

TUNG HO STEEL ENTERPRISE CORPORATION
INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014
(With Independent Auditors' Review Report Thereon)



安侯建業聯合會計師事務所

KPMG

台北市11049信義路5段7號68樓(台北101大樓)
68F, TAIPEI 101 TOWER, No. 7, Sec. 5,
Xinyi Road, Taipei, 11049, Taiwan, R.O.C.

Telephone 電話 + 886 (2) 8101 6666
Fax 傳真 + 886 (2) 8101 6667
Internet 網址 www.kpmg.com.tw

Independent Auditors' Review Report

To the Board of Directors
Tung Ho Steel Enterprise Corporation

We have reviewed the accompanying consolidated balance sheets of Tung Ho Steel Enterprise Corporation and its subsidiaries (the Consolidated Company) as of June 30, 2015 and 2014 (restated), and the related consolidated statements of comprehensive income for the three-month and six-month periods ended June 30, 2015 and 2014 (restated), changes in equity, and cash flows for the six-month periods ended June 30, 2015 and 2014 (restated). These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these consolidated financial statements based on our reviews.

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

The financial statements of the subsidiaries were consolidated based on their unreviewed financial statements. The total assets of the aforementioned subsidiaries were NT\$8,697,152 thousand and NT\$7,625,054 thousand, constituting 22% and 19% of the consolidated total assets as of June 30, 2015 and 2014, respectively. The total liabilities of the aforementioned subsidiaries were NT\$4,654,368 thousand and NT\$3,531,541 thousand, constituting 29% and 20% of the consolidated total liabilities as of June 30, 2015 and 2014, respectively. The total comprehensive loss of these subsidiaries amounted to NT\$166,177 thousand, NT\$88,075 thousand, NT\$256,838 thousand, and NT\$136,594 thousand, constituting 53%, 25%, 32% and 20% of the total consolidated comprehensive income for the three-month and six-month periods ended June 30, 2015 and 2014, respectively.

The Consolidated Company's investments in the investee companies were NT\$1,579,589 thousand and NT\$1,481,815 thousand as of June 30, 2015 and 2014, respectively. The Consolidated Company's equity in net earnings of these investee companies were NT\$26,558 thousand, NT\$15,741 thousand, NT\$43,699 thousand and NT\$47,848 thousand for the three-month and six-month periods ended June 30, 2015 and 2014, and were based solely on the reports which are not reviewed by auditors.

Based on our reviews, except for the effects of any adjustments that might have been determined to be necessary had the interim consolidated financial statements of the investees referred to in the third and fourth paragraphs been reviewed, we are not aware of any material modifications that should be made to the interim consolidated financial statements referred to above for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, and International Accounting Standards No. 34 "Interim Financial Reporting" endorsed by the Financial Supervisory Commission of the Republic of China.



As described in Note 3(1), the interim consolidated financial statements of Tung Ho Steel Enterprise Corporation and its subsidiaries were prepared in conformity with the 2013 version of IFRSs endorsed by the Financial Supervisory Commission R.O.C., the International Accounting Standards, and the IFRIC Interpretations and SIC Interpretations commencing from 2015. The interim consolidated financial statements as of and for the six-month period ended June 30, 2014 were retrospectively restated accordingly.

KPMG

Taipei, Taiwan (the Republic of China)
August 12, 2015

Notes to Readers

The accompanying interim consolidated financial statements are intended only to present the interim consolidated financial position, results of operations, and cash flows in accordance with the International Accounting Standards endorsed by the Financial Supervisory Commission R.O.C. and not those of any other jurisdictions. The standards, procedures, and practices to review such financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the auditors' review report and the accompanying interim 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 or any difference in the interpretation of the two versions, the Chinese version shall prevail.

Interim consolidated financial statements as of June 30, 2015, 2014 and 2014 are reviewed only, not audited in accordance with generally accepted auditing standards

TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES

THE STATEMENT OF CONSOLIDATED BALANCE SHEETS

JUNE 30, 2015, DECEMBER 31, 2014, AND JUNE 30, 2014

(Expressed in thousands of New Taiwan Dollars)

Assets	June 30, 2015		December 31, 2014		June 30, 2014	
	Amount	%	(restated) Amount	%	(restated) Amount	%
Current Assets:						
Cash and cash equivalents (Note 6(1))	\$ 2,678,540	7	1,910,409	5	3,609,819	9
Financial assets at fair value through profit or loss—current (Note 6(2))	227,712	1	335,490	1	302,496	1
Derivative financial assets used for hedging—current (Notes 6(3))	-	-	-	-	566	-
Notes receivable, net (Notes 6(6) and 7)	474,483	1	393,013	1	425,750	1
Accounts receivable, net (Notes 6(6) and 7)	3,489,486	9	3,566,722	9	3,634,432	9
Construction contracts receivable (Note 6(7))	1,332,874	3	1,019,094	3	999,738	2
Other receivables (Notes 6(6) and 7)	101,898	-	65,376	-	70,835	-
Inventories, net (Note 6(8))	7,964,990	21	8,558,912	22	8,201,220	21
Prepayments	286,116	1	242,637	1	340,165	-
Noncurrent assets held for sale (Note 6(9) and 8)	-	-	20,640	-	-	1
Other current assets (Note 8)	61,351	-	54,666	-	22,540	-
Total current assets	16,617,450	43	16,166,959	42	17,607,561	44
Noncurrent assets:						
Available-for-sale financial assets—noncurrent (Notes 6(4))	963,967	2	872,398	2	939,502	2
Financial assets carried at cost—noncurrent (Notes 6(5))	328,622	1	343,099	1	355,281	1
Investments accounted for using equity method (Notes 6(10))	1,579,589	4	1,560,248	4	1,481,815	4
Property, plant, and equipment (Notes 6(11) and 8)	15,737,614	41	15,916,706	42	16,195,618	41
Investment property, net (Notes 6(11)(12))	1,648,623	4	1,651,800	4	1,636,745	4
Deferred tax assets	215,809	1	202,598	1	178,483	-
Natural resources	83,434	-	87,944	-	113,770	-
Prepayment for land and equipment (Note 8)	1,129,063	3	1,163,674	3	85,224	-
Refundable deposit (Note 8)	284,072	1	283,417	1	1,117,993	3
Other noncurrent assets (Note 8)	89,717	-	100,228	-	283,023	1
Total noncurrent assets	22,060,510	57	22,182,112	58	22,387,454	56
Total Assets	\$ 38,677,960	100	\$ 38,349,071	100	\$ 39,995,015	100
Liabilities and Equity						
Current Liabilities:						
Short-term borrowings (Note 6(13))	\$ 3,705,167	11	4,027,187	12	3,673,448	9
Short-term notes and bills payable (Note 6(14))	834,194	2	464,714	1	726,256	2
Financial liabilities at fair value through profit or loss—current	63,018	-	40,000	-	27,918	-
(Notes 6(2)(17))	-	-	-	-	-	-
Derivative financial liabilities used for hedging—current (Note 6(3))	-	-	5,698	-	-	-
Notes payable (Note 7)	166,547	-	120,088	-	90,445	-
Accounts payable	1,622,865	4	1,725,494	4	1,620,991	4
Construction contracts payable (Note 6(7))	289,848	1	149,699	-	132,084	-
Other payables (Notes 7)	2,700,010	7	1,485,350	4	3,058,686	8
Income tax payable	142,254	-	78,301	-	142,043	1
Advance receipts (Note 6(7))	415,588	1	331,711	1	418,986	1
Corporate bonds payable—current portion (Note 6(16))	2,427,875	6	2,412,420	6	893,157	2
Current portion of long-term loans payable (Note 6(15))	114,925	-	114,925	-	112,063	-
Other current liabilities	440	-	1,258	-	3,591	-
Total current liabilities	12,502,701	32	10,956,845	28	10,899,668	27
Noncurrent liabilities:						
Financial liabilities at fair value through profit or loss—noncurrent	-	-	-	-	44,250	-
(Notes 6(2)(17))	-	-	-	-	-	-
Bonds payable (Note 6(16))	2,576,222	7	3,283,685	9	2,396,964	6
Long-term loans (Note 6(15) and 8)	188,057	-	194,346	1	179,044	-
Deferred tax liabilities	736,114	2	734,627	2	720,597	2
Accrued pension liabilities	12,679	-	11,949	-	13,746	-
Guarantee deposits (Note 7)	3,513,072	9	4,224,607	12	6,695,748	17
Total noncurrent liabilities	16,015,773	41	15,181,452	40	17,595,416	44
Equity (Notes 6(19)(20)(21)(25)):						
Common Stock	9,982,215	26	9,982,215	26	9,982,021	25
Capital surplus	6,225,993	16	6,225,993	16	6,225,686	16
Retained earnings:						
Legal reserve	3,083,412	8	2,977,253	8	2,977,253	7
Special reserve	149,309	-	285,140	1	285,140	1
Unappropriated retained earnings	2,923,806	8	3,427,579	9	3,260,433	8
Total retained earnings	6,156,527	16	6,689,972	18	6,522,826	16
Other equity interest	199,065	1	160,468	-	(440,424)	(1)
Equity attributable to owners of the parent	22,563,800	59	23,058,648	60	22,290,109	56
Non-controlling interests	98,387	-	108,971	-	109,490	-
Total Equity	22,662,187	59	23,167,619	60	22,399,599	56
Total Liabilities and Equity	\$ 38,677,960	100	\$ 38,349,071	100	\$ 39,995,015	100

See accompanying notes to interim consolidated financial statements.

