dollars)

			Retained earnings				Other equity items				
	Common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Total	Foreign currency translation differences	Unrealized gains (losses) on available-for-sale financial assets	Gain (Loss) on the effective portion of cash flow hedge	Others	Total equity
Balance at January 1, 2014	$ 9,982,021	6,225,686	2,765,546	149,309	4,301,006	7,215,861	103,011	(386,282)	-	(1,868)	23,138,429
Effect of retrospective application and adjustment	-	-	-	-	50,084	50,084	-	-	-	1,868	51,952
Balance at January 1, 2014 (Restated)	9,982,021	6,225,686	2,765,546	149,309	4,351,090	7,265,945	103,011	(386,282)	-	-	23,190,381
Appropriation and distribution of retained earnings (Note 1):											
Legal reserve	-	-	211,707	-	(211,707)	-	-	-	-	-	-
Special reserve	-	-	-	135,831	(135,831)	-	-	-	-	-	-
Cash dividends	-	-	-	-	(1,597,123)	(1,597,123)	-	-	-	-	(1,597,123)
Profit for the period (Restated)	-	-	-	-	1,057,263	1,057,263	-	-	-	-	1,057,263
Other comprehensive income for the period	-	-	-	-	(38,219)	(38,219)	70,112	381,586	(5,698)	-	407,781
Total comprehensive income for the period	-	-	-	-	1,019,044	1,019,044	70,112	381,586	(5,698)	-	1,465,044
Conversion of convertible bonds	194	307	-	-	-	-	-	-	-	-	501
Difference between acquisition price and carrying value of subsidiaries	-	-	-	-	(117)	(117)	-	-	-	-	(117)
Changes in associates accounted for using the equity method	-	-	-	-	(38)	(38)	-	-	-	-	(38)
Balance at December 31, 2014 (Restated)	9,982,215	6,225,993	2,977,253	285,140	3,425,318	6,687,711	173,123	(4,696)	(5,698)	-	23,058,648
Appropriation and distribution of retained earnings (Note 2):											
Legal reserve	-	-	106,159	-	(106,159)	-	-	-	-	-	-
Special reserve	-	-	-	(135,831)	135,831	-	-	-	-	-	-
Cash dividends	-	-	-	-	(1,297,688)	(1,297,688)	-	-	-	-	(1,297,688)
Profit for the period	-	-	-	-	1,269,089	1,269,089	-	-	-	-	1,269,089
Other comprehensive income for the period	-	-	-	-	(38,638)	(38,638)	(12,647)	24,864	(11,687)	-	(38,108)
Total comprehensive income for the period	-	-	-	-	1,230,451	1,230,451	(12,647)	24,864	(11,687)	-	1,230,981
Balance at December 31, 2015	$ 9,982,215	6,225,993	3,083,412	149,309	3,387,753	6,620,474	160,476	20,168	(17,385)	-	22,991,941

Note 1: Directors' and supervisors' remuneration of $57,161 thousand and employees' bonuses of $57,161 thousand were expensed under the statements of comprehensive income.

Note 2: Directors' and supervisors' remuneration of $32,738 thousand and employees' bonuses of $32,738 thousand were expensed under the statements of comprehensive income.

See accompanying notes to financial statements.

TUNG HO STEEL ENTERPRISE CORPORATION

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Expressed in thousands of New Taiwan Dollars, except for earnings per share)

	For the year ended December 31,			
	2015		2014 (Restated)	
	Amount	%	Amount	%
Operating revenues, net (Notes 6(21) and 7)	$ 26,299,671	100	33,009,294	100
Operating costs (Notes 6(7)(17) and 7)	23,412,749	89	30,248,438	92
Gross profit, net	2,886,922	11	2,760,836	8
Less: unrealized inter-company profit (Note 7)	18,541	-	13,926	-
Add: realized inter-company profit (Note 7)	13,926	-	26,959	-
Realized gross profit	2,882,307	11	2,773,886	8
Operating expenses:				
Selling expenses (Notes 6(17) and 7)	583,341	2	637,477	2
Administrative expenses (Notes 6(17) and 7)	616,513	2	670,230	2
Total operating expenses	1,199,854	4	1,307,230	4
Operating income	1,682,453	7	1,466,159	4
Non-operating income and expenses:				
Other income (Notes 6(15)(23) and 7)	83,721	-	82,508	-
Other gains and losses (Notes 6(4)(5)(23) and 7)	87,216	-	(190,098)	(1)
Financial costs (Notes 6(14) and (23))	(67,821)	-	(102,673)	-
Share of profit (loss) of subsidiaries and associates accounted for using the equity method (Note 6(8))	(348,079)	(1)	59,368	-
Total non-operating income and expenses	(246,963)	(1)	(150,895)	(1)
Income before income tax	1,435,490	6	1,315,264	3
Less: Income tax expense (Note 6(18))	166,401	1	258,001	1
Net income	1,269,089	5	1,057,263	2
Other comprehensive income (loss) (Notes 6(17)(18))				
Items that may not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit liability	(47,022)	-	(39,722)	-
Share of other comprehensive income (loss) of subsidiaries and associates accounted for using the equity method	390	-	(393)	-
Less: income tax related to items that may not be reclassified subsequently to profit or loss	7,994	-	1,896	-
Total items that may not be reclassified subsequently to profit or loss	(38,638)	-	(38,219)	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences arising on translation of foreign operations	(12,467)	-	70,112	-
Unrealized gains (losses) on available-for-sale financial assets	27,588	-	381,484	1
Losses on effective portion of cash flow hedge	(11,687)	-	(5,698)	-
Share of other comprehensive (loss) income of subsidiaries and associates accounted for using the equity method	(2,724)	-	102	-
Less: income tax related to items that may be reclassified subsequently to profit or loss	-	-	-	-
Total items that may be reclassified subsequently to profit or loss	530	-	446,000	1
Other comprehensive income for the year, net of tax	(38,108)	-	407,781	1
Total comprehensive income for the year	$ 1,230,981	5	1,465,044	3
Basic earnings per share (in dollars) (Note 6(20))	$ 1.27		1.06	
Diluted earnings per share (in dollars) (Note 6(20))	$ 1.23		0.95	

See accompanying notes to financial statements.

