

China Steel Corporation and Subsidiaries

**Consolidated Financial Statements for the
Years Ended December 31, 2014 and 2013 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
China Steel Corporation

We have audited the accompanying consolidated balance sheets of China Steel Corporation (the "Corporation") and its subsidiaries as of December 31, 2014 and 2013, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2014 and 2013. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the consolidated financial position of the Corporation and its subsidiaries as of December 31, 2014 and 2013, and their consolidated financial performance and their consolidated cash flows for the years ended December 31, 2014 and 2013, in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, International Financial Reporting Interpretations and Standing Interpretations endorsed by the Financial Supervisory Commission of the Republic of China.

We have also audited the standalone financial statements of China Steel Corporation as of and for the years ended December 31, 2014 and 2013 on which we have issued an unqualified report.



March 27, 2015

Notice to Readers

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

For the convenience of readers, the independent auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and consolidated financial statements shall prevail. As stated in Note 4 to consolidated financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.

CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In Thousands of New Taiwan Dollars)

ASSETS	December 31, 2014		December 31, 2013	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4, 6 and 32)	\$ 13,632,013	2	\$ 13,700,839	2
Financial assets at fair value through profit or loss - current (Notes 4, 5, 7 and 32)	5,418,751	1	5,014,510	1
Available-for-sale financial assets - current (Notes 4, 5, 8 and 32)	6,651,624	1	5,290,437	1
Derivative financial assets for hedging - current (Notes 4, 10 and 32)	62,992	-	30,501	-
Bond investments with no active market - current (Notes 4, 14 and 32)	-	-	9,259	-
Notes receivable (Notes 4, 5, 11 and 32)	1,243,767	-	1,198,221	-
Notes receivable - related parties (Notes 4, 5, 11, 32 and 33)	162,202	-	607,062	-
Accounts receivable, net (Notes 4, 5, 11 and 32)	10,818,647	2	10,248,930	2
Accounts receivable - related parties (Notes 4, 5, 11, 32 and 33)	734,991	-	520,732	-
Amounts due from customers for construction contracts (Notes 4 and 12)	7,313,482	1	7,309,470	1
Other receivables (Notes 4 and 32)	1,484,045	-	1,943,126	-
Current tax assets (Note 28)	169,509	-	120,617	-
Inventories (Notes 4, 5 and 13)	81,203,168	12	83,040,277	12
Other financial assets - current (Notes 4, 16, 32 and 34)	13,714,418	2	13,529,793	2
Other current assets (Note 24)	<u>5,757,202</u>	<u>1</u>	<u>5,673,611</u>	<u>1</u>
Total current assets	<u>148,366,811</u>	<u>22</u>	<u>148,237,385</u>	<u>22</u>
NONCURRENT ASSETS				
Financial assets at fair value through profit or loss - noncurrent (Notes 4, 5, 7 and 32)	31,842	-	-	-
Available-for-sale financial assets - noncurrent (Notes 4, 5, 8, 19 and 32)	31,102,392	5	28,100,611	4
Held-to-maturity financial assets - noncurrent (Notes 4, 5, 9 and 32)	222,989	-	209,991	-
Derivative financial assets for hedging - noncurrent (Notes 4, 10 and 32)	87,969	-	42,202	-
Bond investments with no active market - noncurrent (Notes 4, 14, 19 and 32)	2,806,597	1	2,973,651	1
Investments accounted for using equity method (Notes 4, 10, 15 and 32)	13,419,402	2	10,990,162	2
Property, plant and equipment (Notes 4, 5, 10, 16, 17 and 34)	459,313,969	67	462,742,294	68
Investment properties (Notes 4, 5, 18 and 34)	8,436,098	1	8,337,249	1
Intangible assets (Notes 15 and 33)	2,493,804	-	2,680,365	-
Deferred tax assets (Notes 4, 5 and 28)	6,062,321	1	6,077,668	1
Refundable deposits (Notes 4 and 32)	436,833	-	513,180	-
Other financial assets - noncurrent (Notes 4, 16, 32 and 34)	2,376,787	-	2,361,443	-
Other noncurrent assets (Notes 24 and 33)	<u>7,579,422</u>	<u>1</u>	<u>8,733,172</u>	<u>1</u>
Total noncurrent assets	<u>534,370,425</u>	<u>78</u>	<u>533,761,988</u>	<u>78</u>
TOTAL	<u>\$ 682,737,236</u>	<u>100</u>	<u>\$ 681,999,373</u>	<u>100</u>

LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 2014		December 31, 2013	
	Amount	%	Amount	%
CURRENT LIABILITIES				
Short-term borrowings and bank overdraft (Notes 6, 19, 32 and 34)	\$ 30,801,717	5	\$ 28,652,599	4
Short-term bills payable (Notes 19, 32 and 34)	20,112,096	3	30,786,300	5
Financial liabilities at fair value through profit or loss - current (Notes 4, 7, 20 and 32)	7,149	-	9,094	-
Derivative financial liabilities for hedging - current (Notes 4, 10 and 32)	46,327	-	44,281	-
Notes payable (Note 32)	1,384,782	-	1,015,417	-
Notes payable - related parties (Notes 32 and 33)	88	-	756	-
Accounts payable (Notes 21 and 32)	8,903,520	1	11,543,379	2
Accounts payable - related parties (Notes 21, 32 and 33)	689,623	-	157,372	-
Amounts due to customers for construction contracts (Notes 4 and 12)	5,403,038	1	5,818,449	1
Other payables (Notes 22, 24 and 32)	23,131,466	3	23,925,757	4
Current tax liabilities (Note 28)	4,868,683	1	3,700,145	1
Provisions - current (Notes 4, 5 and 23)	3,795,700	1	2,968,838	-
Current portion of bonds payable (Notes 20 and 32)	8,148,376	1	3,499,318	-
Current portion of long-term bank borrowings (Notes 19, 32 and 34)	20,939,065	3	19,426,467	3
Other current liabilities	<u>3,273,887</u>	<u>-</u>	<u>3,306,668</u>	<u>-</u>
Total current liabilities	<u>131,505,517</u>	<u>19</u>	<u>134,854,840</u>	<u>20</u>
NONCURRENT LIABILITIES				
Derivative financial liabilities for hedging - noncurrent (Notes 4, 10 and 32)	10,060	-	18,043	-
Bonds payable (Notes 4, 20 and 32)	89,695,089	13	62,994,437	9
Long-term bank borrowings (Notes 19, 32 and 34)	86,579,129	13	108,062,267	16
Long-term bills payable (Notes 19 and 32)	20,019,412	3	34,882,033	5
Provisions - noncurrent (Notes 4, 5 and 23)	1,031,812	-	1,067,087	-
Deferred tax liabilities (Notes 4 and 28)	12,678,217	2	12,976,988	2
Accrued pension liabilities (Notes 4, 5 and 24)	5,457,497	1	7,237,168	1
Other noncurrent liabilities (Note 4)	<u>1,072,632</u>	<u>-</u>	<u>536,795</u>	<u>-</u>
Total noncurrent liabilities	<u>216,543,848</u>	<u>32</u>	<u>227,774,818</u>	<u>33</u>
Total liabilities	<u>348,049,365</u>	<u>51</u>	<u>362,629,658</u>	<u>53</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION (Notes 4, 10, 16, 25, 28 and 34)				
Share capital				
Ordinary shares	157,348,610	23	154,255,840	23
Preference shares	<u>382,680</u>	<u>-</u>	<u>382,680</u>	<u>-</u>
Total share capital	<u>157,731,290</u>	<u>23</u>	<u>154,638,520</u>	<u>23</u>
Capital surplus	<u>37,217,876</u>	<u>5</u>	<u>36,960,818</u>	<u>5</u>
Retained earnings				
Legal reserve	56,957,880	8	55,359,726	8
Special reserve	27,086,283	4	26,920,871	4
Unappropriated earnings	<u>24,125,515</u>	<u>4</u>	<u>16,348,240</u>	<u>3</u>
Total retained earnings	<u>108,169,678</u>	<u>16</u>	<u>98,628,837</u>	<u>15</u>
Other equity	<u>10,162,015</u>	<u>2</u>	<u>7,955,853</u>	<u>1</u>
Treasury shares	<u>(8,587,461)</u>	<u>(1)</u>	<u>(8,496,974)</u>	<u>(1)</u>
Total equity attributable to owners of the Corporation	304,693,398	45	289,687,054	43
NON-CONTROLLING INTERESTS	<u>29,994,473</u>	<u>4</u>	<u>29,682,661</u>	<u>4</u>
Total equity	<u>334,687,871</u>	<u>49</u>	<u>319,369,715</u>	<u>47</u>
TOTAL	<u>\$ 682,737,236</u>	<u>100</u>	<u>\$ 681,999,373</u>	<u>100</u>

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

CHINA STEEL CORPORATION AND SUBSIDIARIES

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

	For the Year Ended December 31			
	2014		2013	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 4, 10, 23, 26 and 33)	\$ 366,510,697	100	\$ 347,828,838	100
OPERATING COSTS (Notes 13, 17, 24, 27 and 33)	<u>322,622,227</u>	<u>88</u>	<u>310,548,923</u>	<u>89</u>
GROSS PROFIT	43,888,470	12	37,279,915	11
REALIZED GAIN ON THE TRANSACTIONS WITH ASSOCIATES	<u>-</u>	<u>-</u>	<u>404,495</u>	<u>-</u>
REALIZED GROSS PROFIT	<u>43,888,470</u>	<u>12</u>	<u>37,684,410</u>	<u>11</u>
OPERATING EXPENSES (Notes 24 and 27)				
Selling and marketing expenses	4,899,826	1	4,992,404	1
General and administrative expenses	7,181,277	2	6,286,297	2
Research and development expenses	<u>2,015,836</u>	<u>1</u>	<u>1,852,759</u>	<u>1</u>
Total operating expenses	<u>14,096,939</u>	<u>4</u>	<u>13,131,460</u>	<u>4</u>
PROFIT FROM OPERATIONS	<u>29,791,531</u>	<u>8</u>	<u>24,552,950</u>	<u>7</u>
NON-OPERATING INCOME AND EXPENSES				
Other income (Note 27 and 33)	2,420,784	1	1,618,710	1
Other gains and losses (Notes 10, 15, 27, 32 and 33)	(454,241)	-	(258,031)	-
Finance costs (Note 27)	(3,787,776)	(1)	(2,985,370)	(1)
Share of the profit (loss) of associates	<u>605,936</u>	<u>-</u>	<u>280,793</u>	<u>-</u>
Total non-operating income and expenses	<u>(1,215,297)</u>	<u>-</u>	<u>(1,343,898)</u>	<u>-</u>
PROFIT BEFORE INCOME TAX	28,576,234	8	23,209,052	7
INCOME TAX EXPENSE (Notes 4, 5 and 28)	<u>4,378,958</u>	<u>1</u>	<u>4,854,585</u>	<u>2</u>
NET PROFIT FOR THE YEAR	<u>24,197,276</u>	<u>7</u>	<u>18,354,467</u>	<u>5</u>
OTHER COMPREHENSIVE INCOME (Notes 4, 10, 16, 24, 25, 28 and 32)				
Exchange differences on translating foreign operations	2,212,405	1	218,254	-
Unrealized gain on available-for-sale financial assets	580,738	-	3,550,104	1
Cash flow hedges	178,384	-	340,696	-

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CHINA STEEL CORPORATION AND SUBSIDIARIES

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

	For the Year Ended December 31			
	2014		2013	
	Amount	%	Amount	%
Actuarial gain from defined benefit plans	\$ 1,564,528	-	\$ 153,606	-
Share of the other comprehensive income of associates	(26,796)	-	(156,363)	-
Income tax expense relating to the components of other comprehensive income	<u>(345,570)</u>	<u>-</u>	<u>(102,760)</u>	<u>-</u>
Total other comprehensive income, net of income tax	<u>4,163,689</u>	<u>1</u>	<u>4,003,537</u>	<u>1</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 28,360,965</u>	<u>8</u>	<u>\$ 22,358,004</u>	<u>6</u>
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Corporation	\$ 22,160,266	6	\$ 15,981,540	4
Non-controlling interests	<u>2,037,010</u>	<u>1</u>	<u>2,372,927</u>	<u>1</u>
	<u>\$ 24,197,276</u>	<u>7</u>	<u>\$ 18,354,467</u>	<u>5</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Corporation	\$ 25,685,222	7	\$ 19,506,129	5
Non-controlling interests	<u>2,675,743</u>	<u>1</u>	<u>2,851,875</u>	<u>1</u>
	<u>\$ 28,360,965</u>	<u>8</u>	<u>\$ 22,358,004</u>	<u>6</u>
EARNINGS PER SHARE (Note 29)				
Basic	<u>\$ 1.43</u>		<u>\$ 1.03</u>	
Diluted	<u>\$ 1.43</u>		<u>\$ 1.03</u>	

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

(Concluded)

CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In Thousands of New Taiwan Dollars, Except Dividends Per Share)

	Equity Attributable to Owners of the Corporation													
							Other Equity							
	Share Capital			Retained Earnings			Exchange Differences on Translating Foreign Operations	Unrealized Gain on Available-for-sale Financial Instruments	Cash Flow Hedges	Total Other Equity	Treasury Shares	Total Equity Attributable to Owners of the Corporation	Non-controlling Interests	Total Equity
	Ordinary Shares	Preference Shares	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings								
BALANCE AT JANUARY 1, 2013	\$ 152,724,765	\$ 382,680	\$ 36,575,997	\$ 54,778,577	\$ 29,248,991	\$ 6,156,721	\$ (417,820)	\$ 5,283,803	\$ (280,266)	\$ 4,585,717	\$ (8,582,297)	\$ 275,871,151	\$ 26,869,649	\$ 302,740,800
Appropriation of 2012 earnings (Note 25)														
Legal reserve	-	-	-	581,149	-	(581,149)	-	-	-	-	-	-	-	-
Cash dividends to ordinary shareholders - NT\$0.4 per share	-	-	-	-	-	(6,108,990)	-	-	-	-	-	(6,108,990)	-	(6,108,990)
Cash dividends to preference shareholders - NT\$1.3 per share	-	-	-	-	-	(49,748)	-	-	-	-	-	(49,748)	-	(49,748)
Share dividends to ordinary shareholders - NT\$0.1 per share	1,527,248	-	-	-	-	(1,527,248)	-	-	-	-	-	-	-	-
Share dividends to preference shareholders - NT\$0.1 per share	3,827	-	-	-	-	(3,827)	-	-	-	-	-	-	-	-
Reversal of special reserve	-	-	-	-	(2,328,120)	2,328,120	-	-	-	-	-	-	-	-
Net profit for the year ended December 31, 2013	-	-	-	-	-	15,981,540	-	-	-	-	-	15,981,540	2,372,927	18,354,467
Other comprehensive income for the year ended December 31, 2013, net of income tax	-	-	-	-	-	154,453	(241,869)	3,319,364	292,641	3,370,136	-	3,524,589	478,948	4,003,537
Total comprehensive income for the year ended December 31, 2013	-	-	-	-	-	16,135,993	(241,869)	3,319,364	292,641	3,370,136	-	19,506,129	2,851,875	22,358,004
Disposal of the Corporation's shares held by subsidiaries	-	-	31,212	-	-	-	-	-	-	-	82,997	114,209	167,163	281,372
Adjustment to capital surplus arising from dividends paid to subsidiaries	-	-	123,966	-	-	-	-	-	-	-	-	123,966	76,094	200,060
Adjustment of non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(282,120)	(282,120)
Adjustment of other equity	-	-	229,643	-	-	(1,632)	-	-	-	-	2,326	230,337	-	230,337
BALANCE AT DECEMBER 31, 2013	154,255,840	382,680	36,960,818	55,359,726	26,920,871	16,348,240	(659,689)	8,603,167	12,375	7,955,853	(8,496,974)	289,687,054	29,682,661	319,369,715
Appropriation of 2013 earnings (Note 25)														
Legal reserve	-	-	-	1,598,154	-	(1,598,154)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	166,266	(166,266)	-	-	-	-	-	-	-	-
Cash dividends to ordinary shareholders - NT\$0.7 per share	-	-	-	-	-	(10,797,909)	-	-	-	-	-	(10,797,909)	-	(10,797,909)
Cash dividends to preference shareholders - NT\$1.2 per share	-	-	-	-	-	(45,922)	-	-	-	-	-	(45,922)	-	(45,922)
Share dividends to ordinary shareholders - NT\$0.2 per share	3,085,117	-	-	-	-	(3,085,117)	-	-	-	-	-	-	-	-
Share dividends to preference shareholders - NT\$0.2 per share	7,653	-	-	-	-	(7,653)	-	-	-	-	-	-	-	-
Reversal of special reserve	-	-	-	-	(854)	854	-	-	-	-	-	-	-	-
Net profit for the year ended December 31, 2014	-	-	-	-	-	22,160,266	-	-	-	-	-	22,160,266	2,037,010	24,197,276
Other comprehensive income for the year ended December 31, 2014, net of income tax	-	-	-	-	-	1,318,794	1,392,158	680,187	133,817	2,206,162	-	3,524,956	638,733	4,163,689
Total comprehensive income for the year ended December 31, 2014	-	-	-	-	-	23,479,060	1,392,158	680,187	133,817	2,206,162	-	25,685,222	2,675,743	28,360,965
Purchase of the Corporation's shares by subsidiaries	-	-	-	-	-	-	-	-	-	-	(90,487)	(90,487)	(108,115)	(198,602)
Adjustment to capital surplus arising from dividends paid to subsidiaries	-	-	218,053	-	-	-	-	-	-	-	-	218,053	132,474	350,527
Adjustment of non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(2,388,290)	(2,388,290)
Adjustment of other equity	-	-	39,005	-	-	(1,618)	-	-	-	-	-	37,387	-	37,387
BALANCE AT DECEMBER 31, 2014	\$ 157,348,610	\$ 382,680	\$ 37,217,876	\$ 56,957,880	\$ 27,086,283	\$ 24,125,515	\$ 732,469	\$ 9,283,354	\$ 146,192	\$ 10,162,015	\$ (8,587,461)	\$ 304,693,398	\$ 29,994,473	\$ 334,687,871

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

CHINA STEEL CORPORATION AND SUBSIDIARIES

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

	For the Year Ended December 31	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	\$ 28,576,234	\$ 23,209,052
Adjustments for:		
Depreciation expense	35,354,714	31,345,401
Amortization expense	368,943	293,117
Net gain on financial assets and liabilities at fair value through profit or loss	(127,501)	(225,006)
Finance costs	3,787,776	2,985,370
Interest income	(511,164)	(472,294)
Dividend income	(379,552)	(364,527)
Share of the loss (profit) of associates	(617,995)	(281,422)
Loss on disposal of property, plant and equipment	214,424	111,761
Gain on disposal of intangible assets	(73,327)	-
Gain on disposal of investments	(740,942)	(674,749)
Impairment loss recognized on financial assets	930,366	153,215
Impairment loss recognized on non-financial assets	856,030	213,244
Increase in provision for loss on inventories	1,246,293	158,052
Realized gain on the transactions with associates	-	(404,495)
Recognition of provisions	6,524,255	4,327,642
Others	180,661	(18,806)
Changes in operating assets and liabilities		
Financial instruments held for trading	(107,934)	(215,872)
Notes receivable	(45,546)	(223,510)
Notes receivable-related parties	444,860	(87,609)
Accounts receivable	(701,378)	454,020
Accounts receivable-related parties	(214,259)	84,545
Amounts due from customers for construction contracts	(4,012)	123,196
Other receivables	748,434	515,700
Inventories	603,865	(5,894,599)
Other current assets	(83,485)	(709,282)
Notes payable	369,365	721,620
Notes payable-related parties	(668)	(412)
Accounts payable	(2,639,859)	259,209
Accounts payable-related parties	532,251	(73,935)
Amounts due to customers for construction contracts	(415,411)	2,161,444
Other payables	559,896	894,106
Provisions	(5,689,752)	(3,493,517)
Other current liabilities	(43,294)	695,626
Accrued pension liabilities	(223,652)	(48,508)
Cash generated from operations	68,678,636	55,517,777
Income taxes paid	(4,225,392)	(1,251,708)
Net cash generated from operating activities	64,453,244	54,266,069

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CHINA STEEL CORPORATION AND SUBSIDIARIES

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

	For the Year Ended December 31	
	2014	2013
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets designated as at fair value through profit or loss	\$ (6,714,162)	\$ (5,331,769)
Proceeds from disposal of financial assets designated as at fair value through profit or loss	6,448,991	4,713,063
Acquisition of available-for-sale financial assets	(7,237,912)	(10,341,835)
Proceeds from disposal of available-for-sale financial assets	2,995,987	3,137,250
Proceeds from the capital reduction on available-for-sale financial assets	53,438	64,500
Acquisition of bond investments with no active market	(39,155)	(14,593)
Proceeds from disposal of bond investment with no active market	24,861	29,330
Acquisition of held-to-maturity financial assets	-	(102,112)
Proceeds from disposal of held-to-maturity financial assets	-	82,236
Net cash outflow on acquisition of subsidiaries	(771,678)	(907,670)
Acquisition of investments accounted for using equity method	(942,591)	(9,403,092)
Proceeds from the capital reduction on investments accounted for using equity method	11,550	-
Acquisition of property, plant and equipment	(30,970,004)	(60,718,197)
Proceeds from disposal of property, plant and equipment	99,390	132,927
Decrease (increase) in refundable deposits	76,382	(71,422)
Acquisition of intangible assets	(71,234)	(236,845)
Acquisition of investment properties	-	(11,309)
Proceeds from disposal of investment properties	89	-
Decrease (increase) in other financial assets	(292,737)	273,317
Decrease (increase) in other noncurrent assets	211,931	(1,363,882)
Interest received	508,355	467,105
Dividends received from associates	576,427	62,037
Dividends received from others	379,904	369,147
Net cash used in investing activities	<u>(35,652,168)</u>	<u>(79,171,814)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	205,793,710	299,839,209
Repayments of short-term borrowings	(203,954,160)	(300,050,470)
Increase (decrease) in short-term bills payable	(10,674,204)	2,106,870
Issuance of bonds payable	34,900,000	19,894,618
Repayments of bonds payable	(3,500,000)	(11,275,000)
Proceeds from long-term bank borrowings	41,533,502	63,921,305
Repayments of long-term bank borrowings	(61,918,263)	(48,495,770)
Increase in long-term bills payable	-	3,098,302
Decrease in long-term bills payable	(14,862,621)	-
Increase (decrease) in other noncurrent liabilities	223,170	(55,213)
Dividends paid to owners of the Corporation	(10,709,909)	(5,976,436)

(Continued)

CHINA STEEL CORPORATION AND SUBSIDIARIES

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

	For the Year Ended December 31	
	2014	2013
Purchase of the Corporation's shares by subsidiaries	\$ (198,602)	\$ -
Disposal of the Corporation's shares held by subsidiaries	-	281,372
Interest paid	(3,808,487)	(3,650,011)
Decrease in non-controlling interests	<u>(2,388,290)</u>	<u>(2,037,708)</u>
Net cash generated from (used in) financing activities	<u>(29,564,154)</u>	<u>17,601,068</u>
EFFECT OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH AND CASH EQUIVALENTS HELD IN FOREIGN CURRENCIES	<u>881,293</u>	<u>886,863</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	118,215	(6,417,814)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>10,541,442</u>	<u>16,959,256</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 10,659,657</u>	<u>\$ 10,541,442</u>
Reconciliation of the amounts in the consolidated statements of cash flows with the equivalent items reported in the consolidated balance sheets as of December 31, 2014 and 2013:		
Cash and cash equivalents in the consolidated balance sheets	\$ 13,632,013	\$ 13,700,839
Bank overdraft	<u>(2,972,356)</u>	<u>(3,159,397)</u>
Cash and cash equivalents in the consolidated statements of cash flows	<u>\$ 10,659,657</u>	<u>\$ 10,541,442</u>

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

(Concluded)

CHINA STEEL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013 (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 Ecotech 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 Taiwan GreTai Securities Market. The subsidiary Dragon Steel Corporation has issued shares to the public.

