

China Steel Corporation and Subsidiaries

**Consolidated Financial Statements for the
Three Months Ended March 31, 2017 and 2016 and
Independent Auditors' Review Report**

INDEPENDENT AUDITORS' REVIEW REPORT

China Steel Corporation

We have reviewed the accompanying consolidated balance sheets of China Steel Corporation (the Corporation) and its subsidiaries as of March 31, 2017 and 2016, the consolidated statements of comprehensive income for the three months ended March 31, 2017 and 2016, and the consolidated statements of changes in equity and of cash flows for the three months ended March 31, 2017 and 2016. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to issue a report on these consolidated financial statements based on our reviews. Certain investments accounted for using the equity method, in the consolidated financial statements as of March 31, 2017 and for the three months then ended were based on financial statements reviewed by other independent accountants, and our review report, insofar as it relates to the amounts and information disclosed, is based solely on the financial statements reviewed by other independent accountants. Such investments accounted for using the equity method amounted to NT\$32,315,288 thousand, representing 5% of the consolidated total assets, as of March 31, 2017, and the share of comprehensive income amounted to loss NT\$498,296 thousand, representing 21% of the consolidated total comprehensive income, for the three months ended March 31, 2017.

We conducted our reviews in accordance with Statement of Auditing Standards No. 36 "Review of Financial Statements" issued by the Auditing Standards Committee of the Accounting Research and Development Foundation of the Republic of China. A review consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of China, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews and the reviewed financial statements of other independent accountants, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standards No. 34 "Interim Financial Reporting" endorsed by the Financial Supervisory Commission (FSC) of the Republic of China.



Deloitte & Touche
Taipei, Taiwan
Republic of China

May 10, 2017

Notice to Readers

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

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

CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

ASSETS	March 31, 2017 (Reviewed)		December 31, 2016 (Audited)		March 31, 2016 (Reviewed)		LIABILITIES AND EQUITY	March 31, 2017 (Reviewed)		December 31, 2016 (Audited)		March 31, 2016 (Reviewed)	
	Amount	%	Amount	%	Amount	%		Amount	%	Amount	%	Amount	%
CURRENT ASSETS							CURRENT LIABILITIES						
Cash and cash equivalents (Note 6)	\$ 16,352,928	2	\$ 15,467,768	2	\$ 13,874,948	2	Short-term borrowings and bank overdraft (Notes 19 and 33)	\$ 31,516,032	5	\$ 35,905,740	5	\$ 28,853,650	4
Financial assets at fair value through profit or loss - current (Note 7)	4,029,153	1	3,288,349	1	4,284,299	1	Short-term bills payable (Note 19)	48,293,354	7	16,632,100	2	48,434,636	7
Available-for-sale financial assets - current (Note 8)	2,744,573	-	2,806,737	-	3,290,165	-	Financial liabilities at fair value through profit or loss - current (Note 7)	752	-	4,941	-	767	-
Derivative financial assets for hedging - current (Note 10)	9,615	-	36,784	-	71,858	-	Derivative financial liabilities for hedging - current (Note 10)	130,760	-	37,609	-	24,574	-
Notes receivable (Note 11)	1,236,336	-	1,233,769	-	1,121,033	-	Notes payable	565,824	-	851,631	-	508,249	-
Notes receivable - related parties (Notes 11 and 32)	343,584	-	384,078	-	297,970	-	Accounts payable (Note 21)	12,211,627	2	12,484,269	2	8,943,276	1
Accounts receivable, net (Note 11)	10,973,935	2	11,463,575	2	10,403,639	2	Accounts payable - related parties (Notes 21 and 32)	724,552	-	536,544	-	439,171	-
Accounts receivable - related parties (Notes 11 and 32)	396,834	-	499,185	-	398,471	-	Amounts due to customers for construction contracts (Note 12)	3,244,665	-	3,853,724	1	3,826,965	1
Amounts due from customers for construction contracts (Note 12)	8,970,765	1	8,472,037	1	8,722,470	1	Other payables (Notes 22 and 32)	18,514,886	3	21,437,649	3	16,538,211	3
Other receivables (Note 32)	1,499,405	-	1,382,410	-	1,459,010	-	Current tax liabilities	2,894,416	-	2,129,043	-	1,933,477	-
Current tax assets	159,154	-	139,482	-	203,676	-	Provisions - current (Note 23)	4,782,533	1	4,324,106	1	3,572,256	1
Inventories (Note 13)	84,757,393	13	79,489,138	12	62,079,208	9	Current portion of bonds payable (Note 20)	5,212,976	1	5,212,668	1	4,711,859	1
Other financial assets - current (Notes 16 and 33)	13,054,278	2	11,833,708	2	11,946,016	2	Current portion of long-term bank borrowings (Notes 19 and 33)	14,281,740	2	16,210,014	2	19,414,134	3
Other current assets	3,652,344	1	3,558,170	1	3,496,398	1	Other current liabilities	3,352,714	1	3,530,170	1	2,834,869	-
Total current assets	148,180,297	22	140,055,190	21	121,649,161	18	Total current liabilities	145,726,831	22	123,150,208	18	140,036,094	21
NONCURRENT ASSETS							NONCURRENT LIABILITIES						
Available-for-sale financial assets - noncurrent (Note 8)	26,677,356	4	26,306,913	4	25,459,686	4	Derivative financial liabilities for hedging - noncurrent (Note 10)	56,277	-	36,065	-	63,330	-
Held-to-maturity financial assets - noncurrent (Note 9)	209,802	-	222,669	-	281,202	-	Bonds payable (Note 20)	95,040,842	14	95,037,294	14	94,832,142	14
Derivative financial assets for hedging - noncurrent (Note 10)	484	-	3,354	-	34,063	-	Long-term bank borrowings (Notes 19 and 33)	59,799,865	9	70,329,355	10	76,822,076	11
Debt investments with no active market - noncurrent (Notes 14 and 19)	1,900,557	-	1,932,814	-	2,104,807	-	Long-term bills payable (Note 19)	22,192,213	3	36,626,165	6	17,479,661	3
Investments accounted for using equity method (Note 15)	46,412,583	7	49,528,952	7	50,769,841	8	Provisions - noncurrent (Note 23)	814,580	-	815,694	-	821,377	-
Property, plant and equipment (Notes 17 and 33)	425,175,281	63	430,849,587	64	442,827,951	66	Deferred tax liabilities	12,266,748	2	12,261,289	2	12,340,243	2
Investment properties (Notes 18 and 33)	10,400,300	2	10,316,142	2	10,626,855	2	Net defined benefit liabilities (Note 4)	6,863,141	1	6,901,619	1	5,812,212	1
Intangible assets	2,137,073	-	2,488,714	-	2,343,579	-	Other noncurrent liabilities	1,349,102	-	1,384,411	-	1,312,731	-
Deferred tax assets	5,568,553	1	5,372,981	1	5,686,177	1	Total noncurrent liabilities	198,382,768	29	223,391,892	33	209,483,772	31
Refundable deposits	577,093	-	566,022	-	494,002	-	Total liabilities	344,109,599	51	346,542,100	51	349,519,866	52
Other financial assets - noncurrent (Notes 16 and 33)	3,095,328	-	3,393,174	-	2,609,236	-	EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION (Note 25)						
Other noncurrent assets	5,569,554	1	5,085,281	1	6,055,600	1	Share capital						
Total noncurrent assets	527,723,964	78	536,066,603	79	549,292,999	82	Ordinary shares	157,348,610	23	157,348,610	23	157,348,610	23
							Preference shares	382,680	-	382,680	-	382,680	-
							Total share capital	157,731,290	23	157,731,290	23	157,731,290	23
							Capital surplus	37,836,089	6	37,807,466	6	37,626,562	6
							Retained earnings						
							Legal reserve	59,934,379	9	59,934,379	9	59,173,907	9
							Special reserve	29,786,740	4	29,786,846	4	27,132,983	4
							Unappropriated earnings	20,900,758	3	17,196,041	3	13,818,976	2
							Total retained earnings	110,621,877	16	106,917,266	16	100,125,866	15
							Other equity	6,964,106	1	8,680,706	1	7,652,722	1
							Treasury shares	(8,512,794)	(1)	(8,576,842)	(1)	(8,576,842)	(1)
							Total equity attributable to owners of the Corporation	304,640,568	45	302,559,886	45	294,559,598	44
							NON-CONTROLLING INTERESTS	27,154,094	4	27,019,807	4	26,862,696	4
							Total equity	331,794,662	49	329,579,693	49	321,422,294	48
TOTAL	\$ 675,904,261	100	\$ 676,121,793	100	\$ 670,942,160	100	TOTAL	\$ 675,904,261	100	\$ 676,121,793	100	\$ 670,942,160	100

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

(With Deloitte & Touche review report dated May 10, 2017)

CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

(Reviewed, Not Audited)

	For the Three Months Ended March 31			
	2017		2016	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 26 and 32)	\$ 82,984,349	100	\$ 64,958,543	100
OPERATING COSTS (Notes 13 and 32)	<u>73,032,827</u>	<u>88</u>	<u>60,787,328</u>	<u>94</u>
GROSS PROFIT	<u>9,951,522</u>	<u>12</u>	<u>4,171,215</u>	<u>6</u>
OPERATING EXPENSES				
Selling and marketing expenses	1,362,573	2	1,157,082	2
General and administrative expenses	1,658,040	2	1,562,263	2
Research and development expenses	<u>497,205</u>	<u>-</u>	<u>512,351</u>	<u>1</u>
Total operating expenses	<u>3,517,818</u>	<u>4</u>	<u>3,231,696</u>	<u>5</u>
PROFIT FROM OPERATIONS	<u>6,433,704</u>	<u>8</u>	<u>939,519</u>	<u>1</u>
NON-OPERATING INCOME AND EXPENSES				
Other income (Notes 27 and 32)	238,426	-	221,481	-
Other gains and losses (Notes 27 and 32)	(18,544)	-	627,657	1
Finance costs (Note 27)	(938,177)	(1)	(986,355)	(1)
Share of the profit (loss) of associates	<u>(325,689)</u>	<u>-</u>	<u>28,637</u>	<u>-</u>
Total non-operating income and expenses	<u>(1,043,984)</u>	<u>(1)</u>	<u>(108,580)</u>	<u>-</u>
PROFIT BEFORE INCOME TAX	5,389,720	7	830,939	1
INCOME TAX (Notes 4 and 28)	<u>708,921</u>	<u>1</u>	<u>100,592</u>	<u>-</u>
NET PROFIT FOR THE PERIOD	<u>4,680,799</u>	<u>6</u>	<u>730,347</u>	<u>1</u>
OTHER COMPREHENSIVE INCOME (Notes 25 and 28)				
Items that may be reclassified subsequently to profit or loss				
Exchange differences on translating foreign operations	(2,047,198)	(3)	36,567	-
Unrealized gains and losses on available-for-sale financial assets	474,414	1	(14,308)	-
The effective portion of gains and losses on hedging instruments in a cash flow hedge	(221,690)	-	(51,042)	-
Share of the other comprehensive loss of associates	(584,505)	(1)	(487,604)	(1)

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CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

(Reviewed, Not Audited)

	For the Three Months Ended March 31			
	2017		2016	
	Amount	%	Amount	%
Income tax benefit relating to items that may be reclassified subsequently to profit or loss	\$ 80,132	-	\$ 52,909	-
Other comprehensive income (loss) for the period, net of income tax	(2,298,847)	(3)	(463,478)	(1)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>\$ 2,381,952</u>	<u>3</u>	<u>\$ 266,869</u>	<u>-</u>
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Corporation	\$ 3,704,611	5	\$ 482,146	1
Non-controlling interests	<u>976,188</u>	<u>1</u>	<u>248,201</u>	<u>-</u>
	<u>\$ 4,680,799</u>	<u>6</u>	<u>\$ 730,347</u>	<u>1</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Corporation	\$ 1,988,011	2	\$ 210,460	-
Non-controlling interests	<u>393,941</u>	<u>1</u>	<u>56,409</u>	<u>-</u>
	<u>\$ 2,381,952</u>	<u>3</u>	<u>\$ 266,869</u>	<u>-</u>
EARNINGS PER SHARE (Note 29)				
Basic	\$ 0.24		\$ 0.03	
Diluted	\$ 0.24		\$ 0.03	

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

(Concluded)

(With Deloitte & Touche review report dated May 10, 2017)

CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	Equity Attributable to Owners of the Corporation						Other Equity				Total Equity Attributable to Owners of the Corporation	Non-controlling Interests	Total Equity	
	Share Capital		Capital Surplus	Retained Earnings			Exchange Differences on Translating Foreign Operations	Unrealized Gains and Losses on Available-for-sale Financial Assets	The Effective Portion of Gains and Losses on Hedging Instruments in a Cash Flow Hedge	Total Other Equity				Treasury Shares
	Ordinary Shares	Preference Shares		Legal Reserve	Special Reserve	Unappropriated Earnings								
BALANCE AT JANUARY 1, 2017	\$ 157,348,610	\$ 382,680	\$ 37,807,466	\$ 59,934,379	\$ 29,786,846	\$ 17,196,041	\$ (32,048)	\$ 8,650,573	\$ 62,181	\$ 8,680,706	\$ (8,576,842)	\$ 302,559,886	\$ 27,019,807	\$ 329,579,693
Reversal of special reserve	-	-	-	-	(106)	106	-	-	-	-	-	-	-	-
Net profit for the three months ended March 31, 2017	-	-	-	-	-	3,704,611	-	-	-	-	-	3,704,611	976,188	4,680,799
Other comprehensive income for the three months ended March 31, 2017, net of income tax	-	-	-	-	-	-	(1,937,747)	414,869	(193,722)	(1,716,600)	-	(1,716,600)	(582,247)	(2,298,847)
Total comprehensive income for the three months ended March 31, 2017	-	-	-	-	-	3,704,611	(1,937,747)	414,869	(193,722)	(1,716,600)	-	1,988,011	393,941	2,381,952
Disposal of the Corporation's shares held by subsidiaries	-	-	28,066	-	-	-	-	-	-	-	64,048	92,114	21,905	114,019
Adjustment of non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(281,559)	(281,559)
Adjustment of other equity	-	-	557	-	-	-	-	-	-	-	-	557	-	557
BALANCE AT MARCH 31, 2017	\$ 157,348,610	\$ 382,680	\$ 37,836,089	\$ 59,934,379	\$ 29,786,740	\$ 20,900,758	\$ (1,969,795)	\$ 9,065,442	\$ (131,541)	\$ 6,964,106	\$ (8,512,794)	\$ 304,640,568	\$ 27,154,094	\$ 331,794,662
BALANCE AT JANUARY 1, 2016	\$ 157,348,610	\$ 382,680	\$ 37,612,027	\$ 59,173,907	\$ 27,132,983	\$ 13,323,848	\$ 1,198,796	\$ 6,573,348	\$ 152,264	\$ 7,924,408	\$ (8,577,644)	\$ 294,320,819	\$ 26,404,014	\$ 320,724,833
Net profit for the three months ended March 31, 2016	-	-	-	-	-	482,146	-	-	-	-	-	482,146	248,201	730,347
Other comprehensive income for the three months ended March 31, 2016, net of income tax	-	-	-	-	-	-	(358,259)	127,964	(41,391)	(271,686)	-	(271,686)	(191,792)	(463,478)
Total comprehensive income for the three months ended March 31, 2016	-	-	-	-	-	482,146	(358,259)	127,964	(41,391)	(271,686)	-	210,460	56,409	266,869
Adjustment of non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	402,273	402,273
Adjustment of other equity	-	-	14,535	-	-	12,982	-	-	-	-	802	28,319	-	28,319
BALANCE AT MARCH 31, 2016	\$ 157,348,610	\$ 382,680	\$ 37,626,562	\$ 59,173,907	\$ 27,132,983	\$ 13,818,976	\$ 840,537	\$ 6,701,312	\$ 110,873	\$ 7,652,722	\$ (8,576,842)	\$ 294,559,598	\$ 26,862,696	\$ 321,422,294

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

(With Deloitte & Touche review report dated May 10, 2017)

CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Three Months Ended March 31	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	\$ 5,389,720	\$ 830,939
Adjustments for:		
Depreciation expense	8,781,176	8,968,363
Amortization expense	90,932	96,108
Net gain on financial assets and liabilities at fair value through profit or loss	(80,684)	(52,001)
Finance costs	938,177	986,355
Interest income	(54,786)	(75,029)
Dividends income	(36,249)	(187)
Share of the profit (loss) of associates	309,220	(41,217)
Loss (gain) on disposal of property, plant and equipment	(1,598)	117,203
Gain on disposal of investments	(91,421)	(806,359)
Impairment loss recognized on (reversal of) financial assets	(11,075)	5,125
Impairment loss on non-financial assets	47,428	-
Decrease in provision for loss on inventories	(11,925)	(1,189,399)
Recognition of provisions	4,055,215	2,750,770
Others	12,603	12,147
Changes in operating assets and liabilities		
Financial instruments held for trading	(130,955)	(578,808)
Notes receivable	(2,567)	85,753
Notes receivable - related parties	40,494	(39,965)
Accounts receivable	507,451	172,619
Accounts receivable - related parties	102,351	49,726
Amounts due from customers for construction contracts	(498,728)	44,873
Other receivables	(122,468)	238,075
Inventories	(5,245,883)	8,015,793
Other current assets	(94,813)	308
Notes payable	(285,807)	(47,237)
Accounts payable	(272,642)	1,044,816
Accounts payable - related parties	188,008	183,040
Amounts due to customers for construction contracts	(609,059)	(288,205)
Other payables	(2,669,674)	(3,579,233)
Provisions	(3,598,579)	(2,345,326)
Other current liabilities	(175,307)	(853,215)
Net defined benefit liabilities	(38,478)	(155,775)
Cash generated from operations	6,430,077	13,550,057
Income taxes paid	(73,226)	(101,475)
Net cash generated from operating activities	<u>6,356,851</u>	<u>13,448,582</u>

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CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Three Months Ended March 31	
	2017	2016
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets designated as at fair value through profit or loss	\$ (1,254,843)	\$ (1,055,318)
Proceeds from disposal of financial assets designated as at fair value through profit or loss	646,779	898,099
Acquisition of available-for-sale financial assets	(437,633)	(603,233)
Proceeds from disposal of available-for-sale financial assets	563,158	1,181,022
Purchase of debt investments with no active market	-	(9,863)
Proceeds from disposal of debt investments with no active market	-	10,200
Acquisition of investments accounted for using equity method	(46,155)	(11,063,857)
Acquisition of property, plant and equipment	(5,828,425)	(3,872,707)
Proceeds from disposal of property, plant and equipment	14,687	12,075
Increase in refundable deposits	(11,071)	(14,715)
Acquisition of intangible assets	(8,678)	(9,610)
Acquisition of investment properties	(120,860)	(52,383)
Decrease (increase) in other financial assets	(812,466)	353,236
Decrease in other noncurrent assets	142,704	93,825
Interest received	54,794	90,895
Dividends received from associates	152,998	9,059
Dividends received from others	<u>51,434</u>	<u>187</u>
Net cash used in investing activities	<u>(6,893,577)</u>	<u>(14,033,088)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	61,793,751	70,384,682
Repayments of short-term borrowings	(67,800,042)	(73,872,883)
Increase in short-term bills payable	67,186,421	102,231,671
Decrease in short-term bills payable	(35,525,167)	(85,438,321)
Proceeds from long-term bank borrowings	4,540,000	18,416,800
Repayments of long-term bank borrowings	(14,223,263)	(28,007,364)
Proceeds from long-term bills payable	209,477	49,388,563
Repayments of long-term bills payable	(14,643,429)	(56,368,781)
Decrease in other noncurrent liabilities	(33,643)	(30,985)
Dividends paid to owners of the Corporation	(1,237)	-
Disposal of the Corporation's shares held by subsidiaries	114,019	-
Interest paid	(1,065,003)	(1,084,310)
Increase (decrease) in non-controlling interests	<u>(281,559)</u>	<u>402,273</u>
Net cash generated from (used in) financing activities	<u>270,325</u>	<u>(3,978,655)</u>

(Continued)

CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Three Months Ended March 31	
	2017	2016
EFFECT OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH AND CASH EQUIVALENTS HELD IN FOREIGN CURRENCIES	\$ (945,698)	\$ (159,924)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,212,099)	(4,723,085)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	<u>13,340,196</u>	<u>17,054,940</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>\$ 12,128,097</u>	<u>\$ 12,331,855</u>
Reconciliation of the amounts in the consolidated statements of cash flows with the equivalent items reported in the consolidated balance sheets as of March 31, 2017 and 2016:		
Cash and cash equivalents in the consolidated balance sheets	\$ 16,352,928	\$ 13,874,948
Bank overdraft	<u>(4,224,831)</u>	<u>(1,543,093)</u>
Cash and cash equivalents in the consolidated statements of cash flows	<u>\$ 12,128,097</u>	<u>\$ 12,331,855</u>

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

(Concluded)

(With Deloitte & Touche review report dated May 10, 2017)

CHINA STEEL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

China Steel Corporation (the Corporation) was incorporated on December 3, 1971. It manufactures and sells steel products and engages in mechanical, communications, and electrical engineering.

The shares of the Corporation and its subsidiaries, including China Steel Structure Co., Ltd., China Steel Chemical Corporation, CHC Resources Corporation, China Ecotek Corporation and Chung Hung Steel Corporation Ltd., have been listed on the Taiwan Stock Exchange. The shares of the subsidiary Thintech Materials Technology Co., Ltd. have been traded on the Taipei Exchange. The subsidiary Dragon Steel Corporation has issued shares to the public.

As of March 31, 2017, the Ministry of Economic Affairs (MOEA), Republic of China owned 20.05 % of the Corporation's issued ordinary shares.

The consolidated financial statements are presented in the Corporation's functional currency, New Taiwan Dollars.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were reported to the Corporation's board of directors and approved for issue on May 10, 2017.