TUNG HO STEEL ENTERPRISE CORPORATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Expressed in thousands of New Taiwan Dollars)

	For the year ended December 31,	
	2015	2014 (Restated)
Cash flows from operating activities:		
Income before income tax	$ 1,435,490	1,315,264
Adjustments:		
Revenue (income) and expenses (losses)		
Depreciation	993,386	1,023,403
Amortization	16,453	38,081
Interest expense	69,821	102,673
Interest revenue	(26,967)	(27,176)
Dividend revenue	(14,360)	(12,497)
Share of loss (profit) of subsidiaries and associates accounted for using the equity method	348,879	(59,368)
Loss on disposal of property, plant, and equipment	373	1,110
Property, plant, and equipment reclassified to expenses	-	44
Gain on disposal of investments	(42,296)	(30,935)
Loss on impairment of financial assets	-	573,444
Unrealized inter-company profit	18,541	13,926
Realized inter-company profit	(13,926)	(26,956)
Unrealized foreign exchange (gain) loss	(32,314)	89,709
Loss (gain) on redemption of convertible bonds	116	(1,470)
Prepayment for equipment reclassified to expenses		485
Loss on decline of inventory market price	633	3,983
Total of revenue (income) and expenses (losses)	1,317,539	1,690,456
Changes in operating assets and liabilities:		
Changes in operating assets:		
Decrease in financial assets held for trading	142,209	146,653
Decrease in notes receivable	46,327	133,680
Decrease (increase) in accounts receivable	690,105	(182,701)
Decrease (increase) in accounts receivable from related parties	295,326	(186,758)
Increase in other receivables	(22,104)	(2,680)
Decrease in other receivables from related parties	463	8
Decrease in inventories	3,425,158	1,365,859
Decrease in prepayments	17,756	15,922
Decrease (increase) in other current assets	105	(95)
Total changes in operating assets	4,595,745	1,289,888
Changes in operating liabilities:		
Increase (Decrease) in financial liabilities held for trading	44,988	(40,216)
(Decrease) increase in notes payable	(21,371)	19,708
Increase in notes payable to related parties	3,446	30
Decrease in accounts payable	(563,077)	(19,985)
Increase in accounts payable to related parties	746	9,173
Decrease in other payables	(68,614)	(30,738)
Decrease in advance receipts	(123,102)	(54,384)
Increase (Decrease) in net defined benefit liabilities	323	(24,239)
Total changes in operating liabilities	(726,801)	(140,651)
Net changes in operating assets and liabilities	3,868,884	1,149,237
Total adjustments	5,186,423	2,839,693
Cash generated from operations	6,621,913	4,154,957
Interest received	26,242	26,517
Dividends received	92,795	14,996
Interest paid	(45,687)	(64,069)
Income taxes paid	(190,331)	(323,425)
Net cash provided by operating activities	6,504,932	3,808,976
Cash flows from investing activities:		
Proceeds from disposal of available-for-sale financial assets	200,000	-
Acquisition of financial assets carried at cost	(4,123)	(4,180)
Proceeds from disposal of financial assets carried at cost	57,328	79,760
Proceeds from liquidation and capital reduction of financial assets carried at cost	6,760	31,348
Proceeds from disposal of property, plant, and equipment	-	5,564
Derecognition of derivative financial liabilities used for hedging	(17,385)	-
Acquisition of investments accounted for using the equity method	(100,000)	(14,758)
Proceeds from liquidation and capital reduction of financial assets accounted for using the equity method	108,034	-
Decrease in refundable deposits	2,612	250
Acquisition of property, plant, and equipment	(334,933)	(456,289)
Increase in computer software and unamortized expense	(522)	(1,867)
Acquisition of investment property	(20,578)	(18,284)
Increase in prepayment for land and equipment	(196,872)	(369,290)
Net cash (used in) provided by investing activities	(299,679)	(747,746)
Cash flows from financing activities:		
Decrease in short-term borrowings	(2,413,658)	(508,836)
Redemption of bonds payable	(18,069)	(893,600)
Repayment of long-term debts	(750,000)	-
Increase (Decrease) in guarantee deposits	457	(2,694)
Dividends paid	(1,297,688)	(1,597,123)
Net cash provided by (used in) financing activities	(4,478,958)	(3,002,253)
Effect of exchange rate fluctuations on cash held	35,174	4,728
Increase in cash and cash equivalents	1,761,469	63,705
Cash and cash equivalents, beginning of year	1,652,958	1,589,253
Cash and cash equivalents, end of year	$ 3,414,427	1,652,958

See accompanying notes to financial statements.

TUNG HO STEEL ENTERPRISE CORPORATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014
(All amounts are expressed in thousands of New Taiwan dollars
Except for per share information or unless otherwise specified)

1. Organization and Business Scope

Tung Ho Steel Enterprise Corporation (the "Company) was incorporated in May, 1962, as a company limited by shares and registered under the Ministry of Economic Affairs, R.O.C The address of the Company's registered office is 6F., No. 9, Sec. 1, Chang-an E. Rd., Taipei City, Taiwan (R.O.C.). The Company is primarily involved in manufacturing and selling steel bars, steel sections, and steel plates.

2. Approval Date and Procedures of the Financial Statements

The financial statements as of and for the year ended December 31, 2015 were approved and authorized for issuance by the board of directors on March 28, 2016.

3. Application of New and Revised Standards and Interpretations

(1) Effects on adoption of new standards and interpretations endorsed by the Financial Supervisory Commissions R.O.C. ("FSC")

Since 2015, the Company has fully adopted the 2013 version of International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations (excluding IFRS 9 "Financial Instruments") endorsed and published by the FSC, in preparing the financial statements.

New, Revised or Amended Standards and Interpretations	Effective date Prescribed by IASB
Amendment to IFRS 1 "Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters"	July 1, 2010
Amendment to IFRS 1 "Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters"	July 1, 2011
Amendment to IFRS 1 "Government Loans"	January 1, 2013
Amendment to IFRS 7 "Disclosures–Transfer of Financial Asset"	July 1, 2011
Amendment to IFRS 7 "Disclosures–Offsetting Financial Assets and Financial Liabilities"	January 1, 2013
IFRS 10 "Consolidated Financial Statements"	January 1, 2013 (With January 1, 2014, the effective date for investment entities)
IFRS 11 "Joint Arrangements"	January 1, 2013
IFRS 12 "Disclosure of Interests in Other Entities"	January 1, 2013
IFRS 13 "Fair Value Measurement"	January 1, 2013
Amendment to IAS 1 "Presentation of Items of Other Comprehensive Income"	July 1, 2012

New, Revised or Amended Standards Interpretations	Effective date Prescribed by IASB
Amendment to IAS 12 "Deferred Tax: Recovery of Underlying Assets"	January 1, 2012
Amendment to IAS 19 "Employee Benefits"	January 1, 2013
Amendment to IAS 27 "Separate Financial Statements"	January 1, 2013
Amendment to IAS 32 "Offsetting Financial Assets and Financial Liabilities"	January 1, 2014
IFRIC 20 "Stripping Costs in Production Phase of a Surface Mine"	January 1, 2013

Except for the following items, the Company believes that the adoption of aforementioned 2013 version of IFRSs endorsed by the FSC endorsed by the FSC did not have any significant effect on the Company's financial statements:

(a) IFRS 12 "Disclosure of Interests in Other Entities"

The Company has increased disclosures on information about its related entities according to this standard. Please refer to Note 6(8) for related information.