As of December 31, 2014, 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 approved by the board of directors and authorized for issue on March 27, 2015.

3. APPLICATION OF NEW AND AMENDED STANDARDS AND INTERPRETATIONS

- a. The Regulations Governing the Preparation of Financial Reports by Securities Issuers and the 2013 version of the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) endorsed by the FSC but not yet effective.

Rule No. 1030029342 and Rule No. 1030010325 issued by the Financial Supervisory Commission (“FSC”), the Corporation and its subsidiaries should apply the 2013 version of IFRS, IAS, IFRIC and SIC (the “IFRSs”) announced by the International Accounting Standards Board (IASB) and endorsed by the FSC and the related amendments to the Guidelines Governing the Preparation of Financial Reports by Securities Issuers starting January 1, 2015.

New, Amended and Revised Standards and Interpretations	Effective Date Announced by IASB (Note)
Improvements to IFRSs (2009) - amendment to IAS 39	January 1, 2009 or January 1, 2010, as appropriate
Amendment to IAS 39 “Embedded Derivatives”	Effective for annual periods ending on or after June 30, 2009
Improvements to IFRSs (2010)	July 1, 2010 or January 1, 2011, as appropriate

(Continued)

New, Amended and Revised Standards and Interpretations	Effective Date Announced by IASB (Note)
Annual Improvements to IFRSs 2009-2011 Cycle	January 1, 2013
Amendment to IFRS 7 “Disclosure - Offsetting Financial Assets and Financial Liabilities”	January 1, 2013
Amendment to IFRS 7 “Disclosure - Transfer of Financial Assets”	July 1, 2011
IFRS 10 “Consolidated Financial Statements”	January 1, 2013
IFRS 11 “Joint Arrangements”	January 1, 2013
IFRS 12 “Disclosure of Interests in Other Entities”	January 1, 2013
Amendments to IFRS 10, IFRS 11 and IFRS 12 “Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance”	January 1, 2013
Amendments to IFRS 10, IFRS 12 and IAS 27 “Investment Entities”	January 1, 2014
IFRS 13 “Fair Value Measurement”	January 1, 2013
Amendment to IAS 1 “Presentation of Other Comprehensive Income”	July 1, 2012
Amendment to IAS 12 “Deferred tax: Recovery of Underlying Assets”	January 1, 2012
IAS 19 (Revised 2011) “Employee Benefits”	January 1, 2013
IAS 28 (Revised 2011) “Investments in Associates and Joint Ventures”	January 1, 2013
Amendment to IAS 32 “Offsetting Financial Assets and Financial Liabilities”	January 1, 2014
IFRIC 20 “Stripping Costs in Production Phase of a Surface Mine”	January 1, 2013

(Concluded)

Note: Unless stated otherwise, the above new, amended and revised standards and interpretations are effective for annual periods beginning on or after the respective effective dates.

Except for the following, whenever applied, the initial application of the 2013 version of the IFRSs and the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers would not have any material impact on the Corporation and its subsidiaries’ accounting policies :

1) IFRS 10 “Consolidated Financial Statements”

IFRS 10 replaces IAS 27 “Consolidated and Separate Financial Statements” and SIC 12 “Consolidation - Special Purpose Entities”. The Corporation and its subsidiaries consider whether they have control over other entities for consolidation. The Corporation and its subsidiaries have control over an investee if and only if they have i) power over the investee; ii) exposure, or rights, to variable returns from their involvement with the investee and iii) the ability to use their power over the investee to affect the amount of their returns. Additional guidance has been included in IFRS 10 to explain when an investor has control over an investee.

2) IFRS 11 “Joint Arrangements”

IFRS 11 replaces IAS 31 “Interests in Joint Ventures” and SIC 13 “Jointly Controlled Entities - Non-Monetary Contributions by Ventures”. Under IAS 31, joint arrangements are classified as jointly controlled operations, jointly controlled assets and jointly controlled entities. Under IFRS 11, joint arrangements are classified as joint operations and joint ventures. Under IAS 31, joint arrangements of the Corporation and its subsidiaries are classified as jointly controlled operations depending on the rights and obligations of the parties to the arrangements. Under IFRS 11, the joint arrangements of the Corporation and its subsidiaries are classified as joint operations. The anticipated impact is considered immaterial after the evaluation of such impact.

3) IFRS 12 “Disclosure of Interests in Other Entities”

IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements and associates. In general, the disclosure requirements in IFRS 12 are more extensive than in the current standards.

4) Revision to IAS 28 “Investments in Associates and Joint Ventures”

Under revised IAS 28, when an investment in a joint venture becomes an investment in an associate, the Corporation and its subsidiaries continue to apply the equity method and do not remeasure the retained interest. Under current IAS 28, on the loss of joint control, the Corporation and its subsidiaries measure at fair value any investment the Corporation and its subsidiaries retain in the former jointly controlled entity. The Corporation and its subsidiaries recognize in profit or loss any difference between the aggregate amounts of fair value of retained investment and proceeds from disposal of the part of interest in the jointly controlled entity, and the carrying amount of the investment at the date when joint control is lost.

5) IFRS 13 “Fair Value Measurement”

IFRS 13 establishes a single source of guidance for fair value measurements. It defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments measured at fair value only will be extended by IFRS 13 to cover all assets and liabilities within its scope.

The fair value measurements under IFRS 13 will be applied prospectively from January 1, 2015.

6) Amendments to IAS 1 “Presentation of Items of Other Comprehensive Income”

The amendments to IAS 1 require items of other comprehensive income to be grouped into those that (1) will not be reclassified subsequently to profit or loss; and (2) may be reclassified subsequently to profit or loss. Income taxes on related items of other comprehensive income are grouped on the same basis. Under current IAS 1, there were no such requirements.

Starting 2015, the Corporation and its subsidiaries will retrospectively apply the above amendments. The items which will not be reclassified to profit or loss are remeasurements of the defined benefit plans. The items which are likely to be reclassified subsequently to profit or loss include exchange differences on translating foreign operations, unrealized gain (loss) on available-for-sale financial assets, cash flow hedges and share of the other comprehensive income of associates (except share of actuarial gains and losses from defined benefit plans). However, the application of the above amendments will not result in any impact on the net profit for the year, other comprehensive income for the year (net of income tax), and total comprehensive income for the year.

7) Revision to IAS 19 “Employee Benefits”

Revised IAS 19 requires the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur and accelerates the recognition of past service costs. The revision requires all actuarial gains and losses to be recognized immediately through other comprehensive income in order for remeasurements of the defined benefit plans reflect the full value of the plan deficit or surplus.

Furthermore, the interest cost and expected return on plan assets used in current IAS 19 are replaced with a “net interest” amount, which is calculated by applying the discount rate to the net defined benefit liability or asset. The revised IAS 19 introduces certain changes in the presentation of the

defined benefit cost, and also includes more extensive disclosures.

In addition, revised IAS 19 changes the definition of short-term employee benefits. The revised definition is “employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service”. However, this change does not affect unused annual leave to be presented as a current liability in the consolidated balance sheet.

On initial application of the revised IAS 19 in 2015, the changes in cumulative employee benefit costs as of December 31, 2013 resulting from the retrospective application are adjusted to net defined benefit liabilities and retained earnings, the carrying amounts of inventories and property, plant and equipment are not adjusted.

In addition, in preparing the consolidated financial statements for the year ended December 31, 2015, the Corporation and its subsidiaries would elect not to present 2014 comparative information about the sensitivity of the defined benefit obligation.

The anticipated impact of the initial application of the revised IAS 19 is detailed as follows:

	Carrying Amount	Adjustments Arising from IAS 19	Adjusted Carrying Amount
<u>Impact on assets, liabilities and equity</u>			
<u>December 31, 2014</u>			
Deferred tax assets	\$ 6,062,321	\$ 2,784	\$ 6,065,105
Deferred tax liabilities	\$ 12,678,217	\$ 17	\$ 12,678,234
Accrued pension liabilities	\$ 5,457,497	\$ (5,457,497)	\$ -
Net defined benefit liabilities	\$ -	\$ 5,503,901	\$ 5,503,901
Retained earnings	\$ 108,169,678	\$ (18,799)	\$ 108,150,879
Non-controlling interests	\$ 29,994,473	\$ (24,838)	\$ 29,969,635
<u>January 1, 2014</u>			
Deferred tax assets	\$ 6,077,668	\$ 3,437	\$ 6,081,105
Accrued pension liabilities	\$ 7,237,168	\$ (7,237,168)	\$ -
Net defined benefit liabilities	\$ -	\$ 7,294,184	\$ 7,294,184
Retained earnings	\$ 98,628,837	\$ (27,533)	\$ 98,601,304
Non-controlling interests	\$ 29,682,661	\$ (26,046)	\$ 29,656,615
<u>Impact on total comprehensive income for the year ended December 31, 2014</u>			
Operating cost	\$ 322,622,227	\$ (6,665)	\$ 322,615,562
Operating expense	\$ 14,096,939	\$ 36,047	\$ 14,132,986
Non-operating income and expenses	\$ (1,215,297)	\$ (4)	\$ (1,215,301)
Income tax expense	\$ 4,378,958	\$ (6,392)	\$ 4,372,566
Net profit for the year	\$ 24,197,276	\$ (22,994)	\$ 24,174,282

(Continued)

	Carrying Amount	Adjustments Arising from IAS 19	Adjusted Carrying Amount
Items that will not be reclassified to profit or loss:			
Actuarial gain from defined benefit plan	\$ <u>1,564,528</u>	\$ <u>(1,564,528)</u>	\$ <u>-</u>
Remeasurements of defined benefit plan	\$ <u>-</u>	\$ <u>1,596,066</u>	\$ <u>1,596,066</u>
Income tax relating to items that will not be reclassified	\$ <u>(276,588)</u>	\$ <u>1,398</u>	\$ <u>(275,190)</u>
Other comprehensive income for the year, net of income tax	\$ <u>4,163,689</u>	\$ <u>32,936</u>	\$ <u>4,196,625</u>
Total effect on total comprehensive income for the year	\$ <u>28,360,965</u>	\$ <u>9,942</u>	\$ <u>28,370,907</u> (Concluded)

8) Annual Improvements to IFRSs: 2009-2011 Cycle

Several standards including IAS 16 “Property, Plant and Equipment”, IAS 32 “Financial Instruments: Presentation” and IAS 34 “Interim Financial Reporting” were amended in this annual improvement.

The amendments to IAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be recognized in accordance with IAS 16 when they meet the definition of property, plant and equipment and otherwise as inventory.

The amendments to IAS 32 clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 “Income Taxes”.

The amendments to IAS 34 clarify that a measure of total liabilities for a reportable segment would be disclosed in interim financial reporting when such amounts are regularly provided to the chief operating decision maker of the Corporation and its subsidiaries and there has been a material change from the amounts disclosed in the last annual financial statements for that reportable segment.

9) Recognition and measurement of financial liabilities designated as at fair value through profit or loss

In accordance with the amendments to the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, for financial liabilities designated as at fair value through profit or loss, the amount of change in the fair value attributable to changes in the credit risk of that liability is presented in other comprehensive income and the remaining amount of change in the fair value of that liability is presented in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. If the above accounting treatment would create or enlarge an accounting mismatch, all gains or losses on that liability are presented in profit or loss.

In sum, the anticipated impact on applications of the 2013 version of IFRSs and the related amendments to the Guidelines Governing the Preparation of Financial Reports by Securities Issuers is considered immaterial to the Corporation and its subsidiaries.

b. IFRSs announced by the IASB but not yet endorsed by the FSC

The Corporation and its subsidiaries have not applied the IFRSs announced by the IASB but not yet endorsed by the FSC. As of the date the consolidated financial statements were reported to the board of directors and approved for issue, the FSC has not yet announced the effective date.

New, Amended and Revised Standards and Interpretations	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2010-2012 Cycle	July 1, 2014 (Note 2)
Annual Improvements to IFRSs 2011-2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016 (Note 3)
IFRS 9 “Financial Instruments”	January 1, 2018
Amendments to IFRS 9 and IFRS 7 “Mandatory Effective Date 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”	January 1, 2016 (Note 4)
Amendments to IFRS 10, IFRS 12 and IAS 28 “Investment Entities : Applying the Consolidation Exception”	January 1, 2016
Amendment to IFRS 11 “Acquisitions of Interests in Joint Operations”	January 1, 2016
IFRS 14 “Regulatory Deferral Accounts”	January 1, 2016
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2017
Amendments to IAS 1 “Disclosure Initiative”	January 1, 2016
Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization”	January 1, 2016
Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plants”	January 1, 2016
Amendment to IAS 19 “Defined Benefit Plans: Employee Contributions”	July 1, 2014
Amendment to IAS 36 “Recoverable Amount Disclosures for Non-Financial Assets”	January 1, 2014
Amendment to IAS 39 “Novation of Derivatives and Continuation of Hedge Accounting”	January 1, 2014
IFRIC 21 “Levies”	January 1, 2014

Note 1: Unless stated otherwise, the above new, amended and revised standards and interpretations are effective for annual periods beginning on or after the respective effective dates.

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

Note 3: The amendment to IFRS 5 is applied prospectively for annual periods beginning on or after January 1, 2016; the remaining amendments are effective for annual periods beginning on or after January 1, 2016.

Note 4: Prospectively applicable to transactions occurring in annual periods beginning on or after January 1, 2016.

Except for the following, whenever applied, the initial application of the above new, amended and revised standards and interpretations would not have any material impact on the Corporation and its subsidiaries’ accounting policies:

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 requirements for classifying financial assets are as follows.

When the contractual cash flow of the debt instruments invested by the Corporation and its subsidiaries that are solely payments of principal and interest on the principal outstanding, the classification and measurement are as follows:

- a) Financial assets that are held within a business model whose objective is to collect the contractual cash flow are generally measured at amortized cost. Related interest revenue is recognized in profit or loss using the effective interest rate; impairment is continually evaluated and recognized in profit or loss.
- b) Financial assets that are held within business models whose objectives are to collect the contractual cash flow and to sell are measured at fair value through other comprehensive income. Related interest revenue is recognized in profit or loss using the effective interest rate; impairment is continually evaluated and recognized in profit or loss as well as exchange gain or loss, while other fair value changes are recognized in other comprehensive income. When the financial assets are derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

All other financial assets are measured at fair value, with changes recognized in 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 impairment evaluation is needed for the subsequent period, 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

Under IFRS 9, expected credit loss model is applied to recognize impairment of financial assets. Allowance for credit losses is recognized for financial assets measured at amortized cost, financial assets measured at fair value mandatorily through other comprehensive income, lease receivables, contract assets or loans commitments under IFRS 15 “Revenue from Contracts with Customers” and financial guarantee contracts. If credit risks of such financial assets have not increased significantly since initial recognition, allowance for credit losses is measured at 12-month expected credit losses. If credit risks of such financial assets have increased significantly since initial recognition and are not low, allowance for credit losses is measured at lifetime expected credit losses. Credit losses for accounts receivable that do not constitute a financing transaction should be measured at expected credit losses.

Furthermore, for the financial assets with credit impairment on initial recognition, the Corporation and its subsidiaries consider the expected credit losses on initial recognition to calculate effective interest rate after adjusting credit risk. Subsequently, allowance for credit losses is measured at accumulated changes in expected credit losses.

Hedge accounting

The main changes in hedge accounting amended the application requirements for hedge accounting to better reflect the entity's risk management activities. Compared with IAS 39, the main changes include: (1) enhancing types of transactions eligible for hedge accounting, specifically broadening the risk 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.

2) Amendments to IAS 36 “Recoverable Amount Disclosures for Non-Financial Assets”

In issuing IFRS 13 “Fair Value Measurement”, the IASB made consequential amendments to the disclosure requirements in IAS 36 “Impairment of Assets”, introducing a requirement to disclose in every reporting period the recoverable amount of an asset or each cash-generating unit. The amendment clarifies that such disclosure of recoverable amount is required only when an impairment loss has been recognized or reversed during the period. Furthermore, the Corporation and its subsidiaries are required to disclose the discount rate used in measurements of the recoverable amount based on fair value less costs of disposal measured using a present value technique.

3) Annual Improvements to IFRSs: 2010-2012 Cycle

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

The amended IFRS 2 changes the definitions of “vesting condition” and “market condition” and adds definitions for “performance condition” and “service condition”. The amendment clarifies that a performance target can be based on the operations (i.e. a non-market condition) of the Corporation and its subsidiaries or another entity in the same group or on the market price of the equity instruments of the Corporation and its subsidiaries or another entity in the same group (i.e. a market condition); that a performance target can relate either to the performance of the Corporation and its subsidiaries as a whole or to some part of it (e.g. a division); and that the period for achieving a performance condition must not extend beyond the end of the related service period. In addition, a share market index target is not a performance condition because it reflects not only the performance of the Corporation and its subsidiaries, but also that of other entities outside the Corporation and its subsidiaries.

IFRS 3 was amended to clarify that contingent consideration should be measured at fair value, irrespective of whether the contingent consideration is a financial instrument within the scope of IAS 39 or IFRS 9. Fair value changes should be recognized in profit or loss.

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

IFRS 13 was amended to clarify that the issuance of IFRS 13 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of not discounting is immaterial.

IAS 24 was amended to clarify that a management entity providing key management personnel services to the Corporation and its subsidiaries is a related party of the Corporation and its subsidiaries. Consequently, the Corporation and its subsidiaries are required to disclose as related

party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

4) Annual Improvements to IFRSs: 2011-2013 Cycle

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

IFRS 3 was amended to clarify that IFRS 3 does not apply to the accounting for the formation of all types of joint arrangements in the financial statements of the joint arrangement itself.

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

IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required to determine whether the investment property acquired is acquisition of an asset or a business combination.

5) Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization”

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

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

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

- a) in which the intangible asset is expressed as a measure of revenue (for example, the contract that specifies the Corporation and its subsidiaries’ use of the intangible asset will expire upon achievement of a revenue threshold); or
- b) when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

The Corporation and its subsidiaries should apply the aforementioned amendments prospectively for annual periods beginning on or after the effective date.

6) IFRS 15 “Revenue from Contracts with Customers”

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:

- a) Identify the contract with the customer;
- b) Identify the performance obligations in the contract;
- c) Determine the transaction price;
- d) Allocate the transaction price to the performance obligations in the contracts; and
- e) Recognize revenue when the Corporation and its subsidiaries satisfy a performance obligation.

When IFRS 15 is 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.

7) 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’ share of the gain or loss is eliminated.

8) Annual Improvements to IFRSs: 2012-2014 Cycle

Several standards including IFRS 7 were amended in this annual improvement.

The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset. In addition, the amendments clarify that the offsetting disclosures are not explicitly required for all interim periods; however, the disclosures may need to be included in condensed interim financial statements to comply with IAS 34 under specific conditions.

9) Amendment to IAS 1 “Disclosure Initiative”

The amendment clarifies that the consolidated financial statements should be prepared for the purpose of disclosing material information. To improve the understandability of its consolidated financial statements, the Corporation and its subsidiaries should disaggregate the disclosure of material items into their different natures or functions, and disaggregate material information from immaterial information.

The amendment further clarifies that the Corporation and its subsidiaries should consider the understandability and comparability of its consolidated financial statements to determine a systematic order in presenting its footnotes.

10) Amendments to IFRS 10, IFRS 12 and IAS 28 “Investment Entities: Applying the Consolidation Exception”

The amendments clarified that when the Corporation and its subsidiaries applies the equity method to an associate that is an investment entity, the Corporation and its subsidiaries may retain the fair value measurements that the associate used for its subsidiaries.

As of the date the consolidated financial statements were authorized 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.

Statement of Compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs endorsed by the FSC.

Basis of Preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Classification of Current and Noncurrent Assets and Liabilities

Current assets include:

- a. Assets held primarily for the purpose of trading;
- b. Assets expected to be realized within twelve months after the balance sheet date; and
- c. Cash and cash equivalents unless the asset is restricted from being used for an exchange or used to settle a liability for more than twelve months after the balance sheet date.

Current liabilities include:

- a. Liabilities held primarily for the purpose of trading;
- b. Liabilities expected to be settled within twelve months after the balance sheet date; and
- c. Liabilities without an unconditional right to defer settlement for at least twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Assets and liabilities that are not classified as current are classified as noncurrent.

For the Corporation and its subsidiaries' construction-related business, which has an operating cycle of over one year, the length of the operating cycle is the basis for classifying the Corporation and its subsidiaries' construction assets and liabilities as current or noncurrent.

Basis of Consolidation

a. Principles for preparing consolidated financial statements

The consolidated financial statements incorporate the financial statements of the Corporation and the entities controlled by the Corporation (its subsidiaries).

Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition up to the effective date of disposal, as appropriate. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Corporation. All significant intercompany transactions and balances are eliminated upon consolidation.

Attribution of total comprehensive income to non-controlling interests

Total comprehensive income of subsidiaries is attributed to the owners of the Corporation and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Corporation's ownership interests in existing subsidiaries

Changes in the Corporation's ownership interests in subsidiaries that do not result in the Corporation losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Corporation's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Corporation.

When the Corporation and its subsidiaries lose control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained investment in the former subsidiary at the date when control is lost and (ii) the carrying amount of the assets (including goodwill) and liabilities of the former subsidiary and any non-controlling interests at the date when control is lost. The Corporation accounts for all amounts recognized in other comprehensive income in relation to the subsidiary on the same basis as would be required if the Corporation had directly disposed of the related assets or liabilities.