3. APPLICATION OF NEW AND AMENDED STANDARDS AND INTERPRETATIONS

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

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

- 1) Amendment to IAS 36 "Impairment of Assets"

The amendment "Disclosures for Non-financial Assets" clarifies that the recoverable amount of an asset or a cash-generating unit is disclosed only when an impairment loss on the asset has been recognized or reversed during the period. Furthermore, if the recoverable amount of an item of property, plant and equipment for which impairment loss has been recognized or reversed is fair value less costs of disposal, the Corporation 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 present value technique. The amendment should be applied retrospectively from January 1, 2017.

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

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

The amendments stipulate that other companies or institutions of which the chairman of the board of directors or president serves as the chairman of the board of directors or the president, or is the spouse or second immediate family of the chairman of the board of directors or president of the Corporation 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 relationship with whom the Corporation and its subsidiaries have significant transaction. If the transaction or balance with a specific related party is 10% or more of the Corporation and its subsidiaries respective total transaction or balance, such transaction 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 operation after business combination and the expected benefit on acquisition date.

When the amendments were applied retrospectively from January 1, 2017, the disclosures of related party transactions were enhanced in Note 32.

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

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

The Corporation and its subsidiaries have not applied the following IFRSs issued by the IASB but not yet endorsed and issued into effect by the FSC.

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

New IFRSs	Effective Date Announced by IASB (Note1)
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 IFRS 15 Revenue from Contracts with Customers”	January 1, 2018
IFRS 16 “Leases”	January 1, 2019

(Continued)

New IFRSs	Effective Date Announced by IASB (Note1)
Amendment to IAS 7 “Disclosure Initiative”	January 1, 2017
Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017
Amendments to IAS 40 “Transfers of investment property”	January 1, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 1, 2018

(Concluded)

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

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

1) IFRS 9 “Financial Instruments”

Recognition and measurement of financial assets

With regards to financial assets, all recognized financial assets that are within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” are subsequently measured at amortized cost or fair value. Under IFRS 9, the requirement for the classification of financial assets is stated below.

For the Corporation 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 the contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with impairment loss recognized in profit or loss, if any. Interest revenue is recognized in profit or loss by using the effective interest method;
- b) For debt instruments, if they are held within a business model whose objective is achieved by both the collecting of contractual cash flows and the selling of financial assets, the financial assets are measured at fair value through other comprehensive income (FVTOCI) and are assessed for impairment. Interest revenue is recognized in profit or loss by using the effective interest method, and other gain or loss shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the debt instruments are derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

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

Impairment of financial assets

IFRS 9 requires impairment loss on financial assets to be recognized by using the “Expected Credit Losses Model”. The credit loss allowance is required for financial assets measured at amortized cost, financial assets mandatorily measured at FVTOCI, lease receivables, contract assets arising from IFRS 15 “Revenue from Contracts with Customers”, certain written loan commitments and financial guarantee contracts. A loss allowance for the 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since initial recognition. A loss allowance for full lifetime expected credit losses is required for a financial asset if its credit risk has increased significantly since initial recognition and is not low. However, a loss allowance for full lifetime expected credit losses is required for trade receivables that do not constitute a financing transaction.

For originated credit-impaired financial assets, the Corporation 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.

Hedge accounting

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

Transition

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

- 2) 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 the Corporation and its subsidiaries sell or contribute 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 the Corporation and its subsidiaries lose 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 Corporation 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 Corporation and its subsidiaries’ share of the gain or loss is eliminated. Also, when the Corporation 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 Corporation and its subsidiaries’ shares of the gain or loss are eliminated.

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

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

When applying IFRS 15, the Corporation and its subsidiaries 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 Corporation and its subsidiaries satisfy a performance obligation.

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

When IFRS 15 and related amendment are effective, the Corporation 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 Corporation and its subsidiaries are a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for low-value and short-term leases. The Corporation and its subsidiaries may elect to apply the accounting method similar to the accounting for operating lease under IAS 17 to the low-value and short-term leases. On the consolidated statements of comprehensive income, the Corporation and its subsidiaries should present the depreciation expense charged on the right-of-use asset separately from interest expense accrued on the lease liability; interest is computed by using effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of the lease liability and the interest portion are classified within financing activities.

The application of IFRS 16 is not expected to have a material impact on the accounting of the Corporation and its subsidiaries as lessor.

When IFRS 16 becomes effective, the Corporation 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) Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”

The amendment clarifies that the difference between the carrying amount of the 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 Corporation 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 Corporation 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 deduction against income of a specific type, in which case, a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type. The amendment also stipulates that, when determining whether to recognize a deferred tax asset, the estimate of probable future taxable profit may include some of the Corporation and its subsidiaries assets for more than their carrying amount if there is sufficient evidence that it is probable that the Corporation 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) Amendments to IAS 40 “Transfers of Investment Property”

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

The Corporation 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. The Corporation 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 Corporation and its subsidiaries may elect to apply the amendments retrospectively if, and only if, that is possible without the use of hindsight.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

For readers’ convenience, the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the ROC. If inconsistencies arise between the English version and the Chinese version or if differences arise in the interpretations between the two versions, the Chinese version of the consolidated financial statements shall prevail. However, the accompanying consolidated financial statements do not include English translation of the additional footnote disclosures that are not required under generally accepted accounting principles but are required by the Securities and Futures Bureau for their oversight purposes.

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 IAS 34 “Interim Financial Reporting” endorsed and issued in effect by the FSC. The consolidated financial statements do not present full disclosures required for a complete set of IFRSs annual consolidated financial statements.

b. Basis of consolidation

1) Subsidiaries included in consolidated financial statements

The consolidated entities were as follows:

Investor	Investee	Main Businesses	Percentage of Ownership (%)			Additional Descriptions
			March 31, 2017	December 31, 2016	March 31, 2016	
China Steel Corporation	China Steel Express Corporation (CSE)	Ocean freight forwarding and bulk shipping transportation	100	100	100	
	C. S. Aluminium Corporation (CSAC)	Production and sale of aluminum and other non-ferrous metal	100	100	100	
	Gains Investment Corporation (GIC)	General investment	100	100	100	
	China Prosperity Development Corporation (CPDC)	Land and commercial real estate sale, rental and development service	100	100	100	
	China Steel Asia Pacific Holdings Pte Ltd (CSAPH)	Investment holding company	100	100	100	
	China Steel Global Trading Corporation (CSGT)	Steel product agency and trading service	100	100	100	
	China Steel Machinery Corporation	Manufacture and sale of machinery and equipment for railroad, transportation and generator	74	74	74	Direct and indirect ownerships amounted to 100%
	China Steel Security Corporation	Guard security and system security	100	100	100	
	Info-Champ Systems Corporation (ICSC)	Design and sale of IT hardware and software	100	100	100	
	CSC Steel Australia Holdings Pty Ltd. (CSCAU)	Investment holding company	100	100	100	
	Himag Magnetic Corporation	Manufacture and sale of magnetic material, special usage chemicals and ferric iron oxide	69	69	69	Direct and indirect ownerships amounted to 88%
	Dragon Steel Corporation (DSC)	Manufacture and sale of steel product	100	100	100	
	China Steel Management Consulting Corporation	Business management consultant	100	100	100	
	China Ecotek Corporation (CEC)	Electrical engineering and co-generation	45	45	45	Refer to 1) below
	China Steel Chemical Corporation (CSCC)	Production and sale of coal chemistry and specialty chemicals	29	29	29	Refer to 1) below
	Chung Hung Steel Corporation Ltd. (CHSC)	Manufacture and sale of steel product	41	41	41	Refer to 1) below
	CHC Resources Corporation (CHC)	Manufacture and sale of slag powder, air-cooled blast-furnace slay and basic-oxygen-furnace slay, treatment and disposal of hazardous waste, and recovery of materials.	20	20	20	Direct and indirect ownerships amounted to 36%, and refer to 1) below
	China Steel Structure Co., Ltd. (CSSC)	Design, manufacture and sale of steel structure	33	33	33	Direct and indirect ownerships amounted to 37%, and refer to 1) below
	China Steel Sumikin Vietnam Joint Stock Company (CSVN)	Manufacture and sale of steel product	56	56	56	
	China Steel Corporation India Pvt. Ltd. (CSCI)	Manufacture and sale of steel product (electromagnetic steel coil)	100	100	100	
	Kaohsiung Rapid Transit Corporation (KRTC)	Operation of mass rapid transit	43	43	43	Direct and indirect ownerships amounted to 50%
	China Steel Resources Corporation	Manufacture of other non - metallic mineral products	100	100	100	
	CSC Precision Metal Industrial Corporation	Industry of metal rolling and extruding	100	100	100	
Eminent Venture Capital Corporation (EVCC)	General investment	-	-	-	Indirect ownership was 55%	
White Biotech Corporation (WBC)	Biology introduction and development	87	87	87		
CSC Solar Corporation	Electricity generation	55	55	-	Investment in September 2016. Direct and indirect ownerships amounted to 100%	
China Steel Express Corporation	CSE Transport Corporation (Panama) (CSEP)	Ocean freight forwarding	100	100	100	
	CSEI Transport Corporation (Panama) (CSEIP)	Ocean freight forwarding	100	100	100	
	Transyang Shipping Pte. Ltd. (TSP)	Ocean freight forwarding	51	51	51	
	Transglory Investment Corporation (TIC)	General investment	50	50	50	Direct and indirect ownerships amounted to 100%
	Kaohsiung Port Cargo Handling Services Corporation	Cargo stevedoring	66	66	66	
C.S. Aluminium Corporation	ALU Investment Offshore Corporation	Industry investment	100	100	100	

(Continued)

Investor	Investee	Main Businesses	Percentage of Ownership (%)			Additional Descriptions
			March 31, 2017	December 31, 2016	March 31, 2016	
ALU Investment Offshore Corporation	United Steel International Development Corp.	General investment	65	65	65	Direct and indirect ownerships amounted to 79%
United Steel International Development Corp.	Ningbo Huayang Aluminium-Tech Co., Ltd.	Manufacture and sale of aluminum alloy material	100	100	100	
Gains Investment Corporation	Eminence Investment Corporation	General investment	100	100	100	
	Gainsplus Asset Management Inc.	General investment	100	100	100	
	Winning Investment Corporation (WIC)	General investment	49	49	49	Direct and indirect ownerships amounted to 58%
	Mentor Consulting Corporation	Consulting service of management	100	100	100	
	Betacera Inc. (BETA)	Manufacture and trading of electronic ceramics	48	48	48	Refer to 1) below
	Universal Exchange Inc.	Wholesale of information software and electronic information supply service	64	64	64	Direct and indirect ownerships amounted to 99%
	Thintech Materials Technology Co., Ltd. (TMTC)	Manufacture and sale of metal sputter targets	32	32	32	Direct and indirect ownerships amounted to 40%, and refer to 2) below
Eminence Investment Corporation	Shin-Mau Investment Corporation	General investment	30	30	30	Direct and indirect ownerships amounted to 100%
	Gau Ruel Investment Corporation	General investment	25	25	25	Direct and indirect ownerships amounted to 100%
	Ding Da Investment Corporation	General investment	30	30	30	Direct and indirect ownerships amounted to 100%
	Chiun Yu Investment Corporation	General investment	25	25	25	Direct and indirect ownerships amounted to 100%
Shin-Mau Investment Corporation	Hong Chyuan Investment Corporation	General investment	5	5	5	Direct and indirect ownerships amounted to 100%
	Chii Yih Investment Corporation	General investment	5	5	5	Direct and indirect ownerships amounted to 100%
Gau Ruel Investment Corporation	Lih Ching Loong Investment Corporation	General investment	5	5	5	Direct and indirect ownerships amounted to 100%
	Sheng Lih Dar Investment Corporation	General investment	4	4	4	Direct and indirect ownerships amounted to 100%
Ding Da Investment Corporation	Jiing Cherng Fa Investment Corporation	General investment	4	4	4	Direct and indirect ownerships amounted to 100%
Betacera Inc.	Lefkara Ltd.	Electronic ceramics trading	100	100	100	
Lefkara Ltd.	Shang Hai Xike Ceramic Electronic Co., Ltd.	Electronic ceramics trading	100	100	100	
	Betacera (Su Zhou) Co., Ltd.	Manufacture and sale of electronic ceramics	100	100	100	
	Suzhou Betacera Technology Co., Ltd.	Manufacture and sale of life-saving equipment for aviation and shipping	100	100	100	
Thintech Materials Technology Co., Ltd.	Thintech International Limited	International trading and investment service	100	100	100	
	Thintech Global Limited	International trading and investment service	100	100	100	
	Thintech United Limited	International trading and investment service	100	100	100	
Thintech International Limited	Nantong Zhongxing Materials Technology Co., Ltd. (NZMTCL)	Manufacture and development of new compound metal material and vacuum sputtering targets	47	47	47	Refer to 1) below
Thintech Global Limited	Taicang Thintech Materials Co., Ltd.	Process and sale of targets and electro conductive slurry	100	100	100	
Thintech United Limited	Thintech United Metal Resources (Taicang) Co., Ltd.	Refining, sale and process of metal	84	84	84	
China Prosperity Development Corporation	CK Japan Co., Ltd.	Real estate sale and rental	80	80	80	Direct and indirect ownerships amounted to 100%
China Steel Asia Pacific Holdings Pte Ltd	CSC Steel Holdings Berhad (CSHB)	Investment holding company	46	46	46	Refer to 1) below
	Changzhou China Steel Precision Materials Co., Ltd. (CCSPMC)	Manufacture and sale of titanium-nickel alloy and non-ferrous metal	70	70	70	
	China Steel Precision Metals-Qingdao Co., Ltd.	Steel cutting and processing	60	60	60	Direct and indirect ownerships amounted to 70%
	United Steel International Co., Ltd.	General investment	80	80	80	Direct and indirect ownerships amounted to 100%
CSC Steel Holdings Berhad	CSC Bio-Coal Sdn. Bhd.	Manufacture bio-coal from bio-mass	100	100	100	
	CSC Steel Sdn. Bhd. (CSCSSB)	Manufacture and sale of steel product	100	100	100	
	Group Steel Corp. (M) Sdn. Bhd.	Manufacture and sale of steel product	100	100	100	
CSC Steel Sdn. Bhd.	Constant Mode Sdn. Bhd.	General investment	100	100	100	
United Steel International Co., Ltd.	United Steel Engineering and Construction Co., Ltd.	Steel cutting and processing	100	100	100	

(Continued)

Investor	Investee	Main Businesses	Percentage of Ownership (%)			Additional Descriptions
			March 31, 2017	December 31, 2016	March 31, 2016	
China Steel Global Trading Corporation	Chung Mao Trading (SAMOA) Co., Ltd.	Investment and trading service	100	100	100	
	CSGT (Singapore) Pte. Ltd.	Steel product agency and trading service	100	100	100	
	Chung Mao Trading (BVI) Co., Ltd.	Steel product agency and trading service	65	65	65	
	Wabo Global Trading Corporation	Steel product agency and trading service	44	44	44	Direct and indirect ownerships amounted to 50%
	CSGT International Corporation	Investment and trading service	100	100	100	
Chung Mao Trading (SAMOA) Co., Ltd.	CSGT (Shanghai) Co., Ltd.	Steel product agency and trading service	100	100	100	
Chung Mao Trading (BVI) Co., Ltd.	CSGT Hong Kong Limited	Steel product agency and trading service	100	100	100	
CSGT International Corporation	CSGT Metals Vietnam Joint Stock Company	Steel cutting and processing	54	54	54	Direct and indirect ownerships amounted to 60%
	CSGT Trading India Private Limited	Steel product agency and trading service	99	99	99	Direct and indirect ownerships amounted to 100%
Wabo Global Trading Corporation	CSGT Japan Co., Ltd.	Steel product agency and trading service	100	100	100	
China Steel Machinery Corporation	China Steel Machinery Holding Corporation	General investment	100	100	100	
	China Steel Machinery Vietnam Co., Ltd.	Installation and technology service of machinery and equipment	100	100	100	
	China Steel Machinery Corporation India Private Limited	Manufacture of machinery	99	99	99	Direct and indirect ownerships amounted to 100%
China Steel Machinery Holding Corporation	CSMC (Shanghai) Global Trading Co., Ltd.	Wholesale and retail trade	100	100	100	
China Steel Security Corporation	Steel Castle Technology Corporation	Firefighting equipment wholesaling	100	100	100	
	China Steel Management and Maintenance for Buildings Corporation	Building management	100	100	100	
Info-Champ Systems Corporation	Info-Champ System (B.V.I)	Information service	100	100	100	
Info-Champ System (B.V.I)	Wuham InfoChamp I.T. Co., Ltd.	Software programming	100	100	100	
CSC Steel Australia Holdings Pty Ltd.	CSC Sonoma Pty. Ltd.	Coal investment	100	100	100	
Himag Magnetic Corporation	Himag Magnetic (Belize) Corporation	Magnetic powder trading	100	100	100	
	MagnPower Corporation	Permanent magnetic ferrite	55	55	55	
China Ecotek Corporation	CEC International Co.	General investment	100	100	100	
	CEC Development Co.	General investment	100	100	100	
	CEC Holding Co., Ltd.	General investment	100	100	100	
	China Ecotek Construction Corporation	Engineering	100	100	100	
CEC International Co.	China Ecotek India Private Limited	Engineering design and construction	100	100	100	
CEC Development Co.	China Ecotek Vietnam Company Ltd. (CEVC)	Engineering design and construction	100	100	100	
China Steel Chemical Corporation	Xiamen Ecotek PRC Co., Ltd.	Metal materials agency and trading service	100	100	100	
	Ever Glory International Co., Ltd.	International trading	100	100	100	
	Ever Wealthy International Corporation	General investment	100	100	100	
	Formosa Ha Tinh CSCC (Cayman) International Limited	International trading	50	50	50	Investment in February 2016
Ever Wealthy International Corporation	China Steel Carbon Materials Technology Co., Ltd.	General investment	100	100	100	
China Steel Carbon Materials Technology Co., Ltd.	Changzhou China Steel New Materials Technology Co., Ltd.	Processing and trading of asphalt mesocarbon microbeads product sorting	100	100	100	
Chung Hung Steel Corporation Ltd.	Taiwan Steel Corporation (TSC)	Metal smelting	100	100	100	
	Hung Kao Investment Corporation	General investment	100	100	100	
	Hung Li Steel Corporation Ltd. (HLSC)	Steel product processing	100	100	100	
CHC Resources Corporation	Union Steel Development Corp.	Manufacture and trade of metal powder and refractory materials, and trade and manpower dispatch	93	93	93	
	Pao Good Industrial Co., Ltd.	Fly ash and cement dry mixing processing and trading	51	51	51	
	Yu Cheng Lime Corporation	Real estate leasing and raw material tally	90	90	90	
	CHC Resources Vietnam Co., Ltd.	Sale of water quenched slag and subcontract of steel mill	85	85	-	Investment in April 2016
China Steel Structure Co., Ltd.	United Steel Engineering & Construction Corp.	Contract project of civil engineering and construction engineering, and steel structure installation	100	100	100	
	China Steel Structure Investment Pte Ltd.	General investment	100	100	100	

(Continued)

Investor	Investee	Main Businesses	Percentage of Ownership (%)			Additional Descriptions
			March 31, 2017	December 31, 2016	March 31, 2016	
United Steel Engineering & Construction Corp.	United Steel Investment Pte Ltd.	General investment	100	100	100	
	United Steel Construction (Vietnam) Co., Ltd.	Civil engineering construction and other business contract and management	100	100	100	
	United Steel Development Co., Ltd.	House and construction development and real estate sale and rental business	100	100	100	
China Steel Structure Investment Pte Ltd.	China Steel Structure Holding Co., Ltd.	General investment	63	63	63	Direct and indirect ownerships amounted to 100%
China Steel Structure Holding Co., Ltd.	China Steel Structure Investment Co., Ltd.	General investment	100	100	100	
China Steel Structure Investment Co., Ltd.	Chung-Kang Steel Structure (Kunshan) Co., Ltd.	Manufacture, installation and consulting of steel structure and steel cutting	100	100	100	
White Biotech corporation (WBC)	Renewable Energy Biotech Corp.	Manufacture and sale of alcohol	100	100	-	Investment in June 2016

(Concluded)

Explanations for subsidiaries which are less than 50% owned but included in the consolidated entities are as follows:

- a) The actual operations of CEC, CSCC, CHSC, CHC, CSSC, BETA and NZMTCL are controlled by the respective board of directors. The Corporation and other subsidiaries jointly had more than half of the seats in the board of directors of CEC, CSCC, CHSC, CHC, CSSC, BETA and NZMTCL. The actual operation of CSHB is also controlled by the board of directors. The Corporation's subsidiaries had control of more than half of the voting rights in the board of directors. Therefore, the Corporation had control-in-substance over the aforementioned entities and included them in the consolidated entities.
- b) The chairman and general manager of TMTC are designated by other subsidiaries in order to control its finance, operation, and human resources. Therefore, the Corporation had control-in-substance over TMTC and included it in the consolidated entities.
- 2) The subsidiary China Steel Machinery Corporation acquired 50% of shareholding in Senergy Wind Power Co., Ltd. Under the shareholders' agreement, the subsidiary China Steel Machinery Corporation and the other shareholder of the company each hold half of the seats in the board of directors, respectively. The chairman of the board of directors and chief executive officer are served in turns and actual operations should be approved by more than half of the seats in the board of directors. Thus, the Corporation and its subsidiaries have no control over the company. The management of the Corporation and its subsidiaries, however, believe that they are able to exercise significant influence over the company and therefore classified the company as an associate of the Corporation and its subsidiaries.
- 3) The Corporation had no subsidiary with material non-controlling interests.
- c. Other significant accounting policy

Except for the following, refer to the summary of significant accounting policy and basis of preparation in the consolidated financial statements for the year ended December 31, 2016.

1) Retirement benefits

Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant plan amendments, settlements, or other significant one-off events.

2) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Interim period income taxes are assessed on an annual basis and calculated on an interim period's pre-tax income by applying to the tax rate that would be applicable to expected total annual earnings.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The same critical accounting judgments and key sources of estimation uncertainty of consolidated financial statements have been followed in these consolidated financial statements as those applied in the preparation of the consolidated financial statements for the year ended December 31, 2016.

6. CASH AND CASH EQUIVALENTS

	March 31, 2017	December 31, 2016	March 31, 2016
Cash on hand	\$ 45,042	\$ 47,111	\$ 47,112
Checking accounts and demand deposits	7,003,437	7,267,847	10,023,365
Cash equivalents (investments with original maturities less than three months)			
Commercial papers with repurchase agreements	3,156,189	3,914,480	803,522
Time deposits	5,008,260	3,503,330	2,911,453
Bonds with repurchase agreements	<u>1,140,000</u>	<u>735,000</u>	<u>89,496</u>
	<u>\$ 16,352,928</u>	<u>\$ 15,467,768</u>	<u>\$ 13,874,948</u>

Cash and cash equivalents shown in the consolidated statements of cash flows can be reconciled to the related items in the consolidated balance sheets. The reconciliation information as of March 31, 2017 and 2016 was shown in the consolidated statements of cash flows; the reconciliation information as of December 31, 2016 was as follows:

	December 31, 2016
Cash and cash equivalents	\$ 15,467,768
Bank overdraft	<u>(2,127,572)</u>
	<u>\$ 13,340,196</u>

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	March 31, 2017	December 31, 2016	March 31, 2016
<hr/>			
Financial assets at FVTPL - current			
<hr/>			
Financial assets designated as at FVTPL			
Mutual funds	\$ 1,919,195	\$ 1,359,532	\$ 1,993,163
Listed shares	60,078	36,488	30,971
			(Continued)

	March 31, 2017	December 31, 2016	March 31, 2016
Structured notes	\$ -	\$ -	\$ 30,104
Future contracts (a)	<u>-</u>	<u>899</u>	<u>-</u>
	<u>1,979,273</u>	<u>1,396,919</u>	<u>2,054,238</u>
Financial assets held for trading			
Listed shares	1,001,766	607,426	857,878
Mutual funds	519,290	732,951	889,702
Convertible bonds	310,203	319,100	236,720
Emerging market shares	211,801	231,953	243,378
Foreign exchange forward contracts (b)	<u>6,820</u>	<u>-</u>	<u>2,383</u>
	<u>2,049,880</u>	<u>1,891,430</u>	<u>2,230,061</u>
	<u>\$ 4,029,153</u>	<u>\$ 3,288,349</u>	<u>\$ 4,284,299</u>
<hr/> Financial liabilities at FVTPL - current <hr/>			
Financial liabilities designated as at FVTPL			
Call and put options (Note 20)	<u>\$ 446</u>	<u>\$ 405</u>	<u>\$ 492</u>
Financial liabilities held for trading			
Futures contracts (a)	306	-	233
Foreign exchange forward contracts (b)	<u>-</u>	<u>4,536</u>	<u>42</u>
	<u>306</u>	<u>4,536</u>	<u>275</u>
	<u>\$ 752</u>	<u>\$ 4,941</u>	<u>\$ 767</u>
			(Concluded)

- a. The subsidiary Thintech United Metal Resources (Taicang) Co., Ltd. entered into precious metals futures contracts to manage fair value exposures arising from price fluctuation on precious metals. However, some of those contracts did not accounted for by using hedge accounting. As of the balance sheet date, the outstanding precious metals futures contracts were as follows:

Maturity Date	Weight (Kilograms)	Amount (In thousands)
<hr/> March 31, 2017 <hr/>		
December 15, 2017	1,905	\$ 35,300 (RMB 8,010 thousand)
<hr/> December 31, 2016 <hr/>		
June 15, 2017	1,275	25,046 (RMB 5,425 thousand)
<hr/> March 31, 2016 <hr/>		
June 15, 2016	825	13,753 (RMB 2,766 thousand)

- b. The subsidiaries entered into foreign exchange forward contracts to manage exposures due to exchange rate fluctuations of foreign currency denominated assets and liabilities. However, some of those contracts were not accounted for by using hedge accounting. The outstanding foreign exchange

forward contracts not under hedge accounting of the subsidiaries at the end of the reporting period were as follows:

	Currency	Maturity Date	Contract Amount (In Thousands)
<u>March 31, 2017</u>			
Sell	USD/NTD	April 2017-June 2017	USD8,134/NTD252,107
Sell	HKD/NTD	April 2017	HKD21,000/NTD83,270
<u>December 31, 2016</u>			
Sell	USD/NTD	January 2017-March 2017	USD7,634/NTD241,717
Sell	HKD/NTD	February 2017	HKD7,500/NTD30,734
<u>March 31, 2016</u>			
Sell	USD/NTD	April 2016	USD3,627/NTD119,458
Buy	NTD/RMB	May 2016	NTD9,356/RMB1,875

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	March 31, 2017	December 31, 2016	March 31, 2016
<u>Current</u>			
Domestic investments			
Listed shares	\$ 2,487,970	\$ 2,359,896	\$ 2,181,802
Mutual funds	207,537	397,759	1,100,392
Unlisted shares	<u>49,066</u>	<u>49,082</u>	<u>5,662</u>
	<u>2,744,573</u>	<u>2,806,737</u>	<u>3,287,856</u>
Foreign investments			
Listed shares	<u>-</u>	<u>-</u>	<u>2,309</u>
	<u>\$ 2,744,573</u>	<u>\$ 2,806,737</u>	<u>\$ 3,290,165</u>
<u>Noncurrent</u>			
Domestic investments			
Listed shares	\$ 8,286,444	\$ 7,428,757	\$ 2,732,195
Emerging market shares and unlisted shares	2,979,768	2,754,165	6,437,904
Private-placement shares of listed companies	<u>139,729</u>	<u>136,042</u>	<u>229,219</u>
	<u>11,405,941</u>	<u>10,318,964</u>	<u>9,399,318</u>
Foreign investments			
Unlisted shares	12,443,421	12,757,612	13,173,954
Listed shares	2,073,194	2,457,207	2,063,257
Certificate of entitlement	<u>754,800</u>	<u>773,130</u>	<u>823,157</u>
	<u>15,271,415</u>	<u>15,987,949</u>	<u>16,060,368</u>
	<u>\$ 26,677,356</u>	<u>\$ 26,306,913</u>	<u>\$ 25,459,686</u>

In January 2016, the subsidiary CSAPH invested USD329,135 thousand in Formosa Ha Tinh (Cayman) Limited and increased the total shareholding from 19% to 25%. As the result, the investment was reclassified from available-for-sale financial assets to investments accounted for using equity method (Note 15).

In November 2016, Congonhas Minerios S.A., the Corporation held 0.41% shareholding, had been renamed as CSN Mineracao S.A.

9. HELD-TO-MATURITY FINANCIAL ASSETS - NONCURRENT

	March 31, 2017	December 31, 2016	March 31, 2016
Structured notes	\$ 104,320	\$ 110,924	\$ 142,885
Guarantee debt certificates	79,040	84,043	83,874
Corporate bonds	<u>26,442</u>	<u>27,702</u>	<u>54,443</u>
	<u>\$ 209,802</u>	<u>\$ 222,669</u>	<u>\$ 281,202</u>

10. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

	March 31, 2017	December 31, 2016	March 31, 2016
<u>Derivative financial assets for hedging - current</u>			
Foreign exchange forward contracts (a)	<u>\$ 9,615</u>	<u>\$ 36,784</u>	<u>\$ 71,858</u>
<u>Derivative financial assets for hedging - noncurrent</u>			
Foreign exchange forward contracts (a)	<u>\$ 484</u>	<u>\$ 3,354</u>	<u>\$ 34,063</u>
<u>Derivative financial liabilities for hedging - current</u>			
Foreign exchange forward contracts (a)	\$ 119,653	\$ 28,328	\$ 17,354
Interest rate swap contracts (b)	<u>11,107</u>	<u>9,281</u>	<u>7,220</u>
	<u>\$ 130,760</u>	<u>\$ 37,609</u>	<u>\$ 24,574</u>
<u>Derivative financial liabilities for hedging - noncurrent</u>			
Foreign exchange forward contracts (a)	\$ 45,725	\$ 17,599	\$ 11,603
Interest rate swap contracts (b)	<u>10,552</u>	<u>18,466</u>	<u>51,727</u>
	<u>\$ 56,277</u>	<u>\$ 36,065</u>	<u>\$ 63,330</u>

- a. The Corporation and its subsidiaries entered into foreign exchange forward contracts to manage cash flow and fair value exposures arising from exchange rate fluctuations on foreign-currency capital expenditures and sales and purchases contracts. The outstanding foreign exchange forward contracts of the Corporation and its subsidiaries at the balance sheet date were as follows:

	Currency	Period for Generating Cash Flows and Maturity Date	Contract Amount (In Thousands)
<u>March 31, 2017</u>			
Buy	NTD/USD	April 2017-February 2020	NTD1,812,974/USD57,391
Buy	NTD/JPY	April 2017-December 2019	NTD281,988/JPY1,010,091
Buy	NTD/EUR	April 2017-December 2019	NTD1,261,800/EUR36,829
Buy	NTD/GBP	April 2017	NTD11,532/GBP301
Buy	NTD/CNY	May 2017	NTD11,575/CNY2,500
Sell	USD/NTD	April 2017-May 2017	USD854/NTD26,479
<u>December 31, 2016</u>			
Buy	NTD/USD	January 2017-February 2020	NTD1,845,189/USD58,454
Buy	NTD/EUR	January 2017-March 2019	NTD983,531/EUR28,130
Buy	NTD/JPY	May 2017-June 2018	NTD140,853/JPY500,540
Buy	NTD/CNY	May 2017	NTD20,736/CNY4,375
Sell	USD/NTD	January 2017-March 2017	USD417/NTD13,321
<u>March 31, 2016</u>			
Buy	NTD/USD	April 2016-July 2019	NTD1,700,763/USD54,956
Buy	NTD/JPY	May 2016-December 2019	NTD191,507/JPY707,485
Buy	NTD/EUR	April 2016-January 2018	NTD850,950/EUR23,414
Sell	USD/NTD	July 2016	USD96/NTD3,136

- b. The subsidiary DSC entered into interest rate swap contracts to manage cash flow exposures arising from interest rate fluctuations on bank loans. The outstanding interest rate swap contracts as of March 31, 2017, December 31, 2016 and March 31, 2016 were as follows:

Contract Amount (In Thousands)	Maturity Date	Range of Interest Rates Paid (%)	Range of Interest Rates Received
<u>March 31, 2017</u>			
NT\$7,277,000	July 2017-July 2018	0.988-1.14	90 days fixing TAIBOR rate provided by Thomson Reuters
<u>December 31, 2016</u>			
NT\$9,277,000	February 2017-July 2018	0.988-1.14	90 days fixing TAIBOR rate provided by Thomson Reuters
<u>March 31, 2016</u>			
NT\$9,277,000	February 2017-July 2018	0.988-1.14	90 days fixing TAIBOR rate provided by Thomson Reuters

c. Movements of derivative financial instruments for hedging were as follows:

	For the Three Months Ended March 31	
	2017	2016
Balance, beginning of period	\$ (33,536)	\$ 78,701
Recognized in other comprehensive income	(111,877)	(92,513)
Recognized in other gains and losses	(31,971)	(5,927)
Transferred to construction in progress and equipment to be inspected	283	34,489
Transferred to construction contract	163	-
Transferred to operating revenues	<u>-</u>	<u>3,267</u>
Balance, end of period	<u>\$ (176,938)</u>	<u>\$ 18,017</u>

11. NOTES AND ACCOUNTS RECEIVABLE, NET (INCLUDING RELATED PARTIES)

	March 31, 2017	December 31, 2016	March 31, 2016
Notes receivable			
Operating	\$ 1,579,920	\$ 1,617,847	\$ 1,419,000
Non-operating	<u>-</u>	<u>-</u>	<u>3</u>
	1,579,920	1,617,847	1,419,003
Less: Allowance for doubtful accounts	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,579,920</u>	<u>\$ 1,617,847</u>	<u>\$ 1,419,003</u>
Accounts receivable	\$ 11,432,598	\$ 12,042,400	\$ 10,836,597
Less: Allowance for doubtful accounts	<u>61,829</u>	<u>79,640</u>	<u>34,487</u>
	<u>\$ 11,370,769</u>	<u>\$ 11,962,760</u>	<u>\$ 10,802,110</u>

The allowance for doubtful accounts was recognized based on estimated irrecoverable amounts determined by reference to the account aging analysis, past default experience of the customers and analysis of customers' current financial position. In determining the recoverability of an account receivable, the Corporation and its subsidiaries considered any change in the credit quality of the account receivable since the credit was initially granted to the end of the reporting period. For the past due notes and accounts receivable not collected after executing legal procedures, the Corporation and its subsidiaries will recognize 100% allowance for doubtful accounts.

The Corporation and its subsidiaries had not recognized an allowance for some notes and accounts receivable that are past due at the end of the reporting period because there had not been a significant change in credit quality and the amounts were still considered recoverable. The Corporation and its subsidiaries did not hold any collateral or other credit enhancement for these balances.

The aging of notes and accounts receivable was as follows:

	March 31, 2017	December 31, 2016	March 31, 2016
Not past due	\$ 12,055,703	\$ 12,809,916	\$ 11,253,503
1-30 days	480,163	365,801	339,297

(Continued)

	March 31, 2017	December 31, 2016	March 31, 2016
31-60 days	\$ 155,699	\$ 179,756	\$ 179,213
61-365 days	186,183	156,229	379,253
More than 365 days	<u>72,941</u>	<u>68,905</u>	<u>69,847</u>
	<u>\$ 12,950,689</u>	<u>\$ 13,580,607</u>	<u>\$ 12,221,113</u> (Concluded)

Above analysis of account receivable after deducting the allowance for doubtful accounts was based on the past due days from end of credit term.

Aging analysis of notes and accounts receivable that are past due but not impaired was as follows:

	March 31, 2017	December 31, 2016	March 31, 2016
Less than 31 days	\$ 480,163	\$ 365,801	\$ 339,297
31-60 days	151,746	172,525	172,465
61-365 days	176,985	151,389	365,332
More than 365 days	<u>57,968</u>	<u>65,846</u>	<u>68,505</u>
	<u>\$ 866,862</u>	<u>\$ 755,561</u>	<u>\$ 945,599</u>

Above analysis of account receivable was based on the past due days from end of credit term.

Movements in the allowance for doubtful accounts recognized on accounts receivable were as follows:

	For the Three Months Ended March 31	
	2017	2016
Balance, beginning of period	\$ 79,640	\$ 34,207
Recognition (Reversal)	(16,465)	2,072
Write off	-	(1,649)
Effect of foreign currency exchange difference	<u>(1,346)</u>	<u>(143)</u>
Balance, end of period	<u>\$ 61,829</u>	<u>\$ 34,487</u>

Aging analysis of individually impaired accounts receivable was as follows:

	March 31, 2017	December 31, 2016	March 31, 2016
31-60 days	\$ 3,953	\$ 7,231	\$ 6,748
61-365 days	9,198	4,840	13,921
More than 365 days	<u>14,973</u>	<u>3,059</u>	<u>1,342</u>
	<u>\$ 28,124</u>	<u>\$ 15,130</u>	<u>\$ 22,011</u>

Above analysis of accounts receivable after deducting the allowance for doubtful accounts was based on the past due days from end of credit term.

Retentions receivable from construction contracts included in the accounts receivable did not bear interests; they were expected to be received upon the satisfaction of conditions specified in each contract for the payment of such amounts during retention periods, which were within normal operating cycle of the Corporation and its subsidiaries, usually more than twelve months. Refer to Note 12 for details on construction contracts.

The Corporation and the subsidiary CHSC entered into accounts receivable factoring agreements (without recourse) with Mega Bank and other financial institutions. Under the agreements, the Corporation and its subsidiaries are empowered to sell accounts receivable to the banks upon the delivery of products to customers and are required to complete related formalities at the next banking day.

For the three months ended March 31, 2017 and 2016, the related information for the Corporation and CHSC's sale of accounts receivable was as follows. Advances received at period-end dominated in US Dollars were converted to NT Dollars at the closing rate.

Counterparty	Advances Received at Period - Beginning	Receivables Sold	Amounts Collected by Bank	Advances Received at Period - End	Interest Rate on Advances Received (%)	Credit Line
For the Three Months Ended March 31, 2017						
Mega Bank	\$ 1,099,546	\$ 992,947	\$ 838,637	\$ 1,253,856	1.19	NT\$3 billion
Mega Bank	3,407,655	2,215,078	2,466,335	3,156,398	1.02-1.68	NT\$9 billion
	106,911	73,853	54,287	126,477	2.38	USD30,000 thousand
Bank of Taiwan						
Bank of Taiwan	1,305,411	1,032,240	866,073	1,471,578	1.02-1.68	NT\$3 billion
Bank of Taiwan	658,609	1,368,532	1,356,776	670,365	1.84-2.17	USD130,000 thousand
Taishin Bank	-	268,916	113,407	155,509	2.4	USD10,000 thousand
Taishin Bank	1,944,923	2,122,564	1,659,913	2,407,574	1.59-1.70	USD110,000 thousand
CTBC Bank	552,811	495,051	443,763	604,099	1.59-1.70	USD30,000 thousand
	<u>\$ 9,075,866</u>	<u>\$ 8,569,181</u>	<u>\$ 7,799,191</u>	<u>\$ 9,845,856</u>		
For the Three Months Ended March 31, 2016						
Mega Bank	\$ 3,727,574	\$ 3,336,719	\$ 2,705,123	\$ 4,359,170	1.14-1.46	NT\$12 billion
Bank of Taiwan	1,256,796	680,388	759,760	1,177,424	1.14-1.46	NT\$3 billion
Bank of Taiwan	785,395	706,407	975,012	516,790	1.93-2.14	USD130,000 thousand
Taishin Bank	1,178,084	881,353	995,812	1,063,625	1.45-1.58	USD60,000 thousand
CTBC Bank	118,633	144,400	122,921	140,112	1.45	USD30,000 thousand
	<u>\$ 7,066,482</u>	<u>\$ 5,749,267</u>	<u>\$ 5,558,628</u>	<u>\$ 7,257,121</u>		

12. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONSTRUCTION CONTRACTS

	March 31, 2017	December 31, 2016	March 31, 2016
Amounts due from customers for construction contracts			
Construction costs incurred plus recognized profits less recognized losses to date	\$ 60,354,344	\$ 51,910,226	\$ 45,509,544

(Continued)

	March 31, 2017	December 31, 2016	March 31, 2016
Less: Progress billings	<u>\$ 51,383,579</u>	<u>\$ 43,438,189</u>	<u>\$ 36,787,074</u>
Amounts due from customers for construction contracts	<u>\$ 8,970,765</u>	<u>\$ 8,472,037</u>	<u>\$ 8,722,470</u>
Amounts due to customers for construction contracts			
Progress billings	\$ 31,019,572	\$ 27,629,282	\$ 30,140,541
Less: Construction costs incurred plus recognized profits less recognized losses to date	<u>27,774,907</u>	<u>23,775,558</u>	<u>26,313,576</u>
Amounts due to customers for construction contracts	<u>\$ 3,244,665</u>	<u>\$ 3,853,724</u>	<u>\$ 3,826,965</u>
Retentions receivable	<u>\$ 1,166,671</u>	<u>\$ 1,131,990</u>	<u>\$ 1,016,355</u>
Retentions payable	<u>\$ 2,633,017</u>	<u>\$ 2,575,200</u>	<u>\$ 2,549,570</u> (Concluded)

13. INVENTORIES

	March 31, 2017	December 31, 2016	March 31, 2016
Work in progress	\$ 25,062,819	\$ 21,410,134	\$ 17,452,359
Finished goods	22,132,487	19,679,031	14,634,133
Raw materials	18,913,561	19,618,052	14,580,929
Supplies	10,480,747	10,064,257	11,051,760
Raw materials and supplies in transit	6,269,542	6,914,867	3,061,838
Buildings and lands under construction	1,587,827	1,462,463	1,041,346
Lands held for construction	142,688	142,688	142,688
Others	<u>167,722</u>	<u>197,646</u>	<u>114,155</u>
	<u>\$ 84,757,393</u>	<u>\$ 79,489,138</u>	<u>\$ 62,079,208</u>

The cost of inventories recognized as operating costs for the three months ended March 31, 2017 and 2016 was NT\$62,689,922 thousand and NT\$50,437,571 thousand, respectively.

Movements of provision for loss on inventories were as follows:

	For the Three Months Ended March 31	
	2017	2016
Balance, beginning of period	\$ 6,480,191	\$ 10,469,050
Recognized	2,168,692	3,261,928
Sold	(2,180,617)	(4,451,327)
Effect of foreign currency exchange difference	<u>(10,447)</u>	<u>946</u>
Balance, end of period	<u>\$ 6,457,819</u>	<u>\$ 9,280,597</u>

14. DEBT INVESTMENTS WITH NO ACTIVE MARKET

	March 31, 2017	December 31, 2016	March 31, 2016
<u>Noncurrent</u>			
Unlisted preference shares - overseas			
East Asia United Steel Corporation (EAUS) - Preference A	\$ 1,808,757	\$ 1,837,425	\$ 1,908,762
Subordinated financial bonds	24,091	24,351	124,342
Bonds	<u>67,709</u>	<u>71,038</u>	<u>71,703</u>
	<u>\$ 1,900,557</u>	<u>\$ 1,932,814</u>	<u>\$ 2,104,807</u>

In May 2003, the Corporation signed a slab production joint-venture contract with Sumitomo Metal Industries, Ltd. (renamed as Nippon Steel & Sumitomo Metal Corp. in October 2012) and Sumitomo Corporation. In July 2003, the joint venture company EAUS was established. The Corporation invested JPY10 billion in EAUS to acquire 10,000 shares of preference A. The Corporation thus has a stable supply of slab from this joint venture. The Corporation signed the long-term purchase agreement with EAUS and promised to purchase certain amount of slabs annually.

15. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	March 31, 2017	December 31, 2016	March 31, 2016
Material associates			
Formosa Ha Tinh (Cayman) Limited	\$ 32,315,288	\$ 34,874,658	\$ 35,665,347
7623704 Canada Inc.	8,265,665	8,738,490	8,700,665
Associates that are not individually material	<u>5,831,630</u>	<u>5,915,804</u>	<u>6,403,829</u>
	<u>\$ 46,412,583</u>	<u>\$ 49,528,952</u>	<u>\$ 50,769,841</u>

a. Material associates

Name of Associate	Nature of Activities	Principal Place of Business	Percentage of Ownership and Voting Rights (%)		
			March 31, 2017	December 31, 2016	March 31, 2016
Formosa Ha Tinh (Cayman) Limited	General Investment	Cayman	25	25	25
7623704 Canada Inc.	Mineral Investment	Canada	25	25	25

The summarized financial information below represent amounts shown in the financial statements of Formosa Ha Tinh (Cayman) Limited prepared in accordance with IFRSs, which were converted to the functional currency and adjusted for the purposes of applying equity method.

	March 31, 2017	December 31, 2016	March 31, 2016
Current assets	\$ 156,027,645	\$ 33,309,463	\$ 95,938,100
Noncurrent assets	123,307,919	253,081,599	135,597,310

(Continued)

	March 31, 2017	December 31, 2016	March 31, 2016
Current liabilities	\$ (53,988,253)	\$ (16,863,112)	\$ (96,772,702)
Noncurrent liabilities	<u>(102,515,400)</u>	<u>(137,090,790)</u>	<u>-</u>
Equity	<u>\$ 122,831,911</u>	<u>\$ 132,437,160</u>	<u>\$ 134,762,708</u>
Percentage of the Corporation and its subsidiaries' ownership (%)	25	25	25
Equity attributable to the Corporation and its subsidiaries	\$ 30,707,978	\$ 33,107,828	\$ 33,690,677
Intangible assets	<u>1,607,310</u>	<u>1,766,830</u>	<u>1,974,670</u>
Carrying amount of the investment	<u>\$ 32,315,288</u>	<u>\$ 34,874,658</u>	<u>\$ 35,665,347</u> (Concluded)

**For the Three Months Ended
March 31**

	2017	2016
Net loss for the period	<u>\$ (1,775,966)</u>	<u>\$ (551,361)</u>
Total comprehensive income for the period	<u>\$ (1,775,966)</u>	<u>\$ (551,361)</u>
Comprehensive income attributable to the Corporation and its subsidiaries	<u>\$ (498,296)</u>	<u>\$ (109,781)</u>

The summarized financial information below represents amounts shown in the financial statements of 7623704 Canada Inc. prepared in accordance with IFRSs, and converted to the Corporation's functional currency and adjusted for the purposes of applying equity method.

	March 31, 2017	December 31, 2016	March 31, 2016
Current assets	\$ 354,445	\$ 134,511	\$ 51,693
Noncurrent assets	33,362,480	35,474,697	35,403,519
Current liabilities	<u>(35)</u>	<u>(38)</u>	<u>(180)</u>
Equity	<u>\$ 33,716,890</u>	<u>\$ 35,609,170</u>	<u>\$ 35,455,032</u>
Percentage of the Corporation and its subsidiaries' ownership (%)	25	25	25
Equity attributable to the Corporation and its subsidiaries (carrying amount of the investment)	<u>\$ 8,265,665</u>	<u>\$ 8,738,490</u>	<u>\$ 8,700,665</u>

**For the Three months Ended
March 31**

	2017	2016
Net profit for the period	<u>\$ 832,836</u>	<u>\$ 206,816</u>
Total comprehensive income for the period	<u>\$ (1,208,628)</u>	<u>\$ (1,421,012)</u> (Continued)

	For the Three months Ended March 31	
	2017	2016
Dividends received from 7623704 Canada Inc.	\$ <u>152,998</u>	\$ <u>-</u>
Comprehensive income attributable to the Corporation and its subsidiaries	\$ <u>(296,597)</u>	\$ <u>(348,716)</u> (Concluded)

b. Information about associates that are not individually material was as follows:

	For the Three months Ended March 31	
	2017	2016
The Corporation and its subsidiaries' share of		
Net profit (loss) for the period	\$ (15,301)	\$ 100,246
Other comprehensive income	<u>(83,530)</u>	<u>(88,135)</u>
Total comprehensive income	<u>\$ (98,831)</u>	<u>\$ 12,111</u>

Fair values (Level 1) of investments in associates with available published price quotation are summarized as follows:

	March 31, 2017	December 31, 2016	March 31, 2016
Chateau International Development Co., Ltd.	\$ <u>832,108</u>	\$ <u>869,182</u>	\$ <u>874,880</u>

Except for the investments in some companies, investments accounted for using equity method as of March 31, 2017 and 2016, and the share of profit or loss and other comprehensive income of associates for the three months ended March 31, 2017 and 2016, were calculated based on the reviewed financial statements. The Corporation's management considered the use of unreviewed financial statements as acceptable and will not have material impact on both the investments and income accounted for using the equity method.

16. OTHER FINANCIAL ASSETS

	March 31, 2017	December 31, 2016	March 31, 2016
<u>Current</u>			
Pledged time deposits	\$ 6,303,602	\$ 6,327,109	\$ 6,499,319
Deposits for projects	293	16	901
Time deposits with original maturities more than three months	4,664,090	3,098,858	3,121,888
Hedging foreign-currency deposits	<u>2,086,293</u>	<u>2,407,725</u>	<u>2,323,908</u>
	<u>\$ 13,054,278</u>	<u>\$ 11,833,708</u>	<u>\$ 11,946,016</u>

(Continued)

	March 31, 2017	December 31, 2016	March 31, 2016
Noncurrent			
Pledged receivables	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000
Deposits for projects	798,227	1,090,454	162,779
Pledged time deposits	273,406	279,024	422,763
Time deposits with original maturities more than three months	<u>23,695</u>	<u>23,696</u>	<u>23,694</u>
	<u>\$ 3,095,328</u>	<u>\$ 3,393,174</u>	<u>\$ 2,609,236</u> (Concluded)

For the purpose of managing cash flow risk arising from exchange rate fluctuations due to purchasing imported equipment, the Corporation and its subsidiaries purchased foreign-currency deposits and entered into foreign exchange forward contracts (Note 10). As of March 31, 2017, December 31, 2016 and March 31, 2016, the balance of the foreign-currency deposits, which consist of those designated as hedging instruments and were settlements of expired foreign exchange forward contracts, was NT\$2,086,293 thousand (JPY1.07 billion, RMB100,782 thousand, USD33,181 thousand, EUR10,118 thousand and GBP332 thousand), NT\$2,407,725 thousand (JPY1.17 billion, RMB118,463 thousand, USD37,820 thousand, EUR9,040 thousand and GBP332 thousand) and NT\$2,323,908 thousand (JPY0.93 billion, RMB43,214 thousand, USD48,181 thousand, EUR7,044 thousand and GBP786 thousand), respectively. As of March 31, 2017, December 31, 2016 and March 31, 2016, cash outflows would be expected from aforementioned contracts during the periods from 2017, 2017 and 2016 to 2017, respectively.

Movements of hedging foreign-currency deposits were as follows:

	For the Three Months Ended March 31	
	2017	2016
Balance, beginning of period	\$ 2,407,725	\$ 2,428,316
Decrease	(211,173)	(108,932)
Recognized in other comprehensive income	(96,137)	4,637
Transferred to construction in progress and equipment to be inspected	<u>(14,122)</u>	<u>(113)</u>
Balance, end of period	<u>\$ 2,086,293</u>	<u>\$ 2,323,908</u>

Refer to Note 33 for information relating to other financial assets pledged as collateral.

17. PROPERTY, PLANT AND EQUIPMENT

For the three months ended March 31, 2017

	Land	Land Improvements	Buildings	Machinery and Equipment	Transportation Equipment	Other Equipment	Spare Parts	Rental Assets	Construction in Progress and Equipment to be Inspected	Total
Cost										
Balance at January 1, 2017	\$ 63,547,108	\$ 4,992,881	\$ 122,481,708	\$ 618,315,362	29,763,661	17,086,014	9,906,663	323,003	17,497,100	883,913,500
Additions	3,158,611	2,583	257,350	646,008	7,754	168,005	359,132	-	758,831	5,358,274
Disposals	-	-	(7,912)	(411,728)	(26,305)	(48,202)	(406,378)	-	(1,731)	(902,256)
Reclassification	3,525	161	43,893	(13,201)	-	407	6,534	-	(141,899)	(100,580)
Effect of foreign currency exchange difference	(1,873)	(1,441)	(333,308)	(1,437,472)	(1,045,688)	(39,860)	-	-	(9,055)	(2,868,697)
Others	-	-	-	1,362	(1,648)	-	-	-	-	(286)
Balance at March 31, 2017	<u>\$ 66,707,371</u>	<u>\$ 4,994,184</u>	<u>\$ 122,441,731</u>	<u>\$ 617,100,331</u>	<u>\$ 28,697,774</u>	<u>\$ 17,166,364</u>	<u>\$ 9,865,951</u>	<u>\$ 323,003</u>	<u>\$ 18,103,246</u>	<u>\$ 885,399,955</u>

(Continued)

	Land	Land Improvements	Buildings	Machinery and Equipment	Transportation Equipment	Other Equipment	Spare Parts	Rental Assets	Construction in Progress and Equipment to be Inspected	Total
Accumulated depreciation and impairment										
Balance at January 1, 2017	\$ 25,546	\$ 4,568,858	\$ 44,480,284	\$ 375,772,170	\$ 11,541,392	\$ 12,646,644	\$ 4,006,875	\$ 22,144	\$ -	\$ 453,063,913
Depreciation	-	19,408	970,742	6,704,416	401,335	305,610	359,208	2,676	-	8,763,395
Disposals	-	-	(6,536)	(402,086)	(26,196)	(47,971)	(406,378)	-	-	(889,167)
Impairments	-	-	131	45,968	-	665	-	-	-	46,764
Reclassification	-	-	3,512	(1,091)	-	2	1,082	-	-	3,505
Effect of foreign currency exchange difference	-	(212)	(64,485)	(402,484)	(269,981)	(30,234)	-	-	-	(767,396)
Others	-	-	-	1,362	-	2,298	-	-	-	3,660
Balance at March 31, 2017	<u>\$ 25,546</u>	<u>\$ 4,588,054</u>	<u>\$ 45,383,648</u>	<u>\$ 381,718,255</u>	<u>\$ 11,646,550</u>	<u>\$ 12,877,014</u>	<u>\$ 3,960,787</u>	<u>\$ 24,820</u>	<u>\$ -</u>	<u>\$ 460,224,674</u>
Carrying amount at December 31, 2016	<u>\$ 63,521,562</u>	<u>\$ 424,023</u>	<u>\$ 78,001,424</u>	<u>\$ 242,543,192</u>	<u>\$ 18,222,269</u>	<u>\$ 4,439,370</u>	<u>\$ 5,899,788</u>	<u>\$ 300,859</u>	<u>\$ 17,497,100</u>	<u>\$ 430,849,587</u>
Carrying amount at March 31, 2017	<u>\$ 66,681,825</u>	<u>\$ 406,130</u>	<u>\$ 77,058,083</u>	<u>\$ 235,382,076</u>	<u>\$ 17,051,224</u>	<u>\$ 4,289,350</u>	<u>\$ 5,905,164</u>	<u>\$ 298,183</u>	<u>\$ 18,103,246</u>	<u>\$ 425,175,281</u>

(Concluded)

For the three months ended March 31, 2016

	Land	Land Improvements	Buildings	Machinery and Equipment	Transportation Equipment	Other Equipment	Spare Parts	Rental Assets	Construction in Progress and Equipment to be Inspected	Total
Cost										
Balance at January 1, 2016	\$ 63,550,486	\$ 5,025,039	\$ 120,691,611	\$ 604,487,779	\$ 33,561,105	\$ 16,821,603	\$ 10,731,091	\$ 322,270	\$ 21,071,613	\$ 876,262,597
Additions	-	6,215	435,670	2,892,686	43,422	177,110	275,280	733	551,559	4,382,675
Disposals	-	-	(42,009)	(557,773)	(26,885)	(102,424)	(236,519)	-	-	(965,610)
Reclassification	(534,454)	(48,202)	130,016	(50,761)	769	8,006	-	-	(70,551)	(565,177)
Effect of foreign currency exchange difference	3,848	(1,594)	(64,379)	(159,732)	(317,556)	7,124	-	-	15,687	(516,602)
Other	-	-	-	-	-	-	(747)	-	-	(747)
Balance at March 31, 2016	<u>\$ 63,019,880</u>	<u>\$ 4,981,458</u>	<u>\$ 121,150,909</u>	<u>\$ 606,612,199</u>	<u>\$ 33,260,855</u>	<u>\$ 16,911,419</u>	<u>\$ 10,769,105</u>	<u>\$ 323,003</u>	<u>\$ 21,568,308</u>	<u>\$ 878,597,136</u>
Accumulated depreciation and impairment										
Balance at January 1, 2016	\$ 25,546	\$ 4,493,123	\$ 40,756,301	\$ 350,679,360	\$ 15,360,049	\$ 11,591,381	\$ 4,656,809	\$ 11,447	\$ -	\$ 427,574,016
Depreciation	-	19,095	951,868	6,853,945	444,146	330,462	344,765	2,670	-	8,946,951
Disposals	-	-	(41,725)	(456,511)	(26,687)	(74,891)	(236,518)	-	-	(836,332)
Reclassification	-	-	11,430	-	461	(2,573)	-	-	-	9,318
Effect of foreign currency exchange difference	-	(124)	18,088	131,404	(82,229)	8,093	-	-	-	75,232
Balance at March 31, 2016	<u>\$ 25,546</u>	<u>\$ 4,512,094</u>	<u>\$ 41,695,962</u>	<u>\$ 357,208,198</u>	<u>\$ 15,695,740</u>	<u>\$ 11,852,472</u>	<u>\$ 4,765,056</u>	<u>\$ 14,117</u>	<u>\$ -</u>	<u>\$ 435,769,185</u>
Carrying amount at March 31, 2016	<u>\$ 62,994,334</u>	<u>\$ 469,364</u>	<u>\$ 79,454,947</u>	<u>\$ 249,404,001</u>	<u>\$ 17,565,115</u>	<u>\$ 5,058,947</u>	<u>\$ 6,004,049</u>	<u>\$ 308,886</u>	<u>\$ 21,568,308</u>	<u>\$ 442,827,951</u>

The above items of property, plant and equipment are depreciated on a straight-line basis over the following useful lives:

Land improvements

Drainage system	40 years
Wharf	20-40 years
Wall	20-40 years
Others	5-15 years

Buildings

Main structure	10-60 years
Facility	15-40 years
Mechanical and electrical facilities	7-20 years
Trellis and corrugated iron building	7-10 years
Others	3-10 years

Machinery and equipment

Power equipment	15-25 years
Process equipment	8-25 years
Lifting equipment	8-25 years
Electrical equipment	5-15 years
High-temperature equipment	5-10 years
Examination equipment	3-10 years
Others	2-25 years

(Continued)

Transportation Equipment	
Ship equipment	18-25 years
Railway equipment	10-20 years
Telecommunication equipment	4-8 years
Transportation equipment	3-10 years
Others	2-3 years
Other equipment	
Leasehold improvement	3-35 years
Office, air condition and extinguishment equipment	3-25 years
Computer equipment	3-5 years
Others	2-15 years
Rental assets	
Financial lease assets	30 years (Concluded)

The subsidiary CHSC bought farmlands for warehousing at the Jia Xing Section and Quing Shui Section of the Gangshan District in Kaohsiung City. However, certain regulations prohibit CHSC from registering the title of these farmlands in CHSC's name; therefore, the registration was made in the name of an individual person. The individual person consented to fully cooperate with CHSC in freely changing the land title to CHSC or to other name of other under CHSC instructions. Meanwhile, the land had been pledged to CHSC as collateral. As of March 31, 2017, December 31, 2016 and March 31, 2016, the book value of the farmlands was NT\$66,753 thousand, recorded as land.

Refer to Note 33 for the carrying amount of property, plant and equipment that had been pledged by the Corporation and its subsidiaries to secure borrowings.

18. INVESTMENT PROPERTIES

For the three months ended March 31, 2017

	Land	Buildings	Total
<u>Cost</u>			
Balance at January 1, 2017	\$ 8,222,428	\$ 3,236,752	\$ 11,459,180
Additions	-	120,860	120,860
Transfer to property, plant and equipment	(3,525)	(7,620)	(11,145)
Effect of foreign currency exchange difference	<u>(2,443)</u>	<u>(10,680)</u>	<u>(13,123)</u>
Balance at March 31, 2017	<u>\$ 8,216,460</u>	<u>\$ 3,339,312</u>	<u>\$ 11,555,772</u>
<u>Accumulated depreciation and impairment</u>			
Balance at January 1, 2017	\$ 222,057	\$ 920,981	\$ 1,143,038
Depreciation	-	17,781	17,781
Transfer from property, plant and equipment	-	(3,512)	(3,512)
Effect of foreign currency exchange difference	<u>-</u>	<u>(1,835)</u>	<u>(1,835)</u>
Balance at March 31, 2017	<u>\$ 222,057</u>	<u>\$ 933,415</u>	<u>\$ 1,155,472</u>
Carrying amount at December 31, 2016	<u>\$ 8,000,371</u>	<u>\$ 2,315,771</u>	<u>\$ 10,316,142</u>
Carrying amount at March 31, 2017	<u>\$ 7,994,403</u>	<u>\$ 2,405,897</u>	<u>\$ 10,400,300</u>

For the three months ended March 31, 2016

	Land	Buildings	Total
<u>Cost</u>			
Balance at January 1, 2016	\$ 8,220,781	\$ 2,963,556	\$ 11,184,337
Additions	-	52,383	52,383
Transfer from (to) property, plant and equipment	534,454	(81,812)	452,642
Effect of foreign currency exchange difference	<u>7,725</u>	<u>17,337</u>	<u>25,062</u>
Balance at March 31, 2016	<u>\$ 8,762,960</u>	<u>\$ 2,951,464</u>	<u>\$ 11,714,424</u>
<u>Accumulated depreciation and impairment</u>			
Balance at January 1, 2016	\$ 222,057	\$ 854,091	\$ 1,076,148
Depreciation	-	21,412	21,412
Transfer to property, plant and equipment	-	(11,430)	(11,430)
Effect of foreign currency exchange difference	<u>-</u>	<u>1,439</u>	<u>1,439</u>
Balance at March 31, 2016	<u>\$ 222,057</u>	<u>\$ 865,512</u>	<u>\$ 1,087,569</u>
Carrying amount at March 31, 2016	<u>\$ 8,540,903</u>	<u>\$ 2,085,952</u>	<u>\$ 10,626,855</u>

The above items of investment properties are depreciated on a straight-line basis over the following useful lives:

Buildings 5-60 years

The Corporation and its subsidiaries participated in “Qianzhen Residential Building Project” conducted by the subsidiary CPDC and signed the land purchase agreement with its employees. According to the purchase agreement, land prices received from its employees are deposited in the Bank of Taiwan and recognized as other financial assets-noncurrent and other noncurrent liabilities.

The fair value of the investment properties was arrived at on the basis of valuation carried out in 2013, 2014, 2015 and 2016 by independent appraisers, who are not related parties. Lands were valued under market approach, income approach and land developing analysis approach. Buildings were evaluated using Level 3 inputs under market approach, cost approach and income approach. In December 2016, due to the significant change in the present value assessed for several pieces of land, the Corporation, based on the actual land sale prices in the vicinity, reappraised the land value. The important assumptions and fair value were as follows:

	March 31, 2017	December 31, 2016	March 31, 2016
Fair value	<u>\$ 25,926,758</u>	<u>\$ 25,137,693</u>	<u>\$ 25,222,281</u>
Depreciation rate (%)	1.20-2.00	1.20-2.00	1.20-2.00
Discount rate (%)	2.11-4.14	2.11-4.14	1.55-4.14

All of the Corporation and its subsidiaries’ investment properties are held under freehold interests. Refer to Note 33 for the carrying amount of the investment properties that had been pledged by the Corporation and its subsidiaries to secure borrowings.

19. BORROWINGS

a. Short-term borrowings and bank overdraft

	March 31, 2017	December 31, 2016	March 31, 2016
Unsecured loans - interest at 0.35%-8.06% p.a., 0.35%-8.52% p.a. and 0.43%-9.50% p.a. as of March 31, 2017, December 31, 2016 and March 31, 2016, respectively	\$ 25,709,588	\$ 31,384,879	\$ 25,057,867
Bank overdraft - interest at 0.14%-7.90% p.a., 0.14%-8.35% p.a. and 0.28%-7.60% p.a. as of March 31, 2017, December 31, 2016 and March 31, 2016, respectively	4,224,831	2,127,572	1,543,093
Letters of credit - interest at 0%-1.42% p.a., 0%-1.85% p.a. and 0.16%-1.48% p.a. as of March 31, 2017, December 31, 2016 and March 31, 2016, respectively	1,329,651	2,088,590	2,252,690
Secured loans (Note 33) - interest at 4.35%-5.10% p.a. and 4.35% p.a. as of March 31, 2017 and December 31, 2016, respectively	<u>251,962</u>	<u>304,699</u>	<u>-</u>
	<u>\$ 31,516,032</u>	<u>\$ 35,905,740</u>	<u>\$ 28,853,650</u>

Starting from February 2016, the subsidiary CCSPMC entered into several credit facility agreements with several banks for total amount of USD32,000 thousand (or the equal amount in RMB, the credit line remained unchanged) and RMB148,000 thousand credit line. Under the agreements, the Corporation and its subsidiaries should collectively hold 50% of the CCSPMC's equity and over half of the seats in the board of directors and supervisors. As of March 31, 2017, the subsidiary CSAPH held 70% equity of CCSPMC and three-quarters of the seats in the board of directors and supervisors.