Reviewed only, not audited in accordance with generally accepted auditing standards
TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME
FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2015 AND 2014
(Expressed in thousands of New Taiwan Dollars, except for earnings per share)

	For the three-month periods ended				For the six-month periods ended			
	June 30,		June 30,		June 30,		June 30,	
	2015	2014 (restated)	2015	2014 (restated)	2015	2014 (restated)	2015	2014 (restated)
	Amount	%	Amount	%	Amount	%	Amount	%
Operating revenues (Notes 6(22) and 7)	\$ 8,243,216	100	9,581,773	100	16,677,921	100	17,947,132	100
Operating costs (Notes 6(7)(8)(18) and 7)	7,435,693	90	8,813,835	92	15,115,529	90	16,447,057	91
Gross profit	807,523	10	767,938	8	1,562,392	10	1,500,075	9
Operating expenses:								
Selling expenses (Notes 6(18) and 7)	141,676	2	181,800	2	289,343	2	330,196	2
General and administrative expenses (Notes 6(18) and 7)	264,490	3	202,094	2	476,117	3	412,146	2
Total operating expenses	406,166	5	383,894	4	765,460	5	742,342	4
Operating income	401,357	5	384,044	4	796,932	5	757,733	5
Non-operating income and expenses:								
Other income (Notes 6(24) and 7)	17,633	-	18,251	-	35,115	-	33,744	-
Other gains and losses, net (Notes 6(9)(24) and 7)	59,732	1	110,744	1	110,227	1	215,632	1
Financial costs (Notes 6(24) and 7)	(26,097)	-	(36,004)	-	(53,576)	-	(72,390)	-
Recognized share of profit of associates accounted for using equity method, net	26,558	-	15,741	-	43,699	-	47,848	-
(Not 6(10))								
Total non-operating income and expenses	77,826	1	108,732	1	135,465	1	224,834	1
Profit before income tax	479,183	6	492,776	5	932,397	6	982,567	6
Less: income tax expense (Note 6(19))	(123,184)	(2)	(74,294)	(1)	(177,953)	(1)	(136,981)	(1)
Net income	355,999	4	418,482	4	754,444	5	845,586	5
Other comprehensive income (Note 6(10)):								
Items that will subsequently be reclassified to profit or loss								
Exchange difference on translation of foreign operations	(24,415)	-	(31,530)	-	(41,389)	-	(34,277)	-
Unrealized (losses) gains on valuation of available-for-sale financial assets	(19,515)	-	(34,586)	-	91,569	-	(124,856)	(1)
Gains (losses) on the effective portion of cash flow hedge	2,585	-	566	-	(11,687)	-	566	-
Share of other comprehensive income of associates accounted for using equity method	272	-	1,941	-	(681)	-	3,405	-
Less: Income tax expense related to components of other comprehensive income	-	-	-	-	-	-	-	-
Total items that could be reclassified to profit or loss	(41,073)	-	(63,609)	-	37,812	-	(155,162)	(1)
Total other comprehensive income (loss), net after tax	(41,073)	-	(63,609)	-	37,812	-	(155,162)	(1)
Total comprehensive income for the period	\$ 314,926	4	354,873	4	792,256	5	690,424	4
Profit attributable to:								
Owners of the parent	\$ 362,072	4	421,658	4	764,243	5	852,136	5
Non-controlling interest	(6,073)	-	(3,176)	-	(9,799)	-	(6,550)	-
	\$ 355,999	4	418,482	4	754,444	5	845,586	5
Comprehensive income attributable to:								
Owners of the parent	\$ 321,439	4	358,671	4	802,840	5	696,851	4
Non-controlling interest	(6,513)	-	(3,798)	-	(10,584)	-	(6,427)	-
	\$ 314,926	4	354,873	4	792,256	5	690,424	4
Basic earnings per share (in dollars) (Note 6(21))	\$ 0.36		0.42		0.77		0.85	
Diluted earnings per share (in dollars) (Note 6(21))	\$ 0.35		0.38		0.73		0.75	

See accompanying notes to consolidated financial statements.

Reviewed only, not audited in accordance with generally accepted auditing standards

TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE SIX-MONTH PERIODS ENDED June 30, 2015 AND 2014

(Expressed in thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Parent											
	Retained earnings					Other adjustments to equity						
	Common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Total	Exchange on difference on translation of foreign operations	Unrealized (losses) gains on valuation available-for-sale financial assets	Gain (Loss) on the effective portion of cash flow hedge	Others	Equity attributable to owners of the parent	Non-controlling interest
Balance as of January 1, 2014	\$ 9,982,021	6,225,686	2,765,546	149,309	4,301,006	7,215,861	103,011	-	-	-	23,138,429	115,917
Effect of retrospective application and restatement	-	-	-	-	51,952	51,952	-	-	-	-	51,952	-
Balance as of January 1, 2014 (restated)	9,982,021	6,225,686	2,765,546	149,309	4,352,958	7,267,813	103,011	(386,282)	-	(1,868)	23,190,381	115,917
Legal reserve	-	-	211,707	-	(211,707)	-	-	-	-	-	-	-
Special reserve	-	-	-	135,831	(135,831)	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	(1,597,123)	(1,597,123)	-	-	-	-	(1,597,123)	-
Profit for the period (restated)	-	-	-	-	852,136	852,136	-	-	-	-	852,136	(6,550)
Other comprehensive income for the period	-	-	-	-	-	-	(34,400)	(121,451)	566	-	(155,285)	123
Total comprehensive income for the period	-	-	-	-	-	-	(34,400)	(121,451)	566	-	696,851	(6,427)
Balance as of June 30, 2014 (restated)	\$ 9,982,021	6,225,686	2,977,253	285,140	3,260,433	6,527,826	68,611	(307,733)	566	(1,868)	22,290,109	109,490
Balance as of January 1, 2015	\$ 9,982,215	6,225,993	2,977,253	285,140	3,379,956	6,642,349	173,123	(4,696)	(5,698)	(2,261)	23,011,025	108,971
Effect of retrospective application and restatement	-	-	-	-	47,623	47,623	-	-	-	-	47,623	-
Balance as of January 1, 2015 (restated)	9,982,215	6,225,993	2,977,253	285,140	3,427,579	6,689,972	173,123	(4,696)	(5,698)	(2,261)	23,058,648	108,971
Legal reserve	-	-	106,159	-	(106,159)	-	-	-	-	-	-	-
Special reserve	-	-	-	(135,831)	135,831	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	(1,297,688)	(1,297,688)	-	-	-	-	(1,297,688)	-
Profit for the period	-	-	-	-	764,243	764,243	-	-	-	-	764,243	(9,799)
Other comprehensive income for the period	-	-	-	-	-	-	(40,604)	90,888	(11,687)	-	38,597	(785)
Total comprehensive income for the period	-	-	-	-	-	-	(40,604)	90,888	(11,687)	-	802,840	(10,584)
Balance as of June 30, 2015	\$ 9,982,215	6,225,993	3,083,412	149,309	2,923,806	6,156,527	132,519	86,192	(17,385)	(2,261)	22,563,800	98,387

See accompanying notes to interim consolidated financial statements.