(b) IFRS 13 "Fair Value Measurement"

The standard changes the definition of fair value, provides a framework for fair value measurement, and regulates related disclosures about fair value measurement. The Company has increased related disclosures on fair value measurement accordingly. (Please refer to Note 6(24) for details.) In accordance with the transitional provisions of the standard, the Company has postponed the application of regulations on fair value measurement. Comparative information on the additionally demanded disclosures is not required. Despite the postponed application of the standard, there are no significant influences on the Company's financial statements.

(c) IAS 1 "Presentation of Financial Statements"

The standard amends the presentation of other comprehensive income (OCI), classifying items presented in OCI into two categories: may not be reclassified subsequently to profit or loss, and may be reclassified subsequently to profit or loss. The amendment also requires that the tax effect of OCI items presented in untaxed amount should be presented in the two categories according to the above requirement.

The Company has amended the presentation of statement of comprehensive income and has also amended the presentation of comparable period accordingly.

(d) IAS 19 "Employee Benefits"

The amendments to IAS 19 require companies to calculate net interest by applying the discount rate to the net defined benefit liability or asset to replace the interest cost and the expected return on plan assets.

(Continued)

In addition, the amendments require all remeasurement of defined benefit plan (including actuarial gains and losses) be recognized immediately through other comprehensive income, eliminating the accounting treatment of the corridor approach and the immediate recognition of actuarial gains and losses to profit or loss when it is incurred.

Past service cost, on the other hand, should be expensed immediately when it is incurred and should no longer be amortized over the average period before vesting on a straight-line basis. In addition, the amendments also require a broader disclosure on the defined benefit plans.

Termination benefit is recognized as a liability and expensed at the earlier of the date when the entity can no longer withdraw the offer of the termination benefits and the date when the entity recognizes related restructuring costs.

In compliance with the abovementioned regulations, the Company has modified related accounting policies regarding net defined benefit obligations, pension costs, and measurement and presentation of actuarial gains and losses, recognized all unrecognized past service costs, and retroactively adjusted its retained earnings. Please refer to Note 5 for the effect of such change in accounting policy.

(e) The following chart summarizes the effect on the Company's financial position, comprehensive income, and cash flows. The effect is related to defined benefit plan. (Please refer to Note 3(d).

Affected items on the balance sheet		Amount before restatement	Effect of the change in accounting policy	Amount after restatement
December 31, 2014				
Net defined benefit liability-noncurrent	$	782,250	(47,623)	734,627
Unappropriated retained earnings		3,379,956	45,362	3,425,318
Other equity interest		160,468	2,261	162,729

Affected items on the balance sheet		Amount before restatement	Effect of the change in accounting policy	Amount after restatement
January 1, 2014				
Net defined benefit liability-noncurrent	$	771,097	(51,952)	719,145
Unappropriated retained earnings		4,301,006	50,084	4,351,090
Other equity interest		(285,139)	1,868	(283,271)

Affected items on the statement of comprehensive income		Amount before restatement	Effect of the change in accounting policy	Amount after restatement
For the year ended December 31, 2014				
Administrative expenses	$	665,901	4,329	670,230

(Continued)

(2) New standards and interpretations issued by the International Accounting Standards Board (IASB) but not yet endorsed by the FSC

The following summarizes new standards and amendments that may impact the Company issued by the IASB but not yet endorsed by the FSC until the reporting date:

New, Revised or Amended Standards Interpretations	Effective date Prescribed by IASB
IFRS 9 "Financial Instruments"	January 1, 2018
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture"	To be determined by IASB
Amendments to IFRS 10, IFRS 12, and IAS 28 "Investment Entities: Applying the Consolidation Exception"	January 1, 2016
Amendment to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"	January 1, 2016
IFRS 14 "Regulatory Deferral Account"	January 1, 2016
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
IFRS 16 "Lease"	January 1, 2019
Amendment to IAS 1 "Disclosure Initiative"	January 1, 2016
Amendment to IAS 7 "Disclosure Initiative"	January 1, 2017
Amendment to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendment to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"	January 1, 2016
Amendments to IAS16 and IAS 41 "Bearer Plants"	January 1, 2016
Amendments to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014
Amendments to IAS 27 "Equity Method in Separate Financial Statements"	January 1, 2016
Amendment to IAS 36 " 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
Annual Improvements Cycle 2010-2012 and 2011-2013	July 1, 2014
Annual Improvements to IFRSs 2012–2014 Cycle	January 1, 2016
IFRIC Interpretation 21 "Levies"	January 1, 2014

The Company is in the process of evaluating the impact on its financial position and financial performance of the initial adoption of the aforementioned standards or interpretations. The results thereof will be disclosed when the Company completes its evaluation.

4. **Summary of Significant Accounting Policies**

The following significant accounting policies are adopted in the accompanying financial statements. Except for those described in Note 3, the accounting policies have been applied consistently to all the reporting periods presented in these financial statements.

(Continued)

TUNG HO STEEL ENTERPRISE CORPORATION

NOTES TO FINANCIAL STATEMENTS

(1) Statement of compliance

These annual financial statements have been prepared in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as the Guidelines).

(2) Basis of preparation

Basis of measurement

The financial statements have been prepared on historical cost basis, except for the following material items in the balance sheet.

(a) Financial instruments measured at fair value through profit or loss are measured at fair value (including derivative financial instruments) ;

(b) Available-for-sale financial assets are measured at fair value;

(c) Defined benefit assets, which are recognized at the amount of plan assets, plus unrecognized past service cost and unrecognized actuarial loss, less unrecognized actuarial gain and the present value of defined benefit obligation

Functional and presentation currency

The functional currency of the Company is determined based on the primary economic environment in which the entity operates. The financial statements are presented in New Taiwan Dollar, which is the Company's functional currency. All financial information presented in New Taiwan Dollar has been rounded to the nearest thousand.