Starting from March 2015, the subsidiary United Steel Engineering and Construction Co., Ltd. entered into short-term financing contract with several banks for USD35,000 thousand (or the equal amount in RMB, the credit line remained unchanged) and RMB50,000 thousand credit line. Under the agreements, the Corporation and its subsidiaries should directly or indirectly hold 100% of United Steel Engineering and Construction Co., Ltd.'s issued shares and all of the seats in the board of directors. As of March 31, 2017, CSAPH and CSGT, both subsidiaries, collectively held 100% equity of United Steel Engineering and Construction Co., Ltd. and all of the seats in the board of directors.

In June 2016, February 2016 and May 2014, the subsidiary CSCI entered into short-term financing contracts with Bank BNP Paribas for INR 1 billion credit line, ANZ Bank for INR0.66 billion credit lines and CTBC Bank for INR0.4 billion credit lines. Under the agreements, the Corporation and its related parties should collectively hold at least 60%, 60% and 75% of CSCI's issued shares and hold half, half and two-thirds or more of the seats in the board of directors, respectively. As of March 31, 2017, the Corporation held 100% equity of CSCI and all of the seats in the board of directors.

Starting from March 2014, the subsidiary CSVC continuously entered into short-term financing contracts with Standard Chartered Bank and several banks for USD20,000 thousand credit lines. Under the agreements, the Corporation should hold at least 51% of CSVC's issued shares and majority of the seats in the board of directors. As of March 31, 2017, the Corporation held 56% equity of CSVC and over half of the seats in the board of directors.

Starting from September 2016, the subsidiary China Steel Precision Metals-Qingdao Co., Ltd., entered into a short-term financing contract with MUFG Bank (Qingdao) for USD 10,000 thousand credit line (or an equivalent amount in RMB). Under the agreements, the Corporation and its related parties should collectively hold at least 70% of issued shares of China Steel Precision Metals-Qingdao Co., Ltd., together with half of the seats in the board of directors. As of March 31, 2017, the Corporation held 70% equity of China Steel Precision Metals-Qingdao Co., Ltd. and four-fifths seats in the board of directors.

b. Short-term bills payable

	March 31, 2017	December 31, 2016	March 31, 2016
Commercial paper - interest at 0.38%-0.90% p.a., 0.40%-1.00% p.a. and 0.27%-1.00% p.a. as of March 31, 2017, December 31, 2016 and March 31, 2016, respectively	\$ 48,305,000	\$ 16,639,000	\$ 48,447,000
Less: Unamortized discounts	<u>11,646</u>	<u>6,900</u>	<u>12,364</u>
	<u>\$ 48,293,354</u>	<u>\$ 16,632,100</u>	<u>\$ 48,434,636</u>

The above commercial paper was secured by Mega Bills Finance Corporation, China Bills Finance Corporation, International Bills Finance Corporation, Taching Bill Finance Ltd., Grand Bills Finance Corp., Taiwan Finance Corporation, Taiwan Cooperative Bills Finance Corporation, Union Bank of Taiwan, Bank of Taiwan, Bangkok Bank, Dah Chung Bills Finance Corp., and Hua Nan Bills Finance Corp.

c. Long-term borrowings

	March 31, 2017	December 31, 2016	March 31, 2016
Syndicated bank loans			
Bank of Taiwan and other banks loan to CHSC			
Repayable in 13 equal semiannual installments from March 2013 to March 2019, interest all at 1.58% p.a. as of March 31, 2017, December 31, 2016 and March 31, 2016, respectively	\$ 2,133,846	\$ 2,672,308	\$ 3,210,769
Repayable in March 2019 with a revolving credit, interest all at 1.58% p.a. as of March 31, 2017, December 31, 2016 and March 31, 2016, respectively	2,250,000	2,250,000	2,250,000
Bank of Taiwan and other banks loan to DSC			
Repayable in 14 equal semiannual installments from January 2012 to July 2018, interest at 1.15% p.a., 1.11% p.a. and 1.18% p.a. as of March 31, 2017, December 31, 2016 and March 31, 2016, respectively	9,788,540	13,053,540	16,318,540 (Continued)

	March 31, 2017	December 31, 2016	March 31, 2016
Repayable in 10 equal semiannual installments from June 2015 to December 2019, repaid in June 2016, interest all at 1.58% p.a. as of March 31, 2016	\$ -	\$ -	\$ 8,624,000
Chinatrust Commercial Bank and other banks loan to CSCI			
Repayable in 5 semiannual installments from June 2017 to June 2019, interest at 2.74% p.a., 3.00% p.a. and 2.24% p.a. as of March 31, 2017, December 31, 2016 and March 31, 2016, respectively	3,339,318	3,559,603	3,548,346
Bank of Taiwan and other banks loan to the Corporation			
Repayable in several installments from February 2020, interest at 2.41% p.a., 2.42% p.a. and 1.97% p.a. as of March 31, 2017, December 31, 2016 and March 31, 2016, respectively	15,165,000	16,125,000	16,092,500
Mizuho Bank and other banks loan to the Corporation			
Repayable in August 2018, interest at 2.10%-2.12% p.a., 1.97%-1.99% p.a. and 1.66%-1.67% p.a. as of March 31, 2017, December 31, 2016 and March 31, 2016, respectively	4,549,500	4,837,500	4,827,750
Mega International Commercial Bank and other banks loan to CSVC			
Repayable in 10 semiannual installments from September 2015 to March 2020, interest at 2.43% p.a., 2.25% p.a. and 2.25% p.a. as of March 31, 2017, December 31, 2016 and March 31, 2016, respectively	3,057,264	3,453,975	3,649,779
Mortgage loans (Note 33)			
Due on various dates through April 2032, interest at 1.26%-2.11% p.a., 1.22%-2.02% p.a. and 0.89%-1.72% p.a. as of March 31, 2017, December 31, 2016 and March 31, 2016, respectively	8,703,194	9,968,040	9,071,974
Unsecured loans			
Due on various dates through June 2022, interest at 0.33%-2.83% p.a., 0.31%-2.81% p.a. and 0.31%-3.42% p.a. as of March 31, 2017, December 31, 2016 and March 31, 2016, respectively	<u>25,134,282</u>	<u>30,664,227</u>	<u>28,728,207</u>
	74,120,944	86,584,193	96,321,865
Less: Syndicated loan fee	39,339	44,824	85,655
Current portion	<u>14,281,740</u>	<u>16,210,014</u>	<u>19,414,134</u>
	<u>\$ 59,799,865</u>	<u>\$ 70,329,355</u>	<u>\$ 76,822,076</u>
			(Concluded)

- 1) In December 2011, the subsidiary CHSC entered into a syndicated credit facility agreement with Bank of Taiwan and 11 other banks for a NT\$16 billion credit line, which consists of NT\$7 billion secured loans with a non-revolving credit line and NT\$9 billion unsecured loans with a revolving credit line. Under the agreement, the Corporation and its related parties should collectively hold at least 30% of the CHSC's issued shares and control CHSC's operation. Starting from 2012, CHSC should meet some financial ratios and criteria.

The amounts referring to the above financial ratios and criteria should be based on audited annual financial statements. If CHSC breaches the agreements, it should take remedial measures within half a year from the next day of the financial statements' declaration date; otherwise, the interest rate needs to be adjusted in accordance with the agreement. The financial ratios of CHSC 2016 standalone financial statements is in compliance with the agreements. As of March 31, 2017, the Corporation directly held 41% equity of CHSC and held half of the seats in the board of directors and controlled its operation.

- 2) In July 2012, the subsidiary DSC entered into a syndicated credit facility agreement with Bank of Taiwan and 17 other banks for a NT\$35 billion credit line, which consists of NT\$30 billion secured loans with a non-revolving credit line and NT\$5 billion secured commercial paper with a revolving credit line; in February 2008, DSC entered into a syndicated credit facility agreement with Bank of Taiwan and 13 other banks for a NT\$51.7 billion credit line. Under the agreements, the Corporation and its associates should collectively hold at least 80% and 40% of DSC's issued shares and hold half or more of the seats in the board of directors. Starting from 2012, DSC should meet some financial ratios and criteria.

The amounts referring to the above financial ratios and criteria should be based on audited annual financial statements. If DSC breaches the financial ratios or the agreements, the management bank can, based on the decision by majority of banks, immediately terminate the credit line, declare DSC's outstanding principal and interest to maturity as due, and request DSC to settle immediately. DSC was in compliance with the syndicated credit facility agreement based on its financial statements of 2016 and 2015. As of March 31, 2017, the Corporation held 100% equity of DSC and all of the seats in the board of directors.

- 3) In October 2012, the subsidiary CSVC entered into a syndicated credit facility agreement with Mega Bank and 11 other banks for a USD246,000 thousand credit line, which consists of USD126,000 thousand long-term borrowings with a non-revolving credit line and USD120,000 thousand short-term borrowings for operation with a revolving credit line. Under the agreements, the Corporation should hold at least 51% of CSVC's issued shares and majority of the seats in the board of directors. Starting from 2015, CSVC should meet some financial ratios and criteria. CSVC was in compliance with the syndicated credit facility agreement based on its 2016 audited financial statements. As of March 31, 2017, the Corporation held 56% equity of CSVC and over half of the seats in the board of directors.

- 4) In January 2013, the subsidiary CSCI entered into a syndicated credit facility agreement with CTBC Bank and 9 other banks for a USD110,000 thousand credit line. Under the agreement, the Corporation should collectively hold at least 75% of CSCI's issued shares and hold two-thirds or more of the seats in the board of directors. If CSCI expands or invites new strategic investors, the Corporation should collectively hold at least 60% of CSCI's issued shares and hold half or more of the seats in the board of directors. The syndicated credit facility agreement has been re-sign in November 2016. CSCI should meet some financial ratios and criteria required by the new syndicated credit facility agreement based on the Corporation's reviewed financial statements for the six months ended June 30 and audited annual financial statements as well as CSCI's unreviewed financial statements for the six months ended September 30 and audited annual financial statements. CSCI was in compliance with the syndicated credit facility agreement based on its 2016 audited financial statements. As of March 31, 2017, the Corporation held 100% equity of CSCI and held all of the seats in the board of directors.

- 5) In July and August 2015, the Corporation entered into a syndicated credit facility agreement with Mizuho bank with 7 other banks and Bank of Taiwan with 14 other banks for a USD150,000 thousand and USD500,000 thousand unsecured non-revolving credit line, respectively. Under the agreement, the Corporation should meet some financial ratios and criteria which were based on reviewed consolidated financial statements for the six months ended June 30 and audited annual consolidated financial statements. If the Corporation breaches the financial ratios or the clauses, the management bank can, based on the decision by majority of banks, immediately terminate the credit line, declare the Corporation's outstanding principal and interest to maturity as due, and request the Corporation to settle immediately. The Corporation was in compliance with the syndicated credit facility agreements based on its consolidated financial statements for the years ended December 31, 2016 and 2015.
- 6) The above unsecured loans included those obtained by the Corporation in JPY, AUD and USD to hedge the exchange rate fluctuations on equity investments in EAUS, CSCAU, CSVK, CSAPH and on the available-for-sale financial assets in Maruichi Steel Tube Ltd. and Yodogawa Steel Works, Ltd.

d. Long-term bills payable

	March 31, 2017	December 31, 2016	March 31, 2016
Commercial paper - interest at 0.42%-1.05% p.a., 0.41%-1.05% p.a. and 0.42%-1.07% p.a. as of March 31, 2017, December 31, 2016 and March 31, 2016, respectively	\$ 21,200,000	\$ 31,640,000	\$ 12,490,000
Secured commercial paper in syndicated bank loans - interest at 0.97% p.a., 0.97% p.a. and 1.00% p.a. as of March 31, 2017, December 31, 2016 and March 31, 2016, respectively	<u>1,000,000</u>	<u>5,000,000</u>	<u>5,000,000</u>
	22,200,000	36,640,000	17,490,000
Less: Unamortized discounts	<u>7,787</u>	<u>13,835</u>	<u>10,339</u>
	<u>\$ 22,192,213</u>	<u>\$ 36,626,165</u>	<u>\$ 17,479,661</u>

The Corporation and its subsidiaries entered into commercial paper contracts with bills finance corporations and banks. The duration of the contracts is three to five years and the cycle of issuance is fifteen to sixty days, during which the Corporation and its subsidiaries only have to pay service fees and interests. Therefore, the Corporation and its subsidiaries recorded those commercial papers issued as long-term bills payable.

The subsidiary DSC issued secured commercial paper in syndicated bank loans with the duration of seven years. Refer to c. 2) for details.

The above commercial paper was secured by Mega Bank, Agricultural Bank of Taiwan, Taishin Bank, ANZ Bank (Taiwan) and Bank BNP Paribas etc.

20. BONDS PAYABLE

	March 31, 2017	December 31, 2016	March 31, 2016
5-year unsecured bonds - issued at par by the Corporation in: October 2011; repayable in October 2015 and October 2016; interest at 1.36% p.a., payable annually	\$ -	\$ -	\$ 4,650,000
5-year unsecured bonds - issued at par by DSC in: June 2014; repayable in June 2018 and June 2019; interest at 1.40% p.a., payable annually	7,000,000	7,000,000	7,000,000
June 2015; repayable in June 2019 and June 2020; interest at 1.45% p.a., payable annually	7,500,000	7,500,000	7,500,000
June 2016; repayable in June 2020 and 2021; interest at 0.89% p.a., payable annually	5,400,000	5,400,000	-
7-year unsecured bonds - issued at par by the Corporation in: October 2011; repayable in October 2017 and October 2018; interest at 1.57% p.a., payable annually	10,400,000	10,400,000	10,400,000
August 2012; repayable in August 2018 and August 2019; interest at 1.37% p.a., payable annually	5,000,000	5,000,000	5,000,000
July 2013; repayable in July 2019 and July 2020; interest at 1.44% p.a., payable annually	6,300,000	6,300,000	6,300,000
January 2014; repayable in January 2020 and January 2021; interest at 1.75% p.a., payable annually	6,900,000	6,900,000	6,900,000
7-year unsecured bonds - issued at par by DSC in: June 2014; repayable in June 2020 and June 2021; interest at 1.75% p.a., payable annually	5,000,000	5,000,000	5,000,000
June 2015; repayable in June 2021 and June 2022; interest at 1.72% p.a., payable annually	2,500,000	2,500,000	2,500,000
10-year unsecured bonds - issued at par by the Corporation in: August 2012; repayable in August 2021 and August 2022; interest at 1.50% p.a., payable annually	15,000,000	15,000,000	15,000,000
July 2013; repayable in July 2022 and July 2023; interest at 1.60% p.a., payable annually	9,700,000	9,700,000	9,700,000
January 2014; repayable in January 2023 and January 2024; interest at 1.95% p.a., payable annually	7,000,000	7,000,000	7,000,000
15-year unsecured bonds - issued at par by the Corporation in: July 2013; repayable 30% in July 2026 and July 2027, and 40% in July 2028; interest at 1.88% p.a., payable annually	3,600,000	3,600,000	3,600,000
January 2014; repayable 30% in January 2027 and January 2028, and 40% in January 2029; interest at 2.15% p.a., payable annually	9,000,000	9,000,000	9,000,000

(Continued)

	March 31, 2017	December 31, 2016	March 31, 2016
Liability component of secured domestic convertible bonds - issued by TMTC	\$ 14,000	\$ 14,000	\$ 48,300
Liability component of unsecured domestic convertible bonds - issued by TMTC	<u>-</u>	<u>-</u>	<u>15,000</u>
	100,314,000	100,314,000	99,613,300
Less: Issuance cost of bonds payable	40,864	43,256	50,567
Unamortized discount on bonds payable	19,318	20,782	18,732
Current portion	<u>5,212,976</u>	<u>5,212,668</u>	<u>4,711,859</u>
	<u>\$ 95,040,842</u>	<u>\$ 95,037,294</u>	<u>\$ 94,832,142</u> (Concluded)

In September 2013, the subsidiary TMTC issued NT\$200,000 thousand of 3-year secured domestic convertible bonds at par from September 2013 to September 2016 which were secured by Hua Nan Commercial Bank. From one month after the issuance date to 10 days before the maturity date, bondholders may request TMTC to convert the bonds into its ordinary shares (except for the related book closure period). On the repurchase date, two years after the issuance date, bondholders may request TMTC to repurchase the bonds at their face value plus interest (1.9090% of face value, yield to put 0.95%) by cash in five trading days. From one month after the issuance date to 40 days before the maturity date, if the closing price of TMTC's shares on the Taipei Exchange is higher than 130% of the conversion price for 30 consecutive trading days or when the outstanding convertible bonds are less than 10% of initial issued bonds, TMTC may redeem the remaining bonds at their face value by cash in five trading days after the redemption date. As of March 31, 2017, the convertible bonds with NT\$151,700 thousand face value have been converted and redeemed into NT\$5,766 thousand ordinary share capital.

In September 2013, the subsidiary TMTC issued NT\$100,000 thousand of 5-year unsecured domestic convertible bonds at par from September 2013 to September 2018. From one month after the issuance date to 10 days before the maturity date, bondholders may request TMTC to convert the bonds into its ordinary shares (except for the related book closure period). On the repurchase dates, two years, three years and four years after the issuance date, bondholders may request TMTC to repurchase the bonds at their face value plus interest (2.5156%, 3.7971% and 5.0945% of face value for two years, three years and four years, respectively, yield to put 1.25%) by cash in five trading days. From one month after the issuance date to 40 days before the maturity date, if the closing price of TMTC's shares on the Taipei Exchange is higher than 130% of the conversion price for 30 consecutive trading days or when the outstanding convertible bonds are less than 10% of initial issued bonds, TMTC may redeem the remaining bonds at their face value by cash in five trading days after the redemption date. As of March 31, 2017, the convertible bonds with NT\$85,000 thousand face value have been converted into NT\$21,975 thousand ordinary share capital.

According to IAS 32 and IAS 39, TMTC has separately accounted for the embedded derivatives and the host contract - bonds payable. The embedded derivatives, including put options and call options, were recognized in financial instruments at fair value through profit or loss (Note 7) and measured at fair value.

21. ACCOUNTS PAYABLE (INCLUDING RELATED PARTIES)

Accounts payable includes advances received on construction contracts. Advances received on construction contracts bears no interests and are expected to be paid until the satisfaction of conditions specified in each contract for the payment of such amounts during retention periods, which were within the normal operating cycle of the Corporation and its subsidiaries, usually more than twelve months. Refer to Note 12 for details on construction contracts.

22. OTHER PAYABLES

	March 31, 2017	December 31, 2016	March 31, 2016
Salaries and incentive bonus	\$ 3,816,028	\$ 7,820,606	\$ 3,448,861
Purchase of equipment	2,600,488	2,788,624	3,997,324
Employees' compensation and remuneration of directors and supervisors	2,221,418	1,708,289	800,445
Sales returns and discounts	1,644,147	1,492,872	1,636,518
Interest payable	1,015,479	1,091,405	1,041,951
Outsourced repair and construction	829,758	1,084,736	879,638
Others	<u>6,387,568</u>	<u>5,451,117</u>	<u>4,733,474</u>
	<u>\$ 18,514,886</u>	<u>\$ 21,437,649</u>	<u>\$ 16,538,211</u>

23. PROVISIONS

	March 31, 2017	December 31, 2016	March 31, 2016
<u>Current</u>			
Onerous contracts (a)	\$ 3,853,952	\$ 3,750,118	\$ 2,776,211
Construction warranties (b)	463,308	463,355	473,856
Sale returns and discounts (c)	373,849	24,415	255,566
Others	<u>91,424</u>	<u>86,218</u>	<u>66,623</u>
	<u>\$ 4,782,533</u>	<u>\$ 4,324,106</u>	<u>\$ 3,572,256</u>
<u>Noncurrent</u>			
Provision for stabilization funds (d)	\$ 803,536	\$ 802,859	\$ 794,748
Others	<u>11,044</u>	<u>12,835</u>	<u>26,629</u>
	<u>\$ 814,580</u>	<u>\$ 815,694</u>	<u>\$ 821,377</u>

	Onerous Contracts	Construction Warranties	Sale Returns and Discounts	Provision for Stabilization Funds	Others	Total
Balance at January 1, 2017	\$ 3,750,118	\$ 463,355	\$ 24,415	\$ 802,859	\$ 99,053	\$ 5,139,800
Recognized	3,700,329	-	349,434	677	5,452	4,055,892
Paid	<u>(3,596,495)</u>	<u>(47)</u>	<u>-</u>	<u>-</u>	<u>(2,037)</u>	<u>(3,598,579)</u>
Balance at March 31, 2017	<u>\$ 3,853,952</u>	<u>\$ 463,308</u>	<u>\$ 373,849</u>	<u>\$ 803,536</u>	<u>\$ 102,468</u>	<u>\$ 5,597,113</u>
Balance at January 1, 2016	\$ 2,611,156	\$ 491,899	\$ -	\$ 793,851	\$ 90,386	\$ 3,987,292
Recognized	2,489,632	-	255,566	897	5,572	2,751,667
Paid	<u>(2,324,577)</u>	<u>(18,043)</u>	<u>-</u>	<u>-</u>	<u>(2,706)</u>	<u>(2,345,326)</u>
Balance at March 31, 2016	<u>\$ 2,776,211</u>	<u>\$ 473,856</u>	<u>\$ 255,566</u>	<u>\$ 794,748</u>	<u>\$ 93,252</u>	<u>\$ 4,393,633</u>

- a. The provision for onerous contracts represents the present value of the future payments that the Corporation and its subsidiaries were presently obligated to make under non-cancellable onerous purchase and service contracts, less revenue expected to be earned on the contracts.