Reviewed only, not audited in accordance with generally accepted auditing standards
TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED CASH FLOWS

FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2015 AND 2014
(Expressed in thousands of New Taiwan Dollars)

	For the six-month periods ended June 30,	
	2015	2014 (restated)
Cash flows from operating activities:		
Income before income tax	\$ 932,397	982,567
Adjustments:		
Depreciation	580,320	596,577
Amortization	12,286	23,670
Interest expense	53,576	72,390
Interest income	(14,370)	(13,650)
Dividends income	(797)	(560)
Share of profit of associates accounted for using equity method	(43,699)	(47,848)
Loss on disposal of property, plant, and equipment	313	1,149
Property, plant, and equipment reclassified to expenses	-	60
Gain on disposal of noncurrent assets held for sale	(10,401)	-
Gain on disposal of investments	(43,547)	(19,760)
Unrealized foreign currency exchange loss	23,315	8,826
Prepayment for equipment reclassified to expenses	835	-
Loss on decline of inventory market price	6,515	38,255
Incomes and expenses not affecting cash flow	564,346	659,109
Changes in operating assets and liabilities:		
Changes in operating assets:		
Decrease in financial assets held for trading	107,778	179,647
(Increase) decrease in notes receivable	(81,470)	25,273
Decrease in accounts receivable	77,395	19,314
Increase in construction contracts receivable	(313,780)	(139,381)
Decrease (increase) in other receivables	2,910	(310)
Decrease in inventories	587,407	1,728,890
Increase in prepayments	(43,479)	(69,470)
(Increase) decrease in other current assets	(6,719)	23,909
Total changes in operating assets	330,042	1,767,872
Changes in operating liabilities:		
Increase (decrease) in financial liabilities held for trading	23,018	(10,462)
Increase (decrease) in notes payable	46,459	(15,746)
Decrease in accounts payable	(102,629)	(225,282)
Increase in construction contracts payable	140,149	90,876
Decrease in other payables	(67,019)	(78,468)
Increase in advance receipts	83,847	33,714
(Decrease) increase in other current liabilities	(818)	1,868
Increase in accrued pension liabilities	1,487	1,452
Total changes in operating liabilities	124,494	(202,048)
Total changes in operating assets and liabilities	454,536	1,565,824
Total adjustments	1,018,882	2,224,933

See accompanying notes to interim consolidated financial statements.

**REVIEWED ONLY, NOT AUDITED IN ACCORDANCE WITH GENERALLY ACCEPTED
AUDITING STANDARDS**

TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED CASH FLOWS (Continued)

**FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2015 AND 2014
(Expressed in thousands of New Taiwan Dollars)**

	For the six-month periods ended June 30,	
	2015	2014 (restated)
Cash inflows generated from operating activities	\$ 1,951,279	3,207,500
Interest received	4,566	6,929
Dividend received	1,047	3,059
Interest paid	(42,764)	(48,269)
Income tax paid	(133,260)	(162,296)
Net cash provided by operating activities	<u>1,780,868</u>	<u>3,006,923</u>
Cash flows from investing activities		
Acquisition of financial assets carried at cost	(4,123)	(4,180)
Disposal of financial assets carried at cost	61,686	79,760
Proceeds from liquidation and capital reduction of financial assets carried at cost	-	10,935
Derecognition of derivative financial liabilities used for hedging	(17,385)	-
Proceeds from disposal of noncurrent assets held for sale	31,041	-
Acquisition of property, plant, and equipment	(222,999)	(354,556)
Proceeds from disposal of property, plant, and equipment	-	7,826
Increase in refundable deposits	(655)	(169)
Increase in other receivables	(29,833)	(17,958)
Increase in intangible assets	(312)	(808)
Acquisition of investment property	(548)	(520)
Decrease in other current and noncurrent assets -- restricted deposit	764	1,332
Increase in prepayment for land and equipment	(158,090)	(428,665)
Net cash used in investing activities	<u>(340,454)</u>	<u>(707,003)</u>
Cash flows from financing activities:		
Decrease in short-term borrowings	(330,901)	(542,208)
Increase in short-term notes and bills payable	390,000	290,000
Decrease in long-term notes and bills payable	-	(50,000)
Proceeds from long-term loans	750,000	-
Repayments of long-term loans	(1,457,463)	(54,601)
Increase (Decrease) in guarantee deposits	730	(437)
Decrease in other payables -- related parties	-	(100,000)
Changes in non-controlling interests	(785)	123
Net cash used in financing activities	<u>(648,419)</u>	<u>(457,123)</u>
Effect of exchange rate changes on cash held	<u>(23,864)</u>	<u>(10,522)</u>
Net increase in cash and cash equivalents	768,131	1,832,275
Cash and cash equivalents at beginning of period	1,910,409	1,777,544
Cash and cash equivalents at end of period	<u>\$ 2,678,540</u>	<u>3,609,819</u>

See accompanying notes to interim consolidated financial statements.

Reviewed only, not audited in accordance with generally accepted auditing standards

TUNG HO STEEL ENTERPRISE CORPORATION

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

1. Organization and Principal Activities

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

2. Approval Date and Procedures of the Consolidated Financial Statements

The interim consolidated financial statements as of and for the six-month period ended June 30, 2015, were approved and authorized for issue by the board of directors on August 12, 2015.

3. Adoption of New Standards and Interpretations

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

Since 2015, the Consolidated Company has fully adopted the 2013 version of International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations (excluding IFRS 9 "Financial Instruments") endorsed and published by the R.O.C. Financial Supervisory Commission, in preparing the interim consolidated financial statements.

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date Prescribed by IASB</u>
Amendment to IFRS 1 "Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters"	July 1, 2010
Amendment to IFRS 1 "Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters"	July 1, 2011
Amendment to IFRS 1 "Government Loans"	January 1, 2013
Amendment to IFRS 7 "Disclosures—Transfer of Financial Asset"	July 1, 2011
Amendment to IFRS 7 "Disclosures—Offsetting Financial Assets and Financial Liabilities"	January 1, 2013
IFRS 10 "Consolidated Financial Statements"	January 1, 2013 (With January 1, 2014, the effective date for investment entities)
IFRS 11 "Joint Arrangements"	January 1, 2013
IFRS 12 "Disclosure of Interests in Other Entities"	January 1, 2013
IFRS 13 "Fair Value Measurement"	January 1, 2013
Amendment to IAS 1 "Presentation of Items of Other Comprehensive Income"	July 1, 2012
Amendment to IAS 12 "Deferred Tax: Recovery of Underlying Assets"	January 1, 2012
Amendment to IAS 19 "Employee Benefits"	January 1, 2013
Amendment to IAS 27 "Separate Financial Statements"	January 1, 2013
Amendment to IAS 32 "Offsetting Financial Assets and Financial Liabilities"	January 1, 2014
IFRIC 20 "Stripping Costs in Production Phase of a Surface Mine"	January 1, 2013

TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Consolidated Company has increased disclosures on information about its related entities according to this standard. Please refer to Note 6(10) for related information.

(b) IFRS 13 "Fair Value Measurement"

The standard changes the definition of fair value, provides a framework for fair value measurement, and regulates related disclosures about fair value measurement. The Consolidated Company has increased related disclosures on fair value measurement accordingly. (Please refer to Note 6(26) for details.) In accordance with the transitional provisions of the standard, the Consolidated Company has also postponed the application of regulations on fair value measurement. Comparative information on the additionally demanded disclosures is not required. Despite the postponed application of the standard, there are no significant influences on the Consolidated Company's financial statements.

The standard, after evaluation, is not considered to have significant impacts on the financial position and operating results of the Consolidated Company.