(3) Foreign currency

(a) Foreign currency transactions

Transactions in foreign currencies are translated to respective functional currencies at exchange rates on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to functional currency at the exchange rate on that date. Foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interests and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

(Continued)

Foreign currency denominated non-monetary assets and liabilities measured at fair value are translated to the functional currency at the exchange rate on the date when fair value was determined. Foreign currency denominated non-monetary items measured at historical cost is translated using the exchange rate at the date of the transaction.

Exchange difference on translation of foreign operations is recognized in profit or loss, except for that arising from available-for-sale non-monetary securities, which is recognized through other comprehensive income.

(b) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising from acquisition, are translated to the Company's presentation currency at exchange rates on the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to the Company's presentation currency at average rate. Foreign currency translation differences are recognized in other comprehensive income.

However, if the foreign operation is a non-wholly owned subsidiary, then the relevant proportion of the translation difference is allocated to non-controlling interests. When a foreign operation is disposed of such that control, significant influence, or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Company disposes of any part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interest. When the Company disposes of only part of an investment in an associate of joint venture that includes a foreign operation while retaining significant or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or a monetary item payable to a foreign operation is neither planned nor likely to happen in the foreseeable future, foreign currency gains and losses arising from such items are considered to form part of a net investment in the foreign operation and are recognized in other comprehensive income.

(4) Classification of current and noncurrent assets and liabilities

An asset is classified as current under any one of the following conditions. All other assets are classified as noncurrent.

(a) The asset is expected to be realized, or sold or consumed, during the Company's normal operating cycle;

(b) The asset is held primarily for the purpose of trading;

(Continued)

(c) The asset is expected to be realized within twelve months after the reporting date; or

(d) The asset is cash and cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the balance sheet date.

A liability is classified as current under any one of the following conditions. All other liabilities are classified as noncurrent.

(a) The liability is expected to be settled during the Company's normal operating cycle;

(b) The liability is held primarily for the purpose of trading;

(c) The liability is due to be settled within twelve months after the reporting date; or

(d) The Company does not have any unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by issuing equity instruments do not affect is classification.

(5) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in bank, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Term deposits that meet the above requirements and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes are classified under cash equivalents.

(6) Financial instruments

Financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instruments.

(a) Financial assets

Financial assets are categorized into financial assets at fair value through profit or loss, loans, receivables, and available-for-sale financial assets.

i. Financial assets at fair value through profit or loss

Financial assets classified under this category are mainly financial assets held for trading, or designated as at fair value through profit or loss upon initial recognition.

(Continued)

Financial assets are classified as held for trading if they are acquired principally for the purpose of selling in the short term. Financial assets, other than those classified as held for trading, are designated as at fair value through profit or loss upon initial recognition under one of the following situations:

i) Designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on a different basis;

ii) Performance of the financial asset is evaluated on a fair value basis;

iii) A hybrid instrument contains one or more embedded derivatives.

Upon initial recognition, financial assets in this category are measured at fair value. Attributable transaction costs are recognized through profit or loss as incurred. Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value and changes therein, which take into account any dividend and interest income, are recognized in profit or loss.

If such financial instrument is an equity instrument which lacks active market and whose fair value cannot be reliably estimated, it is measured at cost less impairment and recognized as financial assets measured at cost.

ii. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated available-for-sale or are not classified in any of the other categories of financial assets. Available-for-sale financial assets are recognized initially at fair value, plus any directly attributable transaction cost. Subsequent to initial recognition, and except for impairment losses, effective interest income, dividend income, and foreign currency gain or loss on monetary assets, which are recognized through profit or loss, available-for-sale financial assets are measured at fair value in other comprehensive income and presented under fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss, and is included in other income and expenses in the statement of comprehensive income. For regular practices of purchase and sale of financial assets, trade-date accounting should be applied.

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, are measured at cost less impairment loss, and are included in financial assets measured at cost.

Dividend income is recognized in profit or loss on the date that the Company's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date. Such dividend income is recognized as dividend income under non-operating income.

(Continued)

Interest income from investment in bond securities is recognized in profit or loss, and is included in interest income under non-operating income.

iii. Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market which comprise accounts receivable and other receivables. Such assets are recognized initially at fair value, plus any directly attributable transaction costs. Subsequent to initial recognition, receivables are measured at amortized cost using the effective interest method, less any impairment losses, except for short-term receivables in which the effect of discounting is immaterial. For regular practices of purchase and sale of financial assets, trade-date accounting should be applied.
Interest income from receivables is recognized in profit or loss, under other income in non-operating activities.

iv. Impairment of financial assets

Except for financial assets at fair value through profit or loss, a financial asset is assessed for impairment at reporting date. A financial asset is impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a 'loss event') that occurred subsequent to the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial assets which can be estimated reliably.

Objective evidence that financial assets are impaired includes delinquency or default (such as unpaid or delayed payment of interest or principal) by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults, or the disappearance of an active market for a security. In addition, for an available-for-sale investment in an equity security, a significant or prolonged decline in its fair value below its cost is accounted for as objective evidence of impairment.

All individually significant receivables are assessed for specific impairment. Objective evidence that receivables are impaired includes historical trends of collection and increasing level of overdue receivables which are collected beyond the credit term.

An impairment loss in respect of a financial asset measured at amortized cost is determined based on the excess of its carrying amount over the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

(Continued)

An impairment loss of a financial asset measured at cost is determined based on the excess of its carrying amount over the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversible in subsequent periods.

An impairment loss in respect of a financial asset is written off directly against its carrying amount, except for accounts receivable, in which an impairment loss is credited to an allowance account against the receivables. When a receivable is determined to be uncollectible, it is written off from the allowance account. Any subsequent recovery of receivable written off is charged to the allowance account. Changes in the amount of the allowance accounts are recognized in profit or loss.

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the other equity interest in equity to profit or loss.

If, in subsequent periods, the amount of the impairment loss of a financial assets measured at amortized cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost before impairment was recognized at the reversal date.

Impairment losses recognized on available-for-sale equity security are not reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income, and accumulated in other equity interest in equity.

Impairment losses and recoveries on receivables are recognized in profit or loss.

v. Derecognition of financial assets

Financial assets are derecognized when the contractual rights to the cash inflow from the asset are terminated, or when the Company transfers substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognized and the part that is derecognized, based on the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received for the part derecognized and any cumulative gain or

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loss allocated to it that had been recognized in other comprehensive income are recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is derecognized, based on the relative fair values of those parts.