- b. The provision for construction warranties represents the present value of management's best estimate of the future outflow of economic benefits that will be required under the Corporation and its subsidiaries' obligations for warranties. The estimate had been made on the basis of historical warranty trends.
- c. The provision for sales returns and discounts, recognized as a reduction of operating revenues, represents the annual rewards estimated on the basis of historical experience, management's judgments and other known reasons.
- d. The provision for stabilization funds represents the provision recognized in accordance with the build-operate-transfer contract by the subsidiary KRTC. The provision was used for capital demand due to force majeure, exceptional events, operating deficits, etc. The provision for stabilization funds was recognized based on increase in stabilization funds.

24. RETIREMENT BENEFIT PLANS

Employee benefit expenses in respect of the Corporation and its subsidiaries' defined benefit retirement plans were calculated using the actuarially determined pension cost discount rate as of December 31, 2016 and 2015. An analysis by function of the amounts is as follows:

	For the Three Months Ended March 31	
	2017	2016
Operating costs	\$ 150,180	\$ 155,892
Operating expenses	62,563	58,087
Others	<u>457</u>	<u>571</u>
	<u>\$ 213,200</u>	<u>\$ 214,550</u>

25. EQUITY

- a. Share capital

	March 31, 2017	December 31, 2016	March 31, 2016
Numbers of shares authorized (in thousands)	<u>17,000,000</u>	<u>17,000,000</u>	<u>17,000,000</u>
Shares authorized	<u>\$ 170,000,000</u>	<u>\$ 170,000,000</u>	<u>\$ 170,000,000</u>
Numbers of shares issued and fully paid (in thousands)			
Ordinary shares (in thousands)	15,734,861	15,734,861	15,734,861
Preference shares (in thousands)	<u>38,268</u>	<u>38,268</u>	<u>38,268</u>
	<u>15,773,129</u>	<u>15,773,129</u>	<u>15,773,129</u>
Shares issued			
Ordinary shares	\$ 157,348,610	\$ 157,348,610	\$ 157,348,610
Preference shares	<u>382,680</u>	<u>382,680</u>	<u>382,680</u>
	<u>\$ 157,731,290</u>	<u>\$ 157,731,290</u>	<u>\$ 157,731,290</u>

1) Ordinary shares

Fully paid ordinary shares, which have a par value of NT\$10, carry one vote per share and the right to dividends.

2) Preference shares

Preference shareholders have the following entitlements or rights:

- a) 14% annual dividends, with dividend payments ahead of those to ordinary shareholders;
- b) Preference over ordinary shares in future payment of dividends in arrears;
- c) The sequence and percentage of appropriation of residual property are the same with ordinary shares;
- d) The same rights as ordinary shareholders, except the right to vote for directors and supervisors; and
- e) Redeemable by the Corporation and convertible to ordinary shares by preference shareholders with the ratio of 1:1.

3) Overseas depositary receipts

In May 1992, February 1997, October 2003 and August 2011, for the purpose of working capital expansion and in accordance with the instruction of the MOEA, the largest shareholder of the Corporation, the Corporation issued 126,512,550 units of GDR. The depositary receipts then increased by 6,924,354 units resulting from the capital increase out of retained earnings. Each unit represents 20 shares of the Corporation's ordinary shares and the issued GDRs account for the Corporation's ordinary shares totaling 2,668,738,370 shares (including 290 fractional shares). Under relevant regulations, the GDR holders may also request the conversion to the shares represented by the GDR. The foreign investors may also request the reissuance of such depositary receipts within the originally approved units. As of March 31, 2017, December 31, 2016, and March 31, 2016, the outstanding depositary receipts were 1,058,572 units, 1,055,002 units and 1,321,343 units, equivalent to 21,171,750 ordinary shares (including 310 fractional shares), 21,100,350 ordinary shares (including 310 fractional shares), and 26,427,170 ordinary shares (including 310 fractional shares), which represented 0.13%, 0.13% and 0.17% of the outstanding ordinary shares, respectively.

b. Capital surplus

	March 31, 2017	December 31, 2016	March 31, 2016
May be used to offset deficits, distribute cash or transfer to share capital (see 1 below)			
Additional paid-in capital	\$ 31,154,766	\$ 31,154,766	\$ 31,154,766
Treasury share transactions	329,296	301,230	301,230
Others	8,099	8,099	8,099
	<u>31,492,161</u>	<u>31,464,095</u>	<u>31,464,095</u>

(Continued)

	March 31, 2017	December 31, 2016	March 31, 2016
May be used to offset deficits only (see 2 below)			
Treasury share transactions	\$ 5,880,812	\$ 5,880,812	\$ 5,721,747
Share of change in equity of subsidiaries	441,925	441,368	432,578
Share of change in equity of associates	<u>21,191</u>	<u>21,191</u>	<u>8,142</u>
	<u>6,343,928</u>	<u>6,343,371</u>	<u>6,162,467</u>
	<u>\$ 37,836,089</u>	<u>\$ 37,807,466</u>	<u>\$ 37,626,562</u> (Concluded)

- 1) The capital surplus could be used to offset a deficit and distribute as cash dividends or transferred to capital when the Corporation has no deficit (limited to a certain percentage of the Corporation's paid-in capital and once a year).
- 2) The capital surplus included the share of change in equity of subsidiaries recognized without any actual acquisition or disposal of subsidiaries' share by the Corporation or the adjustments to capital surplus of subsidiaries under equity method.

c. Retained earnings and dividend policy

The Corporation's Articles of Incorporation provide that the annual net income, less any deficit, should be appropriated in the following order:

- 1) 10% as legal reserve;
- 2) Preference share dividends at 14% of par value;
- 3) Ordinary share dividends at 14% of par value; and
- 4) The remainder, if any, as additional dividends divided equally between the holders of preference and ordinary shares.

The board of directors should propose the appropriation of earnings. If necessary, it may, after appropriating for preference shares dividends, propose to appropriate a special reserve or to retain certain earnings. These proposals should be submitted to the shareholders' meeting for approval.

The Corporation's steel business is in a phase of stable growth; thus, 75% or more of the appropriation for dividends should be in cash and 25% or less in shares.

Appropriation of earnings to legal reserve could be made until the legal reserve equals the Corporation's paid-in capital. Legal reserve may be used to offset deficit. If the Corporation has no deficit and the legal reserve has exceeded 25% of the Corporation's paid-in capital, the excess may be transferred to capital or distributed in cash.

Under Rule issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs", the Corporation should appropriate or reverse a special reserve. In addition, if the market price of the Corporation's ordinary shares held by subsidiaries is lower than the carrying value of the Corporation's shares held by subsidiaries, the Corporation should appropriate a special reserve equal to the difference between market price and carrying value multiplied by the percentage of ownership. Any special reserve appropriated may be reversed to the extent of the increase in valuation.

Except for non-ROC resident shareholders, all shareholders receiving the dividends are entitled a tax credit equal to their proportionate share of the income tax paid by the Corporation.

The appropriations of earnings for 2016 and 2015 had been proposed by the board of directors in March 2017 and approved in the shareholders' meeting in June 2016, respectively. The appropriations and dividends per share were as follows:

	<u>Appropriation of Earnings</u>		<u>Dividend Per Share</u> (NT\$)	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Legal reserve	\$ 1,603,837	\$ 760,472		
Special reserve (reversal)	(2,130,614)	2,654,116		
Preference shares				
Cash dividends	53,575	53,575	<u>\$ 1.40</u>	<u>\$ 1.40</u>
Ordinary shares				
Cash dividends	13,374,632	7,867,430	<u>\$ 0.85</u>	<u>\$ 0.50</u>

The appropriations of earnings for 2016 are subject to the resolution of the shareholders' meeting to be held in June 2017.

d. Special reserves

	<u>For the Three Months Ended</u> <u>March 31</u>	
	<u>2017</u>	<u>2016</u>
Balance, beginning of period	\$ 29,786,846	\$ 27,132,983
Reversal of special reserve		
Disposal of property, plant and equipment	<u>(106)</u>	<u>-</u>
Balance, end of period	<u>\$ 29,786,740</u>	<u>\$ 27,132,983</u>

e. Other equity items

1) Exchange differences on translating foreign operations

	<u>For the Three Months Ended</u> <u>March 31</u>	
	<u>2017</u>	<u>2016</u>
Balance, beginning of period	\$ (32,048)	\$ 1,198,796
Exchange differences arising on translating foreign operations	(3,226,839)	(685,265)
Income tax relating to exchange differences arising on translating the net assets of foreign operations	38,860	15,723
Gains and losses on hedging instruments designated in hedges of the net assets of foreign operations	1,756,602	707,982
Share of exchange difference of associates accounted for using the equity method	<u>(506,370)</u>	<u>(396,699)</u>
Balance, end of period	<u>\$ (1,969,795)</u>	<u>\$ 840,537</u>

2) Unrealized gains and losses on available-for-sale financial assets

	For the Three Months Ended March 31	
	2017	2016
Balance, beginning of period	\$ 8,650,573	\$ 6,573,348
Unrealized gains and losses on available-for-sale financial assets	533,607	918,046
Income tax relating to unrealized gains and losses on available-for-sale financial assets	784	9,283
Reclassified to profit or loss on disposal of available-for-sale financial assets	(62,946)	(717,860)
Impairment on available-for-sale financial assets	11,482	3,053
Share of unrealized gains and losses on available-for-sale financial assets of associates accounted for using the equity method	<u>(68,058)</u>	<u>(84,558)</u>
Balance, end of period	<u>\$ 9,065,442</u>	<u>\$ 6,701,312</u>

3) The effective portion of gains and losses on hedging instruments in a cash flow hedge

	For the Three Months Ended March 31	
	2017	2016
Balance, beginning of period	\$ 62,181	\$ 152,264
Fair value changes of hedging instrument	(222,009)	(79,282)
Income tax relating to fair value changes	31,749	7,323
Fair value changes of hedging instruments transferred to profit or loss	-	2,458
Income tax relating to amounts transferred to profit or loss	-	(418)
Fair value changes of hedging instruments transferred to adjust carrying amount of hedged items	(3,265)	34,371
Income tax relating to amounts transferred to adjust carrying amount of hedged items	<u>(197)</u>	<u>(5,843)</u>
Balance, end of period	<u>\$ (131,541)</u>	<u>\$ 110,873</u>

f. Treasury shares

Purpose of Treasury Shares	Thousand Shares			March 31	
	Beginning of Period	Addition	Reduction	Thousand Shares	Book Value
For the three months ended March 31, 2017					
Shares held by subsidiaries reclassified from investments accounted for using equity method to treasury shares	<u>318,007</u>	<u>-</u>	<u>3,645</u>	<u>314,362</u>	<u>\$ 8,512,794</u>

(Continued)

Purpose of Treasury Shares	Thousand Shares			March 31	
	Beginning of Period	Addition	Reduction	Thousand Shares	Book Value
For the three months ended March 31, 2016					
Shares held by subsidiaries reclassified from investments accounted for using equity method to treasury shares	<u>318,036</u>	<u>-</u>	<u>29</u>	<u>318,007</u>	<u>\$ 8,576,842</u> (Concluded)

The Corporation's shares acquired and held by subsidiaries for the purpose of investment are accounted for as treasury shares. The Corporation's shares held by more than 50%-owned subsidiaries are not allowed to participate in the Corporation's capital increase in cash and have no voting rights; other rights are the same as other ordinary shareholders. The increase of treasury shares was due to acquisition of the Corporation's shares by subsidiaries in which the Corporation has less than 50% shareholding. The decrease of treasury shares was mainly due to subsidiaries' sale of the Corporation's shares and change in percentage of ownership.

For the three months ended March 31, 2017, a total of 4,490 thousand shares of the Corporation held by its subsidiaries were sold for proceeds of NT\$114,019 thousand. Calculated based on the percentage of shares held, the proceeds of treasury shares sold were NT\$92,114 thousand, and after deducting book values, the remainders amounted to NT\$28,066 thousand, recorded as addition to the capital surplus. As of March 31, 2017, December 31, 2016, and March 31, 2016, the market values of the treasury shares calculated by combined holding percentage were NT\$7,954,545 thousand, NT\$7,840,025 thousand, and NT\$7,124,560 thousand, respectively.

g. Non-controlling interests

	For the Three Months Ended March 31	
	2017	2016
Balance, beginning of period	\$ 27,019,807	\$ 26,404,014
Attributable to non-controlling interests:		
Share of net profit for the period	976,188	248,201
Exchange difference on translating foreign operations	(576,961)	13,850
Income tax relating to exchange difference on translating foreign operations	6,292	4,637
Unrealized gains and losses on available-for-sale financial assets	(7,729)	(217,547)
Income tax relating to unrealized gains and losses on available-for-sale financial assets	962	15,958
Fair value changes of cash flow hedges	13,995	(8,594)
Income tax relating to cash flow hedges	1,682	6,246
Fair value changes of hedging instruments transferred to adjust the carrying amount of hedged items	(10,411)	5
Share of other comprehensive income of associates accounted for using the equity method	(10,077)	(6,347)
Non-controlling interest arising from acquisition of subsidiaries	-	334,400
Capital reduction from subsidiaries	(180,040)	-
Dividend distributed by subsidiaries	(98,588)	-
Others	<u>18,974</u>	<u>67,873</u>
Balance, end of period	<u>\$ 27,154,094</u>	<u>\$ 26,862,696</u>

26. OPERATING REVENUES

	For the Three Months Ended March 31	
	2017	2016
Revenue from the sale of goods	\$ 76,202,470	\$ 58,234,868
Construction contract revenue	4,692,135	4,799,283
Freight and service revenues	1,524,371	1,496,898
Other revenues	<u>565,373</u>	<u>427,494</u>
	<u>\$ 82,984,349</u>	<u>\$ 64,958,543</u>

27. PROFIT BEFORE INCOME TAX

The following items were included in profit before income tax:

a. Other income

	For the Three Months Ended March 31	
	2017	2016
Interest income	\$ 54,786	\$ 75,029
Dividends income	35,071	-
Rental income	29,246	34,010
Insurance claim income	29,532	9,031
Others	<u>89,791</u>	<u>103,411</u>
	<u>\$ 238,426</u>	<u>\$ 221,481</u>

b. Other gains and losses

	For the Three Months Ended March 31	
	2017	2016
Gain on disposal of investments	\$ 13,285	\$ 753,224
Net foreign exchange gain	70,206	59,927
Gain arising on financial assets at fair value through profit or loss	22,462	11,640
Gain (loss) on disposal of property, plant and equipment	1,598	(117,203)
Impairment loss	(47,428)	(2,114)
Other losses	<u>(78,667)</u>	<u>(77,817)</u>
	<u>\$ (18,544)</u>	<u>\$ 627,657</u>

The components of net foreign exchange gain were as follows:

	For the Three Months Ended March 31	
	2017	2016
Foreign exchange gain	\$ 665,653	\$ 462,356
Foreign exchange loss	<u>(595,447)</u>	<u>(402,429)</u>
Net exchange gain	<u>\$ 70,206</u>	<u>\$ 59,927</u>

c. Finance costs

	For the Three Months Ended March 31	
	2017	2016
Total interest expense	\$ 989,077	\$ 1,044,048
Less: Amounts included in the cost of qualifying assets	<u>50,900</u>	<u>57,693</u>
	<u>\$ 938,177</u>	<u>\$ 986,355</u>

Information about capitalized interest was as follows:

	For the Three Months Ended March 31	
	2017	2016
Capitalized amounts	\$ 50,900	\$ 57,693
Capitalized annual rates (%)	0.49-1.63	0.59-1.38

d. Impairment loss recognized on (reversal of) financial assets

	For the Three Months Ended March 31	
	2017	2016
Available-for-sale financial assets	\$ 11,482	\$ 3,053
Accounts Receivable	(16,465)	2,072
Long-term receivable (recorded as other noncurrent assets)	<u>(6,092)</u>	<u>-</u>
	<u>\$ (11,075)</u>	<u>\$ 5,125</u>
Analysis of impairment loss recognized on (reversal of) financial assets by function		
Operating costs	\$ 11,482	\$ 939
Operation expenses	(22,557)	2,072
Other gains and losses	<u>-</u>	<u>2,114</u>
	<u>\$ (11,075)</u>	<u>\$ 5,125</u>

e. Impairment loss recognized on non-financial asset - For the three months ended March 31, 2017

	Amount
Property, plant and equipment	\$ 46,764
Others	<u>664</u>
	<u>\$ 47,428</u>
Analysis of impairment loss recognized on non-financial assets	
Other gains and losses	<u>\$ 47,428</u>

f. Depreciation and amortization

	For the Three Months Ended March 31	
	2017	2016
Property, plant and equipment	\$ 8,763,395	\$ 8,946,951
Investment properties	17,781	21,412
Intangible assets	68,893	75,350
Others	<u>22,039</u>	<u>20,758</u>
	<u>\$ 8,872,108</u>	<u>\$ 9,064,471</u>
Analysis of depreciation by function		
Operating costs	\$ 8,359,459	\$ 8,592,126
Operating expenses	415,286	370,460
Others	<u>6,431</u>	<u>5,777</u>
	<u>\$ 8,781,176</u>	<u>\$ 8,968,363</u>
Analysis of amortization by function		
Operating costs	\$ 50,125	\$ 58,036
Operating expenses	40,189	37,665
Others	<u>618</u>	<u>407</u>
	<u>\$ 90,932</u>	<u>\$ 96,108</u>

g. Operating expenses directly related to investment properties

	For the Three Months Ended March 31	
	2017	2016
Direct operating expenses of investment properties that generated rental income	<u>\$ 37,543</u>	<u>\$ 39,867</u>

h. Employee benefits

	For the Three Months Ended March 31	
	2017	2016
Short-term employee benefits		
Salaries	\$ 7,573,166	\$ 6,310,574
Labor and health insurance	516,256	481,662
Others	<u>332,717</u>	<u>274,678</u>
	<u>8,422,139</u>	<u>7,066,914</u>
Post-employment benefits		
Defined contribution plans	185,746	172,138
Defined benefit plans (Note 24)	<u>213,200</u>	<u>214,550</u>
	<u>398,946</u>	<u>386,688</u>
Termination benefits	<u>22,404</u>	<u>23,006</u>
	<u>\$ 8,843,489</u>	<u>\$ 7,476,608</u>
Analysis of employee benefits by function		
Operating costs	\$ 7,102,151	\$ 5,983,335
Operating expenses	1,622,305	1,367,034
Others	<u>119,033</u>	<u>126,239</u>
	<u>\$ 8,843,489</u>	<u>\$ 7,476,608</u>

According to the Articles of Incorporation, the article stipulates the Corporation distributed employees' compensation and remuneration of directors and supervisors at the rates no less than 0.1% and no higher than 0.15%, respectively, of the pre-tax profit prior to deducting, employees' compensation, and remuneration of directors and supervisors. For the three months ended March 31, 2017 and 2016, the employees' compensation and remuneration of directors and supervisors were as follows:

	For the Three Months Ended March 31	
	2017	2016
Employees' compensation	\$ 319,328	\$ 73,628
Remuneration of directors and supervisors	5,987	1,381

If there is a change in the proposed amounts after the annual consolidated financial statements are authorized for issue, the difference is recorded as a change in accounting estimate.

The appropriations of employees' compensation and remuneration of directors and supervisors (all in cash) for 2016 and 2015 having been resolved by the board of directors in March 2017 and 2016, respectively, were as follows:

	For the Year Ended December 31	
	2016	2015
Employees' compensation	\$ 1,320,926	\$ 330,925
Remuneration of directors and supervisors	24,767	6,205

There was no difference between the actual amounts of employees' compensation and remuneration of directors and supervisors paid and the amounts recognized in the consolidated financial statements for

the years ended December 31, 2016 and 2015.

Information on the employees' compensation and remuneration of directors and supervisors are available on the Market Observation Post System website of the Taiwan Stock Exchange.

The numbers of employees of the Corporation and its subsidiaries combined were about 27,971 and 26,236 as of March 31, 2017 and 2016, respectively.

28. INCOME TAX

a. Income tax recognized in profit or loss

	For the Three Months Ended March 31	
	2017	2016
Current tax		
In respect of the current period	\$ 862,606	\$ 212,697
In respect of prior years	(1,510)	47,228
Deferred tax		
In respect of the current period	(162,743)	(165,101)
In respect of prior years	<u>10,568</u>	<u>5,768</u>
	<u>\$ 708,921</u>	<u>\$ 100,592</u>

b. Income tax benefit (expense) recognized in other comprehensive income

	For the Three Months Ended March 31	
	2017	2016
Recognized in other comprehensive income:		
Translation of foreign operations	\$ 45,152	\$ 20,360
Unrealized gains and losses on available-for-sale financial asset	1,746	25,241
Fair value changes of cash flow hedges	33,431	13,569
Fair value changes of hedging instruments in cash flow hedges transferred to adjust carrying amounts of hedged items	-	(418)
Fair value changes of hedging instrument in cash flow hedges transferred to profit or loss	<u>(197)</u>	<u>(5,843)</u>
	<u>\$ 80,132</u>	<u>\$ 52,909</u>

c. Integrated income tax

	March 31, 2017	December 31, 2016	March 31, 2016
Unappropriated earnings			
Before January 1, 1998	\$ 15,954	\$ 15,954	\$ 15,954
On and after January 1, 1998	<u>20,884,804</u>	<u>17,180,087</u>	<u>13,803,022</u>
	<u>\$ 20,900,758</u>	<u>\$ 17,196,041</u>	<u>\$ 13,818,976</u>
Imputation credits accounts ("ICA")	<u>\$ 484,021</u>	<u>\$ 484,021</u>	<u>\$ 1,247,908</u>

	<u>For the Year Ended</u>	
	2016 (Expected)	2015
Tax creditable ratio for distribution of earnings (%)	11.84	19.73

d. Income tax assessments

The Corporation's income tax returns through 2011 and the subsidiaries' income tax returns through 2011 to 2015 have been assessed by the tax authorities. The Corporation disagreed with the tax authorities' assessment of its 2010 tax return and filed for administrative appeal. In December 2016, the Corporation's appeal to the Supreme Administrative Court was dismissed. The Corporation had recognized related assessed tax payable in prior year.