The fair value of any retained investment in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition of a financial asset under IAS 39 "Financial Instruments: Recognition and Measurement" if the Corporation has no significant influence or joint control over the former subsidiary. The fair value of any retained investment in the former subsidiary at the date when control is lost is regarded as the cost on initial recognition of an investment in an associate or a jointly controlled entity if the Corporation has significant influence or joint control over the former subsidiary.

b. Subsidiaries included in consolidated financial statements

The consolidated entities were as follows:

Investor	Investee	Main Businesses	Percentage of Ownership (%)		Additional Descriptions
			December 31, 2014	December 31, 2013	
China Steel Corporation	China Steel Express Corporation (CSE)	Ocean freight forwarding	100	100	
	C. S. Aluminium Corporation (CSAC)	Production and sale of aluminum and other non-ferrous metal	100	100	
	Gains Investment Corporation (GIC)	General investment	100	100	
	China Prosperity Development Corporation (CPDC)	Real estate sale, rental and development service	100	100	
	China Steel Asia Pacific Holdings Pte Ltd. (CSAPH)	Investment holding company	100	100	
	China Steel Global Trading Corporation (CSGT)	Steel product agency and trading service	100	100	
	China Steel Machinery Corporation	Manufacture of machinery and equipment	74	74	Direct and indirect ownerships amounted to 100%
	China Steel Security Corporation	Guard security and system security	100	100	
	Info-Champ Systems Corporation (ICSC)	Design and sale of IT hardware and software	100	100	
	CSC Steel Australia Holdings Pty Ltd. (CSCAU)	Investment holding company	100	100	
	Himag Magnetic Corporation	Manufacture and trading of magnetic powder	50	50	Direct and indirect ownerships amounted to 85%
	Dragon Steel Corporation (DSC)	Manufacture and sale of steel product	100	100	
	China Steel Management Consulting Corporation	Business management consultant	100	100	
	China Ecotek Corporation (CEC)	Electrical engineering and co-generation	45	45	Refer to 1) below
	China Steel Chemical Corporation (CSCC)	Production and sale of coal chemistry and specialty chemicals	29	29	Refer to 1) below
	Chung Hung Steel Corporation Ltd. (CHSC)	Manufacture and sale of steel product	41	41	Refer to 1) below
	CHC Resources Corporation (CHC)	Manufacture and sale of slag powder and blast furnace cement, and waste disposal	20	20	Direct and indirect ownerships amounted to 35%, and refer to 1) below
	China Steel Structure Co., Ltd. (CSSC)	Design, manufacture and sale of steel structure	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	51	51	
	China Steel Corporation India Pvt. Ltd. (CSCI)	Manufacture and sale of steel product (electromagnetic steel coil)	100	100	
	Kaohsiung Rapid Transit Corporation (KRTC)	Operation of mass rapid transit	43	43	Direct and indirect ownerships all amounted to 50% as of December 31, 2014 and 2013
	China Steel Resources Corporation	Disposal and process of waste	100	-	Investment in February 2014
	CSC Precision Metal Industrial Corporation	Non-ferrous metals processing	100	-	Investment in June 2014
	Winning Investment Corporation (WIC)	General investment	-	-	Indirect ownership was 58%
	Eminent Venture Capital Corporation (EVCC)	General investment	-	-	Indirect ownership was 55%
China Steel Express Corporation	CSE Transport Corporation (Panama) (CSEP)	Ocean freight forwarding	100	100	
	CSEI Transport Corporation (Panama) (CSEIP)	Ocean freight forwarding	100	100	
	Transyang Shipping Pte Ltd. (TSP)	Ocean freight forwarding	51	51	
	Transglory Investment Corporation (TIC)	General investment	50	50	Direct and indirect ownerships amounted to 100%
C.S. Aluminium Corporation	Kaohsiung Port Cargo Handling Services Corp.	Cargo Stevedoring	66	66	
	ALU Investment Offshore Corporation	Industry investment	100	100	
	United Steel International Development Corp.	Industry investment	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	
Gains Investment Corporation	Eminence Investment Corporation	General investment	100	100	
	Gainsplus Asset Management Inc.	General investment	100	100	
	Mentor Consulting Corporation	General investment consulting service	100	100	

(Continued)

Investor	Investee	Main Businesses	Percentage of Ownership (%)		Additional Descriptions
			December 31, 2014	December 31, 2013	
	AmbiCom Technology, Inc.	Wholesale of office machinery and equipment	-	80	End of settlement in February 2014
	Betacera Inc. (BETA)	Manufacture, processing and trading of electronic ceramics	48	48	Refer to 1) below
	Universal Exchange Inc.	Software programming	64	64	Direct and indirect ownerships amounted to 40% and 41% as of December 31, 2014 and 2013 respectively and refer to 2) below
	Thintech Materials Technology Co., Ltd. (TMTG)	Target material and bimetal material tube sale	32	33	
Eminence Investment Corporation	Shin-Mau Investment Corporation	General investment	30	30	Direct and indirect ownerships amounted to 100%
	Gau Ruel Investment Corporation	General investment	25	25	Direct and indirect ownerships amounted to 100%
	Ding Da Investment Corporation	General investment	30	30	Direct and indirect ownerships amounted to 100%
	Chiun Yu Investment Corporation	General investment	25	25	Direct and indirect ownerships amounted to 100%
Shin-Mau Investment Corporation	Horng Chyuan Investment Corporation	General investment	5	5	Direct and indirect ownerships amounted to 100%
	Chi Yih Investment Corporation	General investment	5	5	Direct and indirect ownerships amounted to 100%
Gau Ruel Investment Corporation	Lih Ching Loong Investment Corporation	General investment	5	5	Direct and indirect ownerships amounted to 100%
	Sheng Lih Dar Investment Corporation	General investment	4	4	Direct and indirect ownerships amounted to 100%
Ding Da Investment Corporation	Jiing Cherng Fa Investment Corporation	General investment	4	4	Direct and indirect ownerships amounted to 100%
Betacera Inc. Lefkara Ltd.	Lefkara Ltd.	Electronic ceramics trading	100	100	
	Shang Hai Xike Ceramic Electronic Co., Ltd.	Electronic ceramics trading	100	100	
	Betacera (Su Zhou) Co., Ltd.	Manufacture and sale of electronic ceramics	100	100	
	Suzhou Betacera Technology Co., Ltd.	Manufacture and sale of life-saving equipment for aviation and shipping	100	100	
Thintech Materials Technology Co., Ltd.	Thintech International Limited	International trading and investment service	100	100	
	Thintech Global Limited	International trading and investment service	100	100	
	Thintech United Limited	International trading and investment service	100	100	
Thintech International Limited	Nantong Zhongxing Materials Technology Co., Ltd. (NZMTCL)	Manufacture, processing and trading of target material	47	47	Refer to 1) below
Thintech Global Limited	Taicang Thintech Materials Co., Ltd.	Manufacture, processing and trading of target material	100	100	
Thintech United Limited	Thintech United Metal Resources (Taicang) Co., Ltd. (TUMRCL)	Refining, purification and sale of metal	84	76	
China Prosperity Development Corporation	CK Japan Co., Ltd.	Real estate sale and rental	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	Refer to 1) below
	Changzhou China Steel Precision Materials Corporation (CCSPMC)	Manufacture and sale of titanium-nickel alloy and non-ferrous metal	70	70	Direct and indirect ownerships amounted to 70%
	Qingdao China Steel Precision Metals Co., Ltd. (QCSPMC)	Steel cutting and processing	60	60	

(Continued)

Investor	Investee	Main Businesses	Percentage of Ownership (%)		Additional Descriptions
			December 31, 2014	December 31, 2013	
	United Steel International Co., Ltd.	General investment	80	-	Investment from United Steel Investment Holding Co., Ltd. in July 2014; direct and indirect ownerships amounted to 100%
CSC Steel Holdings Berhad	CSC Steel Sdn. Bhd. (CSCSSB)	Manufacture and sale of steel product	100	100	
	Group Steel Corp. (M) Sdn. Bhd.	Manufacture and sale of steel product	100	100	
	CSC Bio-Coal Sdn. Bhd.	Manufacture biomass coal	100	100	
CSC Steel Sdn. Bhd.	Constant Mode Sdn. Bhd.	General investment	100	100	
United Steel International Co., Ltd.	United Steel Engineering and Construction Co., Ltd.	Civil engineering construction and other business contract and management	100	100	
China Steel Global Trading Corporation	Chung Mao Trading (SAMOA) Co., Ltd.	Investment and trading service	100	100	
	CSGT (Singapore) Pte. Ltd.	Steel product agency and trading service	100	100	
	Chung Mao Trading (BVI) Co., Ltd.	Steel product agency and trading service	53	53	
	Wabo Global Trading Corporation	Steel product agency and trading service	44	44	Direct and indirect ownerships amounted to 50%
	CSGT International Corporation	Investment and trading service	100	100	
	China Steel Global Trading Vietnam Co., Ltd.	Steel trading	100	100	
Chung Mao Trading (SAMOA) Co., Ltd.	CSGT (Shanghai) Co., Ltd.	Steel product agency and trading service	100	100	
Chung Mao Trading (BVI) Co., Ltd.	CSGT Hong Kong Limited	Steel product agency and trading service	100	100	
CSGT International Corporation	CSGT Metals Vietnam Joint Stock Company	Steel cutting and processing	45	45	Direct and indirect ownerships amounted to 50%
	CSGT Trading India Pvt. Ltd.	Steel trading	100	-	Investment in October 2014
Wabo Global Trading Corporation	CSGT Japan Co., Ltd.	Steel product agency and trading service	100	100	
China Steel Machinery Corporation	China Steel Machinery Holding Corporation	General investment	100	100	
	China Steel Machinery Vietnam Co., Ltd.	Installation of machinery and equipment, and technology service	100	100	
	China Steel Machinery Corporation India Pvt. Ltd.	Manufacture of machinery	99	99	Direct and indirect ownerships amounted to 100%
China Steel Machinery Holding Corporation	CSMC (Shanghai) Global Trading Co., Ltd.	International trading	100	100	
China Steel Security Corporation	Steel Castle Technology Corporation	Firefighting equipment wholesaling	100	100	
	China Steel Management and Maintenance for Building Corporation	Building management	100	100	
Info-Champ Systems Corporation	Info-Champ System (B.V.I.)	Information service	100	100	
Info-Champ System (B.V.I.)	Wuham InfoChamp I.T. Co., Ltd.	Software programming	100	100	
CSC Steel Australia Holdings Pty Ltd.	CSC Sonoma Pty Ltd.	General investment	100	100	
Himag Magnetic Corporation	Himag Magnetic (Belize) Corporation	Magnetic powder trading	100	100	
	MagnPower Corporation	Magnetic powder trading	50	-	Investment in September 2014
China Ecotek Corporation	CEC International Corp.	General investment	100	100	
	CEC Development Co.	General investment	100	100	
	CEC Holding Co., Ltd.	General investment	100	100	
	China Ecotek Construction Corporation	Construction, interior design and decoration, and retail and wholesale of building materials	100	100	
CEC International Corp.	China Ecotek India Private Limited	Planning, maintenance and management of eco-construction and eco-equipment	100	100	
CEC Development Co.	China Ecotek Vietnam Company Ltd. (CEVC)	Engineering design and construction	100	100	
	Xiamen Ecotek PRC Co., Ltd.	Metal materials agency and trading service	100	100	
China Steel Chemical Corporation	Ever Glory International Co., Ltd.	International trading	100	100	
Ever Wealthy Investment Corporation	Ever Wealthy Investment Corporation	General investment	100	100	
	Ever Earning Investment Company	General investment	51	51	Direct and indirect ownerships amounted to 100%
	China Steel Carbon Materials Technology Co., Ltd.	General investment	100	100	
China Steel Carbon Materials Technology Co., Ltd.	Changzhou China Steel New Carbon Technology Co., Ltd.	Processing and trading of Mesocarbon Microbeads products	100	100	
Chung Hung Steel Corporation Ltd.	Taiwan Steel Corporation (TSC)	Not yet in operation	100	100	
	Hung Kao Investment Corporation	General investment	100	100	
	Hung Li Steel Corporation Ltd. (HLSC)	Steel product processing	100	100	

(Continued)

Investor	Investee	Main Businesses	Percentage of Ownership (%)		Additional Descriptions
			December 31, 2014	December 31, 2013	
CHC Resources Corporation	Union Steel Development Corp.	Manufacture and trading of metal powder and ore powder, and gift trading	93	93	
	Pao Good Industrial Co., Ltd. Yu Cheng Lime Corporation	Slag powder processing and trading Manufacture of other non-metal mineral product	51 90	51 90	
China Steel Structure Co., Ltd.	United Steel Constructure Corporation (USCC)	Contract project of civil engineering and construction engineering, and steel structure installation	100	100	
	China Steel Structure Investment Pte Ltd.	General investment	100	100	
United Steel Constructure Corporation	United Steel Investment Holding Co., Ltd.	General investment	-	100	End of settlement in August 2014
	United Steel Investment Pte Ltd.	General investment	100	100	
	Lian Chuan Construction Consultation (Shanghai) Co., Ltd.	Engineering technology consulting	-	100	End of settlement in August 2014
	United Steel Construction Vietnam Co., Ltd.	Civil engineering construction and other business contract and management	100	100	
United Steel Investment Holding Co., Ltd.	United Steel Development Co., Ltd.	Construction development and rental business	100	100	
	United Steel International Co., Ltd.	General investment	-	100	Reorganization to CSAPH in July 2014
	China Steel Structure Investment Pte Ltd.	General investment	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	
China Steel Structure Investment Co., Ltd.	Chung-Kang Steel Structure (Kunshan) Co., Ltd.	Steel structure installation, consulting and steel plate cutting	100	100	
China Steel Resources Corporation (CSRC)	Fa Long Storage Corporation	Storage and delivery of waste	-	-	Investment in August 2014; merged with CSRC in November 2014

(Concluded)

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

- 1) The actual operations of CEC, CCCC, 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, CCCC, 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.
- 2) 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 the aforementioned entity and included it in the consolidated entities.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. Acquisition-related costs are generally recognized in profit or loss as incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Non-controlling interests are initially measured at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets.

When a business combination is achieved in stages, the Corporation and its subsidiaries' previously held equity interest in the acquiree is remeasured to fair value at the acquisition date, and the resulting gain or loss is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of by the Corporation and its subsidiaries.

Foreign Currencies

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

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

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

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

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Corporation and its subsidiaries' foreign operations (including of the subsidiaries and associates operating in other countries or using currencies different from the Corporation's) are translated into New Taiwan dollars using exchange rates prevailing at each balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are recognized in other comprehensive income (attributed to the owners of the Corporation and non-controlling interests as appropriate).

On the disposal involving loss of control over a subsidiary that includes a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Inventories

Inventories manufactured or traded by the Corporation and its subsidiaries consist of raw materials, supplies, finished goods, work-in-process, etc. Inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at moving average cost or weighted-average cost.

Besides the goods manufactured or traded by the Corporation and its subsidiaries, inventories also include buildings and lands under construction and prepayment for land.

The cost of buildings construction is calculated by each different construction project. The expenditure on land before acquiring land ownership is recorded as prepayment for land. The construction and other costs after acquiring land ownership are recognized as construction in progress, which will be transferred to property held for sale after the completion, and transferred to operating costs based on the ratio of area sold to total area when the lands and buildings are sold and the criteria of revenue recognition were met.

Before the transfer of land ownership and the completion of construction, interest arising from land purchase and cost of construction in progress (including costs of lands and constructions) is capitalized and recorded as acquisition cost of land and construction cost.

Investment in Associates

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

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

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

When the Corporation and its subsidiaries' share of losses of an associate equal or exceed their interest in that associate (which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Corporation and its subsidiaries' net investment in the associate), the Corporation and its subsidiaries discontinue recognizing their share of further losses. Additional losses and liabilities are recognized only to the extent that the Corporation and its subsidiaries have incurred legal obligations, or constructive obligations, or made payments on behalf of that associate.

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

When impairment loss is evaluated, the entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. An impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment has subsequently increased.

When the Corporation and its subsidiaries cease to have significant influence over the associate, the Corporation and its subsidiaries will measure the retained investment at fair value at that date. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. The Corporation and its subsidiaries account for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities

When the Corporation and its subsidiaries transact with their associates, profits and losses on these transactions are recognized in the consolidated financial statements only to the extent of interests in the associate that are not related to the Corporation and its subsidiaries.

Jointly controlled operations

The Corporation and its subsidiaries recognizes in the consolidated financial statements in respect of its interest in jointly controlled operations:

- a. The assets it controls and the liabilities it incurs; and
- b. The expenses it incurs and its share of the income it earns on the sale of goods or services by the joint venture.

Property, Plant, and Equipment

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

Properties in the course of construction for production, supply or administrative purposes are carried at cost. Cost includes professional fees and borrowing costs eligible for capitalization. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use and depreciated accordingly.

Except that depreciation of the rollers (spare parts) is calculated based on their level of wear and depreciation of the machineries in the recycling plant of the subsidiary CHC is calculated by the working-hour method, other depreciation is recognized so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each balance sheet date, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. Assets are depreciated over the shorter of the lease term and their useful lives using the straight-line method.

Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss in the current year.

Investment Properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties also include land held for a currently undetermined future use.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss. Depreciation is recognized using the straight-line method.

Investment properties in the course of construction are stated at cost less accumulated impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Depreciation of these assets commences when the assets are ready for their intended use.

Any gain or loss arising on derecognition of the property is calculated as the difference between the net disposal proceeds and the carrying amount of the asset and is included in profit or loss in the year in which the property is derecognized.

Impairment of Tangible and Intangible Assets

At each balance sheet date, the Corporation and its subsidiaries review the carrying amounts of their tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Corporation and its subsidiaries estimate the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to the individual cash-generating units; otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount.

When an impairment loss subsequently is reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Financial Instruments

Financial assets and financial liabilities are recognized when the Corporation and its subsidiaries become a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

a. Measurement category

Financial assets held by the Corporation and its subsidiaries include financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets and loans and receivables.

1) Financial assets at fair value through profit or loss

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

A financial asset may be designated as at fair value through profit or loss upon initial recognition if:

- a) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- b) The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the

Corporation and its subsidiaries' documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- c) The contract contains one or more embedded derivatives so that the entire hybrid (combined) contract can be designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset.

2) Held-to-maturity investments

Structure notes and guarantee debt certificates, which are above specific credit ratings and the Corporation and its subsidiaries have positive intent and ability to hold to maturity, are classified as held-to-maturity investments.

Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment.

3) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are measured at fair value. Changes in the carrying amount of available-for-sale monetary financial assets relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and reclassified in profit or loss when the investment is disposed of or is determined to be impaired.

Dividends on available-for-sale equity instruments are recognized when the Corporation and its subsidiaries' right to receive the dividends is established.

4) Loans and receivables

Loans and receivables (including cash and cash equivalents, notes and accounts receivable, net, other receivables, bond investments with no active market, refundable deposits and other financial assets) are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Cash equivalent includes time deposits, commercial papers and bonds with repurchase agreements with original maturity within three months from the date of acquisition, high liquidity, readily convertible to a known amount of cash and subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

b. Impairment of financial assets

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

Financial assets carried at amortized cost, such as accounts receivable, are assessed for impairment on a collective basis even if there is no objective evidence of impairment individually. Objective evidence of impairment for a portfolio of receivables could include the Corporation and its subsidiaries' past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables. The amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the securities below its cost is considered to be objective evidence of impairment. For all other financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, breach of contract, such as a default or delinquency in interest or principal payments, higher probability that the borrower will enter bankruptcy or financial re-organization, or the disappearance of an active market for that financial asset because of financial difficulties.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period. In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss is not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. In respect of available-for-sale debt securities, the impairment loss is subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account. When a trade receivable and other receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectible trade receivables that are written off against the allowance account.

c. Derecognition of financial assets

The Corporation and its subsidiaries derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

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

Equity instruments

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

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

Financial liabilities

a. Subsequent measurement

Except the following situation, all the financial liabilities are measured at amortized cost using the effective interest method:

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss when the financial liability is either held for trading or it is designated as at fair value through profit or loss.

A financial liability may be designated as at fair value through profit or loss upon initial recognition when doing so results in more relevant information and if:

- 1) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- 2) The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Corporation and its subsidiaries' documented risk management or investment strategy, and information about the grouping is provided internally on that basis.
- 3) The contract contains one or more embedded derivatives so that the entire combined contract (asset or liability) can be designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest paid on the financial liability.

b. Derecognition of financial liabilities

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

Convertible bonds

The component parts of compound instruments (convertible bonds) issued by the Corporation and its subsidiaries are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

On initial recognition, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to capital surplus - share premium. When the conversion option remains unexercised at the maturity date of the convertible bonds, the balance recognized in equity will be

transferred to capital surplus - share premium.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability components (included in the carrying amount of liabilities) and equity components (included in equity) in proportion to the allocation of the gross proceeds.

Derivative financial instruments

The Corporation and its subsidiaries enter into a variety of derivative financial instruments to manage their exposure to foreign exchange rate and interest rate risks, including foreign exchange forward contracts and interest rate swap contracts.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. When the fair value of derivative financial instruments is positive, the derivative is recognized as a financial asset; when the fair value of derivative financial instruments is negative, the derivative is recognized as a financial liability.

Hedge Accounting

The Corporation and its subsidiaries designate certain hedging instruments, which include derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in profit or loss in the line item relating to the hedged item.

Hedge accounting is discontinued prospectively when the Corporation and its subsidiaries revoke the designated hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised (the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if it formed part of the Corporation and its subsidiaries' documented hedging strategy from inception), or when the hedging instrument no longer meets the criteria for hedge accounting. The fair value adjustment to the carrying amount of the hedged instrument arising from the hedged risk for which the effective interest method is used is amortized to profit or loss from the date hedge accounting is discontinued. The adjustment which is based on a recalculated effective interest rate at the date amortization begins is amortized fully by maturity of the financial instrument.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognized in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is included in the other gains and losses line item.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognized in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment in the same period or periods during which the hedged forecast cash flows affect profit or loss. If a hedge of a forecast transaction subsequently results in

the recognition of a non-financial asset or a non-financial liability, the associated gains and losses that were recognized in other comprehensive income are removed and are included in the initial cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued prospectively when the Corporation and its subsidiaries revoke the designated hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised (the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if it formed part of the Corporation and its subsidiaries' documented hedging strategy from inception), or when the hedging instrument no longer meets the criteria for hedge accounting. The cumulative gain or loss on the hedging instrument that has been previously recognized in other comprehensive income from the period when the hedge was effective remains separately in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for similar to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in other comprehensive income and accumulated under the heading of exchange differences on translating foreign operations. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is included in the other gains and losses line item.

Gains and losses on the hedging instrument relating to the effective portion of the hedge accumulated in the foreign currency translation reserve are reclassified to profit or loss on the disposal or partial disposal of the foreign operation.

Provisions

Provisions are measured at the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Provisions are measured using the cash flows estimated to settle the present obligation.

Treasury Shares

Reacquired issued shares of the Corporation are recorded as treasury shares at cost and shown as a deduction in equity.

Shares of the Corporation held by subsidiaries are reclassified to treasury shares from investments accounted for using equity method at the acquisition cost.

Revenue Recognition

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

Sale of goods

Revenues from the sale of goods are recognized when the significant risks and rewards of ownership of the goods are transferred to the customers as follows: domestic sales - when products are moved out of the Corporation and its subsidiaries' premises for delivery to customers; exports - when products are loaded onto vessels. Revenues are recognized because the earning process is accomplished and revenue is realized or realizable. Freight revenues are recognized according to the proportion of voyage days used to contracted voyage of each ship. Revenues from construction contracts are recognized in accordance with the accounting standards for construction contracts which are described below in "Construction Contracts".

Revenues are measured at the fair value, which is the discounted present value of the price (net of commercial discounts and quantity discounts) agreed to by the Corporation and its subsidiaries with customers. But if the related receivable is due within one year, the difference between its present value and undiscounted amount is immaterial, and sales transactions are frequent, the fair value of receivables is equivalent to the nominal amount of cash to be received.

Rendering of services

Service revenue is recognized according to the contract and the percentage of completion of the services. If a service contract is estimated to bear a loss prior to completion, the Corporation and its subsidiaries recognize the full amount of the loss immediately. However, if the loss is estimated to be smaller in future years, the difference is reversed and recognized as a gain in the year of determination.

Construction Contracts

When the outcome of a construction contract can be estimated reliably, revenues and costs are recognized by reference to the stage of completion of the contract activity at the balance sheet date, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that are estimated as recoverable. Contract costs are recognized as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

When a contract covers a number of assets, the construction of each asset is treated as a separate contract when separate proposals have been submitted for each asset, each asset has been separately negotiated, contractors and customers can accept or reject any part of the contract related to each asset and the costs and revenues of each asset can be separately identified. A group of contracts performed concurrently or in a continuous sequence, is treated as a single construction contract when the contracts were negotiated as a single package and they are so closely inter-related that they constitute a single project with an overall profit margin.