(c) IAS 1 "Presentation of Financial Statements"

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

(d) IAS 19 "Employee Benefits"

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

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

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

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

(Continued)

TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

- (e) Significant influences of the adoption of the 2013 version of IFRS on the Consolidated Company's financial statements are summarized as follows:

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

<u>Affected items on the balance sheet</u>	<u>Amount before restatement</u>	<u>Effect of the change in accounting policy</u>	<u>Amount after restatement</u>
December 31, 2014			
Accrued pension liabilities	\$ 782,250	(47,623)	734,627
Unappropriated retained earnings	3,379,956	47,623	3,427,579
<u>Affected items on the balance sheet</u>	<u>Amount before restatement</u>	<u>Effect of the change in accounting policy</u>	<u>Amount after restatement</u>
June 30, 2014			
Accrued pension liabilities	\$ 770,399	(49,802)	720,597
Unappropriated retained earnings	3,210,631	49,802	3,260,433
<u>Affected items on the statement of comprehensive income</u>	<u>Amount before restatement</u>	<u>Effect of the change in accounting policy</u>	<u>Amount after restatement</u>
For the six-month period ended June 30, 2014			
Operating expenses	\$ 409,996	2,150	412,146
<u>Affected items on the statement of comprehensive income</u>	<u>Amount before restatement</u>	<u>Effect of the change in accounting policy</u>	<u>Amount after restatement</u>
For the three-month period ended June 30, 2014			
Operating expenses	\$ 201,019	1,075	202,094

(Continued)

TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(2) New standards and interpretations issued but not yet endorsed by the FSC

The following summarizes new standards and amendments that may impact the Consolidated Company issued by the International Accounting Standards Board (IASB) but not yet endorsed by the FSC by the reporting date:

Newly Issued/Revised Standards, Amendments, and Interpretations	Effective Date Prescribed by IASB
IFRS 9 "Financial Instruments"	January 1, 2018
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture"	January 1, 2016
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
Amendment to IFRS 14 "Regulatory Deferral Account"	January 1, 2016
Amendment to IFRS 15 "Revenue from Contracts with Customers"	January 1, 2017
Amendment to IAS 1 "Disclosure Initiative"	January 1, 2016
Amendment to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"	January 1, 2016
Amendments to IAS 16 and IAS 41 "Bearer Plants"	January 1, 2016
Amendments to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014
Amendments to IAS 27 "Equity Method in Separate Financial Statements"	January 1, 2016
Amendment to IAS 36 "Recoverable Amount Disclosures for Non-financial Assets"	January 1, 2014
Amendment to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
Annual Improvements Cycle 2010-2012 and 2011-2013	July 1, 2014
Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016
Amendments to IFRIC Interpretation 21 "Levies"	January 1, 2014

The Consolidated Company is evaluating the impact on its financial position and financial performance of the initial adoption of the above-mentioned standards or interpretations. The results thereof will be disclosed when the Consolidated Company completes its evaluation.

(Continued)

TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

4. Summary of Significant Accounting Policies

(1) Statement of compliance

The accompanying interim consolidated financial statements have been prepared in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as the Regulations) and guidelines of IAS 34 "Interim Financial Reporting" endorsed by the FSC. These interim financial statements do not include all disclosures required for annual financial statements under the Guidelines and IFRSs, IASs, IFRIC Interpretations and SIC Interpretations as endorsed by the FSC (hereinafter referred to as IFRS as endorsed by the FSC).

Except as described below, the significant accounting policies adopted in the accompanying interim consolidated financial statements are the same as those adopted in the financial statements for the year ended December 31, 2014. Please refer to Note 4 of the financial statements for the year ended December 31, 2014 for related information. For effects of the full adoption of the 2013 version of IFRS since 2015, please refer to Note 3(1).

(2) Basis of consolidation

(a) Principles used in preparing the consolidated financial statements are the same as those used for the financial statements for the year ended December 31, 2014. Please refer to Note 4(3) of the financial statements for the year ended December 31, 2014, for complete disclosures of significant accounting policies.

(b) List of subsidiaries included in the consolidated financial statements:

Investor	The name of subsidiaries	Business activity	Percentage of Ownership (%)			Note
			June 30, 2015	December 31, 2014	June 30, 2014	
The Company	Tung Yuan International Corp.	Investment activities	100.00 %	100.00 %	100.00 %	
The Company	Tung Kang Steel Structure Corp.	H-beam manufacturing and trading activities	97.35 %	97.35 %	97.35 %	
The Company	Goldham Development Ltd.	Investment activities	100.00 %	100.00 %	100.00 %	
The Company	Katec Creative Resources Corporation	Waste recycling	85.63 %	85.63 %	84.70 %	Note 1
The Company	Tung Kang Wind Power Corp.	Electric power generation	100.00 %	100.00 %	100.00 %	
The Company	Fa Da Enterprise Corp.	Recycling	100.00 %	-	-	Note 2
Tung Yuan International Corp.	3 Oceans International Inc.	Investment activities	66.67 %	66.67 %	66.67 %	
Tung Kang Steel Structure Corp.	Tung Kang Engineering & Construction Corp.	Civil engineering	100.00 %	100.00 %	100.00 %	
Goldham Development Ltd.	Fujian Tung Kang Steel Co., Ltd.	H-beam and steel bar manufacturing	100.00 %	100.00 %	100.00 %	

Note 1: In July, 2014, the Company acquired equity from a non-related party, increasing the shareholding percentage from 84.70% to 85.63%.

Note 2: The Company invested and established the subsidiary in 2015. The subsidiary completed related statutory registration procedures on March 13, 2015, and has been included into the consolidation since then.

(c) All of the subsidiaries above are included in consolidation.

(Continued)

TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(3) Income tax

The Consolidated Company evaluates and discloses interim period income tax expense in accordance with paragraph B12 of IAS 34 "Interim Financial Reporting".

Income tax expense is best estimated by multiplying the pretax income for the interim reporting period by the effective annual tax rate as forecasted by the management. This should be recognized as current tax expense and deferred taxes in proportion with the estimated annual current tax expense and deferred tax expense.

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases shall be measured based on the tax rates that have been enacted or substantively enacted at the time of the asset or liability is recovered or settled and recognized directly in equity or other comprehensive income as tax expense.

(4) Employee benefits

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

5. Critical Accounting Judgments and Key Sources of Estimation Uncertainty

The interim consolidated financial statements are prepared in conformity with IAS 34 "Interim Financial Reporting" as endorsed by the FSC, under which, management make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In these interim consolidated financial statements, judgments and key sources of estimation uncertainty used by management in the application of critical accounting policies are expected to be consistent with those in Note 5 of the financial statements for the year ended December 31, 2014.

6. Description of Significant Accounts

Except as described below, the description of significant accounts in the accompanying interim financial statements is not materially different from those in the financial statements for the year ended December 31, 2014. Please refer to Note 6 of the financial statements for the year ended December 31, 2014, for more details.

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TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(1) Cash and cash equivalents

	<u>June 30, 2015</u>	<u>December 31, 2014</u>	<u>June 30, 2014</u>
Cash on hand	\$ 1,760	2,158	1,621
Checking & demand deposits	637,063	630,690	667,849
Term deposits	261,419	199,540	38,488
Cash equivalents	<u>1,778,298</u>	<u>1,078,021</u>	<u>2,901,861</u>
Cash and cash equivalents on the statement of cash flows	<u>\$ 2,678,540</u>	<u>1,910,409</u>	<u>3,609,819</u>

As of June 30, 2015, December 31, 2014 and June 30, 2014, certain cash and cash equivalents were pledged as collateral to secure debts and civil ruling, and such term deposits were reclassified to refundable deposits and other current/noncurrent assets. Please refer to Note 8 for details.

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

	<u>June 30, 2015</u>	<u>December 31, 2014</u>	<u>June 30, 2014</u>
Financial assets at fair value through profit or loss:			
Financial assets held for trading:			
Publicly listed stocks	\$ 227,331	177,586	302,496
Forward foreign exchange contracts	<u>381</u>	<u>157,904</u>	<u>-</u>
Sub-total	<u>227,712</u>	<u>335,490</u>	<u>302,496</u>
Financial assets designated as at fair value through profit or loss:			
Foreign bonds	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 227,712</u>	<u>335,490</u>	<u>302,496</u>
Financial liabilities at fair value through profit or loss:			
Financial liabilities held for trading:			
Forward foreign exchange contracts	\$ 5,518	-	25,504
Redemption options on convertible bonds	<u>57,500</u>	<u>40,000</u>	<u>46,664</u>
Total	<u>\$ 63,018</u>	<u>40,000</u>	<u>72,168</u>

(Continued)

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

Forward currency forward contracts:

June 30, 2015			
	Nominal amount (in thousands)	Currency	Maturity dates
Forward currency forward	USD <u>85,170</u>	Sell US\$/buy NT\$	2015.07.06~2015.12.18
December 31, 2014			
	Nominal amount (in thousands)	Currency	Maturity dates
Forward currency forward	USD <u>130,000</u>	Sell US\$/buy NT\$	2015.01.02~2015.06.26
June 30, 2014			
	Nominal amount (in thousands)	Currency	Maturity dates
Forward currency forward	USD <u>88,000</u>	Sell US\$/buy NT\$	2014.07.02~2015.01.20
Forward currency forward	EUR <u>6,000</u>	Sell EUR/buy US\$	2014.08.12~2014.11.12