29. EARNINGS PER SHARE

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

Net profit for the period

	<u>For the Three Months Ended</u> <u>March 31</u>	
	2017	2016
Net profit for the period attributable to owners of the Corporation	\$ 3,704,611	\$ 482,146
Less: Dividends on preference shares	<u>13,394</u>	<u>13,394</u>
Net profit used in computation of basic and diluted earnings per share	<u>\$ 3,691,217</u>	<u>\$ 468,752</u>

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

	<u>For the Three Months Ended</u> <u>March 31</u>	
	2017	2016
Weighted average number of ordinary shares in computation of basic earnings per share	15,419,931	15,416,854
Effect of dilutive potential ordinary shares:		
Employees' compensation	<u>59,700</u>	<u>17,153</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>15,479,631</u>	<u>15,434,007</u>

Preference shares were not included in the calculation of diluted earnings per share for the three months ended March 31, 2017 and 2016 because of their anti-dilutive effect.

Since the Corporation offered to settle the compensation paid to employees in cash or shares, the Corporation assumed the entire amount of the compensation 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.

30. CAPITAL MANAGEMENT

The management of the Corporation and its subsidiaries optimized the balances of working capital, debt and equity as well as the related cost through monitoring the Corporation and its subsidiaries' capital structure and capital demand by reviewing quantitative data and considering industry characteristics, domestic and international economic environment, rate fluctuation, strategies for development, etc.

Except for Note 19, the Corporation and its subsidiaries are not subject to any externally imposed capital requirements.

31. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments that are not measured at fair value

Except as detailed in the following table, the Corporation and its subsidiaries believe the carrying amounts of financial instruments, including cash and cash equivalents, receivables, debt investments with no active market and payables recognized in the consolidated financial statements approximated their fair values.

	<u>March 31, 2017</u>		<u>December 31, 2016</u>		<u>March 31, 2016</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
<u>Financial assets</u>						
Held-to-maturity investments	<u>\$ 209,802</u>	<u>\$ 188,595</u>	<u>\$ 222,669</u>	<u>\$ 197,485</u>	<u>\$ 281,202</u>	<u>\$ 258,448</u>

The fair value of held-to-maturity investment, which was grouped into Level 2, was measured under valuation method. The estimates and assumptions used by the Corporation and its subsidiaries were consistent with those that market participants would use in setting a price for financial instrument.

b. Fair value of financial instruments that are measured at fair value on a recurring basis

1) Fair value hierarchy

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>March 31, 2017</u>				
Financial assets at fair value through profit or loss				
Mutual funds	\$ 2,438,485	\$ -	\$ -	\$ 2,438,485
Listed shares	1,061,844	-	-	1,061,844
Convertible bonds	310,203	-	-	310,203
Emerging market shares	-	-	211,801	211,801
Foreign exchange forward contracts	-	6,820	-	6,820
	<u>\$ 3,810,532</u>	<u>\$ 6,820</u>	<u>\$ 211,801</u>	<u>\$ 4,029,153</u>
Available-for-sale financial assets				
Foreign unlisted shares	\$ -	\$ -	\$ 12,443,421	\$ 12,443,421
Domestic listed shares	10,774,414	-	-	10,774,414

(Continued)

	Level 1	Level 2	Level 3	Total
Domestic emerging market shares and unlisted shares	\$ -	\$ -	\$ 3,028,834	\$ 3,028,834
Foreign listed shares	2,073,194	-	-	2,073,194
Certificate of entitlement	-	-	754,800	754,800
Mutual funds	207,537	-	-	207,537
Private-placement shares of listed companies	<u>-</u>	<u>139,729</u>	<u>-</u>	<u>139,729</u>
	<u>\$ 13,055,145</u>	<u>\$ 139,729</u>	<u>\$ 16,227,055</u>	<u>\$ 29,421,929</u>
Derivative financial assets for hedging				
Foreign exchange forward contracts	<u>\$ -</u>	<u>\$ 10,099</u>	<u>\$ -</u>	<u>\$ 10,099</u>
Financial liabilities at fair value through profit or loss				
Call and put options	\$ -	\$ 446	\$ -	\$ 446
Future contract	<u>-</u>	<u>306</u>	<u>-</u>	<u>306</u>
	<u>\$ -</u>	<u>\$ 752</u>	<u>\$ -</u>	<u>\$ 752</u>
Derivative financial liabilities for hedging				
Foreign exchange forward contracts	\$ -	\$ 165,378	\$ -	\$ 165,378
Interest rate swap contracts	<u>-</u>	<u>21,659</u>	<u>-</u>	<u>21,659</u>
	<u>\$ -</u>	<u>\$ 187,037</u>	<u>\$ -</u>	<u>\$ 187,037</u>
<u>December 31, 2016</u>				
Financial assets at fair value through profit or loss				
Mutual funds	\$ 2,092,483	\$ -	\$ -	\$ 2,092,483
Listed shares	643,914	-	-	643,914
Convertible bonds	319,100	-	-	319,100
Emerging market shares	-	-	231,953	231,953
Futures contracts	<u>-</u>	<u>899</u>	<u>-</u>	<u>899</u>
	<u>\$ 3,055,497</u>	<u>\$ 899</u>	<u>\$ 231,953</u>	<u>\$ 3,288,349</u>
Available-for-sale financial assets				
Foreign unlisted shares	\$ -	\$ -	\$ 12,757,612	\$ 12,757,612
Domestic emerging market shares and unlisted shares	-	-	2,803,247	2,803,247
Domestic listed shares	9,788,653	-	-	9,788,653
Foreign listed shares	2,457,207	-	-	2,457,207
Certificate of entitlement	-	-	773,130	773,130
Mutual funds	397,759	-	-	397,759
Private-placement shares of listed companies	<u>-</u>	<u>136,042</u>	<u>-</u>	<u>136,042</u>
	<u>\$ 12,643,619</u>	<u>\$ 136,042</u>	<u>\$ 16,333,989</u>	<u>\$ 29,113,650</u>

(Continued)

	Level 1	Level 2	Level 3	Total
Derivative financial assets for hedging				
Foreign exchange forward contracts	\$ <u>-</u>	\$ <u>40,138</u>	\$ <u>-</u>	\$ <u>40,138</u>
Financial liabilities at fair value through profit or loss				
Foreign exchange forward contracts	\$ -	\$ 4,536	\$ -	\$ 4,536
Call and put options	<u>-</u>	<u>405</u>	<u>-</u>	<u>405</u>
	<u>\$ -</u>	<u>\$ 4,941</u>	<u>\$ -</u>	<u>\$ 4,941</u>
Derivative financial liabilities for hedging				
Interest rate swap contracts	\$ -	\$ 27,747	\$ -	\$ 27,747
Foreign exchange forward contracts	<u>-</u>	<u>45,927</u>	<u>-</u>	<u>45,927</u>
	<u>\$ -</u>	<u>\$ 73,674</u>	<u>\$ -</u>	<u>\$ 73,674</u>
<u>March 31, 2016</u>				
Financial assets at fair value through profit or loss				
Mutual funds	\$ 2,882,865	\$ -	\$ -	\$ 2,882,865
Listed shares	888,849	-	-	888,849
Emerging market shares	-	-	243,378	243,378
Convertible bonds	236,720	-	-	236,720
Structure notes	-	30,104	-	30,104
Foreign exchange forward contracts	<u>-</u>	<u>2,383</u>	<u>-</u>	<u>2,383</u>
	<u>\$ 4,008,434</u>	<u>\$ 32,487</u>	<u>\$ 243,378</u>	<u>\$ 4,284,299</u>
Available-for-sale financial assets				
Foreign unlisted shares	\$ -	\$ -	\$ 13,173,954	\$ 13,173,954
Domestic emerging market shares and unlisted shares	-	-	6,443,566	6,443,566
Domestic listed shares	4,913,997	-	-	4,913,997
Foreign listed shares	2,065,566	-	-	2,065,566
Mutual funds	1,100,392	-	-	1,100,392
Certificate of entitlement	-	-	823,157	823,157
Private-placement shares of listed companies	<u>-</u>	<u>229,219</u>	<u>-</u>	<u>229,219</u>
	<u>\$ 8,079,955</u>	<u>\$ 229,219</u>	<u>\$ 20,440,677</u>	<u>\$ 28,749,851</u>
Derivative financial assets for hedging				
Foreign exchange forward contracts	<u>\$ -</u>	<u>\$ 105,921</u>	<u>\$ -</u>	<u>\$ 105,921</u>

(Continued)

	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss				
Call and put options	\$ -	\$ 492	\$ -	\$ 492
Future contract	-	233	-	233
Foreign exchange forward contracts	<u>-</u>	<u>42</u>	<u>-</u>	<u>42</u>
	<u>\$ -</u>	<u>\$ 767</u>	<u>\$ -</u>	<u>\$ 767</u>
Derivative financial liabilities for hedging				
Interest rate swap contracts	\$ -	\$ 58,947	\$ -	\$ 58,947
Foreign exchange forward contracts	<u>-</u>	<u>28,957</u>	<u>-</u>	<u>28,957</u>
	<u>\$ -</u>	<u>\$ 87,904</u>	<u>\$ -</u>	<u>\$ 87,904</u>

(Concluded)

There was no transfer between Level 1 and Level 2 for the three months ended March 31, 2017 and 2016.

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

	Financial Assets at Fair Value Through Profit or Loss	Available-for- sale Financial Assets	Total
For the three months ended March 31, 2017			
Balance, beginning of period	\$ 231,953	\$ 16,333,989	\$ 16,565,942
Recognized in profit or loss	(1,482)	(10,161)	(11,643)
Recognized in other comprehensive income (included in unrealized gains and losses on available-for-sale financial assets)	-	(86,368)	(86,368)
Purchases	-	63,007	63,007
Disposal	(18,670)	(5,635)	(24,305)
Effect of foreign currency exchange difference	<u>-</u>	<u>(67,777)</u>	<u>(67,777)</u>
Balance, end of period	<u>\$ 211,801</u>	<u>\$ 16,227,055</u>	<u>\$ 16,438,856</u>
For the three months ended March 31, 2016			
Balance, beginning of period	\$ 245,455	\$ 45,129,968	\$ 45,375,423
Recognized in profit or loss	(2,077)	165,399	163,322
Recognized in other comprehensive income (included in unrealized gains and losses on available-for-sale financial assets)	-	811,995	811,995

(Continued)

	Financial Assets at Fair Value Through Profit or Loss	Available-for- sale Financial Assets	Total
Purchases	\$ -	\$ 116,291	\$ 116,291
Reclassification	-	(25,908,765)	(25,908,765)
Disposal	-	(299,382)	(299,382)
Effect of foreign currency exchange difference	<u>-</u>	<u>425,171</u>	<u>425,171</u>
Balance, end of period	<u>\$ 243,378</u>	<u>\$ 20,440,677</u>	<u>\$ 20,684,055</u> (Concluded)

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

<u>Financial Instrument</u>	<u>Valuation Techniques and Inputs</u>
Derivative instruments	A discounted cash flow analysis was performed using the applicable yield curve for the duration of the instruments for non-option derivatives, and option pricing models for option derivatives. The estimates and assumptions used by the Corporation and its subsidiaries were consistent with those that market participants would use in setting a price for the financial instrument.
Private-placement shares of listed companies	Based on information from the Market Observation Post System, the Taipei Exchange, etc. and calculated by using the Black-Scholes Model.

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

- a) For emerging market shares, fair values were estimated on the basis of the closing price and liquidity.
- b) For domestic unlisted shares, some foreign unlisted shares and certificate of entitlement, fair values were determined based on industry types, valuations of similar companies and operations, or by using the net worth of companies.
- c) For other foreign unlisted shares, fair values were measured under income approach and calculated by the present value of the expected return present value by using a discounted cash flow model. Significant unobservable inputs were as follows; if the long-term revenue growth rate increased, long-term pre-tax operating income rate increased or discount rate decreased, the fair value of the investments would increase.

	March 31, 2017	December 31, 2016	March 31, 2016
Long-term pre-tax operating income rate (%)	18.68-51.85	19.13-51.68	22.73-51.68
Discount rate (%)	6.52-8.00	6.52-8.24	7.94-8.00

If the below input to the valuation model was changed to reflect reasonably possible alternative assumptions while all other variables were held constant, the fair value of the equity investment would increase (decrease) as follows:

	March 31, 2017	December 31, 2016	March 31, 2016
Long-term pre-tax operating income rate			
Increase 1%	<u>\$ 142,849</u>	<u>\$ 104,370</u>	<u>\$ 163,359</u>
Decrease 1%	<u>\$ (78,163)</u>	<u>\$ (124,143)</u>	<u>\$ (196,077)</u>
Discount rate			
Increase 1%	<u>\$ (487,326)</u>	<u>\$ (511,318)</u>	<u>\$ (480,182)</u>
Decrease 1%	<u>\$ 608,873</u>	<u>\$ 637,710</u>	<u>\$ 601,428</u>

c. Categories of financial instruments

	March 31, 2017	December 31, 2016	March 31, 2016
<u>Financial assets</u>			
Fair value through profit or loss			
Designated as at fair value through profit or loss	\$ 1,979,273	\$ 1,396,919	\$ 2,054,238
Held for trading	2,049,880	1,891,430	2,230,061
Derivative instruments in designated hedge accounting relationships	10,099	40,138	105,921
Held-to-maturity investments	209,802	222,669	281,202
Loans and receivables 1)	49,430,278	48,156,503	44,709,132
Available-for-sale financial assets	29,421,929	29,113,650	28,749,851
<u>Financial liabilities</u>			
Fair value through profit or loss			
Designated as at fair value through profit or loss	446	405	492
Held for trading	306	4,536	275
Derivative instruments in designated hedge accounting relationships	187,037	73,674	87,904
Measured at amortized cost 2)	308,877,123	311,543,875	317,455,988

- 1) The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, notes and accounts receivable (including related parties), other receivables, debt investments with no active market, refundable deposits and other financial assets.
- 2) The balances included financial liabilities measured at amortized cost, which comprise short-term borrowings and bank overdraft, short-term bills payable, notes and accounts payable (including related parties), other payables, bonds payable, long-term borrowings, long-term bills payable and deposits received.

d. Financial risk management objectives and policies

The Corporation and its subsidiaries place great emphasis on financial risk management. By tracking and managing the market risk, credit risk, and liquidity risk efficiently, the management ensured that the Corporation and its subsidiaries were equipped with sufficient and lower cost working capital, which reduced financial uncertainty that may have adverse effects on the operations.

The significant financial activities of the Corporation and its subsidiaries are reviewed by the board of directors in accordance with relevant regulations and internal controls. The finance department follows the accountability and related financial risk control procedures required by the Corporation for executing financial projects. Compliance with policies and exposure limits is continually reviewed by the internal auditors. The Corporation and its subsidiaries did not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

1) Market risk

a) Foreign currency risk

The Corporation and its subsidiaries were exposed to foreign currency risk due to sales, purchases, capital expenditures and equity investments denominated in foreign currencies. Exchange rate exposures were managed within approved policy parameters utilizing foreign exchange forward contracts, foreign deposits or foreign borrowings.

The carrying amounts of the significant non-functional currency monetary assets and liabilities (including those eliminated on consolidation) at the balance sheet date were referred to Note 35.

The Corporation and its subsidiaries were mainly exposed to the currencies USD, JPY, AUD and RMB. The following table details the sensitivity to a 1% increase in the functional currencies against the relevant foreign currencies.

	USD Impact		JPY Impact	
	For the Three Months Ended March 31		For the Three Months Ended March 31	
	2017	2016	2017	2016
Pre-tax profit or loss	\$ 33,639	\$ 16,017 i	\$ 10,790	\$ 10,240 i
Equity	273,081	309,955 ii	(2,199)	(2,661) ii
	AUD Impact		RMB Impact	
	For the Three Months Ended March 31		For the Three Months Ended March 31	
	2017	2016	2017	2016
Pre-tax profit or loss	\$ (166)	\$ (116) i	\$ (11,676)	\$ (14,187) i
Equity	29,298	44,319 ii	(4,609)	(2,149) ii

i. These were mainly attributable to the exposure of cash, outstanding receivables and payables, which were not hedged at the balance sheet date, and debt instrument investments with no active market and borrowings, which were respectively designated as hedged items and hedging instruments in fair value hedges.

ii. These were attributable to other financial assets, which were designated as hedging instruments in cash flow hedges, and borrowings, which were designated as hedging instruments in net investments in foreign operations hedges.

In management's opinion, the sensitivity analysis was unrepresentative of the inherent foreign exchange risk because the exposure at the balance sheet date did not reflect the exposure during the period.

b) Interest rate risk

The Corporation and its subsidiaries were exposed to interest rate risk because the Corporation and its subsidiaries borrowed funds at both fixed and floating interest rates. The risk is managed by the Corporation and its subsidiaries by maintaining an appropriate mix of fixed and floating rate borrowings, and using interest rate swap contracts.

The carrying amounts of the Corporation and its subsidiaries' financial liabilities with exposure to interest rates at the balance sheet date were as follows:

	March 31, 2017	December 31, 2016	March 31, 2016
Fair value interest rate risk			
Financial liabilities	\$ 148,547,172	\$ 116,882,062	\$ 147,978,637
Cash flow interest rate risk			
Financial liabilities	127,789,850	159,071,274	142,569,521

If interest rates had been 1% higher/lower and all other variables were held constant, the Corporation and its subsidiaries' pre-tax profit for the three months ended March 31, 2017 and 2016 would have been lower/higher by NT\$319,475 thousand and NT\$356,424 thousand, respectively.

c) Other price risk

The Corporation and its subsidiaries were exposed to equity price risk through their investments in mutual funds, listed shares and private placement shares of listed companies.

If equity prices had been 1% higher/lower, the pre-tax profit for the three months ended March 31, 2017 and 2016 would have been higher/lower by NT\$35,003 thousand and NT\$37,717 thousand, respectively, as a result of the fair value changes of financial assets at fair value through profit or loss, and the other comprehensive income for the three months ended March 31, 2017 and 2016 would have been higher/lower by NT\$131,949 thousand and NT\$83,092 thousand, respectively, as a result of the changes in fair value of available-for-sale financial assets.

2) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Corporation and its subsidiaries. As at the balance sheet date, the Corporation and its subsidiaries' maximum exposure to credit risk is the carrying amount of the financial assets on the consolidated balance sheets and the amount of contingent liabilities in relation to financial guarantee issued by the Corporation and its subsidiaries.

The Corporation and its subsidiaries do not expect significant credit risk because the counterparties are creditworthy financial institutions and companies.

Counterparties of accounts receivable consisted of a large number of different customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the customers' financial condition.

The Corporation and its subsidiaries did not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Corporation and its subsidiaries define counterparties as having similar characteristics if they are related entities.

As of March 31, 2017, December 31, 2016 and March 31, 2016, the maximum credit risk of off-balance-sheet guarantees and amount provided to investees of co-investment for procurement and investment compliance was NT\$26,260,616 thousand, 13,196,277 thousand and 2,510,913 thousand, respectively

3) Liquidity risk

The management of the Corporation and its subsidiaries continuously monitors the movement of cash flows, net cash position, significant capital expenditures and the utilization of bank loan commitments to control proportion of the long-term and short-term bank loans or issue bonds payable, and ensures compliance with loan covenants.

The following table details the undiscounted cash flows of the Corporation and its subsidiaries' remaining contractual maturity for its non-derivative financial liabilities from the earliest date on which they can be required to pay. The tables included both interest and principal cash flows. Specifically, bank loans with a repayment on demand clause were included in the earliest time span regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities were based on the agreed repayment dates.

The table below summarized the maturity profile of the Corporation and its subsidiaries' financial liabilities based on contractual undiscounted payments:

	Less Than 1 Year	1-5 Years	Over 5 Years	Total
<u>March 31, 2017</u>				
Non-derivative financial liabilities				
Non-interest bearing liabilities	\$ 30,484,519	\$ 516,891	\$ -	\$ 31,001,410
Variable interest rate liabilities	48,059,393	79,968,877	3,388,744	131,417,014
Fixed interest rate liabilities	55,701,721	61,697,776	39,921,217	157,320,714
Financial guarantee liabilities	<u>-</u>	<u>9,892,311</u>	<u>16,368,305</u>	<u>26,260,616</u>
	<u>\$ 134,245,633</u>	<u>\$ 152,075,855</u>	<u>\$ 59,678,266</u>	<u>\$ 345,999,754</u>
<u>December 31, 2016</u>				
Non-derivative financial liabilities				
Non-interest bearing liabilities	\$ 33,114,877	\$ 1,103,811	\$ -	\$ 34,218,688
Variable interest rate liabilities	53,965,318	106,590,665	2,721,873	163,277,856
Fixed interest rate liabilities	24,184,220	61,814,679	40,085,283	126,084,182
Financial guarantee liabilities	<u>-</u>	<u>197,622</u>	<u>12,998,655</u>	<u>13,196,277</u>
	<u>\$ 111,264,415</u>	<u>\$ 169,706,777</u>	<u>\$ 55,805,811</u>	<u>\$ 336,777,003</u>

(Continued)

	Less Than 1 Year	1-5 Years	Over 5 Years	Total
<u>March 31, 2016</u>				
Non-derivative financial liabilities				
Non-interest bearing liabilities	\$ 25,133,987	\$ 252,969	\$ -	\$ 25,386,956
Variable interest rate liabilities	54,166,854	88,828,756	3,722,397	146,718,007
Fixed interest rate liabilities	54,754,814	50,810,607	51,961,874	157,527,295
Financial guarantee liabilities	<u>2,304,902</u>	<u>206,011</u>	<u>-</u>	<u>2,510,913</u>
	<u>\$ 136,360,557</u>	<u>\$ 140,098,343</u>	<u>\$ 55,684,271</u>	<u>\$ 332,143,171</u> (Concluded)

The amounts included above for financial guarantee liabilities were the maximum amounts the Corporation and its subsidiaries could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the balance sheet date, the Corporation and its subsidiaries considered that it is more likely than not that none of the amount will be payable under the arrangement.