When contract costs incurred to date plus recognized profits less recognized losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognized profits less recognized losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated balance sheets as other current liabilities. Amounts billed for work performed but not yet paid by the customer are included in the consolidated balance sheets as accounts receivable.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

a. The Corporation and its subsidiaries as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Contingent rents arising under operating leases are recognized as income in the year in which they are incurred.

b. The Corporation and its subsidiaries as lessee

Assets held under finance leases are initially recognized as assets of the Corporation and its subsidiaries at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheets as a finance lease obligation.

Minimum lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Corporation and its subsidiaries' general policy on borrowing costs. Contingent rents are recognized as expenses in the year in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term. Contingent rents arising under operating leases are recognized as an expense in the year in which they are incurred.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All borrowing costs other than those stated above are recognized in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognized until there is reasonable assurance that the subsidiaries will comply with the conditions attaching to them and that the grants will be received.

Retirement Benefit Costs

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses on the defined benefit obligation are recognized immediately in other comprehensive income. Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognized in the consolidated balance sheets represents the present value of the defined benefit obligation as adjusted for unrecognized past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to the unrecognized past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Curtailment or settlement gains or losses on the defined benefit plan are recognized when the curtailment or settlement occurs.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

Current tax is the amount of tax at statutory rate calculated on the taxable profit at the balance sheet date. According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused loss carry forward and unused tax credits for purchases of machinery and equipment, and research and development expenditures to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Corporation and its subsidiaries are able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at each balance sheet date and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Corporation and its subsidiaries expect, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Corporation and its subsidiaries' accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Estimated impairment of accounts receivable

When there is objective evidence of impairment loss, the Corporation and its subsidiaries take into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise.

Valuation of inventory

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

Fair value of private-placement shares of listed companies, emerging market shares and unlisted equity securities

As described in Note 32, the Corporation and its subsidiaries applied valuation techniques commonly used by market practitioners to evaluate fair value of the financial instruments that do not have listed market price in an active market. The measurement for the fair value of private-placement shares of listed companies, emerging market shares and unlisted equity securities includes assumptions not based on observable market prices or interest rates; therefore, the fair value may change significantly.

Held-to-maturity financial assets

Management has reviewed the Corporation and its subsidiaries' held-to-maturity financial assets in light of their capital maintenance and liquidity requirements and has confirmed the Corporation and its subsidiaries' positive intention and ability to hold those assets to maturity.

Useful lives of property, plant and equipment and investment properties

The useful lives of property, plant and equipment and investment properties are determined on the basis of the expected usage of the asset, the expected physical wear and tear, technical or commercial obsolescence, and legal or similar limits on the use of the asset, which may result in significant adjustments.

Estimated stage of completion and construction costs

Revenues and cost are recognized respectively on the basis of the stage of completion of construction contracts which is measured based on the proportion of units produced and installed at the balance sheet date to total expected units to be produced or on the proportion of contract costs incurred to date to total estimated costs. When there are significant changes in total expected units to be produced or total estimated costs, the stage of completion and construction profit or loss for the period will be significantly

influenced; when there are significant changes in total estimated costs due to actual input, conditions of execution or other reasons, the construction profit or loss for the current period will also be significantly influenced.

Realizability of deferred tax assets

The realizability of deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognized as income tax expense for the period in which such reversal takes place.

Estimate of provisions

Provisions are measured using the cash flows estimated to settle the present obligation. If the future cash flows are more than the expectation, the amount of the provisions may be adjusted significantly. Management estimates provisions for construction warranties based on historical warranty experiences. If the actual cash outflow is higher than expected, significant warranty expenses may occur.

Recognition and measurement of defined benefit plan

The resulting pension expense and accrued pension liabilities under defined benefit pension plans are calculated using the Projected Unit Credit Method. Actuarial assumptions comprise the discount rate, employee turnover rate and long-term average future salary rate. Changes in economic circumstances and market conditions will affect these assumptions and may have a material impact on the amount of the expense and the liability.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2014	2013
Cash on hand	\$ 60,515	\$ 50,046
Checking accounts and demand deposits	8,141,918	8,240,411
Cash equivalents		
Commercial papers with repurchase agreements	1,420,060	1,319,610
Time deposits with original maturities less than three months	3,599,520	3,975,772
Bonds with repurchase agreements	<u>410,000</u>	<u>115,000</u>
	<u>\$ 13,632,013</u>	<u>\$ 13,700,839</u>

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2014	2013
Financial assets at FVTPL - current		
Financial assets designated as at FVTPL		
Mutual funds	\$ 2,712,871	\$ 2,342,785
Structured notes	72,601	118,270
Listed shares	29,769	39,441
Future contracts (a)	78	-
		(Continued)

	December 31	
	2014	2013
Convertible bonds	\$ <u>-</u>	\$ <u>10,660</u>
	<u>2,815,319</u>	<u>2,511,156</u>
Financial assets held for trading		
Mutual funds	1,228,816	1,091,978
Listed shares	892,664	1,091,299
Emerging market shares	276,613	283,883
Convertible bonds	192,205	12,250
Foreign exchange forward contracts (b)	13,134	3,891
Structured notes	<u>-</u>	<u>20,053</u>
	<u>2,603,432</u>	<u>2,503,354</u>
	<u>\$ 5,418,751</u>	<u>\$ 5,014,510</u>
Financial assets at FVTPL-noncurrent		
Financial assets designated as at FVTPL		
Convertible preference shares	\$ <u>31,842</u>	\$ <u>-</u>
Financial liabilities at FVTPL - current		
Financial liabilities designated as at FVTPL		
Call and put options (Note 20)	\$ 1,631	\$ 1,561
Financial liabilities held for trading		
Foreign exchange forward contracts (b)	<u>5,518</u>	<u>7,533</u>
	<u>\$ 7,149</u>	<u>\$ 9,094</u>

(Concluded)

- a. The subsidiary TMTC 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 meet the criteria of hedge effectiveness and therefore were not accounted for by using hedge accounting. As of December 31, 2014, the outstanding precious metals futures contracts were as follows:

	Maturity Date	Weight (Kilograms)	Amount (In thousands)
Precious metals futures contracts	June 10, 2015	150	\$2,770 (RMB544 thousand)

- b. The Corporation and its 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 did not meet the criteria of hedge effectiveness and therefore were not accounted for by using hedge accounting. The outstanding foreign exchange forward contracts not under hedge accounting of the Corporation and its subsidiaries at the balance sheet date were as follows:

	Currency	Maturity Date	Contract Amount (In Thousands)
<u>December 31, 2014</u>			
Buy	NTD/USD	January 2015-November 2015	NTD398,196/USD13,000
Buy	NTD/EUR	March 2015	NTD9,880/EUR246
Sell	USD/NTD	February 2015	USD10,373/NTD323,702
<u>December 31, 2013</u>			
Buy	NTD/USD	February 2014-April 2014	NTD154,417/USD5,304
Buy	NTD/JPY	February 2014-December 2014	NTD16,631/JPY46,270
Sell	USD/NTD	January 2014-February 2014	USD8,131/NTD240,507
Sell	HKD/NTD	February 2014	HKD9,266/NTD35,158
Sell	EUR/NTD	February 2014	EUR801/NTD32,072

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<u>December 31</u>	
	2014	2013
<u>Current</u>		
Domestic investments		
Listed shares	\$ 5,607,391	\$ 4,169,630
Mutual funds	996,300	1,043,144
Unlisted equity securities	<u>5,600</u>	<u>5,521</u>
	<u>6,609,291</u>	<u>5,218,295</u>
Foreign investments		
Listed shares	<u>42,333</u>	<u>72,142</u>
	<u>\$ 6,651,624</u>	<u>\$ 5,290,437</u>
<u>Noncurrent</u>		
Domestic investments		
Emerging market shares and unlisted equity securities	\$ 6,315,609	\$ 7,471,575
Listed shares	2,771,076	2,385,264
Private-placement shares of listed companies	<u>84,133</u>	<u>146,898</u>
	<u>9,170,818</u>	<u>10,003,737</u>
Foreign investments		
Unlisted equity securities	20,308,005	16,309,942
Listed shares	<u>1,623,569</u>	<u>1,786,932</u>
	<u>21,931,574</u>	<u>18,096,874</u>
	<u>\$ 31,102,392</u>	<u>\$ 28,100,611</u>

In May 2011, the subsidiary EVCC invested in Taiwan Liposome Company, Ltd. through its private placement. According to the Securities Exchange Act, the securities acquired by private placement could be transferred freely in public market only after held for three years starting from the delivery date. Those securities of Taiwan Liposome Company, Ltd. held by the subsidiary EVCC have been released from the 3-year lock-up period since May 2014. However, GreTai Securities Market has not approved the listing of

those securities; thus, the securities cannot be transferred freely in public market yet.

9. HELD-TO-MATURITY FINANCIAL ASSETS - NONCURRENT

	December 31	
	2014	2013
Structured notes	\$ 171,720	\$ 176,116
Guarantee debt certificates	<u>115,314</u>	<u>163,530</u>
	287,034	339,646
Less: Accumulated impairment	<u>64,045</u>	<u>129,655</u>
	<u>\$ 222,989</u>	<u>\$ 209,991</u>

10. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

	December 31	
	2014	2013
<u>Derivative financial assets for hedging - current</u>		
Foreign exchange forward contracts (a)	<u>\$ 62,992</u>	<u>\$ 30,501</u>
<u>Derivative financial assets for hedging - noncurrent</u>		
Foreign exchange forward contracts (a)	\$ 85,940	\$ 6,957
Interest rate swap contracts (b)	<u>2,029</u>	<u>35,245</u>
	<u>\$ 87,969</u>	<u>\$ 42,202</u>
<u>Derivative financial liabilities for hedging - current</u>		
Foreign exchange forward contracts (a)	<u>\$ 46,327</u>	<u>\$ 44,281</u>
<u>Derivative financial liabilities for hedging - noncurrent</u>		
Foreign exchange forward contracts (a)	\$ 748	\$ 18,043
Interest rate swap contracts (b)	<u>9,312</u>	<u>-</u>
	<u>\$ 10,060</u>	<u>\$ 18,043</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, equity investments 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>December 31, 2014</u>			
Buy	NTD/USD	January 2015-May 2018	NTD2,094,852/USD71,250
Buy	NTD/EUR	March 2015-December 2017	NTD997,986/EUR25,724
Buy	NTD/JPY	January 2015-June 2015	NTD200,733/JPY623,158

(Continued)

	Currency	Period for Generating Cash Flows and Maturity Date	Contract Amount (In Thousands)
Buy	NTD/GBP	January 2015	NTD10,335/GBP226
Sell	USD/NTD	March 2015	USD424/NTD13,433
<u>December 31, 2013</u>			
Buy	NTD/USD	January 2014-December 2016	NTD2,313,237/USD79,139
Buy	NTD/JPY	January 2014-June 2015	NTD609,912/JPY1,949,613
Buy	NTD/EUR	January 2014-September 2015	NTD225,739/EUR5,792
Buy	NTD/GBP	January 2014-January 2015	NTD33,599/GBP731
Sell	USD/NTD	January 2014-March 2014	USD3,413/NTD101,697
(Concluded)			

- 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 December 31, 2014 and 2013 were as follows:

Contract Amount (In Thousands)	Maturity Date	Range of Interest Rates Paid	Interest Rates Received
NTD9,277,000	February 2017-July 2018	0.988%-1.14%	90 days TWD CPBA

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

	<u>For the Year Ended December 31</u>	
	2014	2013
Balance, beginning of year	\$ 10,379	\$ (274,276)
Recognized in other comprehensive income	116,827	110,959
Recognized in other gains and losses	(1,420)	(15,964)
Transferred to construction in progress and equipment to be inspected	(29,837)	222,992
Transferred to operating revenues	(1,375)	(32,356)
Transferred to foreign-currency equity investments	-	(976)
Balance, end of year	<u>\$ 94,574</u>	<u>\$ 10,379</u>

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

	<u>December 31</u>	
	2014	2013
Notes receivable		
Operating	\$ 1,404,884	\$ 1,805,283
Non-operating	<u>1,085</u>	<u>-</u>
	1,405,969	1,805,283
Less: Allowance for doubtful accounts	<u>-</u>	<u>-</u>
	<u>\$ 1,405,969</u>	<u>\$ 1,805,283</u>

(Continued)

	December 31	
	2014	2013
Accounts receivable	\$ 11,693,587	\$ 10,787,154
Less: Allowance for doubtful accounts	<u>139,949</u>	<u>17,492</u>
	<u>\$ 11,553,638</u>	<u>\$ 10,769,662</u>

(Concluded)

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 receivable and accounts receivable that are past due at the balance sheet date 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. Aging analysis of notes and accounts receivable that are past due but not impaired was as follows:

	December 31	
	2014	2013
Less than 30 days	\$ 304,549	\$ 413,177
31-60 days	172,557	84,381
61-365 days	358,494	150,485
More than 365 days	<u>37,574</u>	<u>54,818</u>
	<u>\$ 873,174</u>	<u>\$ 702,861</u>

Above analysis was based on the past due date.

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

	For the Year Ended December 31	
	2014	2013
Balance, beginning of year	\$ 17,492	\$ 57,957
Recognition (Reversal)	133,386	(39,770)
Write off	(9,204)	(1,071)
Effect of foreign currency exchange difference	(1,725)	280
Others	<u>-</u>	<u>96</u>
Balance, end of year	<u>\$ 139,949</u>	<u>\$ 17,492</u>

Aging analysis of impaired accounts receivable was as follows:

	December 31	
	2014	2013
Less than 30 days	\$ 911	\$ -
31-60 days	129	-
61-365 days	<u>6,735</u>	<u>3,880</u>
	<u>\$ 7,775</u>	<u>\$ 3,880</u>

Above analysis of accounts receivable after deducting the allowance for doubtful accounts was based on the past due date.

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 and CSCC entered into accounts receivable factoring agreements (without recourse) with Mega International Commercial Bank, Bank of Taiwan and Shanghai Commercial and Saving Bank. Under the agreements, the Corporation and the subsidiary 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 years ended December 31, 2014 and 2013, the related information for the Corporation, CHSC, CSCC and CSAC's sale of accounts receivable was as follows. Advances received at year-end dominated in US Dollars were converted to NT Dollars at the closing rate.

Counterparty	Advances Received at Year - Beginning	Receivables Sold	Amounts Collected by Bank	Advances Received at Year - End	Interest Rate on Advances Received (%)	Credit Line
For the Year Ended December 31, 2014						
Mega International Commercial Bank	\$ 4,773,367	\$ 13,852,977	\$ 13,530,589	\$ 5,095,755	1.25-1.51	NT\$12 billion
Mega International Commercial Bank	-	45,923	21,087	25,855	1.00-1.75	USD1,200 thousand
Bank of Taiwan	1,432,364	4,152,520	3,848,710	1,736,174	1.26-1.51	NT\$3 billion
Bank of Taiwan	-	690,151	332,630	357,521	1.49-1.93	USD0.1 billion
Shanghai Commercial and Saving Bank	-	13,293	-	-	-	USD420 thousand
HSBC Bank	-	28,133	14,917	10,906	1.50-1.70	USD10,000 thousand
	<u>\$ 6,205,731</u>	<u>\$ 18,782,997</u>	<u>\$ 17,747,933</u>	<u>\$ 7,226,211</u>		
For the Year Ended December 31, 2013						
Mega International Commercial Bank	\$ 4,495,587	\$ 13,605,009	\$ 13,327,229	\$ 4,773,367	1.24-1.51	NT\$12 billion
Bank of Taiwan	<u>1,242,954</u>	<u>3,687,929</u>	<u>3,498,519</u>	<u>1,432,364</u>	1.24-1.51	NT\$3 billion
	<u>\$ 5,738,541</u>	<u>\$ 17,292,938</u>	<u>\$ 16,825,748</u>	<u>\$ 6,205,731</u>		

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

	December 31	
	2014	2013
<u>Amounts due from customers for construction contracts</u>		
Construction costs incurred plus recognized profits less recognized losses to date	\$ 45,010,292	\$ 45,548,144
Less: Progress billings	<u>37,696,810</u>	<u>38,238,674</u>
Amounts due from customers for construction contracts	<u>\$ 7,313,482</u>	<u>\$ 7,309,470</u>
<u>Amounts due to customers for construction contracts</u>		
Progress billings	\$ 30,654,853	\$ 30,549,296
Less: Construction costs incurred plus recognized profits less recognized losses to date	<u>25,251,815</u>	<u>24,730,847</u>
Amounts due to customers for construction contracts	<u>\$ 5,403,038</u>	<u>\$ 5,818,449</u>
Retentions receivable	<u>\$ 918,608</u>	<u>\$ 798,637</u>
Retentions payable	<u>\$ 2,169,421</u>	<u>\$ 2,821,026</u>

13. INVENTORIES

	December 31	
	2014	2013
Finished goods	\$ 22,562,383	\$ 22,187,421
Work in progress	21,383,356	24,033,890
Raw materials	22,326,115	20,239,655
Supplies	8,983,173	8,233,416
Raw materials and supplies in transit	4,965,094	7,604,018
Lands held for construction	142,688	-
Buildings and lands under construction		
Land under construction	411,907	411,907
Construction in process	25,758	12,717
Payment for floor area	26,041	26,041
Others	<u>376,653</u>	<u>291,212</u>
	<u>\$ 81,203,168</u>	<u>\$ 83,040,277</u>

The subsidiary CPDC has planned a housing development project on a portion of land located in Shijia Section of the Qianzhen District in Kaohsiung City which was initially for the purpose of rental. The project has been approved by the Urban Development Bureau, Kaohsiung City government and is in the process of designing; therefore, the related balances are recorded as buildings and lands under construction.

The cost of inventories recognized as operating costs for the years ended December 31, 2014 and 2013 was NT\$272,883,296 thousand and NT\$266,503,189 thousand, respectively.

Movements of provision for loss on inventories were as follows:

	For the Year Ended December 31	
	2014	2013
Balance, beginning of year	\$ 4,677,333	\$ 4,519,281
Add: Recognized	8,363,702	9,149,719
Less: Sold	<u>7,117,409</u>	<u>8,991,667</u>
Balance, end of year	<u>\$ 5,923,626</u>	<u>\$ 4,677,333</u>

14. BOND INVESTMENTS WITH NO ACTIVE MARKET

	December 31	
	2014	2013
Current		
Bonds	\$ <u>-</u>	\$ <u>9,259</u>
Noncurrent		
Unlisted preference shares - overseas		
East Asia United Steel Corporation (EAUS) - Preference A	\$ 2,646,000	\$ 2,839,000
Subordinated financial bonds	124,270	120,000
Bonds	<u>36,327</u>	<u>14,651</u>
	<u>\$ 2,806,597</u>	<u>\$ 2,973,651</u>

In May 2003, the Corporation signed a slab production joint-venture contract with Sumitomo Metal Industries, Ltd. and Sumitomo Corporation. In July 2003, the joint venture company EAUS was established. The Corporation invested JPY10 billion in EAUS. The Corporation thus has a stable supply of slab from this joint venture. The Corporation also signed a contract with the subsidiary CHSC to transfer the purchasing right of slabs from EAUS, and the Corporation receives royalty on this contract based on the volume purchased by CHSC.

15. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31			
	2014		2013	
	Amount	% of Owner - ship	Amount	% of Owner - ship
Unlisted companies				
7623704 Canada Inc.	\$ 8,564,690	25	\$ 7,741,788	25
Kaohsiung Arena Development Corporation	776,932	29	768,674	29
Eminent II Venture Capital Corporation	704,647	46	557,366	46
Hsin Hsin Cement Enterprise Corp.	483,927	41	457,863	41
Dyna Rechi Co., Ltd.	378,885	28	231,839	29

(Continued)

	December 31			
	2014		2013	
	Amount	% of Owner - ship	Amount	% of Owner - ship
Fukuta Elec.& Mach. Co., Ltd. (Fukuta)	\$ 360,257	25	\$ -	-
Chateau International Development Co., Ltd.	299,517	20	279,661	20
Honley Auto. Part Co., Ltd. (HAPC)	284,726	30	-	-
Wuhan Wisco Yutek Environment Technology Co., Ltd.	252,372	49	240,989	49
Ascentek Venture Capital Corp.	239,375	38	226,333	38
IPASS Corporation (IPASS)	140,899	23	-	-
Others	933,175		485,649	
	<u>\$ 13,419,402</u>		<u>\$ 10,990,162</u>	

(Concluded)

In October 2014, the subsidiary GIC newly invested NT\$348,203 thousand to acquire 25% shareholding in Fukuta. Fukuta mainly engages in the manufacture and sale of electric machines and electronic components.

In 2014, the Corporation continually invested NT\$285,000 thousand to acquire 30% shareholding in HAPC. HAPC mainly engages in the manufacture and sale of automobiles and their parts.

The subsidiary KRTC acquired 25% equity of IPASS in the amount of NT\$130,000 thousand through prepaid investment of NT\$10,000 thousand in December 2013 and transfer of intangible assets in February 2014. Gain on disposal of intangible assets, after deducting transaction cost of NT\$5,714 thousand, amounted to NT\$94,366 thousand of which NT\$23,259 thousand was deferred by the percentage of ownership and recognized as reduction in investments accounted for using equity method. The subsidiary ICSC further invested in IPASS for NT\$40,000 thousand in February 2014, acquiring 7% equity, which increased the Corporation and its subsidiaries' total equity in IPASS to 32%. In October 2014, IPASS increased its capital through new share issue; KRTC and ICSC did not subscribe the new shares by the percentage of ownership, which decreased the Corporation and its subsidiaries' total equity in IPASS to 23%.

The summarized financial information in respect of the Corporation's associates was set out below:

	December 31	
	2014	2013
Total assets	<u>\$ 58,174,188</u>	<u>\$ 56,146,098</u>
Total liabilities	<u>\$ 9,182,212</u>	<u>\$ 11,145,123</u>
	For the Year Ended December 31	
	2014	2013
Revenues	<u>\$ 8,523,342</u>	<u>\$ 7,084,245</u>
Net profit	<u>\$ 2,388,515</u>	<u>\$ 971,307</u>
Other comprehensive income	<u>\$ 334,136</u>	<u>\$ 247,715</u>
Share of the profit of associates	<u>\$ (53,944)</u>	<u>\$ (22,529)</u>

The above investments accounted for using equity method as of December 31, 2014 and 2013 and the Corporation and its subsidiaries' share of profit and other comprehensive income of associates for the years

ended December 31, 2014 and 2013 were based on the associates' audited financial statements for the same period.

16. OTHER FINANCIAL ASSETS

	December 31	
	2014	2013
Current		
Pledged time deposits	\$ 7,066,159	\$ 7,379,446
Time deposits with original maturities more than three months	4,723,815	3,896,332
Hedging foreign-currency deposits	1,918,252	2,169,062
Deposits for projects	<u>6,192</u>	<u>84,953</u>
	<u>\$ 13,714,418</u>	<u>\$ 13,529,793</u>
Noncurrent		
Pledged receivables	\$ 2,000,000	\$ 2,000,000
Pledged time deposits	289,537	297,349
Deposits for projects	65,580	42,424
Time deposits with original maturities more than three months	<u>21,670</u>	<u>21,670</u>
	<u>\$ 2,376,787</u>	<u>\$ 2,361,443</u>

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 December 31, 2014 and 2013, the balance of the foreign-currency deposits, which consist of those designated as hedging instruments and settlements of expired foreign exchange forward contracts, was NT\$1,918,252 thousand (JPY0.4 billion, RMB65,000 thousand, USD40,181 thousand, EUR4,211 thousand and GBP783 thousand) and NT\$2,169,062 thousand (JPY1 billion, RMB80,000 thousand, USD38,501 thousand, EUR8,053 thousand and GBP278 thousand), respectively. As of December 31, 2014 and 2013 cash outflows would be expected from aforementioned contracts during the periods from 2015 and 2014 to 2015, respectively.