(3) Derivative financial assets and liabilities used for hedging

	June 30, 2015	December 31, 2014	June 30, 2014
Cash flow hedge:			
Derivative financial assets used for hedging—current			
Forward exchange contracts	\$ <u>-</u>	<u>-</u>	<u>566</u>
Derivative financial liabilities used for hedging—current			
Forward exchange contracts	\$ <u>-</u>	<u>5,698</u>	<u>-</u>

(Continued)

TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
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The Consolidated Company's strategy is to use forward exchange contracts to hedge its estimated foreign currency exposure in respect of forecasted purchases over the following twelve months. When actual purchases occur, the amount accumulated in equity is reclassified to profit or loss in the same period. The unexpired forward exchange contracts held by the Consolidated Company were as follows:

June 30, 2015			
	Nominal amount (in thousands)	Currency	Maturity period
Forward currency forward	EUR <u>-</u>	-	-
December 31, 2014			
	Nominal amount (in thousands)	Currency	Maturity period
Forward currency forward	EUR <u>3,000</u>	Sell EUR\$ / buy NT\$	2015.04.30
June 30, 2014			
	Nominal amount (in thousands)	Currency	Maturity period
Forward currency forward	EUR <u>3,000</u>	Sell EUR\$ / buy NT\$	2015.04.30

(4) Available-for-sale financial assets

	June 30, 2015	December 31, 2014	June 30, 2014
Stocks listed on emerging markets	\$ 570,549	485,152	550,747
Financial bonds	<u>393,418</u>	<u>387,246</u>	<u>388,755</u>
Total	<u>\$ 963,967</u>	<u>872,398</u>	<u>939,502</u>

(5) Financial assets carried at cost

	June 30, 2015	December 31, 2014	June 30, 2014
Unlisted domestic/foreign ordinary shares	<u>\$ 328,622</u>	<u>343,099</u>	<u>355,281</u>

Please refer to Note 6 (24) for disposal of investment.

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TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(6) Notes and accounts receivable, overdue receivables, and other receivables

	<u>June 30,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>	<u>June 30,</u> <u>2014</u>
Notes receivable from operating activities	\$ 472,964	393,215	423,112
Notes receivable from non-operating activities	1,721	-	2,840
Notes receivable—related parties	221	221	221
Less: allowance for impairment	<u>(423)</u>	<u>(423)</u>	<u>(423)</u>
Notes receivable—net	<u><u>\$ 474,483</u></u>	<u><u>393,013</u></u>	<u><u>425,750</u></u>
Accounts receivable	\$ 3,699,204	3,777,247	3,842,564
Accounts receivable—related parties	4,146	3,498	5,507
Less: allowance for impairment	<u>(213,864)</u>	<u>(214,023)</u>	<u>(213,639)</u>
Accounts receivable—net	<u><u>\$ 3,489,486</u></u>	<u><u>3,566,722</u></u>	<u><u>3,634,432</u></u>
Other receivables	\$ 29,528	23,458	34,504
Other receivables—related parties	72,370	41,918	36,331
Less: allowance for impairment	<u>-</u>	<u>-</u>	<u>-</u>
Other receivables—net	<u><u>\$ 101,898</u></u>	<u><u>65,376</u></u>	<u><u>70,835</u></u>
Overdue receivables	\$ 34,422	34,422	34,422
Less: allowance for impairment	<u>(34,422)</u>	<u>(34,422)</u>	<u>(34,422)</u>
Overdue receivables—net	<u><u>\$ -</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

The Consolidated Company's aging analysis for those that were past due but not impaired was as follows :

	<u>June 30,</u> <u>2015</u>	<u>December</u> <u>31, 2014</u>	<u>June 30,</u> <u>2014</u>
Past due 0~60 days	\$ -	-	-
Past due 61~90 days	-	-	-
Past due 91~120 days	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u><u>\$ -</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

(Continued)

TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The changes in the allowance for impairment with respect to notes receivable, accounts receivable, other receivables, and overdue receivables during the years were as follows:

	<u>Individually assessed impairment</u>	<u>Collectively assessed impairment</u>	<u>Total</u>
Balance as of January 1, 2015	\$ 226,885	21,983	248,868
Loss on foreign exchange	<u>(159)</u>	<u>-</u>	<u>(159)</u>
Balance as of June 30, 2015	<u>\$ 226,726</u>	<u>21,983</u>	<u>248,709</u>
Balance as of January 1, 2014	\$ 226,655	21,973	248,628
Loss on foreign exchange	<u>(144)</u>	<u>-</u>	<u>(144)</u>
Balance as of June 30, 2014	<u>\$ 226,511</u>	<u>21,973</u>	<u>248,484</u>

(7) Construction contracts

- (a) Construction contract revenue of the Consolidated Company has been determined based on the stage-of-completion method (i.e. the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs). Any expected excess of total contract costs over total contract revenue for the contract is recognized as an expense immediately.

	<u>June 30, 2015</u>	<u>December 31, 2014</u>	<u>June 30, 2014</u>
Accumulated costs incurred	\$ 5,325,162	3,456,714	3,846,503
Add: accumulated profit (losses) recognized arising from the construction	<u>(97,912)</u>	<u>(59,843)</u>	<u>(103,220)</u>
Accumulated costs and profit recognized	5,227,250	3,396,871	3,743,283
Less: progress billings	<u>(4,101,664)</u>	<u>(2,636,957)</u>	<u>(3,004,015)</u>
Amount due from customers for contract work—presented as an asset	<u>\$ 1,154,784</u>	<u>802,673</u>	<u>855,837</u>
Amount due to customers for contract work—presented as a liability	<u>\$ 29,198</u>	<u>42,759</u>	<u>116,569</u>
Advance received	<u>\$ 16,724</u>	<u>10,155</u>	<u>5,053</u>
Retention payable from construction contracts	<u>\$ 156,197</u>	<u>130,573</u>	<u>82,776</u>

(Continued)

TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

- (b) The Consolidated Company is unable to estimate the costs of signed construction contract reliably; however, it is probable that all the expenses incurred are recoverable. Hence, all contract costs shall be recognized as expense in the period in which they are incurred, and the contract revenue is recognized only to the extent of costs incurred that are expected to be recoverable. At the completion date, if the total revenue exceeds the aggregate revenue recognized in previous years, the differences should be recognized immediately as contract revenue.

	June 30, 2015	December 31, 2014	June 30, 2014
Accumulated costs incurred	\$ 1,033,771	669,258	441,494
Less: progress billings	<u>(1,116,331)</u>	<u>(559,777)</u>	<u>(313,108)</u>
Amount due from customers for contract work—presented as an asset	<u>\$ 178,090</u>	<u>216,421</u>	<u>143,901</u>
Amount due to customers for contract work—presented as a liability	<u>\$ 260,650</u>	<u>106,940</u>	<u>15,515</u>

- (c) Construction contracts cost were recognized as follows:

	For the three-month periods ended June 30,		For the six-month periods ended June 30,	
	2015	2014	2015	2014
Construction contracts cost	<u>\$ 1,989,266</u>	<u>1,102,951</u>	<u>3,116,142</u>	<u>2,014,367</u>

(8) Inventories

	June 30, 2015	December 31, 2014	June 30, 2014
Finished goods (including consigned goods)	\$ 1,736,588	1,915,444	1,797,152
Work in process	1,705,416	2,026,691	1,968,741
Raw materials (including consigned goods and in transit)	3,487,051	3,627,926	3,403,109
Supplies (including consigned goods and in transit)	<u>1,035,935</u>	<u>988,851</u>	<u>1,032,218</u>
Inventories—net	<u>\$ 7,964,990</u>	<u>8,558,912</u>	<u>8,201,220</u>

- (a) Cost of goods sold recognized by the Consolidated Company consisted of the following:

	For the three-month periods ended June 30,		For the six-month periods ended June 30,	
	2015	2014	2015	2014
Cost of goods sold	\$ 5,427,393	7,694,355	11,951,774	14,365,866
Loss on decline of inventory market price	465	4,230	6,515	38,255
Unallocated fixed overheads	33,871	9,987	78,279	41,345
Gain on sale of waste material	<u>(57,282)</u>	<u>(33,336)</u>	<u>(101,818)</u>	<u>(72,087)</u>
Total	<u>\$ 5,404,447</u>	<u>7,675,236</u>	<u>11,934,750</u>	<u>14,373,379</u>

(Continued)

TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

During the three-month and six-month periods ended June 30, 2015 and 2014, loss on decline of inventory market price occurred and was recognized in cost of goods sold.