(b) Financial liabilities and equity instruments

i. Classification of debt or equity instruments

Debt or equity instruments issued by the Company are classified as financial liabilities or equity in accordance with the substance of the contractual agreement.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized based on the proceeds received, net of direct issue costs.

Compound financial instruments issued by the Company comprise convertible bonds that can be converted to shares of capital at the option of the holder. The number of shares to be issued is fixed

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Interests, gains and losses related to financial liabilities are recognized in profit or loss under non-operating income (expenses).

Financial liabilities are reclassified to equity on conversion, on which no gains or losses are recognized.

ii. Financial liabilities at fair value through profit or loss

Financial liabilities classified under this category are mainly financial liabilities held for trading, or designated as at fair value through profit or loss on initial recognition.

(Continued)

Financial liabilities are classified as held for trading if they are acquired principally for the purpose of selling in the short term. Financial liabilities, other than ones classified as held for trading, are designated as at fair value through profit or loss at initial recognition under one of the following situations:

i. Designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on a different basis;

ii. Performance of the financial liabilities is evaluated on a fair value basis;

iii. A hybrid instrument contains one or more embedded derivatives.

At initial recognition, financial liabilities in this category are measured at fair value. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value and changes therein, which take into account any interest expense, are recognized in profit or loss.

Financial liabilities at fair value through profit or loss measured at cost, which are recognized as "financial liabilities carried at cost"; include obligations to deliver equity investments that do not have a quoted price borrowed by a short seller.

Gains and losses on financial guarantee contracts and loan commitments that the Company issues and designates as financial liabilities are recognized in profit or loss as other gains and losses under non-operating income (expenses).

iii. Other financial liabilities

Except for those held for trading or is designated at fair value through profit or loss, financial liabilities which comprise of short-term and long-term loans, and accounts and other payables, are measured at fair value, plus, any directly attributable transaction cost at the time of initial recognition. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method. Interest expense not capitalized as capital cost is recognized in financial cost under other other non-operating income (expenses).

iv. Derecognition of financial liabilities

A financial liability is derecognized when the contractual obligation thereon has been discharged or cancelled or has expired. The difference between the carrying amount of a financial liability derecognized and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss under other comprehensive income.

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v. Offsetting of financial assets and liabilities

Financial assets and liabilities are presented on a net basis when the Company has legal enforceable rights to offset, and intends to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

(c) Derivative financial instruments and hedge accounting

The Company holds derivative financial instruments to hedge its foreign currency and interest rate exposures. Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss under other gains and losses. When a derivative is designated as a hedging instrument and acts effective for the hedge, its timing of recognition in profit or loss is determined based on the nature of the hedging relationship. When the fair value of a derivative instrument is positive, it is classified as a financial asset, and when the fair value is negative, it is classified as a financial liability.

For derivatives linked to investments in equity instruments that do not have a quoted market price in an active market and must be settled by delivery of such unquoted equity instruments, such derivatives that are classified as financial assets and are measured at amortized cost less impairment loss as financial assets measured at cost; and such derivatives that are classified as financial liabilities are measured at cost as financial liabilities measured at cost.

Embedded derivatives are separated from the host contract and accounted for separately, when the economic characteristics and risks of the host contract and the embedded derivatives are not closely related, and that the host contract is not measured as at fair value through profit or loss.

The Company designates certain derivative instruments as fair value and cash flow hedging instruments. Since the start of the hedging relationship, the Company has recorded in paper such relationship, the objective of risk control, and the strategies in different hedging transactions. Additionally, since the commencement of the hedge, the Company has maintained written records of whether the hedging instrument is highly effective in offsetting the fluctuation in fair value or cash flow arising from the hedged risk.

i. Fair value hedge

The change in fair value is recognized in profit or loss immediately for financial instruments that satisfy the definition of and are designated as hedging instruments. The fluctuation of fair value due to the hedged risk of the hedged asset or liability is also recognized as profit or loss immediately.

ii. Cash flow hedge

For financial instruments that are designated as cash flow hedging instrument, the effective portion of the change in fair value is recognized in other comprehensive income, and accumulated in gain (loss) on the effective portion of cash flow hedge under other equity interest. The ineffective portion should be recognized as profit or loss immediately.

When a hedged item is recognized in profit or loss, the amount initially recognized in other comprehensive income and accumulated in other equity interest should be reclassified to profit or loss in the same period. When a non-financial asset or liability is expected to be recorded in a hedging transaction, the amount initially recognized in other comprehensive income should be reclassified as the original cost of such non-financial asset or liability.

When the hedging instrument is due, sold, terminated, executed, or no longer satisfy the terms for use of hedge accounting, the accumulated gain (loss) on the effective portion of cash flow hedge should still be recognized as a separate equity component before the forecasted transaction takes place. When the forecasted transaction is no longer expected to take place, the accumulated gain (loss) on the effective portion of cash flow hedge should be reclassified from equity to profit or loss.

(7) Inventories

The cost of inventories shall comprise all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to the location and condition ready for sale or production. The allocation of fixed production overheads to the finished goods and work in process is based on the normal capacity of the production facilities. However, in the case where the practical capacity is larger than the normal capacity, the allocation is base on the practical capacity. Variable production overheads are allocated to each unit of production on the basis of the practical capacity of the production facilities. Inventories are measured at the lower of cost or net realizable value. The cost of inventories is based on the monthly weighted-average cost. Net realizable value is the estimated selling price in the ordinary course of business at the balance sheet date, less the estimated costs until completion and selling expenses. If the inventory is reserved under a supply contract, its cost shall be based on the price of the contract.

(8) Investment in associates

Associates are those entities on which the Company has significant influence, but not control, over the financial and operating policies.

The Company's investments in associates are accounted for using the equity method and are recognized initially at cost, which includes transaction costs. The carrying amount of the investment in associates includes goodwill resulted from the acquisition less any accumulated impairment losses.

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The financial statements include the Company's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Company, from the date that significant influence commences until the date that significant influence ceases.

Unrealized profits resulting from the transactions between the Company and an associate are eliminated to the extent of the Company's share of interest in the associate. Unrealized losses on transactions with associates are eliminated the same way, under the condition that no evidence of impairment is present.

When the Company's share of losses exceeds or equals its share of interest in an associate, the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the investee.