Movements of hedging foreign-currency deposits were as follows:

	For the Year Ended December 31	
	2014	2013
Balance, beginning of year	\$ 2,169,062	\$ 4,257,415
Paid	(343,579)	(2,128,430)
Recognized in other comprehensive income	88,889	36,162
Transferred to construction in progress and equipment to be inspected	<u>3,880</u>	<u>3,915</u>
Balance, end of year	<u>\$ 1,918,252</u>	<u>\$ 2,169,062</u>

Refer to Note 34 for information relating to other financial assets pledged as security.

17. PROPERTY, PLANT AND EQUIPMENT

For the year ended December 31, 2014

	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, 2014	\$ 60,395,056	\$ 4,876,444	\$ 107,286,428	\$ 560,158,429	\$ 25,096,303	\$ 15,306,847	\$ 10,285,676	\$ -	\$ 46,150,896	\$ 829,556,079
Additions	17,991	1,253	4,986,708	31,002,312	4,012,719	886,153	1,235,068	322,270	(11,551,360)	30,913,114
Disposals	(26,328)	-	(93,569)	(5,014,031)	(351,607)	(290,951)	(1,004,288)	-	(1,794)	(6,782,568)
Reclassification	(88,355)	-	(25,482)	(62,892)	2,681	27,635	(116,775)	-	(262,295)	(525,483)
Effect of foreign currency exchange difference	(2,367)	-	233,976	1,082,374	185,532	20,523	-	-	117,340	1,637,378
Acquisitions through business combinations	898,130	-	15,255	1,215	-	1,255	-	-	-	915,855
Business tax refund	-	-	(15,550)	(110,287)	(1,374)	(4,819)	-	-	-	(132,030)
Others	-	-	-	(309)	-	-	(1,612)	-	-	(1,921)
Balance at December 31, 2014	<u>\$ 61,194,127</u>	<u>\$ 4,877,697</u>	<u>\$ 112,387,766</u>	<u>\$ 587,056,811</u>	<u>\$ 28,944,254</u>	<u>\$ 15,946,643</u>	<u>\$ 10,398,069</u>	<u>\$ 322,270</u>	<u>\$ 34,452,787</u>	<u>\$ 855,580,424</u>
Accumulated depreciation and impairment										
Balance at January 1, 2014	\$ 25,546	\$ 4,351,474	\$ 33,920,610	\$ 301,901,198	\$ 13,232,418	\$ 9,682,984	\$ 3,699,555	\$ -	\$ -	\$ 366,813,785
Depreciation	-	68,620	3,476,428	27,570,774	1,383,490	1,280,759	1,495,614	881	-	35,276,566
Disposals	-	-	(50,534)	(4,790,233)	(349,924)	(273,752)	(1,004,288)	-	-	(6,468,731)
Impairment losses	-	-	-	856,030	-	-	-	-	-	856,030
Reclassification	-	-	(46,007)	(6,710)	1,434	(1,965)	-	-	-	(53,248)
Effect of foreign currency exchange difference	-	-	17,035	86,847	(287,791)	8,467	-	-	-	(175,442)
Acquisitions through business combinations	-	-	15,255	1,215	-	1,255	-	-	-	17,725
Others	-	-	-	(234)	-	4	-	-	-	(230)
Balance at December 31, 2014	<u>\$ 25,546</u>	<u>\$ 4,420,094</u>	<u>\$ 37,332,787</u>	<u>\$ 325,618,887</u>	<u>\$ 13,979,627</u>	<u>\$ 10,697,752</u>	<u>\$ 4,190,881</u>	<u>\$ 881</u>	<u>\$ -</u>	<u>\$ 396,266,455</u>
Carrying amount at December 31, 2014	<u>\$ 61,168,581</u>	<u>\$ 457,603</u>	<u>\$ 75,054,979</u>	<u>\$ 261,437,924</u>	<u>\$ 14,964,627</u>	<u>\$ 5,248,891</u>	<u>\$ 6,207,188</u>	<u>\$ 321,389</u>	<u>\$ 34,452,787</u>	<u>\$ 459,313,969</u>

For the year ended December 31, 2013

	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, 2013	\$ 59,559,883	\$ 4,874,937	\$ 88,028,362	\$ 468,819,360	\$ 21,192,946	\$ 13,900,630	\$ 10,243,979	\$ -	\$ 106,427,780	\$ 773,047,877
Additions	860,974	2,000	19,411,818	95,214,356	3,537,134	1,525,700	1,131,875	-	(60,076,711)	61,607,146
Disposals	(3,338)	(493)	(40,991)	(4,135,829)	(44,489)	(301,507)	(1,032,969)	-	(447)	(5,560,063)
Reclassification	(36,588)	-	(184,701)	46,718	(102)	22,439	(56,542)	-	(364,427)	(573,203)
Effect of foreign currency exchange difference	(7,501)	-	65,432	42,989	(366,056)	3,021	-	-	157,599	(104,516)
Acquisitions through business combinations	21,626	-	6,508	170,835	780,156	156,564	-	-	7,102	1,142,791
Others	-	-	-	-	(3,286)	-	(667)	-	-	(3,953)
Balance at December 31, 2013	<u>\$ 60,395,056</u>	<u>\$ 4,876,444</u>	<u>\$ 107,286,428</u>	<u>\$ 560,158,429</u>	<u>\$ 25,096,303</u>	<u>\$ 15,306,847</u>	<u>\$ 10,285,676</u>	<u>\$ -</u>	<u>\$ 46,150,896</u>	<u>\$ 829,556,079</u>
Accumulated depreciation and impairment										
Balance at January 1, 2013	\$ 25,546	\$ 4,280,648	\$ 30,939,227	\$ 281,284,466	\$ 12,366,360	\$ 8,595,923	\$ 3,222,668	\$ -	\$ -	\$ 340,714,838
Depreciation expense	-	71,264	3,015,443	24,317,766	1,095,395	1,255,344	1,509,856	-	-	31,265,068
Disposals	-	(438)	(26,393)	(4,008,301)	(42,804)	(291,674)	(1,032,969)	-	-	(5,402,579)
Impairment losses	-	-	-	282,763	-	-	-	-	-	282,763
Reclassification	-	-	(10,589)	(3,075)	(39)	(5,896)	-	-	-	(19,599)
Effect of foreign currency exchange difference	-	-	863	(49,409)	(481,827)	591	-	-	-	(529,782)
Acquisitions through business combinations	-	-	2,059	76,988	298,619	128,696	-	-	-	506,362
Others	-	-	-	-	(3,286)	-	-	-	-	(3,286)
Balance at December 31, 2013	<u>\$ 25,546</u>	<u>\$ 4,351,474</u>	<u>\$ 33,920,610</u>	<u>\$ 301,901,198</u>	<u>\$ 13,232,418</u>	<u>\$ 9,682,984</u>	<u>\$ 3,699,555</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 366,813,785</u>
Carrying amount at December 31, 2013	<u>\$ 60,369,510</u>	<u>\$ 524,970</u>	<u>\$ 73,365,818</u>	<u>\$ 258,257,231</u>	<u>\$ 11,863,885</u>	<u>\$ 5,623,863</u>	<u>\$ 6,586,121</u>	<u>\$ -</u>	<u>\$ 46,150,896</u>	<u>\$ 462,742,294</u>

The subsidiary DSC determined some idle equipment had no operating values and recognized impairment losses of NT\$852,793 thousand and NT\$287,099 thousand for the years ended December 31, 2014 and 2013, respectively. The recoverable amounts of the above equipment were their estimated market prices. The related impairment losses were recognized as operating costs in the consolidated statements of comprehensive income.

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

Land improvements	
Drainage system	40 years
Wharf	20-40 years
Canal	15 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	5-10 years
Others	3-10 years
Machinery and equipment	
Power equipment	15-25 years
Process equipment	8-40 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
Transportation	
Ship equipment	18-25 years
Railway equipment	10-20 years
Transportation equipment	2-10 years
Telecommunication equipment	4-8 years
Others	2 years
Other equipment	
Leasehold improvement	3-35 years
Tank	3-18 years
Office, air condition and extinguishment equipment	3-25 years
Computer equipment	3-10 years
Others	3-18 years
Rental Assets – Buildings	30 years

The subsidiary CHSC bought farmlands for warehousing at the Jia Xing Section and Bai Mi Section of the Gangshan District in Kaohsiung City. However, certain regulations prohibit CHSC from registering the title of these farmlands in CHSC's name; thus, the registration was made in the name of an individual person. The individual person consented to fully cooperate with CHSC in changing the land title in the future and pledged the land to CHSC as collateral. As of December 31, 2014 and 2013, the book value of those remaining farmlands recognized as land were both NT\$66,753 thousand.

Refer to Note 34 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 year ended December 31, 2014

<u>Cost</u>	Land	Buildings	Total
Balance at January 1, 2014	\$ 8,266,753	\$ 2,589,535	\$ 10,856,288
Disposals	(89)	-	(89)
Reclassification	88,355	171,696	260,051
Effect of foreign currency exchange difference	<u>(10,963)</u>	<u>(21,076)</u>	<u>(32,039)</u>
Balance at December 31, 2014	<u>\$ 8,344,056</u>	<u>\$ 2,740,155</u>	<u>\$ 11,084,211</u>
<u>Accumulated depreciation and impairment</u>			
Balance at January 1, 2014	\$ 1,891,031	\$ 628,008	\$ 2,519,039
Depreciation	-	78,148	78,148
Reclassification	-	51,940	51,940
Effect of foreign currency exchange difference	<u>-</u>	<u>(1,014)</u>	<u>(1,014)</u>
Balance at December 31, 2014	<u>\$ 1,891,031</u>	<u>\$ 757,082</u>	<u>\$ 2,648,113</u>
Carrying amount at December 31, 2014	<u>\$ 6,453,025</u>	<u>\$ 1,983,073</u>	<u>\$ 8,436,098</u>

For the year ended December 31, 2013

<u>Cost</u>	Land	Buildings	Total
Balance at January 1, 2013	\$ 8,666,564	\$ 2,478,766	\$ 11,145,330
Additions	5,330	5,979	11,309
Disposals	-	(223)	(223)
Reclassification	(375,318)	167,271	(208,047)
Effect of foreign currency exchange difference	<u>(29,823)</u>	<u>(62,258)</u>	<u>(92,081)</u>
Balance at December 31, 2013	<u>\$ 8,266,753</u>	<u>\$ 2,589,535</u>	<u>\$ 10,856,288</u>
<u>Accumulated depreciation and impairment</u>			
Balance at January 1, 2013	\$ 1,920,494	\$ 535,700	\$ 2,456,194
Depreciation expense	-	80,333	80,333
Disposals	-	(167)	(167)
Reversals of impairment losses recognized in profit or loss	(29,463)	-	(29,463)
Reclassification	-	13,704	13,704
Effect of foreign currency exchange difference	<u>-</u>	<u>(1,562)</u>	<u>(1,562)</u>
Balance at December 31, 2013	<u>\$ 1,891,031</u>	<u>\$ 628,008</u>	<u>\$ 2,519,039</u>
Carrying amount at December 31, 2013	<u>\$ 6,375,722</u>	<u>\$ 1,961,527</u>	<u>\$ 8,337,249</u>

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

Buildings

Main structure	30-60 years
Mechanical and electrical facilities	8-20 years

The fair value of the investment properties was partly arrived at on the basis of valuation carried out in August 2011 and December 2013 by independent appraisers, who are not related parties, and partly on the basis of information on Ministry of the Interior's real estate transaction database website. Appraised lands and buildings were evaluated under market approach and income approach. The important assumptions and fair value were as follows:

	December 31	
	2014	2013
Fair value	<u>\$ 13,623,361</u>	<u>\$ 11,285,636</u>
Depreciation rate	1.20%-2.00%	1.80%-2.00%
Discount rate	1.30%-5.50%	2.11%-5.50%

All of the Corporation and its subsidiaries' investment properties were held under freehold interests. Refer to Note 34 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

	December 31	
	2014	2013
Unsecured loans - interest at 0.64%-2.65% p.a. and 0.64%-3.27% p.a. as of December 31, 2014 and 2013, respectively	\$ 24,779,644	\$ 21,981,951
Letters of credit - interest at 0.41%-1.56% p.a. and 0.57%-1.75% p.a. as of December 31, 2014 and 2013, respectively	2,929,777	3,367,143
Bank overdraft - interest at 0.43%-7.60% p.a. and 0.43%-7.35% p.a. as of December 31, 2014 and 2013, respectively	2,972,356	3,159,397
Secured loans (Note 34) - interest at 5.88%-6.16% p.a. and 5.04%-6.16% p.a. as of December 31, 2014 and 2013, respectively	<u>119,940</u>	<u>144,108</u>
	<u>\$ 30,801,717</u>	<u>\$ 28,652,599</u>

The amount of AUD53,595 thousand (NT\$1,424,832 thousand), which was included in the above unsecured loans as of December 31, 2013, were used to hedge the exchange rate fluctuations on investment in CSCAU.

Starting January 2013, the subsidiary CCSPMC entered into several credit facility agreements with Taipei Fubon Bank and several banks. Under the agreements, the Corporation and its subsidiaries should collectively hold 70% of the CCSPMC's equity and 75% of the seats in the board of directors and supervisors. As of December 31, 2014, the subsidiary CSAPH held 70% equity of CCSPMC and three-quarters of the seats in the board of directors and supervisors.

In May 2014 and March 2014, the subsidiary CSCI entered into short-term financing contracts with Chinatrust Commercial Bank for USD27,000 thousand and INR0.4 billion credit lines and with Credit Agricole Corporate and Investment Bank for USD25,000 thousand credit lines, respectively. Under the agreement, the Corporation should hold at least 75% and 60% of the CSCI's issued shares and hold two-thirds and half or more of the seats in the board of directors, respectively. As of December 31, 2014, the Corporation held 100% equity of CSCI and all of the seats in the board of directors.

In September 2014, August 2014 and April 2014, the subsidiary QCSPMC entered into comprehensive credit agreements with Industrial Bank of Taiwan, Standard Chartered Bank and Credit Agricole Corporate and Investment Bank for USD10,000 thousand, USD20,000 thousand and USD12,000 thousand credit lines. Under the agreement, the Corporation and its subsidiaries should collectively hold at least 60%, 60% and 70% of the QCSPMC's issued shares and 50%, 50% and 70% of the seats in the board of directors. As of December 31, 2014, the subsidiary CSAPH and GSGT collectively held 70% equity of QCSPMC and four-fifths of the seats in the board of directors.

b. Short-term bills payable

	December 31	
	2014	2013
Commercial paper - interest at 0.59%-1.35% p.a. and 0.45%-1.11% p.a. as of December 31, 2014 and 2013, respectively	\$ 20,119,000	\$ 30,798,800
Less: Unamortized discounts	<u>6,904</u>	<u>12,500</u>
	<u>\$ 20,112,096</u>	<u>\$ 30,786,300</u>

The above commercial paper was secured by Mega Bills Finance Corporation, China Bills Finance Corporation, International Bills Finance Corporation, Taching Bill Finance Ltd., Dah Chung Bills Finance Corp., Grand Bills Finance Corp., Taiwan Finance Corporation, Taiwan Cooperative Bills Finance Corporation, First Bank, Chang Hwa Commercial Bank, Mega Bank and Taiwan Cooperative Bank, etc.

c. Long-term borrowings

	December 31	
	2014	2013
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 at 1.58% p.a. and 1.59% p.a. as of December 31, 2014 and 2013, respectively	\$ 4,826,154	\$ 5,903,077
Repayable in March 2019 with a revolving credit, interest at 1.58%-1.60% p.a. and 1.59%-1.60% p.a. as of December 31, 2014 and 2013, respectively	5,850,000	4,050,000
Bank of Taiwan and other banks loan to DSC		
Repayable in 14 equal semiannual installments from January 2012 to July 2018, interest at 1.36% p.a. and 1.31%-1.35% p.a. as of December 31, 2014 and 2013, respectively	26,113,540	36,928,000
Repayable in 10 equal semiannual installments from June 2015 to December 2019, interest both at 1.58% p.a. as of December 31, 2014 and 2013	23,280,000	8,000,000
		(Continued)

	December 31	
	2014	2013
Repayable in 10 equal semiannual installments from August 2012 to February 2017, repaid in June 2014, interest at 1.49%-1.54% p.a. as of December 31, 2013	\$ -	\$ 14,000,000
Chinatrust Commercial Bank and other banks loan to CSCI, repayable in 5 semiannual installments from June 2017 to June 2019, interest both at 2.10% p.a. as of December 31, 2014 and 2013	3,488,806	2,392,697
Mega International Commercial Bank and other banks loan to CSVC, repayable in 10 semiannual installments from September 2015 to March 2020, interest at 2.25% p.a. and 1.60%-1.85% p.a. as of December 31, 2014 and 2013, respectively	3,987,900	3,755,430
Bank of Taiwan and other banks loan to the Corporation, repaid in October 2014, interest at 2.56% p.a. as of December 31, 2013	-	6,442,300
Bank of Taiwan and other banks loan to the Corporation, repaid in October 2014, interest at 2.52% p.a. as of December 31, 2013	-	1,354,138
Taiwan Cooperative Bank and other banks loan to HLSC, repaid in November 2014, interest at 1.51%-1.56% p.a. as of December 31, 2013	-	2,300,000
Mortgage loans (Note 34)		
Due on various dates through April 2032, interest at 0.84%-2.10% p.a. and 0.88%-1.80% p.a. as of December 31, 2014 and 2013, respectively	9,695,552	11,369,428
Unsecured loans		
Due on various dates through August 2020, interest at 0.38%-3.98% p.a. and 0.44%-3.90% p.a. as of December 31, 2014 and 2013, respectively	<u>30,368,792</u>	<u>31,146,867</u>
	107,610,744	127,641,937
Less: Syndicated loan fee	92,550	153,203
Current portion	<u>20,939,065</u>	<u>19,426,467</u>
	<u>\$ 86,579,129</u>	<u>\$ 108,062,267</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 2012, CHSC should meet some financial ratios and criteria.

In May 2010, the subsidiary HLSC entered into a syndicated credit facility agreement with Taiwan Cooperative Bank and 13 other banks for a NT\$6 billion credit line, which consists of NT\$3.5 billion secured loans with a revolving credit line and NT\$2.5 billion unsecured loans with a revolving credit line. No unsecured loan was used as of December 31, 2014. Under the agreement, CHSC and its related parties should hold at least 51% of the HLSC's issued shares and hold over half of the seats in the board of directors and supervisors. Starting 2010, HLSC 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 and HLSC breach the agreements, they 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. CHSC and HLSC were in compliance with the syndicated credit facility agreement based on their financial statements of 2014. As of December 31, 2014, the Corporation held directly 41% equity of CHSC and held half of the seats in the board of directors and controlled its operation; CHSC held 100% equity of HLSC and held all of the seats in the board of directors and supervisors.

- 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 December 2009 (repaid in June 2014), the subsidiary DSC entered into another syndicated credit facility agreement with Bank of Taiwan and 12 other banks for a NT\$20 billion credit line; in February 2008, DSC entered into the other syndicated credit facility agreement with Bank of Taiwan and 13 other banks for a NT\$51.7 billion credit line. As of December 31, 2014, NT\$8 billion secured loan and all secured commercial paper (recognized as long-term bills payable) were used. Under the agreements, the Corporation and its related parties should collectively hold at least 80%, 80% and 40% of DSC's issued shares and hold half or more of the seats in the board of directors. Starting 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 immediately settle. DSC was in compliance with the syndicated credit facility agreement based on its financial statements of 2014. As of December 31, 2014, 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 International Commercial 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 agreement, the Corporation should hold at least 50% of CSVC's issued shares and majority of the seats in the board of directors. Starting 2015, CSVC should meet some financial ratios and criteria based on the agreement amended in March 2014. As of December 31, 2014, the Corporation held 51% 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 Chinatrust Commercial Bank and 9 other banks for a USD110,000 thousand revolving credit line. Under the agreement, the Corporation should 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 hold at least 60% of CSCI's issued shares and hold half or more of the seats in the board of directors. Starting 2013, CSCI should meet some financial ratios and criteria. CSCI got the consent of the syndicated banks in December 2013 and increased its capital in June 2014. CSCI has met the criteria relating to tangible net value after capital increase. As of December 31, 2014, the Corporation held 100% equity of CSCI and held all of the seats in the board of directors.
- 5) In July 2013, the Corporation entered into a syndicated credit facility agreement with Bank of Taiwan and 11 other banks for a CAD278,000 thousand unsecured non-revolving credit line. 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 agreements, 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 has repaid the above syndicated bank loans in October 2014.

- 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 and CSVC and on the available-for-sale financial assets in Maruichi Steel Tube Ltd. and Yodogawa Steel Works, Ltd..

d. Long-term bills payable

	December 31	
	2014	2013
Commercial paper - interest at 0.78%-1.34% p.a. and 0.65%-1.76% p.a. as of December 31, 2014 and 2013, respectively	\$ 15,030,000	\$ 29,900,000
Secured commercial paper in syndicated bank loans - interest at 1.27% p.a. and 1.18% p.a. as of December 31, 2014 and 2013, respectively	<u>5,000,000</u>	<u>5,000,000</u>
	20,030,000	34,900,000
Less: Unamortized discounts	<u>10,588</u>	<u>17,967</u>
	<u>\$ 20,019,412</u>	<u>\$ 34,882,033</u>

The Corporation and its subsidiaries entered into fixed rate 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. for details.

The above commercial paper was secured by Mega International Commercial Bank and ANZ Bank (Taiwan).

20. BONDS PAYABLE

	December 31	
	2014	2013
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	\$ 9,300,000	\$ 9,300,000
5-year unsecured bonds - issued at par by DSC in June 2014; repayable in June 2018 and June 2019; interest at 1.4% p.a., payable annually	7,000,000	-
7-year unsecured bonds - issued at par by the Corporation in: December 2008; repayable in December 2014 and December 2015; interest at 2.30% p.a., payable annually	3,500,000	7,000,000
October 2011; repayable in October 2017 and October 2018; interest at 1.57% p.a., payable annually	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
July 2013; repayable in July 2019 and July 2020; interest at 1.44% p.a., payable annually	6,300,000	6,300,000
		(Continued)

	December 31	
	2014	2013
January 2014; repayable in January 2020 and January 2021; interest at 1.75% p.a., payable annually	\$ 6,900,000	\$ -
7-year unsecured bonds - issued at par by DSC in June 2014; repayable in June 2020 and September 2021; interest at 1.75% p.a., payable annually	5,000,000	-
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
July 2013; repayable in July 2022 and July 2023; interest at 1.6% p.a., payable annually	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	-
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
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	-
Liability component of secured domestic convertible bonds - issued by TMTC	185,700	194,300
Liability component of unsecured domestic convertible bonds - issued by TMTC	45,500	73,100
	<u>97,931,200</u>	<u>66,567,400</u>
Less: Issuance cost of bonds payable	66,214	55,879
Unamortized discount on bonds payable	21,521	17,766
Current portion	<u>8,148,376</u>	<u>3,499,318</u>
	<u>\$ 89,695,089</u>	<u>\$ 62,994,437</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 Taiwan GreTai Securities Market 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 December 31, 2014, the convertible bonds with NT\$14,300 thousand face value have been converted 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 Taiwan GreTai Securities Market 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 December 31, 2014, the convertible bonds with NT\$54,500 thousand face value have been converted into NT\$21,975 thousand ordinary share capital.

The subsidiary DSC issued NT\$7 billion of 5-year unsecured bonds and NT\$5 billion of 7-year unsecured bonds at par in June 2014.