- (b) Service costs recognized for providing services by the Consolidated Company were as following:

	For the three-month periods ended June 30,		For the six-month periods ended June 30,	
	2015	2014	2015	2014
Service costs	\$ <u>41,980</u>	<u>35,648</u>	<u>64,637</u>	<u>59,311</u>

- (9) Noncurrent assets held for sale

On January 6, 2014, the Board of a subsidiary approved of the plan to sell part of its land and signed the contract on January 9, 2014. Because the land is expected to be sold within one year from December 31, 2014, it was reclassified as a noncurrent asset held for sale accordingly. The subsidiary disposed of the asset in February, 2015, at \$31,460 thousand, which amounted to \$31,041 thousand with related tax expenses of \$419 thousand. The disposed asset had a carrying value of \$20,640 thousand. And the subsidiary recognized a disposal gain of \$10,401 thousand. As of June 30, 2015, the Consolidated Company had received the full amount of the price.

- (10) Investments accounted for using equity method

- (a) The financial information in aggregate of the individually immaterial components of the investments accounted for using the equity method was as follows:

	June 30, 2015	December 31, 2014	June 30, 2014
Total carrying amount of equity of individually insignificant associates	\$ <u>1,579,589</u>	<u>1,560,248</u>	<u>1,481,815</u>

	For the three-month periods ended June 30,		For the six-month periods ended June 30,	
	2015	2014	2015	2014
Attributable to the parent :				
Net income from continuing operations	\$ 26,558	15,741	43,699	47,848
Other comprehensive income	<u>272</u>	<u>1,941</u>	<u>(681)</u>	<u>3,405</u>
Total	\$ <u>26,830</u>	<u>17,682</u>	<u>43,018</u>	<u>51,253</u>

- (b) Collateral

None of the investments accounted for using equity method were pledged for collateral.

(Continued)

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NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(11) Property, plant, and equipment

	<u>Land</u>	<u>Buildings</u>	<u>Machinery equipment</u>	<u>Miscellaneous equipment</u>	<u>Other assets</u>	<u>Construction in progress</u>	<u>Total</u>
Cost or deemed cost:							
Balance as of January 1, 2015	\$ 2,698,365	6,892,053	21,979,891	284,059	399,792	467,319	32,721,479
Additions	-	3,709	41,934	7,422	84,299	73,749	211,113
Reclassification out (Note 1)	-	-	-	-	-	(15,735)	(15,735)
Reclassification in (Note 1)	-	3,194	203,793	623	-	-	207,610
Disposals	-	-	(3,112)	(708)	-	-	(3,820)
Effect of exchange rate changes and others	-	(3,554)	(7,425)	(364)	-	-	(11,343)
Balance as of June 30, 2015	<u>\$ 2,698,365</u>	<u>6,895,402</u>	<u>22,215,081</u>	<u>291,032</u>	<u>484,091</u>	<u>525,333</u>	<u>33,109,304</u>
Balance as of January 1, 2014	\$ 2,689,802	6,642,548	21,428,021	255,263	393,291	534,096	31,943,021
Additions	28,972	3,620	252,997	14,251	135	71,561	371,536
Reclassification out (Note 2)	-	-	(70)	-	-	(2,188)	(2,258)
Reclassification in (Note 2)	-	1,537	175,040	295	-	-	176,872
Disposals	(2,140)	(6,434)	(12,888)	(509)	-	-	(21,971)
Effect of exchange rate changes and others	-	(2,838)	(6,589)	(271)	-	(427)	(10,125)
Balance as of June 30, 2014	<u>\$ 2,716,634</u>	<u>6,638,433</u>	<u>21,836,511</u>	<u>269,029</u>	<u>393,426</u>	<u>603,042</u>	<u>32,457,075</u>
Depreciation and impairment loss:							
Balance as of January 1, 2015	\$ -	2,953,162	13,718,431	133,180	-	-	16,804,773
Depreciation for the period	-	86,552	475,782	14,261	-	-	576,595
Disposals	-	-	(2,913)	(594)	-	-	(3,507)
Effect of exchange rate changes and others	-	(862)	(5,142)	(167)	-	-	(6,171)
Balance as of June 30, 2015	<u>\$ -</u>	<u>3,038,852</u>	<u>14,186,158</u>	<u>146,680</u>	<u>-</u>	<u>-</u>	<u>17,371,690</u>
Balance as of January 1, 2014	\$ -	2,755,476	12,823,538	106,948	-	-	15,685,962
Depreciation for the period	-	119,960	460,795	13,112	-	-	593,867
Reclassification out (Note 2)	-	-	(54)	-	-	-	(54)
Disposal	-	(5,357)	(7,201)	(438)	-	-	(12,996)
Effect of exchange rate changes and others	-	(685)	(4,505)	(132)	-	-	(5,322)
Balance as of June 30, 2014	<u>\$ -</u>	<u>2,869,394</u>	<u>13,272,573</u>	<u>119,490</u>	<u>-</u>	<u>-</u>	<u>16,261,457</u>
Carrying value:							
Balance as of January 1, 2015	<u>\$ 2,698,365</u>	<u>3,938,891</u>	<u>8,261,460</u>	<u>150,879</u>	<u>399,792</u>	<u>467,319</u>	<u>15,916,706</u>
Balance as of June 30, 2015	<u>\$ 2,698,365</u>	<u>3,856,550</u>	<u>8,028,923</u>	<u>144,352</u>	<u>484,091</u>	<u>525,333</u>	<u>15,737,614</u>
Balance as of January 1, 2014	<u>\$ 2,689,802</u>	<u>3,887,072</u>	<u>8,604,483</u>	<u>148,315</u>	<u>393,291</u>	<u>534,096</u>	<u>16,257,059</u>
Balance as of June 30, 2014	<u>\$ 2,716,634</u>	<u>3,769,039</u>	<u>8,563,938</u>	<u>149,539</u>	<u>393,426</u>	<u>603,042</u>	<u>16,195,618</u>

(Note 1): Reclassification to expense, reclassification from advance payments for equipment, and completed construction contracts transferred out

(Note 2): Reclassification to expense and reclassification from advance payments for equipment

(Continued)

TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
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Because some of the Consolidated Company's property, plant, and equipment and investment properties are agricultural lands, transfer registration could not be undertaken using the Consolidated Company's own title; therefore, the Consolidated Company was registered as a trust registrant temporarily and signed a real estate trust registration contract, which stipulated the rights and obligations of both parties to preserve the ownership of the land. The Consolidated Company is applying successively for registration of change in the category of land from relevant authorities. The amount of the above-mentioned land was as follows:

<u>Accounts</u>	<u>June 30,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>	<u>June 30,</u> <u>2014</u>
Property, plant, and equipment	\$ 484,091	399,792	393,426
Investment property	<u>336,926</u>	<u>336,926</u>	<u>336,926</u>
	<u>\$ 821,017</u>	<u>736,718</u>	<u>730,352</u>

(12) Investment property

	<u>Land and</u> <u>improvements</u>	<u>Buildings</u>	<u>Total</u>
Carrying amounts:			
Balance as of January 1, 2015	\$ <u>1,553,455</u>	<u>98,345</u>	<u>1,651,800</u>
Balance as of June 30, 2015	\$ <u>1,554,003</u>	<u>94,620</u>	<u>1,648,623</u>
Balance as of January 1, 2014	\$ <u>1,552,416</u>	<u>86,519</u>	<u>1,638,935</u>
Balance as of June 30, 2014	\$ <u>1,552,936</u>	<u>83,809</u>	<u>1,636,745</u>

- (a) There were no significant additions, disposals, or impairment during the six-month periods ended June 30, 2015 and 2014. Please refer to Note 12 for depreciation expense for the periods. For other relevant information, please refer to Note 6(13) of the consolidated financial statement for the year ended December 31, 2014.
- (b) There were no significant differences between the fair value of the Consolidated Company's investment property and the disclosed information in Note 6(13) of the consolidated financial statements for the year ended December 31, 2014.
- (c) Investment properties include the investment in Kuo-Kong Section, Houlong town, Miaoli County, and several construction sites and factories leased to others; the leased objects mentioned above are the factory in Chienchen District of Kaohsiung, the factory in Bade City of Taoyuan, the building in Taichung, and the office in Taipei.
- (d) The investment in Kuo-Kong Section, Houlong Town, Miaoli County is in a general industrial zone. The Consolidated Company has planned a wind power generation project and has established wind generator sets currently to improve the efficiency of the use of the land. The Company has successively invested costs into the land in an effort to make the industrial zone available for use. As of June 30, 2015, December 31, 2014 and June 30, 2014, the book value for each individual investment mentioned above amounted to \$907,387 thousand, \$907,127 thousand, and \$906,347 thousand, respectively.
- (e) Please refer to Note 6(11) for relevant information on investment properties acquired under the ownership of others.