When an associate issues new shares and the Company does not purchase such new shares proportionately, resulting in fluctuation in its shareholding percentage and changes in the net value of its invested equity, the change should be recognized in capital surplus and investments accounted for using the equity method. If such adjustment is debited to capital surplus when there is insufficient balance of capital surplus resulted from investments accounted for using the equity method, the difference should be debited to retained earnings instead. However, if the Company's shareholding percentage decreased due to not purchasing proportionated share of new stocks, other comprehensive income related to the associate previously recognized should be reclassified in proportion with the decreased shareholding percentage. The basis of such accounting treatment should be consistent with that if the associate directly disposes of related assets or liabilities.

(9) Investments in subsidiaries

When preparing the financial statements, the Company accounts for the investee companies on which it possesses control using the equity method. Net income, other comprehensive income, and shareholder's equity in the financial reports of the Company should be the same with the net income, other comprehensive income, and shareholder's equity attributable to the parent in the consolidated financial reports should be the same.

The Company accounts the changes in equity, under the condition that control is still present, as equity transactions between the proprietors.

(10) Investment property

Investment property is the property held either to earn rental income, or for capital appreciation, or for both, but not for sale in the ordinary course of business, for use in the production or supply of goods or services, or for administrative purposes. Investment property is measured at cost upon initial recognition and subsequently at cost less accumulated depreciation.

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Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of raw materials and direct labor, capitalized borrowing costs, and any other costs directly attributable to bringing the investment property to a working condition for its intended use.

When the use of an investment property changes such that it is reclassified as property, plant, and equipment, its carrying amount at the date of reclassification becomes its cost for subsequent accounting.

(11) Property, plant, and equipment

(a) Recognition and measurement

Items of property, plant, and equipment are measured at cost less accumulated depreciation and accumulated impairment loss. Cost includes expenditures that is directly attributed to the acquisition of the asset, any cost directly attributable to transporting the asset to the location and condition necessary for it to be utilized by the manner intended by management, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, and any borrowing cost eligible for capitalization. Cost of the property, plant, and equipment also include the portion transferred from equity of effective cash flow hedges. Purchased software that is integral to the functionality of the related equipment is capitalized as part of the equipment cost.

Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately, unless the useful life and the depreciation method of a significant part of an item of property, plant, and equipment are the same as the useful life and depreciation method of another significant part of that same item.

Gain or loss arising from the disposal of an item of property, plant, and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and is charged to profit or loss under other comprehensive income.

(b) Reclassification to investment property

The property is reclassified to investment property at its carrying amount when the use of the property changes from owner-occupied to investment property.

(c) Subsequent cost

Subsequent expenditure is capitalized only when it is highly probable that the future economic benefits associated with the expenditure will flow to the Company and can be assessed reliably. The carrying amount of those parts that are replaced is derecognized. Ongoing repairs and maintenance are expensed as incurred.

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(d) Depreciation

Depreciation of property, plant, and equipment is measured over their estimated useful lives using the straight-line method. Each significant part of a property, plant, and equipment is evaluated individually and depreciated separately should it possess a different useful life. The depreciation charged for each period is recognized in profit or loss.

If there is reasonable certainty that the Company will obtain ownership by the end of the lease term, the period of expected use is the useful life of the leased asset; otherwise, leased assets are depreciated over the shorter of the lease term and its useful life.

Land has an unlimited useful life and therefore is not depreciated.
The estimated useful lives for the current and comparative years of significant items of property, plant, and equipment are as follows:

i. Buildings: 3 to 60 years

ii. Machinery and equipment: 2.75 to 25 years

iii. Leased assets: 15 years

iv. Miscellaneous equipment: 15 years

Depreciation methods, useful lives, and residual values are reviewed at each reporting date. If expectations differ from the previous estimates, the change is accounted for as a change in an accounting estimate.

(12) Leases

(a) Lessor

Lease income from an operating lease is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the rental income. Incentives granted to the lessee to enter into the operating lease are spread over the lease term on a straight-line basis so that the lease income received is reduced accordingly.

Contingent rents are recognized as income in the period when the lease adjustments are confirmed.

(b) Lessee

Leases which the Company assumes substantially all of the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the lease asset is measured at an amount equal to the lower of its fair value or the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to the asset.

Other leases are operating leases and are not recognized on the Company's balance sheets. Payments made under an operating lease (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense over the term of the lease. Minimum lease payments made under finance leases are apportioned between financial cost and reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent rent is recognized as expense in the periods in which it is incurred.

At inception of an arrangement that is not legally a lease, the Company determines whether such an arrangement is or contains a lease in substance. If such arrangement depends on the use of specific assets, such assets are deemed as the leased object; and if such arrangement contains the control of the right to use the assets, the arrangement is deemed as a transfer of the right to use the assets.

At inception or on reassessment of the arrangement, if an arrangement contains a lease, that lease shall be classified as a finance lease or an operating lease. The Company separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Company concludes for a finance lease that it is impracticable to separate the payment on a reliable basis, then an asset and a liability are recognized at an amount equal to the fair value of the underlying asset. Subsequently, the liability is reduced as payments are made and an imputed financial cost on the liability is recognized using the Company's incremental borrowing rate. For an operating lease, all payments under the arrangement are accounted for as lease payments. And the Company discloses the situation accordingly.

(13) Impairment – non-financial assets

At each balance sheet date, an assessment is made on whether there is any indication that a financial asset (not including inventories, deferred tax assets, and employee benefits) may have been impaired. If any such indication exists, the Company shall estimate the recoverable amount of the asset. If it is not possible to determine the recoverable amount for the individual asset, then the Company will have to determine the recoverable amount for the asset's cash-generating unit (CGU). The recoverable amount for an individual asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. If, and only if, the recoverable amount of an asset is less

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than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Such reduction is treated as an impairment loss, which is charged to profit or loss.

The Company assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amount of that asset is estimated. An impairment loss recognized in prior periods for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized The increase in the carrying amount shall not exceed the carrying amount (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior years.

Notwithstanding whether indicators exist, recoverability of goodwill and intangible assets with indefinite useful lives or those not yet in use is tested at least annually. Impairment loss is recognized if the recoverable amount is less than the carrying amount.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the acquirer's CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. If the carrying value of the CGUs exceeds the recoverable amount thereof, impairment loss is recognized and allocated to reduce the carrying amount of each asset in the unit. Reversal of an impairment loss for goodwill is prohibited.