32. TRANSACTIONS WITH RELATED PARTIES

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

- a. The name of the company and its relationship with the Corporation and its Subsidiaries

<u>Company</u>	<u>Relationship</u>
TaiAn Technologies Corporation	Associates
FUKUTA ELECTRIC & MACHINERY CO., LTD.	Associates
Hsin Hsin Cement Enterprise Corporation	Associates
Nikken & CSSC Metal Products Co., Ltd.	Associates
Eminent II Venture Capital Corporation	Associates
iPASS Corporation	Associates
Honley Auto. Parts Co., Ltd.	Associates
Majestic Solid Light Corporation	Associates
Ascentek Venture Capital Corp.	Associates
TAIWAN ROLLING STOCK COMPANY LTD.	Associates
Chungkang Steel Structure(Cambodia) Co., Ltd	Associates
Formosa Ha Tinh Steel Corporation	Associates
Formosa Ha Tinh (Cayman) Limited	Associates
Wuhan Huade Ecotek Corporation	Associates
HC&C Auto Parts Co., Ltd.	Associates
PT. MICS Steel Indonesia	Associates
SINO Vietnam Hi-tech Material Co., Ltd.	Associates
Tatt Giap Steel Centre Sdn. Bhd.	Associates
TSK Steel Company Limited	Associates
Wuhan WISCO YUTEK Environment Technology Co., Ltd	Associates

(Continued)

<u>Company</u>	<u>Relationship</u>
Dyna Rechi Co., Ltd	Associates
Dyna Rechi (Jiujiang) Co., Ltd	Associates
CSBC Corporation, Taiwan	The Corporation as key management personnel of other related parties
Taiwan High Speed Rail Corporation	The Corporation as key management personnel of other related parties
Rechi Precision Co., Ltd.	The Corporation as key management personnel of other related parties
Overseas Investment & Development Corp.	The Corporation as key management personnel of other related parties
East Asia United Steel Corporation	The Corporation as key management personnel of other related parties
Sakura Ferroalloys Sdn. Bhd.	The Corporation as key management personnel of other related parties
Ministry of Economic Affairs, R.O.C.	Other related parties as key management personnel of the Corporation
The CSC Labor Union	Other related parties as key management personnel of the Corporation
HSIN KUANG STEEL CO., LTD	Other related parties as supervisors of the Corporation (The relationship ended since July 2016)
	(Concluded)

a. Operating revenues

<u>Account Items</u>	<u>Related Parties Types</u>	<u>For the Three Months Ended</u>	
		<u>2017</u>	<u>2016</u>
Revenue from sales of goods	Associates	\$ 666,891	\$ 1,170,588
	The Corporation as key management personnel of other related parties	245,309	327,655
	Others	<u>695,900</u>	<u>1,026,644</u>
		<u>\$ 1,608,100</u>	<u>\$ 2,524,887</u>
Construction contract revenue	Associates	\$ 172,730	\$ 332,285
	Others	<u>-</u>	<u>74,557</u>
		<u>\$ 172,730</u>	<u>\$ 406,842</u>

Sales to related parties were made at arm's length. The construction contracts undertaken by the Corporation and its subsidiaries with related parties were different from those with unrelated parties; therefore, the prices were not comparable while collection terms have no material differences.

b. Purchase of goods

	Related Parties Types	For the Three Months Ended March 31	
		2017	2016
Associates		\$ 716,960	\$ 43,928
Others		<u>1,007,804</u>	<u>525,310</u>
		<u>\$ 1,724,764</u>	<u>\$ 569,238</u>

Purchases from related parties were made at arm's length.

c. Receivables from related parties

Account Items	Related Parties Types	March 31, 2017	December 31, 2016	March 31, 2016
Notes and accounts receivable	The Corporation as key management personnel of other related parties	\$ 346,158	\$ 324,461	\$ 252,037
	Associates	119,958	127,622	72,050
	Others	<u>274,302</u>	<u>431,180</u>	<u>372,354</u>
		<u>\$ 740,418</u>	<u>\$ 883,263</u>	<u>\$ 696,441</u>

The subsidiary Chin Ecotek Corporation recognized the allowance for doubtful accounts in the amount of NT\$0 thousand and NT\$396 thousand for the three months ended March 31, 2017 and 2016, respectively. As of March 31, 2017 and 2016, the allowance for doubtful accounts amounted to NT\$2,919 thousand and NT\$1,733 thousand, respectively.

d. Payables to related parties

Account Items	Related Parties Types	March 31, 2017	December 31, 2016	March 31, 2016
Notes and accounts payable	Associates	\$ 195,027	\$ 44,998	\$ 43,599
	Others	<u>529,525</u>	<u>491,546</u>	<u>395,572</u>
		<u>\$ 724,552</u>	<u>\$ 536,544</u>	<u>\$ 439,171</u>

The outstanding payables to related parties were unsecured.

e. Others

Account Items	Related Parties Types	For the Three Months Ended March 31	
		2017	2016
Service and other revenues	Associates	\$ 11,314	\$ 106,271
	Others	<u>2,072</u>	<u>21,697</u>
		<u>\$ 13,386</u>	<u>\$ 127,968</u>

Account Items	Related Parties Types/Name	March 31, 2017	December 31, 2016	March 31, 2016
Other receivables	Associates			
	Formosa Ha Tinh (Cayman) Limited	\$ 212,310	\$ 232,684	\$ 225,295
	Others	3,258	8	6
	Others	<u>-</u>	<u>28</u>	<u>180</u>
		<u>\$ 215,568</u>	<u>\$ 232,720</u>	<u>\$ 225,481</u>
Other payables	Associates	\$ 567,004	\$ 598,693	\$ 595,936
	The Corporation as key management personnel of other related parties	278,467	37,313	-
	Others	<u>24,666</u>	<u>32,084</u>	<u>29,519</u>
		<u>\$ 870,137</u>	<u>\$ 668,090</u>	<u>\$ 625,455</u>

f. Endorsements and guarantees provided by the Corporation and its subsidiaries

Related Party Types/Name	March 31, 2017	December 31, 2016	March 31, 2016
Associates - Formosa Ha Tinh (Cayman) Limited			
Amount endorsed	\$ 25,628,850	\$ 27,251,250	\$ 28,161,875
Amount utilized	<u>(25,628,850)</u>	<u>(12,400,125)</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ 14,851,125</u>	<u>\$ 28,161,875</u>
The Corporation as key management personnel of others			
Amount endorsed	\$ 767,119	\$ 807,392	\$ 2,510,913
Amount utilized	<u>(631,766)</u>	<u>(796,152)</u>	<u>(2,510,913)</u>
	<u>\$ 135,353</u>	<u>\$ 11,240</u>	<u>\$ -</u>

g. Compensation of key management personnel

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

	For the Three Months Ended March 31	
	2017	2016
Short-term employee benefits	\$ 24,892	\$ 15,474
Post-employment benefits	<u>277</u>	<u>277</u>
	<u>\$ 25,169</u>	<u>\$ 15,751</u>

33. ASSETS PLEDGED AS COLLATERAL OR SECURITY

The Corporation and its subsidiaries' assets mortgaged or pledged as collateral for long-term borrowings, short-term borrowings and bank overdraft, performance guarantees, bankers' acceptance bills, etc. were as follows (listed based on their carrying amounts):

	March 31, 2017	December 31, 2016	March 31, 2016
Net property, plant and equipment	\$ 121,300,584	\$ 124,349,476	\$ 119,760,597
Time deposits (Note 16)	6,577,008	6,606,133	6,922,082
Shares (a.)	5,968,270	5,814,935	5,284,160
Pledged receivables (Note 16) (b.)	2,000,000	2,000,000	2,000,000
Net investment properties	<u>1,497,271</u>	<u>1,511,854</u>	<u>1,553,554</u>
	<u>\$ 137,343,133</u>	<u>\$ 140,282,398</u>	<u>\$ 135,520,393</u>

- a. Shares of the Corporation were pledged by WIC and TIC, both subsidiaries, and were recorded as treasury shares in the consolidated financial statements.
- b. In accordance with revised agreements of build-operate-transfer contract in 2013, the subsidiary KRTC reclassified NT\$2,000,000 thousand including arbitration receivable - Kaohsiung City Government and part of the consideration of transferred assets to operating performance guarantees.

34. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in Note 19, significant commitments and contingencies of the Corporation and its subsidiaries as of March 31, 2017 were as follows:

- a. The Corporation and its subsidiaries provided letters of credits for NT\$8.1 billion guaranteed by financial institutions for several construction, lease contracts and payment. Guarantee notes for NT\$73.8 billion were provided to banks and owners for loans, purchase agreements and warranties.
- b. Unused letters of credit for importation of materials and machinery amounted to NT\$10.5 billion.
- c. Property purchase and construction contracts for NT\$2.4 billion were signed but not yet recorded.
- d. Construction contracts for NT\$34.4 billion were not yet being completed.
- e. The Corporation and its subsidiaries entered into raw material purchase contracts with suppliers in Australia, Brazil, Canada, China, Japan, Philippines, Vietnam, Indonesia and domestic companies with contract terms of 1 to 10 years. Contracted annual purchases of 9,820,000 metric tons of coal, 23,230,000 metric tons of iron ore, and 3,400,000 metric tons of limestone are at prices negotiable with the counterparties. Purchase commitments as of March 31, 2017 were USD7.8 billion (including 11,070,000 metric tons of coal, 73,820,000 metric tons of iron ore, and 320,000 metric tons of limestone).
- f. In February 2016, May 2015 and August 2014, the associate Chang-Chun Ceck Auto. Parts Co., Ltd. (CCCA) entered into credit facility agreements with Taipei Fubon Bank and CTBC Bank for a USD10,000 thousand (or the equal amount in EUR, the total credit line remained unchanged) and USD5,000 thousand (or the equal amount in EUR, the total credit line remained unchanged) credit lines. Under the agreements, the Corporation and its associates should collectively hold at least 38%, 30% and 30% of CCCA's issued shares and one seat in the board of directors. As of March 31, 2017, the Corporation indirectly held 38% equity of CCCA and one seat in the board of directors.
- g. In November 2014, the associate Honley Auto. Parts Co., Ltd. (HAPC) entered into a construction financing agreement with Shanghai Commercial and Savings Bank for a NT\$295,000 thousand which had been transferred to long-term credit line in March 2016. Under the agreement, the Corporation and its associates should collectively hold at least 30% of HAPC's issued shares and two seats in the board of directors. As of March 31, 2017, the Corporation held 38% equity of HAPC and two seats in the board of directors.

35. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

	Foreign Currencies (In Thousands)	Exchange Rate		Carrying Amount (In Thousands of New Taiwan Dollars)
<u>March 31, 2017</u>				
Monetary financial assets				
USD	\$ 203,565	30.3300	(USD : NTD)	\$ 6,174,134
USD	19,614	6.8822	(USD : RMB)	594,896
USD	5,485	1.3059	(USD : AUD)	166,373
USD	3,806	4.6147	(USD : MYR)	115,431
JPY	7,664,518	0.2713	(JPY : NTD)	2,079,384
RMB	364,383	4.4070	(RMB : NTD)	1,605,837
VND	585,410,493	0.00004	(VND : USD)	708,347
EUR	13,412	32.4300	(EUR : NTD)	434,966
EUR	3,694	1.0692	(EUR : USD)	119,793
Non-monetary financial assets				
Available-for-sales financial assets				
USD	116,437	30.3300	(USD : NTD)	3,531,546
JPY	7,538,000	0.2713	(JPY : NTD)	2,045,059
MYR	251,134	6.5725	(MYR : NTD)	1,650,579
KRW	19,209,222	0.273	(KRW : NTD)	524,412
RMB	70,843	4.4070	(RMB : NTD)	312,203
Associate accounted for using equity method				
USD	1,065,456	30.3300	(USD : NTD)	32,315,288
USD	272,524	1.3059	(USD : AUD)	8,265,665
Monetary financial liabilities				
USD	1,088,221	30.3300	(USD : NTD)	33,005,758
USD	110,000	64.7800	(USD : INR)	3,336,300
USD	22,465	25,275.0000	(USD : VND)	681,359
USD	22,069	6.8820	(USD : RMB)	669,349
USD	4,765	4.6150	(USD : MYR)	144,514
JPY	10,851,162	0.2713	(JPY : NTD)	2,943,920
AUD	126,147	23.2250	(AUD : NTD)	2,929,764
<u>December 31, 2016</u>				
Monetary financial assets				
USD	244,290	32.2500	(USD:NTD)	7,878,362
USD	18,827	6.9851	(USD:RMB)	607,164
USD	10,039	1.3850	(USD:AUD)	323,762

(Continued)

	Foreign Currencies (In Thousands)	Exchange Rate		Carrying Amount (In Thousands of New Taiwan Dollars)
USD	\$ 8,914	4.6705	(USD:MYR)	\$ 287,483
USD	3,883	24,807.6923	(USD:VND)	125,226
JPY	7,729,021	0.2756	(JPY:NTD)	2,130,118
RMB	304,794	4.6170	(RMB:NTD)	1,407,236
VND	1,035,080,000	0.00004	(VND:USD)	1,335,253
EUR	10,559	33.9000	(EUR:NTD)	357,942
Non-monetary financial assets				
Available-for-sales financial assets				
USD	93,665	32.2500	(USD:NTD)	3,020,686
JPY	8,832,000	0.2756	(JPY:NTD)	2,434,099
MYR	255,987	6.9050	(MYR:NTD)	1,767,588
KRW	20,541,000	0.0270	(KRW:NTD)	554,607
RMB	80,198	4.6170	(RMB:NTD)	370,272
Associate accounted for using equity method				
USD	1,081,385	32.2500	(USD:NTD)	34,874,658
USD	270,963	1.3850	(USD:AUD)	8,738,490
Monetary financial liabilities				
USD	1,107,225	32.2500	(USD:NTD)	35,708,001
USD	110,000	67.724	(USD:INR)	3,547,500
USD	24,279	6.985	(USD:RMB)	782,986
USD	21,709	24,807.6923	(USD:VND)	700,127
USD	9,133	4.6710	(USD:MYR)	294,536
JPY	11,053,025	0.2756	(JPY:NTD)	3,046,214
AUD	180,194	23.2850	(AUD:NTD)	4,195,825
March 31, 2016				
Monetary financial assets				
USD	254,808	32.1850	(USD : NTD)	8,200,990
USD	19,912	6.4733	(USD : RMB)	640,864
USD	5,584	1.3086	(USD : AUD)	179,729
USD	3,753	24,757.6923	(USD : VND)	120,793
JPY	8,038,209	0.2863	(JPY : NTD)	2,301,339
RMB	314,308	4.9720	(RMB : NTD)	1,562,739
VND	316,437,695	0.00004	(VND : USD)	417,699
EUR	6,054	36.5100	(EUR : NTD)	221,016
HKD	29,947	4.1500	(HKD : NTD)	124,280
Non-monetary financial assets				
Available-for-sales financial assets				
USD	262,901	32.1850	(USD : NTD)	8,461,482
JPY	7,125,600	0.2863	(JPY : NTD)	2,040,059
MYR	246,807	7.8955	(MYR : NTD)	1,948,664
KRW	36,337,771	0.0284	(KRW : NTD)	1,031,993
VND	509,104,157	0.00004	(VND : USD)	672,017
RMB	99,291	4.9720	(RMB : NTD)	493,674
HKD	26,839	4.1500	(HKD : NTD)	111,384

(Continued)

	Foreign Currencies (In Thousands)	Exchange Rate		Carrying Amount (In Thousands of New Taiwan Dollars)
Associate accounted for using equity method				
USD	\$ 1,108,136	32.1850	(USD : NTD)	\$ 35,665,347
USD	270,333	1.3086	(USD : AUD)	8,700,665
Monetary financial liabilities				
USD	1,107,821	32.1850	(USD : NTD)	35,655,234
USD	110,000	32.1850	(USD : INR)	3,540,350
USD	67,666	6.4733	(USD : RMB)	2,177,846
USD	13,644	24,757.6923	(USD : VND)	439,134
JPY	10,759,312	0.2863	(JPY : NTD)	3,080,391
AUD	180,194	24.5950	(AUD : NTD)	4,431,880
				(Concluded)

For the three months ended March 31, 2017 and 2016, realized and unrealized net foreign exchange gains were \$70,206 thousand and \$59,927 thousand, respectively. It is impractical to disclose net foreign exchange gains and losses by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of each entity.

36. SEGMENT INFORMATION

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

- Steel - manufacture and sell steel products, including the Corporation, DSC, CHSC, CSCSSB, CSVC, CSCI, HLSC and TSC.
- Ocean freight forwarding - ship bulk merchandise, such as iron ore and coal, including CSE, TSP, CSEP and CSEIP.

a. Segment revenues and operating results

The following is an analysis of the Corporation and its subsidiaries' revenues and results of operations by reportable segment.

	Steel	Ocean Freight Forwarding	Others	Adjustment and Elimination	Total
<u>For the three months ended March 31, 2017</u>					
Revenues from external customers	\$ 66,558,164	\$ 101,845	\$ 16,324,340	\$ -	\$ 82,984,349
Inter-segment revenues	<u>19,837,419</u>	<u>3,626,404</u>	<u>7,170,702</u>	<u>(30,634,525)</u>	<u>-</u>
Segment revenues	<u>\$ 86,395,583</u>	<u>\$ 3,728,249</u>	<u>\$ 23,495,042</u>	<u>\$ (30,634,525)</u>	<u>\$ 82,984,349</u>

(Continued)

	Steel	Ocean Freight Forwarding	Others	Adjustment and Elimination	Total
Segment profit	\$ 4,330,601	\$ 480,212	\$ 1,422,124	\$ 200,767	\$ 6,433,704
Interest income	26,111	2,378	45,502	(19,205)	54,786
Financial costs	(799,786)	(50,613)	(99,634)	11,856	(938,177)
Share of the profit of associates	1,636,058	(7,685)	70,489	(2,024,551)	(325,689)
Other non-operating income and expenses	<u>501,660</u>	<u>26,274</u>	<u>(203,860)</u>	<u>(158,978)</u>	<u>165,096</u>
Profit before income tax	5,694,644	450,566	1,234,621	(1,990,111)	5,389,720
Income tax	<u>494,889</u>	<u>5,945</u>	<u>186,241</u>	<u>21,846</u>	<u>708,921</u>
Net profit for the period	<u>\$ 5,199,755</u>	<u>\$ 444,621</u>	<u>\$ 1,048,380</u>	<u>\$ (2,011,957)</u>	<u>\$ 4,680,799</u>
<u>For the three months ended March 31, 2016</u>					
Revenues from external customers	\$ 50,474,417	\$ 103,577	\$ 14,380,549	\$ -	\$ 64,958,543
Inter-segment revenues	<u>12,428,401</u>	<u>2,441,628</u>	<u>6,870,171</u>	<u>(21,740,200)</u>	<u>-</u>
Segment revenues	<u>\$ 62,902,818</u>	<u>\$ 2,545,205</u>	<u>\$ 21,250,720</u>	<u>\$ (21,740,200)</u>	<u>\$ 64,958,543</u>
Segment profit (loss)	\$ (564,136)	\$ 374,855	\$ 1,180,832	\$ (52,032)	\$ 939,519
Interest income	44,005	643	44,910	(14,529)	75,029
Financial costs	(876,520)	(34,674)	(83,416)	8,255	(986,355)
Share of the profit of associates	339,130	(106,569)	294,651	(498,575)	28,637
Other non-operating income and expenses	<u>736,078</u>	<u>21,167</u>	<u>165,537</u>	<u>(148,673)</u>	<u>774,109</u>
Profit (loss) before income tax	(321,443)	255,422	1,602,514	(705,554)	830,939
Income tax (benefit)	<u>(142,078)</u>	<u>(6,773)</u>	<u>262,423</u>	<u>(12,980)</u>	<u>100,592</u>
Net profit (loss) for the period	<u>\$ (179,365)</u>	<u>\$ 262,195</u>	<u>\$ 1,340,091</u>	<u>\$ (692,574)</u>	<u>\$ 730,347</u>

(Concluded)

Inter-segment revenues were accounted for according to market price or cost-plus pricing.

Segment profit represented the profit from operations earned by each segment and was the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

b. Segment total assets and liabilities

	March 31, 2017	December 31, 2016	March 31, 2016
<u>Segment assets</u>			
Steel	\$ 734,354,778	\$ 728,761,785	\$ 726,787,817
Ocean freight forwarding	26,733,768	27,222,864	25,613,300
Others	205,931,971	210,626,969	213,484,269
Adjustment and elimination	<u>(291,116,256)</u>	<u>(290,489,825)</u>	<u>(294,943,226)</u>
Consolidated total assets	<u>\$ 675,904,261</u>	<u>\$ 676,121,793</u>	<u>\$ 670,942,160</u>
<u>Segment liabilities</u>			
Steel	\$ 296,673,768	\$ 293,415,373	\$ 303,883,553
Ocean Freight Forwarding	13,899,602	12,440,136	12,971,800
Others	60,129,112	61,279,112	56,941,843
Adjustment and Elimination	<u>(26,592,883)</u>	<u>(20,592,521)</u>	<u>(24,277,330)</u>
Consolidated total liabilities	<u>\$ 344,109,599</u>	<u>\$ 346,542,100</u>	<u>\$ 349,519,866</u>