(Continued)

TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(13) Short-term borrowings

(a) The details of short-term borrowings were as follows:

	<u>June 30,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>	<u>June 30,</u> <u>2014</u>
Letters of credits	\$ 2,046,346	2,799,081	2,345,240
Unsecured bank loans	<u>1,658,821</u>	<u>1,228,106</u>	<u>1,328,208</u>
	<u>\$ 3,705,167</u>	<u>4,027,187</u>	<u>3,673,448</u>
Unused short-term credit lines (including short-term notes and bills payable)	<u>\$ 15,194,039</u>	<u>14,444,821</u>	<u>17,305,712</u>
Interest rate range	<u>0.37%~2.51%</u>	<u>0.47%~2.26%</u>	<u>0.53%~2.51%</u>

(b) Issuance and repayment of short-term borrowings

	<u>Total</u>
Balance as of January 1, 2015	\$ 4,027,187
Issuance during the six-month period ended June 30, 2015 (maturity date: December 2015)	9,086,554
Repayment during the six-month period ended June 30, 2015	<u>(9,408,574)</u>
Balance as of June 30, 2015	<u>\$ 3,705,167</u>
Interest rate range of the issuance	<u>0.37%~2.51%</u>
	<u>Total</u>
Balance as of January 1, 2014	\$ 4,206,822
Issuance during the six-month period ended June 30, 2014 (maturity date: May 2015)	7,832,443
Repayment during the six-month period ended June 30, 2014	<u>(8,365,817)</u>
Balance as of June 30, 2014	<u>\$ 3,673,448</u>
Interest rate range of the issuance	<u>0.53%~2.91%</u>

(14) Short-term notes and bills payable

(a) The details of short-term notes and bills payable were as follows:

	<u>June 30,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>	<u>June 30,</u> <u>2014</u>
Commercial paper payable	\$ 855,000	465,000	727,000
Less: unamortized discount on bills payable	<u>(806)</u>	<u>(286)</u>	<u>(744)</u>
	<u>\$ 854,194</u>	<u>464,714</u>	<u>726,256</u>
Interest rate range	<u>1.09%~2.14%</u>	<u>1.04%~2.14%</u>	<u>1.10%~2.14%</u>

(Continued)

TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(b) Issuance and repayment of short-term notes and bills payable (excluding discounts)

	<u>Total</u>
Balance as of January 1, 2015	\$ 465,000
Issuance during the period (maturity date: September 2015)	4,057,000
Repayment during the period	<u>(3,667,000)</u>
Balance as of June 30, 2015	<u>\$ 855,000</u>
Interest rate range of the issuance	<u>1.09%~2.14%</u>

	<u>Total</u>
Balance as of January 1, 2014	\$ 437,000
Issuance during the period (maturity date: June 2015)	2,762,000
Repayment during the period	<u>(2,472,000)</u>
Balance as of June 30, 2014	<u>\$ 727,000</u>
Interest rate range of the issuance	<u>1.04%~2.14%</u>

(15) Long-term loans

(a) The details of long-term loans were as follows:

	<u>June 30,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>	<u>June 30,</u> <u>2014</u>
Unsecured bank loans	\$ 2,300,000	2,950,000	2,950,000
Secured bank loans	391,147	448,610	503,210
Less: current portion	<u>(114,925)</u>	<u>(114,925)</u>	<u>(112,063)</u>
Total	<u>\$ 2,576,222</u>	<u>3,283,685</u>	<u>3,341,147</u>
Unused long-term of credit	<u>\$ 2,550,000</u>	<u>1,950,000</u>	<u>2,100,000</u>
Interest rate range	<u>1.03%~2.10%</u>	<u>1.03%~2.10%</u>	<u>1.02%~2.10%</u>

(b) Issuance and repayment of long-term loans

	<u>Total</u>
Balance as of January 1, 2015	\$ 3,283,685
Issuance during the period (maturity date: March 2017)	750,000
Repayment during the period	<u>(1,457,463)</u>
Balance as of June 30, 2015	<u>\$ 2,576,222</u>
Interest rate range of the issuance	<u>1.03%~1.72%</u>

(Continued)

TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

	<u>Total</u>
Balance as of January 1, 2014	\$ 3,398,610
Issuance during the period (maturity date: 2015 to 2016)	-
Repayment during the period	(54,601)
Reclassified to current portion of long-term loans	<u>(2,862)</u>
Balance as of June 30, 2014	<u>\$ 3,341,147</u>
Interest rate range of the issuance	<u>0%</u>

(c) Collaterals for bank loans

Please refer to Note 8 for assets pledged by the Consolidated Company for its bank loans.

(16) Bonds payable

Bonds payable as of June 30, 2015, December 31, 2014 and June 30, 2014 were as follows:

	<u>June 30, 2015</u>	<u>December 31, 2014</u>	<u>June 30, 2014</u>
Originally issued amount of unsecured domestic convertible bonds	\$ 2,500,000	5,000,000	5,000,000
Accumulated redeemable and redeemed convertible bonds	-	(902,900)	(9,300)
Accumulated converted convertible bonds	-	(1,597,100)	(1,596,600)
Adjustment	(387,345)	(404,845)	(399,124)
Capital surplus – stock options	(110,761)	(110,761)	(110,761)
Call option, put options, and conversion rights	(57,500)	(40,000)	(46,664)
Accumulated interest expenses	483,481	468,026	452,570
Less: forecasted to be redeemed within one year	<u>(2,427,875)</u>	<u>(2,412,420)</u>	<u>(893,157)</u>
Total	<u>\$ -</u>	<u>-</u>	<u>2,396,964</u>

There was no significant addition of issuance, repurchase, or repayment of any of the Consolidated Company's bonds. For relevant information about major terms of issuance and information on accumulating repurchase and conversion of bonds for the six-month periods ended June 30, 2015 and 2014, please see Note 6(18) of the consolidated financial statement for the year ended December 31, 2014.

(17) Operating lease

There was no significant addition of operating lease for the six-month periods ended June 30, 2015 and 2014. For relevant information, please refer to Note 6(19) of the consolidated financial statement for the year ended December 31, 2014.

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TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(18) Employee benefits

(a) Defined benefit plan

Subsequent to December 31, 2014, there was no apparent evidence of any material market volatility, material curtailment, reimbursement and settlement, or other material one-time events. Therefore, pension cost in the interim consolidated financial statements is measured and disclosed according to the respective actuarial report for the years ended December 31, 2014 and 2013.

The pension costs of the defined benefit plans recognized in profit or loss were as follows:

	For the three-month periods ended June 30,		For the six-month periods ended June 30,	
	2015	2014	2015	2014
Operating cost	\$ 8,194	7,831	16,259	15,549
Selling expenses	343	240	679	532
General and administrative expenses	<u>1,539</u>	<u>2,507</u>	<u>3,041</u>	<u>4,975</u>
	<u>\$ 10,076</u>	<u>10,578</u>	<u>19,979</u>	<u>21,056</u>

(b) Defined contribution plan

The pension costs that were contributed to Bureau of Labor Insurance were as follows:

	For the three-month periods ended June 30,		For the six-month periods ended June 30,	
	2015	2014	2015	2014
Operating cost	\$ 7,569	7,329	14,928	14,678
Selling expenses	418	472	844	877
General and administrative expenses	<u>2,003</u>	<u>2,016</u>	<u>4,061</u>	<u>4,135</u>
	<u>\$ 9,990</u>	<u>9,817</u>	<u>19,833</u>	<u>19,690</u>

(Continued)

TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(19) Income tax

Income tax expense for the year is best estimated by multiplying pretax income for the interim reporting period by the effective annual tax rate as forecasted by the management.