(14) Treasury stock

Repurchased shares are recognized as treasury stocks (a contra-equity account) based on its repurchase price (including all directly attributable costs), net of tax. Gain on disposal of treasury shares is recognized under capital surplus – treasury stocks transactions. Loss on disposal of treasury shares is offset against existing capital surplus arising from similar types of treasury shares transactions. If capital surplus is insufficient for offset, the deficiency is charged to retained earnings. The carrying value of treasury stocks is calculated using the weighted average calculation of different types of repurchased shares.

If treasury stocks are cancelled, capital surplus – share premiums and common stocks are debited proportionately. Gain on cancellation of treasury stocks is recognized under existing capital surplus arising from similar types of treasury shares transactions. Loss on cancellation of treasury shares is offset against existing capital surplus arising from similar types of treasury stocks transactions. If the capital surplus is insufficient for offset, then such loss is charged to retained earnings.

(15) Revenue recognition

(a) Goods sold

Revenue from the sale of goods in the ordinary course of business activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume discounts. Revenue is recognized when persuasive evidence exists, usually in the form of a signed sales agreement, that significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreements. For international shipments, transfers usually occur upon loading the goods onto the relevant carrier at the port. Generally for such products the customer has no right of return. For domestic sales, transfers occur upon receipt by the customer.

(b) Rental income

Rental income from investment property is recognized as income on a straight-line basis over the lease term. Incentives granted for entering into the operating lease are spread over the lease term on a straight-line basis, with lease income received reduced accordingly. Revenue generated from leasing properties is recognized as rental income under other non-operating income (expenses).

(16) Employee benefits

(a) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss for the period in which services are rendered by employees.

(b) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of a defined benefit pension plan is calculated separately for each plan by estimating the discounted present value of future benefit that employees have earned in return for their service in the current and prior periods. The fair value of any plan assets is deducted from aforementioned net obligation. The discount rate is the yield on the reporting date of government bonds that have maturity dates approximating the terms of the Company's obligations and are denominated in the same currency in which the benefits are expected to be paid.

(Continued)

An actuarial calculation of pension costs and related liabilities are performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, an asset is recognized but the recognized asset is limited to the total of the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Company. An economic benefit is available to the Company if it is realizable during the life of the plan, or on settlement of the plan liabilities.

Remeasurement of the net defined benefit assets (liability), comprising (a) actuarial gains and losses, (b) the return on plan assets, excluding the amounts included in the net interest of the net defined benefit liability (asset); and (c) any change of upper limit of assets, excluding the amounts included in the net interest of the net defined benefit liability (asset), is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and may not be reclassified to profit or loss.

Gains or losses on the curtailment or settlement of a defined benefit plan are also recognized as pension expenses when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets, change in the present value of defined benefit obligation and any related actuarial gains or losses and past service cost that was not previously recognized.

(c) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(17) Income taxes

Tax expense comprises current tax expense and deferred tax expense. Current and deferred taxes are included in profit or loss for the period, except for tax resulted from a business combination or a transaction or event which is recognized directly in equity or other comprehensive income.

Current tax comprises the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date, and any adjustments for tax payables of prior periods.

(Continued)

Deferred tax is recognized for the temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax is recognized for all temporary differences, except to the extent that the deferred tax arises from:

(a) the initial recognition of an asset or liability in a transaction which is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss); or

(b) the investments in subsidiaries and associates, and it is probable that the temporary difference will not be reversible in the foreseeable future; or

(c) the initial recognition of goodwill.

Deferred tax is measured, at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset only if:

(a) the Company has a legal enforceable right to offset current tax assets against current tax liabilities; and

(b) the deferred tax assets and the deferred liabilities relate to income taxes levied by the same taxation authority on either:

   i. the same taxable entity; or

   ii. different taxable entities which intent either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously; in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

A deferred tax asset is recognized for the carryforward of unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the unused tax losses, unused tax credits and deductible temporary differences can be utilized. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that the benefit of a part or all that of the deferred tax asset will be utilized.

(Continued)

(18) Business combination

The Company measures goodwill as the fair value of the consideration transferred on the acquisition date, including the amount of any non-controlling interest in the acquisition, net of the acquisition-date amounts of identifiable assets acquired and liabilities assumed (generally at fair value). If the residual balance is negative, the Company shall reassess whether it has correctly identified all of the assets acquired and liabilities assumed, and recognize a gain on the bargain purchase thereafter.

In a business combination achieved in stages, the Company shall remeasure its previously-held equity interest in the acquiree at the acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss. In prior reporting periods, the Company may have recognized changes in the value of its equity interest in the acquiree in other comprehensive income. If so, the amount that was recognized in other comprehensive income shall be recognized on the same basis as would be required if the Company had disposed directly of the previously held equity interest. If the disposal of the equity interest required a reclassification to profit or loss, such an amount shall be reclassified to profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the Company shall retrospectively adjust the provisional amounts recognized at the acquisition date, or recognize additional assets or liabilities to reflect new information obtained about facts and circumstances that existed as of the acquisition date. The measurement period shall not exceed one year from the acquisition date.

All transaction costs incurred for the business combination are recognized immediately as the Company's expenses when incurred, except for the issuance of debt or equity instruments.

(19) Earnings per share

The basic earnings per share is calculated based on the profit attributable to the common shareholders of the Company divided by weighted average number of common shares outstanding. The diluted earnings per share is calculated based on the profit attributable to common shareholders of the Company, divided by weighted average number of common shares outstanding after adjustment for the effects of all potentially dilutive common shares, including convertible bonds and employee stock options.

(20) Operating segments

The Company has already disclosed related information of its operating segments in the consolidated financial statements of the Company as of December 31, 2015, thus no additional information will be disclosed herein.

(Continued)

5. Critical Accounting Judgments and Key Sources of Estimation Uncertainty

The financial statements are prepared in conformity with the Guidelines, under which, management make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates is recognized in the period in which the estimated is revised and in future periods.

6. Description of Significant Accounts

(1) Cash and cash equivalents

	December 31, 2015	December 31, 2014
Cash on hand	$ 1,081	1,159
Checking and demand deposits	738,800	437,538
Term deposits	1,406,066	136,240
Cash equivalents	1,268,480	1,078,021
Cash and cash equivalents	$ 3,414,427	1,652,958

(a) Please refer to Note 6(25) for fair value sensitivity analysis and interest rate risk of the financial assets and liabilities of the Company.