According to IAS 32 and IAS 39, CEC and TMTC have 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

	December 31	
	2014	2013
Purchase of equipment	\$ 7,109,543	\$ 8,869,389
Salaries and incentive bonus	5,613,982	6,339,587
Bonus to employees, and remuneration to directors and supervisors	2,237,569	1,582,465
Sale returns and discounts	1,178,541	1,035,974
Interest payable	992,379	484,738
Outsourced repair and construction	653,140	361,873
Others	<u>5,346,312</u>	<u>5,251,731</u>
	<u>\$ 23,131,466</u>	<u>\$ 23,925,757</u>

23. PROVISIONS

	December 31	
	2014	2013
Current		
Onerous contracts (a)	\$ 3,177,583	\$ 2,293,019
Construction warranties (b)	582,371	632,341
Sale returns and discounts (c)	586	-
Others	<u>35,160</u>	<u>43,478</u>
	<u>\$ 3,795,700</u>	<u>\$ 2,968,838</u>
Noncurrent		
Provision for stabilization funds (d)	\$ 983,466	\$ 1,026,382
Others	<u>48,346</u>	<u>40,705</u>
	<u>\$ 1,031,812</u>	<u>\$ 1,067,087</u>

	Onerous Contracts	Construction Warranties	Sale Returns and Discounts	Provision for Stabilization Funds	Others	Total
Balance at January 1, 2014	\$ 2,293,019	\$ 632,341	\$ -	\$ 1,026,382	\$ 84,183	\$ 4,035,925
Recognized	5,772,449	255	732,857	14,897	18,694	6,539,152
Paid	(4,887,885)	(50,225)	(732,271)	(57,813)	(19,371)	(5,747,565)
Balance at December 31, 2014	<u>\$ 3,177,583</u>	<u>\$ 582,371</u>	<u>\$ 586</u>	<u>\$ 983,466</u>	<u>\$ 83,506</u>	<u>\$ 4,827,512</u>
Balance at January 1, 2013	\$ 1,378,181	\$ 764,562	\$ 25,754	\$ -	\$ 7,682	\$ 2,176,179
Recognized (reversed)	3,873,651	(131,970)	486,955	-	99,006	4,327,642
Paid	(2,958,813)	(251)	(512,709)	-	(22,505)	(3,494,278)
Acquisitions through business combinations	-	-	-	1,025,621	-	1,025,621
Others	-	-	-	761	-	761
Balance at December 31, 2013	<u>\$ 2,293,019</u>	<u>\$ 632,341</u>	<u>\$ -</u>	<u>\$ 1,026,382</u>	<u>\$ 84,183</u>	<u>\$ 4,035,925</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 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

a. Defined contribution plans

The Corporation and its domestic subsidiaries adopted a pension plan under the Labor Pension Act (the "LPA"), which is a state-managed defined contribution plan. Based on the LPA, the Corporation and its subsidiaries make monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages. The foreign subsidiaries also make contribution in accordance with the local regulations, which is a defined contribution plan.

b. Defined benefit plans

The Corporation and its domestic subsidiaries adopted the defined benefit plan under the Labor Standards Law, under which pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Corporation and its domestic subsidiaries make contributions, equal to a certain percentage of total monthly salaries, to a pension fund, which is deposited in the Bank of Taiwan in the name of and administered by the pension fund monitoring committee. The plan assets are invested in domestic (foreign) equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of Bureau of Labor Funds, Ministry of Labor or under the mandated management. However, in accordance with Measures for the Regulation of the Income and Expenditure, Investment, and Management of the Workers' Retirement Fund, the minimum return of yearly final appropriation generated through the use of Labor Pension Fund should not be below the return calculated on the interest rate for a 2-year time deposit with local banks. The Corporation and its subsidiaries, such as CSGT, ICSC, CHC, etc., also makes

contributions, equal to a certain percentage of salaries of management personnel, to another pension fund, which are deposited and administered by the officers' pension fund management committee. The Corporation and its subsidiaries, such as CSAC, CHSC, CSCC, etc., also set up rules of consolation payment and holiday benefits, which are defined benefit plans.

The most recent present values of plan assets and defined benefit obligations were calculated by licensed actuary. The principal assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	
	2014	2013
Discount rate	1.50%-2.00%	1.50%-2.00%
Expected rate of return on plan assets	2.00%	1.20%-2.00%
Expected rate of salary increase	2.00%-3.00%	1.00%-3.25%

The overall expected rate of return on plan assets was based on historical return trends and actuaries' predictions of the market for the asset over the life of the related obligation, with the consideration of the plan assets' performance and the effect of the minimum return.

The gains (losses) related to defined benefit plans were recognized as follows:

	For the Year Ended December 31	
	2014	2013
Current service cost	\$ 894,179	\$ 913,348
Interest cost	454,751	388,811
Expected return on plan assets	(392,528)	(393,924)
Past service cost	11,260	12,450
Gains arising from curtailment or settlement	-	(1,982)
Others	<u>11,181</u>	<u>2,622</u>
	<u>\$ 978,843</u>	<u>\$ 921,325</u>
Analysis by function		
Operating costs	\$ 677,947	\$ 650,742
Operating expenses	295,616	261,263
Others	<u>5,280</u>	<u>9,320</u>
	<u>\$ 978,843</u>	<u>\$ 921,325</u>

For the years ended December 31, 2014 and 2013, the Corporation and its subsidiaries recognized actuarial gains NT\$1,287,940 thousand and NT\$128,090 thousand as other comprehensive income, respectively. As of December 31, 2014 and 2013, the accumulated actuarial gains recognized as retained earnings (through other comprehensive income) were NT\$1,479,782 thousand and NT\$191,842 thousand, respectively.

The amount included in the consolidated balance sheets arising from the Corporation and its subsidiaries' obligations in respect of their defined benefit plans was as follows:

	December 31	
	2014	2013
Present value of funded defined benefit obligation	\$ 29,354,071	\$ 30,508,900
Fair value of plan assets	<u>(23,797,205)</u>	<u>(23,236,859)</u>
Deficit	5,556,866	7,272,041

(Continued)

	December 31	
	2014	2013
Net actuarial gains not recognized	\$ 1,355	\$ 6,400
Past service cost not yet recognized	(47,759)	(59,019)
Others	17	98
Prepaid (accrued) pension liabilities - recognized as other payables, other current assets or other noncurrent assets	<u>(52,982)</u>	<u>17,648</u>
Accrued pension liabilities	<u>\$ 5,457,497</u>	<u>\$ 7,237,168</u> (Concluded)

Movements in the present value of the defined benefit obligations were as follows:

	For the Year Ended December 31	
	2014	2013
Defined benefit obligation, beginning of year	\$ 30,508,900	\$ 30,703,274
Current service cost	894,179	913,348
Interest cost	454,751	388,811
Actuarial gains	(1,363,905)	(264,088)
Benefits paid	(1,237,882)	(1,124,884)
Contributions of employee returning	14,448	11,765
Effects of curtailment and settlement	-	(123,677)
Others	<u>83,580</u>	<u>4,351</u>
Defined benefit obligation, end of year	<u>\$ 29,354,071</u>	<u>\$ 30,508,900</u>

Movements in the fair value of the plan assets were as follows:

	For the Year Ended December 31	
	2014	2013
Fair value of plan assets, beginning of year	\$ 23,236,859	\$ 23,048,574
Expected return on plan assets	392,528	394,916
Actuarial gains (losses)	155,432	(98,478)
Contributions from the employer	1,010,579	1,020,743
Contributions of employee returning	12,298	11,756
Benefits paid	(1,133,243)	(1,018,549)
Payments of settlements	-	(121,695)
Others	<u>122,752</u>	<u>(408)</u>
Fair value of plan assets, end of year	<u>\$ 23,797,205</u>	<u>\$ 23,236,859</u>

The actual return on plan assets were NT\$547,960 thousand and NT\$296,438 thousand for the years ended December 31, 2014 and 2013, respectively.

The percentages of the major categories of plan assets at the balance sheet date were disclosed based on the information announced by Bureau of Labor Funds, Ministry of Labor website:

	December 31	
	2014	2013
Cash equivalents	19	23
Equity securities	53	45
		(Continued)

	December 31	
	2014	2013
Debt securities	<u>28</u>	<u>32</u>
	<u>100</u>	<u>100</u>
		(Concluded)

The Corporation and its subsidiaries chose to disclose the history of experience adjustments as the amounts determined for each accounting period prospectively from the date of transition to IFRSs (January 1, 2012) :

	December 31, 2014	December 31, 2013	December 31, 2012	January 1, 2012
Present value of defined benefit obligation	<u>\$ 29,354,071</u>	<u>\$ 30,508,900</u>	<u>\$ 30,703,274</u>	<u>\$ 30,425,300</u>
Fair value of plan assets	<u>\$ 23,797,205</u>	<u>\$ 23,236,859</u>	<u>\$ 23,048,574</u>	<u>\$ 22,563,432</u>
Deficit	<u>\$ 5,556,866</u>	<u>\$ 7,272,041</u>	<u>\$ 7,654,700</u>	<u>\$ 7,861,868</u>
Experience adjustments on plan liabilities	<u>\$ (1,457,227)</u>	<u>\$ 189,764</u>	<u>\$ (782,192)</u>	<u>\$ -</u>
Experience adjustments on plan assets	<u>\$ 155,432</u>	<u>\$ (98,478)</u>	<u>\$ (218,293)</u>	<u>\$ -</u>

The Corporation and its subsidiaries expect to make a contribution of NT\$921,459 thousand and NT\$1,016,593 thousand to the defined benefit plans during the annual period beginning after 2014 and 2013.

25. EQUITY

a. Share capital

	December 31	
	2014	2013
Numbers of shares authorized (in thousands)	<u>17,000,000</u>	<u>17,000,000</u>
Shares authorized	<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	15,425,584
Preference shares (in thousands)	<u>38,268</u>	<u>38,268</u>
	<u>15,773,129</u>	<u>15,463,852</u>
Shares issued		
Ordinary shares	\$ 157,348,610	\$ 154,255,840
Preference shares	<u>382,680</u>	<u>382,680</u>
	<u>\$ 157,731,290</u>	<u>\$ 154,638,520</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 December 31, 2014 and 2013, the outstanding depositary receipts were 1,841,908 units and 3,511,961 units, equivalent to 36,838,470 ordinary shares (including 310 fractional shares) and 70,239,515 ordinary shares (including 295 fractional shares), which represented 0.23% and 0.46% of the outstanding ordinary shares, respectively.

b. Capital surplus

	December 31	
	2014	2013
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
Treasury share transactions	5,705,663	5,487,610
Others	<u>8,099</u>	<u>8,099</u>
	36,868,528	36,650,475
May be used to offset deficits only (see 2 below)		
Share of change in equity of subsidiaries	345,624	310,259
May not be used for any purpose		
Share of change in equity of associates	<u>3,724</u>	<u>84</u>
	<u>\$ 37,217,876</u>	<u>\$ 36,960,818</u>

- 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) Of the remainder, 0.15% as remuneration to directors and supervisors and 8% as bonus to employees;
- 4) Ordinary share dividends at 14% of par value; and
- 5) 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.

For the year ended December 31, 2014, the Corporation's bonus to employees and remuneration to directors and supervisors were NT\$1,587,490 thousand and NT\$29,765 thousand, respectively, and for the year ended December 31, 2013 the related amounts were NT\$1,133,084 thousand and NT\$21,245 thousand, respectively. The bonus to employees and remuneration to directors and supervisors were calculated based on the percentages provided in the Corporation's Articles of Incorporation and accrued based on the past experiences. Material differences between such estimated amounts and the amounts proposed by the board of directors on or before the annual consolidated financial statements are authorized for issue are adjusted in the year the bonus and remuneration were recognized. If there is a change in the proposed amounts after the consolidated financial statements are authorized for issue or on the date of shareholders' resolution, the differences are recorded in the year of shareholders' resolution as a change in accounting estimate. If a share bonus is resolved to be distributed to employees, the number of shares is determined by dividing the amount of the share bonus by the closing price (after considering the effect of cash and share dividends) of the shares at the date preceding the shareholders' meeting.

Under Rule 89 No. 100116 issued by the Securities and Futures Bureau of the FSC and Rule No. 0950000507 issued by the FSC, certain amount of unappropriated earnings shall be transferred to a special reserve before any appropriation of earnings generated before January 1, 2012 shall be made. Any special reserve appropriated may be reversed to the extent of the decrease in the net debit balance. Under Rule 89 No. 05044 and Rule 91 No. 170010 issued by Securities and Futures Bureau of the FSC, 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.

The Corporation appropriates and reverses special reserves under Rule No. 1010012865, Rule No. 1010047490 issued by the FSC and the directive titled “Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs”. Distributions can be made out of any subsequent reversal of the debit to other equity item.

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.

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 2013 and 2012 had been approved in the shareholders’ meeting on June 18, 2014 and June 19, 2013, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividend Per Share (NT\$)	
	2013	2012	2013	2012
Legal reserve	\$ 1,598,154	\$ 581,149		
Special reserve	166,266	-		
Preference shares				
Cash dividends	45,922	49,748	\$ 1.2	\$ 1.3
Share dividends	7,653	3,827	<u>0.2</u>	<u>0.1</u>
			<u>\$ 1.4</u>	<u>\$ 1.4</u>
Ordinary shares				
Cash dividends	10,797,909	6,108,990	\$ 0.7	\$ 0.4
Share dividends	<u>3,085,117</u>	<u>1,527,248</u>	<u>0.2</u>	<u>0.1</u>
	<u>\$ 15,701,021</u>	<u>\$ 8,270,962</u>	<u>\$ 0.9</u>	<u>\$ 0.5</u>

The reversal of the special reserve for NT\$2,325,000 thousand had been approved in the shareholders’ meeting in 2013.

The bonus to employees and remuneration to directors and supervisors (distributed in cash) for 2013 and 2012 approved in the above shareholders’ meetings, respectively, were as follows:

	For the Year Ended December 31			
	2013		2012	
	Bonus to Employees	Remuneration to Directors and Supervisors	Bonus to Employees	Remuneration to Directors and Supervisors
Amounts approved in shareholders’ meetings	\$ 1,133,084	\$ 21,245	\$ 414,141	\$ 7,765
Amounts recognized in respective financial statements	<u>1,133,084</u>	<u>21,245</u>	<u>414,141</u>	<u>7,765</u>
Difference	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The appropriations of earnings for 2012 were proposed according to the Corporation's financial statements for the year ended December 31, 2012, which were prepared in accordance with the former Regulations Governing the Preparation of Financial Reports by Securities Issuers and ROC GAAP, and by reference to the balance sheet for the year ended December 31, 2012, which were prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (revised) and IFRSs.

The appropriations of earnings for 2014 had been proposed in the board of directors' meeting on March 27, 2015. The appropriations and dividends per share were as follows:

	Appropriations of Earnings	Dividends Per Share (NT Dollars)
Legal reserve	\$ 2,216,027	
Special reserve	47,049	
Preference shares		
Cash dividends	53,575	<u>\$ 1.4</u>
Ordinary shares		
Cash dividends	15,734,861	<u>\$ 1.0</u>

The 2014 appropriations of earnings, bonus to employees and remuneration to directors and supervisors will be resolved by the shareholders in their meeting scheduled for June 2015.

Information about the appropriations of earnings, bonus to employees and remuneration to directors and supervisors is available on the Market Observation Post System website of the Taiwan Stock Exchange.

d. Special reserves

	For the Year Ended December 31 2014	2013
Balance, beginning of year	\$ 26,920,871	\$ 29,248,991
Appropriation of special reserve		
Debit to other equity items	166,266	-
Reversal of special reserve		
Disposal of property, plant and equipment	(854)	(1,617)
Disposal of property, plant and equipment by subsidiaries	-	(1,503)
Others	-	(2,325,000)
Balance, end of year	<u>\$ 27,086,283</u>	<u>\$ 26,920,871</u>

e. Other equity items

1) Exchange differences on translating foreign operations

	For the Year Ended December 31 2014	2013
Balance, beginning of year	\$ (659,689)	\$ (417,820)

(Continued)

	For the Year Ended December 31	
	2014	2013
Exchange differences arising on translating the net assets of foreign operations	\$ 1,680,903	\$ (262,858)
Income tax relating to gain or loss arising on translating the net assets of foreign operations	(35,850)	(15,860)
Gain or loss on hedging instruments designated in hedges of the net assets of foreign operations	(59,431)	309,859
Share of exchange difference of associates accounted for using the equity method	<u>(193,464)</u>	<u>(273,010)</u>
Balance, end of year	<u>\$ 732,469</u>	<u>\$ (659,689)</u> (Concluded)

2) Unrealized gain on available-for-sale financial assets

	For the Year Ended December 31	
	2014	2013
Balance, beginning of year	\$ 8,603,167	\$ 5,283,803
Unrealized gain or loss on available-for-sale financial assets	311,982	3,638,932
Income tax relating to unrealized gain or loss on available-for-sale financial assets	(2,194)	(2,819)
Reclassified to profit or loss on disposal of available-for-sale financial assets	(562,088)	(587,132)
Income tax relating to the amounts reclassified to profit or loss on disposal of available-for-sale financial assets	1,311	2,896
Impairment loss on available-for-sale financial assets	775,852	165,028
Share of unrealized gain or loss on available-for-sale financial assets of associates accounted for using the equity method	<u>155,324</u>	<u>102,459</u>
Balance, end of year	<u>\$ 9,283,354</u>	<u>\$ 8,603,167</u>

3) Cash flow hedge

	For the Year Ended December 31	
	2014	2013
Balance, beginning of year	\$ 12,375	\$ (280,266)
Fair value changes of hedging instruments	183,519	158,853
Income tax relating to fair value changes	(27,017)	(26,886)
Fair value changes of hedging instruments transferred to profit or loss	(1,375)	(32,356)
Income tax relating to amounts transferred to profit or loss	234	5,501
Fair value changes of hedging instruments transferred to adjust carrying amount of hedged items	(25,957)	225,931
Income tax relating to amounts transferred to adjust carrying amount of hedged items	<u>4,413</u>	<u>(38,402)</u>
Balance, end of year	<u>\$ 146,192</u>	<u>\$ 12,375</u>

f. Treasury shares

Purpose of Treasury Stock	Thousand Shares			December 31	
	Beginning of Year	Addition	Reduction	Thousand Shares	Book Value
For the year ended December 31, 2014					
Shares held by subsidiaries reclassified from investments accounted for using equity method to treasury shares	<u>308,545</u>	<u>9,824</u>	<u>-</u>	<u>318,369</u>	<u>\$ 8,587,461</u>
For the year ended December 31, 2013					
Shares held by subsidiaries reclassified from investments accounted for using equity method to treasury shares	<u>309,816</u>	<u>3,097</u>	<u>4,368</u>	<u>308,545</u>	<u>\$ 8,496,974</u>

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 year ended December 31, 2013, the subsidiaries sold 10,442 thousand shares of the Corporation for proceeds of NT\$281,372 thousand. For the years ended December 31, 2013, the proceeds of treasury shares sold, calculated by shareholding percentage, amounted to NT\$114,209 thousand, and after deducting book values, resulted in the amounts of NT\$31,212 thousand, recorded as capital surplus. As of December 31, 2014 and 2013, the market values of the treasury shares calculated by combined holding percentage were NT\$8,374,146 thousand and NT\$8,330,708 thousand, respectively.

g. Non-controlling interests

	For the Year Ended December 31	
	2014	2013
Balance, beginning of year	\$ 29,682,661	\$ 26,869,649
Attributable to non-controlling interests:		
Net profit for the year	2,037,010	2,372,927
Exchange difference on translating foreign operations	590,933	171,253
Income tax relating to exchange difference on translating foreign operations	(31)	(121)
Unrealized gain or loss on available-for-sale financial assets	55,175	305,319
Income tax relating to unrealized gain or loss on available-for-sale financial assets	(2,226)	(3,556)
Impairment loss on available-for-sale financial assets	(183)	27,957
Fair value changes of cash flow hedges	22,197	(11,732)
Income tax relating to cash flow hedges	(7,622)	2,003
Actuarial gain or loss on defined benefit plans	(28,177)	(32,330)
Income tax relating to actuarial gain or loss	(2,677)	5,967
Share of other comprehensive income of associates accounted for using the equity method	11,344	14,188

(Continued)

	For the Year Ended December 31	
	2014	2013
Increase of non-controlling interest arising from acquisition of subsidiaries	\$ 50,000	\$ 1,867,957
Acquisition of non-controlling interests in subsidiaries	(3,162)	(46,403)
Dividend distributed by subsidiaries	(2,535,558)	(2,496,600)
Equity component of convertible bonds issued by subsidiaries	28,937	192,837
Purchase of the Corporation's shares by subsidiaries	24,359	243,257
Others	<u>71,493</u>	<u>200,089</u>
Balance, end of year	<u>\$ 29,994,473</u>	<u>\$ 29,682,661</u> (Concluded)

26. OPERATING REVENUES

	For the Year Ended December 31	
	2014	2013
Revenue from the sale of goods	\$ 337,164,803	\$ 323,210,913
Construction contract revenue	19,659,886	16,219,774
Freight and service revenue	6,764,411	5,042,379
Other revenues	<u>2,921,597</u>	<u>3,355,772</u>
	<u>\$ 366,510,697</u>	<u>\$ 347,828,838</u>

27. PROFIT BEFORE INCOME TAX

The following items were included in profit before income tax:

a. Other income

	For the Year Ended December 31	
	2014	2013
Insurance claim income	\$ 879,744	\$ 267,807
Interest income	511,164	472,294
Dividend income	285,573	299,391
Rental income	113,942	98,162
Others	<u>630,361</u>	<u>481,056</u>
	<u>\$ 2,420,784</u>	<u>\$ 1,618,710</u>

b. Other gains and losses

	For the Year Ended December 31	
	2014	2013
Net foreign exchange gain	\$ 655,830	\$ 567,033
Gain on disposal of investments	237,371	285,768
Gain arising on financial instruments at fair value through profit or loss	67,609	41,693
		(Continued)

	For the Year Ended December 31	
	2014	2013
Impairment loss on financial assets	\$ (725,530)	\$ (49,032)
Loss on disposal of property, plant and equipment	(214,424)	(111,761)
Loss on settlement of construction	-	(418,731)
Others	<u>(475,097)</u>	<u>(573,001)</u>
	<u>\$ (454,241)</u>	<u>\$ (258,031)</u>
		(Concluded)

The components of net foreign exchange gain were as follows:

	For the Year Ended December 31	
	2014	2013
Foreign exchange gain	\$ 2,184,107	\$ 2,247,534
Foreign exchange loss	<u>(1,528,277)</u>	<u>(1,680,501)</u>
Net exchange gain	<u>\$ 655,830</u>	<u>\$ 567,033</u>

Gain arising on financial instruments at fair value through profit or loss includes 1) an increase in fair value of NT\$45,577 thousand and NT\$25,894 thousand for the years ended December 31, 2014 and 2013, respectively and 2) interest income of NT\$22,032 thousand and NT\$15,799 thousand for the years ended December 31, 2014 and 2013, respectively.

c. Finance costs

	For the Year Ended December 31	
	2014	2013
Total interest expense for financial liabilities measured at amortized cost	\$ 4,316,128	\$ 3,833,963
Less: Amounts included in the cost of qualifying assets	<u>528,352</u>	<u>848,593</u>
	<u>\$ 3,787,776</u>	<u>\$ 2,985,370</u>

Information about capitalized interest was as follows:

	For the Year Ended December 31	
	2014	2013
Capitalized amounts	□ \$ 528,352	□ \$ 848,593
Capitalized annual rates (%)	0.74-1.82	0.93-2.61

d. (Gains on reversal of) impairment losses on financial assets

	For the Year Ended December 31	
	2014	2013
Accounts Receivable	□ \$ 133,386	□ \$ (39,770)
Available-for-sale financial assets	□ 775,669	□ 192,985
Investments accounted for using equity method	□ <u>21,311</u>	□ <u>-</u>
	□ <u>\$ 930,366</u>	□ <u>\$ 153,215</u>
		(Continued)

	For the Year Ended December 31	
	2014	2013
Analysis of (gains on reversal of) impairment loss by function		
Operating costs	□ \$ 71,450	□ \$ 143,953
Selling and marketing expenses	□ 133,386	□ (39,770)
Other gains and losses	□ <u>725,530</u>	□ <u>49,032</u>
	□ <u>\$ 930,366</u>	□ <u>\$ 153,215</u>
		(Concluded)

e. Depreciation and amortization

	For the Year Ended December 31	
	2014	2013
Property, plant and equipment	\$ 35,276,566	\$ 31,265,068
Investment properties	78,148	80,333
Intangible assets	276,510	170,666
Others	<u>92,433</u>	<u>122,451</u>
	<u>\$ 35,723,657</u>	<u>\$ 31,638,518</u>
Analysis of depreciation by function		
Operating costs	\$ 33,952,729	\$ 30,266,688
Operating expenses	1,371,308	1,056,976
Others	<u>30,677</u>	<u>21,737</u>
	<u>\$ 35,354,714</u>	<u>\$ 31,345,401</u>
Analysis of amortization by function		
Operating costs	\$ 210,698	\$ 233,561
Operating expenses	156,303	56,564
Others	<u>1,942</u>	<u>2,992</u>
	<u>\$ 368,943</u>	<u>\$ 293,117</u>

f. Operating expenses directly related to investment properties

	For the Year Ended December 31	
	2014	2013
Direct operating expenses of investment properties that generated rental income	<u>\$ 145,112</u>	<u>\$ 148,861</u>

g. Employee benefits

	For the Year Ended December 31	
	2014	2013
Short-term employee benefits		
Salaries	\$ 30,385,597	\$ 27,158,822
Labor and health insurance	1,821,800	1,563,523
Others	<u>1,422,973</u>	<u>1,866,442</u>
	<u>33,630,370</u>	<u>30,588,787</u>
		(Continued)

	For the Year Ended December 31	
	2014	2013
Post-employment benefits (Note 24)		
Defined contribution plans	\$ 551,800	\$ 477,774
Defined benefit plans	<u>978,843</u>	<u>921,325</u>
	<u>1,530,643</u>	<u>1,399,099</u>
Termination benefits	<u>55,669</u>	<u>283,006</u>
	<u>\$ 35,216,682</u>	<u>\$ 32,270,892</u>
		(Concluded)

28. INCOME TAX

a. Income tax recognized in profit or loss

The major components of income tax expense were as follows:

	For the Year Ended December 31	
	2014	2013
Current tax		
In respect of the current year	\$ 5,280,703	\$ 3,492,484
In respect of prior years	(272,968)	61,018
Deferred tax		
In respect of the current year	(813,291)	(45,055)
In respect of prior years	247,771	(58,856)
Write-down in the current year	<u>(63,257)</u>	<u>1,404,994</u>
	<u>\$ 4,378,958</u>	<u>\$ 4,854,585</u>

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

	For the Year Ended December 31	
	2014	2013
Profit before income tax	<u>\$ 28,576,234</u>	<u>\$ 23,209,052</u>
Income tax expense at the statutory rate	\$ 5,108,301	\$ 4,476,541
Non-deductible expenses in determining taxable income	47,598	37,970
Tax-exempt income	(561,542)	(302,808)
Loss on capital reduction	(7,730)	(497,624)
Others	34,364	(198,935)
Additional income tax under the Alternative Minimum Tax Act	20,106	12,208
Additional income tax on unappropriated earnings	166,544	58,916
Unrecognized deductible temporary differences	140,023	115,217
Unrecognized loss (gain) carryforwards	36,555	(238,238)
Unrecognized investment credits	(516,807)	(15,818)
Adjustments for prior years' tax	(25,197)	2,162
Write-down of deferred tax assets	<u>(63,257)</u>	<u>1,404,994</u>
Income tax expense recognized in profit or loss	<u>\$ 4,378,958</u>	<u>\$ 4,854,585</u>

The applicable tax rate used above is the corporate tax rate of 17% payable by the Corporation and its subsidiaries in the ROC, while the applicable tax rate used by subsidiaries in China is 25%. Tax rates used by other subsidiaries operating in other jurisdictions are based on the tax laws in those jurisdictions.

b. Income tax recognized directly in equity

	For the Year Ended December 31	
	2014	2013
Current tax		
Reversal of special reserve due to disposal of property, plant and equipment	\$ 216	\$ 410
Deferred tax		
Reversal of special reserve due to disposal of property, plant and equipment	<u>(216)</u>	<u>(410)</u>
	<u>\$ -</u>	<u>\$ -</u>

c. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2014	2013
Recognized in other comprehensive income:		
Translation of foreign operations	\$ 35,881	\$ 15,981
Unrealized gain or loss on available-for-sale financial assets	4,420	6,375
Fair value changes of cash flow hedges	34,639	24,876
Actuarial gain or loss on defined benefit retirement plan	276,588	25,516
Fair value changes of hedging instruments in cash flow hedges transferred to profit or loss	(234)	(5,501)
Disposal of available-for-sale financial assets	(1,311)	(2,896)
Fair value changes of hedging instruments in cash flow hedges transferred to adjust carrying amounts of hedged items	<u>(4,413)</u>	<u>38,409</u>
	<u>\$ 345,570</u>	<u>\$ 102,760</u>

d. Current tax assets and liabilities

	December 31	
	2014	2013
Current tax assets		
Tax refund receivable	\$ 130,547	\$ 97,756
Prepaid income tax	<u>38,962</u>	<u>22,861</u>
	<u>\$ 169,509</u>	<u>\$ 120,617</u>
Current tax liabilities		
Income tax payable	<u>\$ 4,868,683</u>	<u>\$ 3,700,145</u>

e. Deferred tax assets and liabilities

The Corporation and its subsidiaries offset certain deferred tax assets and deferred tax liabilities which met the offset criteria.

The movements of deferred tax assets and deferred tax liabilities were as follows:

For the year ended December 31, 2014

	Balance, beginning of year	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Recognized Directly in Equity	Effect of Foreign Currency Exchange Differences	Others	Balance, end of year
Deferred Tax Assets							
Temporary differences							
Defined benefit plan and estimated separation pay	\$ 1,251,786	\$ (41,998)	\$ (271,710)	\$ -	\$ -	\$ (8)	\$ 938,070
Unrealized loss on inventories	742,340	174,262	161	-	101	-	916,864
Provisions	506,812	142,613	-	-	-	-	649,425
Impairment loss on financial assets	402,809	109,072	-	-	-	-	511,881
Unrealized construction loss	124,116	(23,625)	-	-	-	-	100,491
Difference between tax reporting and financial reporting – revenue recognition	122,129	20,610	-	-	-	-	142,739
Unrealized deferred gross profit	116,280	51,105	-	-	-	-	167,385
Unrealized settlement loss on foreign exchange forward	105,013	(3,327)	-	-	-	-	101,686
Others	867,227	136,531	(48,942)	-	-	(672)	954,144
	4,238,512	565,243	(320,491)	-	101	(680)	4,482,685
Loss carryforwards	21,574	110,605	-	-	310	-	132,489
Investment credits	1,817,582	(370,435)	-	-	-	-	1,447,147
	<u>\$ 6,077,668</u>	<u>\$ 305,413</u>	<u>\$ (320,491)</u>	<u>\$ -</u>	<u>\$ 411</u>	<u>\$ (680)</u>	<u>\$ 6,062,321</u>
Deferred Tax Liabilities							
Temporary differences							
Land value increment tax	\$ 10,240,123	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,240,123
Difference between tax reporting and financial reporting – depreciation method	1,239,401	(173,342)	-	-	-	-	1,066,059
Foreign investment income	1,219,880	(130,874)	-	-	(271)	-	1,088,735
Others	277,584	(19,147)	25,079	(216)	-	-	283,300
	<u>\$ 12,976,988</u>	<u>\$ (323,363)</u>	<u>\$ 25,079</u>	<u>\$ (216)</u>	<u>\$ (271)</u>	<u>\$ -</u>	<u>\$ 12,678,217</u>

For the year ended December 31, 2013

	Balance, beginning of year	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Recognized Directly in Equity	Effect of Foreign Currency Exchange Differences	Others	Balance, end of year
Deferred Tax Assets							
Temporary differences							
Defined benefit plan and estimated separation pay	\$ 1,211,913	\$ 35,518	\$ 4,436	\$ -	\$ -	\$ (81)	\$ 1,251,786
Unrealized loss on inventories	692,193	50,048	-	-	99	-	742,340
Provisions	406,146	100,666	-	-	-	-	506,812
Impairment loss on financial assets	938,658	(535,849)	-	-	-	-	402,809
Unrealized construction loss	97,986	26,130	-	-	-	-	124,116
Difference between tax reporting and financial reporting - revenue recognition	116,748	5,381	-	-	-	-	122,129
Unrealized deferred gross profit	182,122	(65,842)	-	-	-	-	116,280
Unrealized settlement loss on foreign exchange forward	103,375	1,638	-	-	-	-	105,013
Others	619,509	285,927	(62,592)	-	(269)	24,652	867,227
	4,368,650	(96,383)	(58,156)	-	(170)	24,571	4,238,512
Loss carryforwards	496,538	(86,515)	-	-	-	(388,449)	21,574
Investment credits	2,964,616	(1,115,277)	-	-	-	(31,757)	1,817,582
	<u>\$ 7,829,804</u>	<u>\$ (1,298,175)</u>	<u>\$ (58,156)</u>	<u>\$ -</u>	<u>\$ (170)</u>	<u>\$ (395,635)</u>	<u>\$ 6,077,668</u>
Deferred Tax Liabilities							
Temporary differences							
Land value increment tax	\$ 10,240,123	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,240,123
Difference between tax reporting and financial reporting – depreciation method	1,398,371	(148,382)	-	-	(10,588)	-	1,239,401
Foreign investment income	1,188,586	31,274	-	-	20	-	1,219,880
Others	95,040	120,016	44,604	(410)	-	18,334	277,584
	<u>\$ 12,922,120</u>	<u>\$ 2,908</u>	<u>\$ 44,604</u>	<u>\$ (410)</u>	<u>\$ (10,568)</u>	<u>\$ 18,334</u>	<u>\$ 12,976,988</u>

- f. Items for which no deferred tax assets have been recognized

	December 31	
	2014	2013
Loss carryforwards	<u>\$ 13,616,308</u>	<u>\$ 9,208,435</u>
Investment credits		
Purchase of machinery and equipment, etc.	<u>\$ 3,422,429</u>	<u>\$ 3,686,614</u>
Deductible temporary differences	<u>\$ 464,874</u>	<u>\$ 470,474</u>

The unrecognized loss carryforwards will expire in 2015 to 2024.

The unrecognized investment credits will expire in 2016.

- g. The related information about unused investment credits and unused loss carryforwards

As of December 31, 2014, investment tax credits comprised of:

Laws and Statutes	Tax Credit Source	Remaining Creditable Amount	Expiry Year
Statute for Upgrading Industries	Purchase of machinery and equipment, etc.	<u>\$ 4,869,576</u>	2016

As of December 31, 2014, loss carryforwards comprised of:

Unused Amount	Expiry Year
<u>\$ 14,378,413</u>	2014-2024

- h. Integrated income tax

	December 31	
	2014	2013
Unappropriated earnings		
Unappropriated earnings generated before January 1, 1998	\$ 15,954	\$ 15,954
Unappropriated earnings generated on and after January 1, 1998	<u>24,109,561</u>	<u>16,332,286</u>
	<u>\$ 24,125,515</u>	<u>\$ 16,348,240</u>
Imputation credits accounts ("ICA")	<u>\$ 515,798</u>	<u>\$ 27,022</u>

For distribution of earnings generated after January 1, 1998, the ratio for the imputation credits allocated to shareholders of the Corporation is based on the balance of the ICA as of the date of dividend distribution.

The creditable ratio of the Corporation for the distribution of 2014 and 2013 earnings was 14.19% (estimated) and 15.13%, respectively. The actual imputation credits allocated to shareholders of the Corporation was based on the balance of the ICA as of the date of dividend distribution. Therefore, the expected creditable ratio for the 2014 earnings may differ from the actual creditable ratio to be used in allocating imputation credits to the shareholders.

According to legal interpretation No. 10204562810 announced by the Taxation Administration of the Ministry of Finance, when calculating imputation credits in the year of first-time adoption of IFRSs, the cumulative retained earnings include the net increase or net decrease in retained earnings arising from first-time adoption of IFRSs.

i. Income tax assessments

The Corporation's income tax returns through 2010 and the subsidiaries' income tax returns through 2009 to 2013 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. Furthermore, the subsidiary KRTC's administrative litigation on the tax authorities' assessment of its 2009 tax return was dismissed by Supreme Administrative Court in November 2014. However, the Corporation and its subsidiaries had recognized the related additional 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 year

	For the Year Ended December 31	
	2014	2013
Net profit for the year attributable to owners of the Corporation	\$ 22,160,266	\$ 15,981,540
Less: Dividends on preference shares	<u>53,575</u>	<u>53,575</u>
Net profit used in computation of basic and diluted earnings per share	<u>\$ 22,106,691</u>	<u>\$ 15,927,965</u>

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

	For the Year Ended December 31	
	2014	2013
Weighted average number of ordinary shares in computation of basic earnings per share	15,418,145	15,415,745
Effect of dilutive potential ordinary shares:		
Bonus to employees	85,274	52,242
Convertible preference shares	<u>38,268</u>	<u>-</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>15,541,687</u>	<u>15,467,987</u>

Preference shares were not included in the calculation of diluted earnings per share for the year ended December 31, 2013 because of their anti-dilutive effect.

The weighted average number of shares outstanding used for the earnings per share computation was adjusted retroactively for the issuance of share dividends distributed out of earnings for the year ended December 31, 2014. The adjusted basic and diluted after-tax earnings per share for the year ended December 31, 2013 were both NT\$1.03.

If the Corporation is allowed to settle the bonus paid to employees by cash or shares, the Corporation presumes that the entire amount of the bonus would be settled in shares and the resulting potential shares are included in the weighted average number of shares outstanding used in the computation of diluted

earnings per share, if the shares have a dilutive effect. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the shareholders resolve the number of shares to be distributed to employees at their meeting in the following year.

30. BUSINESS COMBINATIONS

a. Subsidiaries acquired

	Principal Activity	Date of Acquisition	Proportion of Voting Equity/ Interests Acquired (%)	Consideration Transferred
KRTC	Operation of mass rapid transit	December 1, 2013	50 / 18	<u>\$ 982,436</u>

On the basis of public interest and corporate social responsibility, the Corporation and its subsidiaries acquired KRTC through participating in its capital increase in 2013, which increased the Corporation and its subsidiaries' total equity in KRTC from 32% to 50%.

b. Assets acquired and liabilities assumed at the date of acquisition

Current assets	
Cash and cash equivalents	\$□ 41,793
Accounts receivable and other receivables	2,388,411
Current tax assets	2,498
Inventories	5,406
Other financial assets - current	220,500
Other current assets	186,639
Noncurrent assets	
Property, plant and equipment	627,976
Intangible assets	1,037,435
Refundable deposits	54
Other financial assets - noncurrent	2,001,445
Other noncurrent assets	1,025,939
Current liabilities	
Short-term borrowings	(1,070,000)
Accounts payable and other payables	(1,583,704)
Current tax liabilities	(56,901)
Amount due to customers for construction contracts	(9,649)
Other current liabilities	(251,989)
Noncurrent liabilities	
Provisions - noncurrent	(1,025,621)
Other noncurrent liabilities	<u>(50,608)</u>
	<u>\$ 3,489,624</u>

c. Non-controlling interests

The non-controlling interest (50% ownership interest in KRTC) recognized at the acquisition date was measured with reference to the fair value of the non-controlling interest amounted to NT\$1,735,390 thousand. This fair value was estimated based on KRTC's identifiable net assets.

d. Goodwill arising on acquisition

Consideration transferred	\$ 982,436
Add: Fair value of KRTC's shares held by the Corporation and its subsidiaries before the date of acquisition	771,798
Non-controlling interests (50% ownership in KRTC)	1,735,390
Less: Fair value of identifiable net assets acquired	<u>3,489,624</u>
Goodwill arising on acquisition	<u>\$ -</u>

31. 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.

32. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments

1) Fair value of financial instruments not carried at fair value

Except as detailed in the following table, management believes the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values.

	December 31			
	2014		2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Financial assets</u>				
Held-to-maturity Investments	<u>\$ 222,989</u>	<u>\$ 205,097</u>	<u>\$ 209,991</u>	<u>\$ 191,766</u>

2) Fair value measurements recognized in the consolidated balance sheets

The financial assets and financial liabilities measured at fair value were grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from listed prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than listed prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
<u>December 31, 2014</u>				
Financial assets at fair value through profit or loss				
Mutual funds	\$ 3,941,687	\$ -	\$ -	\$ 3,941,687
Listed shares	922,433	-	-	922,433
Emerging market shares	-	-	276,613	276,613
Convertible bonds	192,205	-	-	192,205
Structure notes	-	72,601	-	72,601
Convertible preference shares	-	31,842	-	31,842
Foreign exchange forward contracts	-	13,134	-	13,134
Future contracts	<u>-</u>	<u>78</u>	<u>-</u>	<u>78</u>
	<u>\$ 5,056,325</u>	<u>\$ 117,655</u>	<u>\$ 276,613</u>	<u>\$ 5,450,593</u>
Available-for-sale financial assets				
Foreign unlisted equity securities	\$ -	\$ -	\$ 20,308,005	\$ 20,308,005
Domestic listed shares	8,378,467	-	-	8,378,467
Domestic emerging market shares and unlisted equity securities	-	-	6,321,209	6,321,209
Foreign listed shares	1,665,902	-	-	1,665,902
Mutual funds	996,300	-	-	996,300
Private-placement shares of listed companies	<u>-</u>	<u>84,133</u>	<u>-</u>	<u>84,133</u>
	<u>\$ 11,040,669</u>	<u>\$ 84,133</u>	<u>\$ 26,629,214</u>	<u>\$ 37,754,016</u>
Derivative financial assets for hedging				
Foreign exchange forward contracts	\$ -	\$ 148,932	\$ -	\$ 148,932
Interest rate swap contracts	<u>-</u>	<u>2,029</u>	<u>-</u>	<u>2,029</u>
	<u>\$ -</u>	<u>\$ 150,961</u>	<u>\$ -</u>	<u>\$ 150,961</u>
Financial liabilities at fair value through profit or loss				
Foreign exchange forward contracts	\$ -	\$ 5,518	\$ -	\$ 5,518
Call and put options	<u>-</u>	<u>1,631</u>	<u>-</u>	<u>1,631</u>
	<u>\$ -</u>	<u>\$ 7,149</u>	<u>\$ -</u>	<u>\$ 7,149</u>
Derivative financial liabilities for hedging				
Foreign exchange forward contracts	\$ -	\$ 47,075	\$ -	\$ 47,075
Interest rate swap contracts	<u>-</u>	<u>9,312</u>	<u>-</u>	<u>9,312</u>
	<u>\$ -</u>	<u>\$ 56,387</u>	<u>\$ -</u>	<u>\$ 56,387</u>

(Continued)

	Level 1	Level 2	Level 3	Total
<u>December 31, 2013</u>				
Financial assets at fair value through profit or loss				
Mutual funds	\$ 3,434,763	\$ -	\$ -	\$ 3,434,763
Listed shares	1,130,740	-	-	1,130,740
Emerging market shares	-	-	283,883	283,883
Structure notes	-	138,323	-	138,323
Convertible bonds	22,910	-	-	22,910
Foreign exchange forward contracts	<u>-</u>	<u>3,891</u>	<u>-</u>	<u>3,891</u>
	<u>\$ 4,588,413</u>	<u>\$ 142,214</u>	<u>\$ 283,883</u>	<u>\$ 5,014,510</u>
Available-for-sale financial assets				
Foreign unlisted equity securities	\$ -	\$ -	\$ 16,309,942	\$ 16,309,942
Domestic emerging market shares and unlisted equity securities	-	-	7,477,096	7,477,096
Domestic listed shares	6,554,894	-	-	6,554,894
Foreign listed shares	1,859,074	-	-	1,859,074
Mutual funds	1,043,144	-	-	1,043,144
Private-placement shares of listed companies	<u>-</u>	<u>146,898</u>	<u>-</u>	<u>146,898</u>
	<u>\$ 9,457,112</u>	<u>\$ 146,898</u>	<u>\$ 23,787,038</u>	<u>\$ 33,391,048</u>
Derivative financial assets for hedging				
Foreign exchange forward contracts	\$ -	\$ 37,458	\$ -	\$ 37,458
Interest rate swap contracts	<u>-</u>	<u>35,245</u>	<u>-</u>	<u>35,245</u>
	<u>\$ -</u>	<u>\$ 72,703</u>	<u>\$ -</u>	<u>\$ 72,703</u>
Financial liabilities at fair value through profit or loss				
Foreign exchange forward contracts	\$ -	\$ 7,533	\$ -	\$ 7,533
Call and put options	<u>-</u>	<u>1,561</u>	<u>-</u>	<u>1,561</u>
	<u>\$ -</u>	<u>\$ 9,094</u>	<u>\$ -</u>	<u>\$ 9,094</u>
Derivative financial liabilities for hedging				
Foreign exchange forward contracts	<u>\$ -</u>	<u>\$ 62,324</u>	<u>\$ -</u>	<u>\$ 62,324</u>
				(Concluded)

There was no transfer between Level 1 and Level 2 for the years ended December 31, 2014 and 2013.

3) 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
<u>For the year ended December 31, 2014</u>			
Balance, beginning of year	\$ 283,883	\$ 23,787,038	\$ 24,070,921
Recognized in profit or loss - other gains and losses	(7,270)	(529,118)	(536,388)
Recognized in other comprehensive income - unrealized gain on available-for-sale financial assets	-	230,775	230,775
Purchases	-	5,182,153	5,182,153
Disposal	-	(382,127)	(382,127)
Transfers out of Level 3	-	(1,360,914)	(1,360,914)
Effect of foreign currency exchange difference	-	(259,855)	(259,855)
Others	-	(38,739)	(38,739)
Balance, end of year	<u>\$ 276,613</u>	<u>\$ 26,629,213</u>	<u>\$ 26,905,826</u>
<u>For the year ended December 31, 2013</u>			
Balance, beginning of year	\$ 304,655	\$ 14,606,157	\$ 14,910,812
Recognized in profit or loss - other gains and losses	(20,772)	(29,682)	(50,454)
Recognized in other comprehensive income - unrealized gain on available-for-sale financial assets	-	2,034,111	2,034,111
Reclassification	-	15,734	15,734
Purchases	-	8,975,858	8,975,858
Disposal	-	(279,523)	(279,523)
Transfers out of Level 3	-	(1,031,565)	(1,031,565)
Effect of foreign currency exchange difference	-	(449,936)	(449,936)
Others	-	(54,116)	(54,116)
Balance, end of year	<u>\$ 283,883</u>	<u>\$ 23,787,038</u>	<u>\$ 24,070,921</u>

4) Valuation techniques and assumptions applied for the purpose of measuring fair value

The fair values of financial assets and financial liabilities were determined as follows:

- a) The fair values of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets were determined with reference to listed market prices (including mutual funds and domestic and foreign listed shares). Where such prices were not available, valuation techniques were applied. For shares acquired through private placement and not transferred freely in public market, fair values were determined by using valuation techniques adopted by the Corporation and its subsidiaries based on information from the Market Observation Post System, the Taiwan Stock Exchange, etc. and calculated by using the Black-Scholes Model. For emerging market shares, fair values were estimated on the basis of the closing price and liquidity. For unlisted equity securities, fair values were estimated by using a discounted cash flow model, which included some assumptions that were not

supportable by observable market prices or rates, by using a market approach, which was determined based on industry types, valuations of similar companies and operations, or by using the net worth of companies. The estimates and assumptions of credit linked note and convertible bonds used by the Corporation and its subsidiaries were consistent with those that market participants would use in setting a price for financial instrument.