(b) As of December 31, 2015 and 2014, certain term deposits were pledged as collateral of performance guarantee and civil ruling and such term deposits were reclassified to refundable deposits. Please refer to Note 8 for details.

(2) Financial assets and liabilities at fair value through profit or loss

	December 31, 2015	December 31, 2014
Financial assets at fair value through profit or loss:		
Financial assets held for trading		
Publicly listed stocks	$ 183,789	177,586
Forward foreign exchange contracts	9,492	157,904
Subtotal	193,281	335,490

(Continued)

	December 31, 2015	December 31, 2014
Financial assets designated as at fair value through profit or loss:		
Foreign bonds	$ -	-
Total	$ 193,281	335,490
Financial liabilities at fair value through profit or loss:		
Financial liabilities held for trading		
Redemption options on convertible bonds	$ 84,395	40,000

The Company uses derivative financial instruments to hedge certain foreign exchange and interest risk that the Company is exposed to arising from its operating, financing, and investing activities. The Company held the following derivative financial instruments, which did not meet the criteria for hedge accounting, and were thus presented as financial assets held for trading:

Forward currency forward contracts:

	December 31, 2015		
	Nominal amount (In thousands)	Currency	Maturity dates
Forward currency forward	USD 37,907	Sell US$/buy TWD	2016.01.06~2016.04.15

	December 31, 2014		
	Nominal amount (in thousands)	Currency	Maturity dates
Forward currency forward	USD 130,000	Sell US$/buy TWD	2015.01.02~2015.06.26

None of the financial assets were pledged as collateral as of December 31, 2015 and 2014, respectively.

(3) Derivative financial liabilities used for hedging

	December 31, 2015	December 31, 2014
Cash flow hedge		
Derivative financial liabilities used for hedging—current:		
Forward exchange contracts	$ -	5,698

(Continued)

The Company's strategy is to use forward exchange contracts to hedge its estimated foreign currency exposure in respect of forecasted purchases over the following twelve months. The Company's hedging instrument, forward foreign exchange contracts, reached its maturity and was settled on April 30, 2015. The Company did not designate other hedging instrument. However, the hedged item has not yet reached the status that is available for use. When the actual purchase occurs, the amount accumulated in gain (loss) on the effective portion of cash flow hedge under other equity interest will be reclassified to profit or loss in the same period. The unexpired forward exchange contracts held by the Company were as follows:

	December 31, 2015		
	Nominal amount (in thousands)	Currency	Maturity dates
Forward currency forward	EUR -	-	-

	December 31, 2014		
	Nominal amount (in thousands)	Currency	Maturity dates
Forward currency forward	EUR 3,000	Sell EUR/buy TWD	2015.04.30

For the year ended December 31, 2014, there was no ineffective portion of cash flow hedge recognized in profit or loss.

(4) Available-for-sale financial assets

(a) The details were as follows:

	December 31, 2015	December 31, 2014
Available-for-sale financial assets:		
Stocks listed on emerging markets	$ 513,865	485,152
Financial bonds	186,121	387,246
Total	$ 699,986	872,398

For the year ended December 31, 2014, the Company evaluated that impairment of the value of its investee company had incurred, and thus reclassified to other gains and losses the loss initially accumulated in other comprehensive income, recognizing an impairment loss of $573,444 thousand.

(Continued)

(b) Sensitivity analysis — equity price risk

	For the year ended December 31,	
	2015	2014
Security price on reporting date	Other comprehensive income (after tax)	Other comprehensive income (after tax)
Increase of 1%	$ 5,139	4,852
Decrease of 1%	$ (5,139)	(4,852)

(c) Please refer to Note 6(25) for the credit, currency, and interest risk on financial instruments of the Company.

(d) None of the available-for-sale financial assets were pledged as collateral as of December 31, 2015 and 2014, respectively.

(5) Financial assets carried at cost

	December 31, 2015	December 31, 2014
Unlisted domestic common stocks	$ 304,126	321,763
Unlisted domestic preferred stocks	23,400	23,400
Total	$ 327,526	345,163

(a) The aforementioned investments held by the Company are measured at cost less impairment at the reporting date. Given that the reasonable estimated range of fair value is too large and the probability for each estimate cannot be reasonably determined, the Company's management had determined that the fair value cannot be measured reliably.

(b) For the years ended December 31, 2015 and 2014, the Company recognized gains of $42,328 thousand and $19,760 thousand, respectively, on disposal of unlisted domestic common stocks. The carrying value of the investments amounted to $15,000 thousand and $60,000 thousand, respectively.

(c) For the years ended December 31, 2015 and 2014, the investee companies returned $6,760 thousand and $16,848 thousand, respectively, for liquidation and reduction of capital.

(d) For the year ended December 31, 2014, some investee company filed for liquidation, returning an amount of $14,500 thousand to the Company. The loss of liquidation was $11,175 thousand, recognized under loss on disposal of investments.

(e) None of the available-for-sale financial assets were pledged as collateral as of December 31, 2015 and 2014, respectively.

(Continued)

(6) Notes receivable, accounts receivable and other receivables

		December 31, 2015	December 31, 2014
Notes receivable from operating activities	$	205,752	252,079
Notes receivable from non-operating activities		-	-
Notes receivable from related parties		221	221
Less: allowance for impairment		(423)	(423)
Notes receivable, net	$	205,550	251,877
Accounts receivable	$	1,748,676	2,438,781
Accounts receivable from related parties		294,366	589,692
Less: allowance for impairment		(21,534)	(21,534)
Accounts receivable, net	$	2,021,508	3,006,939
Other receivables	$	32,730	12,536
Other receivables from related parties		435	898
Less: allowance for impairment		-	-
Other receivables, net	$	33,165	13,434
Overdue receivables	$	34,422	34,422
Less: allowance for impairment		(34,422)	(34,422)
Overdue receivables, net	$	-	-

The Company's aging analysis for notes receivable, accounts receivable, and other receivables past due but not impaired were as follows:

		For the year ended December 31, 2015	2014
Past due for less than 60 days	$	-	-
Past due 61~90 days		-	-
Past due 91~120 days		-	-
	$	-	-

Impairment loss is determined based on regular review of accounts receivable and assessment of collectability. The Company's management assesses impairment loss by reviewing each individual credit and past experience of collection of receivables. Any increase or decrease in bad debt would influence the income statement.

Please refer to Note 6(25) for disclosures about credit, currency, and interest rate risk of the financial instruments of the Company.

As of December 31, 2015 and 2014, there was no receivable factored or pledged as collateral.