- b) The fair values of derivative instruments were calculated using listed prices. Where such prices were not available, a discounted cash flow analysis was performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional 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.

b. Categories of financial instruments

	December 31	
	2014	2013
Financial assets		
Fair value through profit or loss		
Designated as at fair value through profit or loss	\$ 2,847,161	\$ 2,511,156
Held for trading	2,603,432	2,503,354
Derivative instruments in designated hedge accounting relationships	150,961	72,703
Held-to-maturity investments	222,989	209,991
Loans and receivables 1)	47,410,300	47,606,236
Available-for-sale financial assets	37,754,016	33,391,048
Financial liabilities		
Fair value through profit or loss		
Held for trading	5,518	7,533
Designated as at fair value through profit or loss	1,631	1,561
Derivative instruments in designated hedge accounting relationships	56,387	62,324
Measured at amortized cost 2)	310,404,363	324,946,102

- 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, bond 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 and long-term bills payable.

c. Financial risk management objectives and policies

The finance department of the Corporation and its subsidiaries proposes financial strategies according to the operation at different stages, coordinates access to domestic and international financial markets, and monitors and manages the financial risks relating to the operations of the Corporation and its subsidiaries through internal risk analysis of degree of exposures by using domestic and international professional risk monitoring system. These risks include market risk (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

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. 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 as follows:

	December 31	
	2014	2013
Assets		
USD	\$ 9,243,846	\$ 8,134,138
JPY	3,146,753	3,479,503
VND	1,308,940	798,069
RMB	1,039,438	704,287
AUD	8,927	6,365
CAD	1,502	3,777
Liabilities		
USD	21,820,295	20,589,139
AUD	7,379,921	4,207,803
JPY	3,747,575	4,013,306
RMB	13,924	-
VND	11,889	216,597
CAD	-	7,796,438

The Corporation and its subsidiaries were mainly exposed to the currencies USD, JPY, CAD, VND, RMB and AUD. 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 Year			For the Year	
	Ended December 31			Ended December 31	
	2014	2013		2014	2013
Pre-tax profit or loss	\$ 45,829	\$ 48,595 i		\$ 7,158	\$ 8,172 ii
Pre-tax equity	79,935	75,955 iii		(1,150)	(2,834) iii
	CAD Impact			AUD Impact	
	For the Year			For the Year	
	Ended December 31			Ended December 31	
	2014	2013		2014	2013
Pre-tax profit or loss	\$ (15)	\$ (38) i		\$ (87)	\$ (64) i
Pre-tax equity	-	77,964 iii		73,797	42,078 iii

	RMB Impact		VND Impact	
	For the Year		For the Year	
	Ended December 31		Ended December 31	
	2014	2013	2014	2013
Pre-tax profit or loss	\$ (6,945)	\$ (7,043) ii	\$ (12,971)	\$ (5,815) i
Pre-tax equity	(3,310)	- iii	-	-

i This was mainly attributable to the exposure of cash, outstanding receivables and payables, which were not hedged at the balance sheet date.

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

iii This was 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:

	December 31	
	2014	2013
Fair value interest rate risk		
Financial liabilities	\$ 117,955,561	\$ 97,280,055
Cash flow interest rate risk		
Financial liabilities	158,339,323	191,023,366

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 years ended December 31, 2014 and 2013 would have been lower/higher by NT\$1,583,393 thousand and NT\$1,910,234 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, pre-tax profit for the years ended December 31, 2014 and 2013 would have been higher/lower by NT\$48,641 thousand and NT\$45,655 thousand, respectively, as a result of the changes in fair value of financial assets at fair value through profit or loss, and the pre-tax other comprehensive income for the years ended December 31, 2014 and 2013 would have been higher/lower by NT\$111,248 thousand and NT\$96,040 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 December 31, 2014, the maximum credit risk of off-balance-sheet guarantees provided to investees of co-investment for procurement compliance was NT\$2,435,424 thousand (USD50,350 thousand and MYR86,681 thousand).

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 band 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 summarizes the maturity profile of the Corporation and its subsidiaries' financial liabilities based on contractual undiscounted payments:

	Less Than 1 Year	2-5 Years	Over 5 Years	Total
December 31, 2014				
Non-derivative financial liabilities				
Non-interest bearing liabilities	\$ 32,971,821	\$ 145,279	\$ -	\$ 33,117,100
Variable interest rate liabilities	55,150,465	102,854,300	5,619,154	163,623,919
Fixed interest rate liabilities	30,622,779	35,702,021	63,098,950	129,423,750
Financial guarantee liabilities	<u>2,435,424</u>	<u>-</u>	<u>-</u>	<u>2,435,424</u>
	<u>\$ 121,180,489</u>	<u>\$ 138,701,600</u>	<u>\$ 68,718,104</u>	<u>\$ 328,600,193</u>
December 31, 2013				
Non-derivative financial liabilities				
Non-interest bearing liabilities	\$ 36,076,857	\$ 81,086	\$ -	\$ 36,157,943
Variable interest rate liabilities	49,892,529	131,320,457	15,365,402	196,578,388
Fixed interest rate liabilities	35,360,688	29,144,549	39,076,395	103,581,632
Financial guarantee liabilities	<u>2,462,939</u>	<u>-</u>	<u>-</u>	<u>2,462,939</u>
	<u>\$ 123,793,013</u>	<u>\$ 160,546,092</u>	<u>\$ 54,441,797</u>	<u>\$ 338,780,902</u>

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 consider that it is more likely than not that none of the amount will be payable under the arrangement.

33. 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. Operating revenues

Account Items	Related Parties Types	For the Year Ended December 31	
		2014	2013
Revenue from sales of goods	The Corporation and its subsidiaries as key management personnel of other related parties	\$ 3,778,770	\$ 2,959,196
	Other related parties as key management personnel of subsidiaries	2,902,150	2,607,504

(Continued)

Account Items	Related Parties Types	For the Year Ended December 31	
		2014	2013
	Other related parties as supervisors of the Corporation and its subsidiaries	\$ 1,757,099	\$ 886,757
	Others	<u>1,953,540</u>	<u>1,450,943</u>
		<u>\$ 10,391,559</u>	<u>\$ 7,904,400</u>
Construction contract revenue	The Corporation and its subsidiaries as key management personnel of other related parties	\$ 1,155,144	\$ 137,250
	Others	<u>153,473</u>	<u>118,108</u>
		<u>\$ 1,308,617</u>	<u>\$ 255,358</u>

(Concluded)

Sales to related parties were made under normal terms. 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 Year Ended December 31	
	2014	2013
Companies with significant influence over subsidiaries	\$ 3,516,133	\$ 639,584
Associates	221,434	321,899
Other related parties as key management personnel of subsidiaries	206,123	205,133
Others	<u>418,275</u>	<u>468,844</u>
	<u>\$ 4,361,965</u>	<u>\$ 1,635,460</u>

Purchases from related parties were made under normal terms.

c. Receivables from related parties

Account Items	Related Parties Types	December 31	
		2014	2013
Notes and accounts receivable	The Corporation and its subsidiaries as key management personnel of other related parties	\$ 327,329	\$ 709,635
	Other related parties as key management personnel of subsidiaries	391,629	401,596
	Others	<u>178,235</u>	<u>16,563</u>
		<u>\$ 897,193</u>	<u>\$ 1,127,794</u>

No guarantee was received for receivables from related parties. No impairment was recognized for the years ended December 31, 2014 and 2013 on receivables from related parties.

d. Payables to related parties

Account Items	Related Parties Types	December 31	
		2014	2013
Notes and accounts payable	Companies with significant influence over subsidiaries	\$ 632,506	\$ -
	Associates	30,259	28,248
	Other related parties as key management personnel of subsidiaries	26,589	23,563
	Other related parties as supervisors of subsidiaries	-	94,790
	Others	357	11,527
		<u>\$ 689,711</u>	<u>\$ 158,128</u>

The outstanding payables to related parties were unsecured.

e. Acquisition of other assets

Related Parties Types	Account Items	Price	
		For the Year Ended December 31 2014	2013
The Corporation as key management personnel of other related parties	Long-term prepaid rentals (recorded as other noncurrent assets)	\$ -	\$ 81,817

f. Disposal of other assets

Related Parties Types	Account Items	Price		Gain on Disposal	
		For the Year Ended December 31		For the Year Ended December 31	
		2014	2013	2014	2013
Associates	Intangible assets	<u>\$ 114,286</u>	<u>\$ -</u>	<u>\$ 94,366</u>	<u>\$ -</u>

Refer to Note 15 for details.

g. Others

Account Items	Related Parties Types	For the Year Ended December 31	
		2014	2013
Service and other revenues	The Corporation and its subsidiaries as key management personnel of other related parties	\$ 867,967	\$ 630,636
	Others	<u>141,205</u>	<u>144,126</u>
		<u>\$ 1,009,172</u>	<u>\$ 774,762</u>

h. Refer to Note 35 h. for endorsements/guarantees provided to the related parties.

i. Compensation of key management personnel

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

	For the Year Ended December 31	
	2014	2013
Short-term employee benefits	\$ 82,795	\$ 82,078
Post-employment benefits	<u>2,286</u>	<u>1,933</u>
	<u>\$ 85,081</u>	<u>\$ 84,011</u>

34. 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 and bankers' acceptance bills etc. were as follows (listed based on their carrying amounts):

	December 31	
	2014	2013
Net property, plant and equipment	\$ 138,346,513	\$ 170,022,417
Time deposits (Note 16)	7,355,696	7,676,795
Shares (a)	6,993,170	5,964,300
Pledged receivables (Note 16) (b)	2,000,000	2,000,000
Net investment properties	<u>1,551,118</u>	<u>1,765,703</u>
	<u>\$ 156,246,497</u>	<u>\$ 187,429,215</u>

- Shares of the Corporation were pledged by the subsidiaries WIC and TIC and were recorded as treasury shares in the consolidated financial statements.
- 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.

35. 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 December 31, 2014 were as follows:

- a. The Corporation and its subsidiaries provided letters of credits for NT\$4.6 billion guaranteed by financial institutions for several construction and lease contracts, and guarantee notes for NT\$66.4 billion to banks and owners for loans, purchase agreements and warranty.
- b. Unused letters of credit for importation of materials and machinery amounted to NT\$11.4 billion.
- c. Property purchase and construction contracts for NT\$11 billion were signed but not yet recorded.
- d. Construction contracts for NT\$40.7 billion were not yet completed.
- e. The Corporation and its subsidiaries entered into raw material purchase contracts with suppliers in Australia, Brazil, Canada, United States, Russia, Japan and domestic companies with contract terms of 1 to 10 years. Contracted annual purchases of 10,010,000 metric tons of coal, 23,650,000 metric tons of iron ore, and 3,390,000 metric tons of limestone are at prices negotiable with the counterparties. Purchase commitments as of December 31, 2014 were USD4.6 billion (including 5,410,000 metric tons of coal, 59,220,000 metric tons of iron ore, and 1,160,000 metric tons of limestone).
- f. In August 2014, the associate Chang-Chun Ceck Auto. Parts Co., Ltd. (CCCA) entered into a credit facility agreement with Chinatrust Commercial Bank for a EUR2,000 thousand import loan commitment. Under the agreement, the Corporation and its associates should collectively hold at least 30% of CCCA's issued shares and one seat in the board of directors. As of December 31, 2014, the Corporation's associates held 30% 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 credit facility agreement with Shanghai Commercial & Savings Bank for a NT\$225 million factory building loan commitment and a JPY56,500 thousand import loan commitment transferred from credit. 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 December 31, 2014, the Corporation held 30% equity of HAPC and two seats in the board of directors.
- h. Endorsements/guarantees provided to the unconsolidated entities as of December 31, 2014 were as follows:

Endorsement/Guarantee Provider	Counterparty	Ending Balance
China Steel Corporation	Sakura Ferroalloys Sdn. Bhd.	MYR86,681 thousand USD50,350 thousand

36. SIGNIFICANT SUBSEQUENT EVENTS

On February 13, 2015, the Corporation's board of directors approved investing USD939,135 thousand to acquire 20% shareholding in Formosa Ha Tinh (Cayman) Limited through its subsidiary CSAPH. As of the date the consolidated financial statements were approved and authorized for issue, the above investment hasn't been paid.

37. EXCHANGE RATE OF FINANCIAL ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The significant financial assets and liabilities denominated in foreign currencies were as follows:

	Foreign Currencies (In Thousands)	Exchange Rate		Carrying Amount (In Thousands of New Taiwan Dollars)
December 31, 2014				
Monetary financial assets				
USD	\$ 251,956	31.6500	(USD:NTD)	\$ 7,974,401
USD	15,558	6.2156	(USD:RMB)	492,413
USD	14,820	1.2218	(USD:AUD)	469,052
USD	3,960	22,607.1429	(USD:VND)	125,323
USD	2,751	63.1989	(USD:INR)	87,063
USD	2,495	3.6413	(USD:MYR)	78,956
USD	502	7.7574	(USD:HKD)	15,896
USD	23	1.3221	(USD:SGD)	742
JPY	11,699,386	0.2646	(JPY:NTD)	3,095,657
JPY	162,335	0.0084	(JPY:USD)	42,954
JPY	30,771	0.0520	(JPY:RMB)	8,142
VND	918,553,871	0.00005	(VND:USD)	1,308,939
VND	854	0.0014	(VND:NTD)	1
RMB	175,493	5.0920	(RMB:NTD)	893,610
RMB	28,606	0.1609	(RMB:USD)	145,663
RMB	32	1.2480	(RMB:HKD)	165
AUD	232	25.9050	(AUD:NTD)	6,022
AUD	112	0.8185	(AUD:USD)	2,905
CAD	45	27.2700	(CAD:NTD)	1,229
CAD	10	0.8616	(CAD:USD)	273
Non-monetary financial assets				
USD	265,616	31.6500	(USD:NTD)	8,406,750
JPY	6,042,000	0.2646	(JPY:NTD)	1,598,713
MYR	178,360	8.6920	(MYR:NTD)	1,550,304
KRW	35,870,250	0.0292	(KRW:NTD)	1,047,411
Monetary financial liabilities				
USD	449,301	31.6500	(USD:NTD)	14,220,367
USD	103,030	6.2156	(USD:RMB)	3,260,886
USD	110,000	63.1989	(USD:INR)	3,481,500
USD	22,932	22,607.1429	(USD:VND)	725,795
USD	4,163	3.6413	(USD:MYR)	131,747
JPY	14,149,122	0.2646	(JPY:NTD)	3,743,858
JPY	6,934	0.0520	(JPY:RMB)	1,835
JPY	7,111	0.0084	(JPY:USD)	1,882
AUD	284,884	25.9050	(AUD:NTD)	7,379,921
RMB	2,735	5.0920	(RMB:NTD)	13,924
VND	8,343,145	0.00005	(VND:USD)	11,889
December 31, 2013				
Monetary financial assets				
USD	225,811	29.8050	(USD:NTD)	6,730,288
USD	21,201	61.6570	(USD:INR)	631,906
USD	18,539	6.0592	(USD:RMB)	552,561
USD	4,384	21,755.4745	(USD:VND)	130,669
USD	1,604	1.1211	(USD:AUD)	47,794
USD	1,373	3.4133	(USD:MYR)	40,920
JPY	11,953,539	0.2839	(JPY:NTD)	3,393,610
(Continued)				

(Continued)

	Foreign Currencies (In Thousands)	Exchange Rate		Carrying Amount (In Thousands of New Taiwan Dollars)
JPY	\$ 272,334	0.0095	(JPY:USD)	\$ 77,316
JPY	30,214	0.0577	(JPY:RMB)	8,577
VND	582,532,274	0.00005	(VND:USD)	798,069
AUD	179	26.5850	(AUD:NTD)	4,750
AUD	61	0.8920	(AUD:USD)	1,615
CAD	135	0.9398	(CAD:USD)	3,777
RMB	122,981	4.9190	(RMB:NTD)	604,945
RMB	20,196	0.1650	(RMB:USD)	99,342
Non-monetary financial assets				
VND	3,653,577,680	0.0014	(VND:NTD)	5,005,401
USD	114,061	29.8050	(USD:NTD)	3,399,580
JPY	6,218,000	0.2839	(JPY:NTD)	1,765,290
KRW	40,558,250	0.0284	(KRW:NTD)	1,151,854
Monetary financial liabilities				
USD	498,775	29.8050	(USD:NTD)	14,865,982
USD	88,073	6.0592	(USD:RMB)	2,625,010
USD	80,000	61.6570	(USD:INR)	2,384,400
USD	20,239	21,755.4745	(USD:VND)	603,219
USD	3,708	3.4133	(USD:MYR)	110,528
CAD	278,345	28.0100	(CAD:NTD)	7,796,438
AUD	158,277	26.5850	(AUD:NTD)	4,207,803
JPY	14,121,101	0.2839	(JPY:NTD)	4,008,981
JPY	9,856	0.0577	(JPY:RMB)	2,798
JPY	5,378	0.0095	(JPY:USD)	1,527
VND	158,100,000	0.00005	(VND:USD)	216,597
				(Concluded)

38. 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.
- 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	Others	Adjustment and Elimination	Total
For the year ended December 31, 2014				
Revenues from external customers	\$ 294,778,196	\$ 71,732,501	\$ -	\$ 366,510,697
Inter-segment revenues	60,374,607	45,851,474	(106,226,081)	-
Segment revenues	<u>\$ 355,152,803</u>	<u>\$ 117,583,975</u>	<u>\$ (106,226,081)</u>	<u>\$ 366,510,697</u>

(Continued)

	Steel	Others	Adjustment and Elimination	Total
Segment profit	\$ 19,674,269	\$ 10,044,271	\$ 72,991	\$ 29,791,531
Interest income	316,141	259,675	(64,652)	511,164
Interest expense	(3,546,218)	(283,025)	41,467	(3,787,776)
Share of the profit or loss of associates	11,912,117	3,533,706	(14,839,887)	605,936
Other non-operating income and expenses	<u>778,389</u>	<u>1,392,654</u>	<u>(715,664)</u>	<u>1,455,379</u>
Profit before income tax	29,134,698	14,947,281	(15,505,745)	28,576,234
Income tax expense	<u>(2,621,263)</u>	<u>(1,708,428)</u>	<u>(49,267)</u>	<u>(4,378,958)</u>
Net profit for the year	<u>\$ 26,513,435</u>	<u>\$ 13,238,853</u>	<u>\$ (15,555,012)</u>	<u>\$ 24,197,276</u>
Depreciation	<u>\$ 32,258,790</u>	<u>\$ 3,239,689</u>	<u>\$ (143,765)</u>	<u>\$ 35,354,714</u>
Amortization	<u>\$ 146,855</u>	<u>\$ 142,782</u>	<u>\$ 79,306</u>	<u>\$ 368,943</u>
For the year ended December 31, 2013				
Revenues from external customers	\$ 283,845,656	\$ 63,983,182	\$ -	\$ 347,828,838
Inter-segment revenues	<u>51,994,267</u>	<u>48,025,822</u>	<u>(100,020,089)</u>	<u>-</u>
Segment revenues	<u>\$ 335,839,923</u>	<u>\$ 112,009,004</u>	<u>\$ (100,020,089)</u>	<u>\$ 347,828,838</u>
Segment profit	\$ 15,600,474	\$ 10,203,816	\$ (1,251,340)	\$ 24,552,950
Interest income	262,618	226,379	(16,703)	472,294
Interest expense	(2,776,676)	(220,310)	11,616	(2,985,370)
Share of the profit or loss of associates and joint ventures	8,526,072	3,746,005	(11,991,284)	280,793
Other non-operating income and expenses	<u>961,956</u>	<u>414,489</u>	<u>(488,060)</u>	<u>888,385</u>
Profit before income tax	22,574,444	14,370,379	(13,735,771)	23,209,052
Income tax expense	<u>(3,350,792)</u>	<u>(1,671,124)</u>	<u>167,331</u>	<u>(4,854,585)</u>
Net profit for the year	<u>\$ 19,223,652</u>	<u>\$ 12,699,255</u>	<u>\$ (13,568,440)</u>	<u>\$ 18,354,467</u>
Depreciation	<u>\$ 28,527,419</u>	<u>\$ 2,899,353</u>	<u>\$ (81,371)</u>	<u>\$ 31,345,401</u>
Amortization	<u>\$ 123,210</u>	<u>\$ 92,195</u>	<u>\$ 77,712</u>	<u>\$ 293,117</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

	December 31	
	2014	2013
Segment assets		
Steel	\$ 741,861,055	\$ 740,605,749
Others	204,959,764	188,038,383
Adjustment and elimination	<u>(264,083,583)</u>	<u>(246,644,759)</u>
Consolidated total assets	<u>\$ 682,737,236</u>	<u>\$ 681,999,373</u>
Segment liabilities		
Steel	\$ 298,949,491	\$ 319,714,309
Others	64,813,240	58,358,774
Adjustment and elimination	<u>(15,713,366)</u>	<u>(15,443,425)</u>
Consolidated total assets	<u>\$ 348,049,365</u>	<u>\$ 362,629,658</u>

c. Revenues from major products and services

Revenues from major products and services of the Corporation and its subsidiaries were as follows:

	For the Year Ended December 31	
	2014	2013
Steel products	\$ 299,972,630	\$ 287,827,717
Non-ferrous materials	36,525,002	34,435,622
Construction contract revenues	19,659,886	16,219,774
Freight and service revenues	6,764,411	5,042,379
Others	<u>3,588,768</u>	<u>4,303,346</u>
	<u>\$ 366,510,697</u>	<u>\$ 347,828,838</u>

d. Geographical information

The Corporation and its subsidiaries operate in four principal geographical areas - Taiwan, Malaysia, China and Vietnam.

The Corporation and its subsidiaries' revenues from continuing operations from external customers and information about its non-current assets by geographical location were detailed below.

	Revenues from External Customers		Non-current Assets	
	For the Year Ended December 31		December 31	
	2014	2013	2014	2013
Taiwan	\$ 333,905,599	\$ 326,057,133	\$ 434,777,158	\$ 443,927,759
Malaysia	9,337,103	10,332,107	2,200,986	2,279,109
China	6,208,768	5,077,588	4,586,185	4,345,919
Vietnam	3,186,461	2,045,489	232,128	238,015
Others	<u>13,872,766</u>	<u>4,316,521</u>	<u>35,987,661</u>	<u>31,702,278</u>
	<u>\$ 366,510,697</u>	<u>\$ 347,828,838</u>	<u>\$ 477,784,118</u>	<u>\$ 482,493,080</u>

Non-current assets excluded those classified as financial instruments, deferred tax assets and retirement benefit assets.

e. Information about major customers

No revenue from any individual customer exceeds 10% of the Corporation and its subsidiaries' total revenues for the years ended December 31, 2014 and 2013.