(a) The details of income tax expense were as follows:

	For the three-month periods ended June 30,		For the six-month periods ended June 30,	
	2015	2014	2015	2014
Current tax expense				
Current period	\$ 122,723	79,678	189,988	142,472
Adjustments for prior periods	7,465	612	7,465	612
Deferred tax income				
Origination and reversal of temporary differences	(7,004)	(5,996)	(19,500)	(6,103)
Income tax expense from continuing operations	<u>\$ 123,184</u>	<u>74,294</u>	<u>177,953</u>	<u>136,981</u>

- (b) The Company's income tax returns through 2012 have been examined by the R.O.C. tax authority.
- (c) Information related to the unappropriated earnings and tax deduction ratio was summarized below:

	June 30, 2015	December 31, 2014	June 30, 2014 (restated)
Unappropriated earnings of 1997 and before	\$ 171,109	171,109	171,265
Unappropriated earnings of 1998 and after	2,752,697	3,256,470	3,089,168
	<u>\$ 2,923,806</u>	<u>3,427,579</u>	<u>3,260,433</u>
Balance of deductible tax account	<u>\$ 588,863</u>	<u>508,836</u>	<u>633,892</u>

The amounts of unappropriated earnings, including those listed in the comparative information, are in accordance with the Guidelines and the IFRSs endorsed by the FSC.

	2014(Estimated)	2013(Actual)
(d) Tax deduction ratio for earnings distribution to R.O.C. residents	<u>18.08%</u>	<u>15.38%</u>

Commencing from January 1, 2015, the tax deduction ratio for individual shareholders residing in the Republic of China will be half of the original tax deduction ratio. Additionally, the tax deduction ratio for foreign stockholders that is part of the 10% additional income tax returns, half of the tax amount can be used to offset the amount of tax to be withheld.

The aforementioned information of credit tax imputations was prepared in accordance with Ruling No.10204562810 issued by the Ministry of Finance, R.O.C. on October 17, 2013.

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TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

- (e) The subsidiary of the Company accrued an additional income tax expense of \$64,677 thousand and relevance penalty as a result of the unfavorable assessment by the tax authority incurred in 2009 and unappropriated earnings in 2009 and 2010. The subsidiary of the Company disagreed with the penalty made by the tax authority. Therefore, it filed an appeal against the tax authority regarding the said matter and recognized income tax expense for the six-month period ended June 30, 2015.

(20) Equity

(a) Stock capital

As of June 30, 2015, December 31, 2014 and June 30, 2014, the Company's registered total authorized capital amounted to \$12,000,000 thousand, with a par value per share of \$10 (dollars), and total issued ordinary stock amounted to 998,221 thousand shares, 998,221 thousand shares and 998,202 thousand shares, respectively. All issued shares were paid up upon issuance.

On September 22, 1994, the Company issued 6,000 thousand Global Depositary Receipts (GDRs), in the Multilateral Trading Facility (MTF) market of the Luxembourg Stock Exchange (LSE).

	<u>June 30, 2015</u>	<u>December 31, 2014</u>	<u>June 30, 2014</u>
(in shares)			
Total issued shares	<u>68,610,809</u>	<u>68,610,809</u>	<u>68,610,809</u>
Number of shares outstanding	<u>7,345,128</u>	<u>7,349,118</u>	<u>7,349,118</u>

(b) Capital surplus

The balances of capital surplus were as follows:

	<u>June 30, 2015</u>	<u>December 31, 2014</u>	<u>June 30, 2014</u>
Issuance of capital	\$ 2,289,734	2,289,734	2,289,734
Conversion of bonds	3,761,336	3,761,336	3,761,029
Treasury stock transactions	59,036	59,036	59,036
Changes in equity of associates accounted for using equity method	360	360	360
Stock options	110,761	110,761	110,761
Other	4,766	4,766	4,766
	<u>\$ 6,225,993</u>	<u>6,225,993</u>	<u>6,225,686</u>

In accordance with the R.O.C. Company Act amended in January, 2012, realized capital reserves can only be reclassified as share capital or distributed as cash dividends after offsetting losses. The aforementioned capital reserves include share premiums and donation gains. In accordance with the Securities Offering and Issuance Guidelines, the amount of capital reserves to be reclassified under share capital shall not exceed 10 percent of the actual share capital amount.

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TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(c) Retained earnings

In accordance with the Company's articles of incorporation, the Company's annual earnings after providing for income tax are to be appropriated and distributed as follows:

- ① Covering the losses of previous years, if any.
- ② Of the remaining balance, if any, 10% is to be set aside as legal reserve.
- ③ The remaining balance, if any, is to be appropriated as special reserve or retained as undistributed earnings for business purposes.
- ④ 3% as remuneration to directors and supervisors; and 3% as bonuses to employees. The total appropriated amount is fixed. If bonuses to employees are set to be ordinary stock, then the bonus shares to employees should be calculated based on the closing price of the day before the shareholders' meeting.
- ⑤ The remainder, after retaining a certain portion for business considerations, as ordinary stockholders' dividends. The appropriation of the Company's net income may be distributed by way of cash dividend and or stock dividend. The business life cycle of the Company is at stable and mature stage, so the dividend plan is that the percentages of cash dividends and stock dividends shall not be less than 80% and more than 20%, respectively, of the total distribution.

(i) Legal reserve

In accordance with the Company Act amended in January 2012, 10 percent of net income after tax should be set aside as legal reserve, until the legal reserve is equal to authorized capital. If the Company experienced profit for the year, the distribution of the statutory earnings reserve, either by new shares or by cash, shall be decided at the shareholders meeting, and the distribution amount is limited to the portion of legal reserve which exceeds 25 percent of the paid-in capital.

(ii) Special reserve

By choosing to apply exemptions granted under IFRSs 1 First-time Adoption of IFRSs during the Company's first-time adoption of the IFRSs as approved by the FSC, unrealized revaluation gains recognized under shareholders' equity and cumulative translation adjustments (gains) shall be reclassified as investment property at the adoption date. According to regulations, retained earnings would be increased to \$333,057 thousand, by recognizing the fair value on the adoption date as deemed cost. The increase in retained earnings occurring before the adoption date due to the first-time adoption of the IFRSs amounted to \$149,309 thousand. In accordance with Ruling No. 1010012865 issued by the FSC on April 06, 2012, an increase in retained earnings due to the first-time adoption of the IFRSs shall be reclassified as a special earnings reserve during earnings distribution, and when the relevant asset were used, disposed of, or reclassified, this special earnings reserve shall be reversed as distributable earnings proportionately. The carrying amount of special earnings reserve all amounted to \$149,309 thousand on June 30, 2015, December 31, 2014, and June 30, 2014.

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TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

In accordance with the guidelines of the above Ruling, a portion of current-period earnings and undistributed prior-period earnings shall be reclassified as a special earnings reserve during earnings distribution. The amount to be reclassified should be equal to the difference between the total net current-period reduction of special earnings reserve resulting from the first-time adoption of IFRSs and the carrying amount of other shareholders' equity as stated above. Similarly, a portion of undistributed prior-period earnings shall be reclassified as a special earnings reserve (which does not qualify for earnings distribution) to account for cumulative changes to other shareholders' equity pertaining to prior periods due to the first-time adoption of IFRSs. Amounts of subsequent reversals pertaining to the net reduction of other shareholders' equity shall qualify for additional distributions.

(iii) Earnings distribution

For the three-month and six-month periods ended June 30, 2014, the estimated employee benefits amounted to \$11,414 thousand and \$23,066 thousand, respectively, and the estimated directors' and supervisors' remuneration amounted to \$11,414 thousand and \$23,066 thousand, respectively. These benefits were calculated based on the Company's net profit from each period and the earnings allocation method as stated under the Company's articles of association, and were recognized as operating costs or operating expenses for the respective periods.

For the year ended December 31, 2014 and 2013, the estimated employee benefits amounted to \$32,738 thousand and \$57,161 thousand, respectively, and the estimated directors' and supervisors' remuneration amounted to \$32,738 thousand and \$57,152 thousand, respectively. These amounts are identical to the actual distributions.

The appropriations of earnings of 2014 and 2013 were approved in the stockholders' meeting on June 25, 2015 and June 18, 2014, respectively. The amounts of appropriated dividends per share were as follows:

	<u>2014</u>	<u>2013</u>
Dividend per share (dollars):		
Cash dividends	\$ <u>1.30</u>	<u>1.60</u>

The above-mentioned distribution approved by the shareholders' meeting is in congruence with that approved by the board of directors. Additionally, the amounts distributed as employee bonuses and directors' and supervisors' remuneration were the same as the estimates disclosed on the financial statements. Relative information can be found through the Market Observation Post System website.

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TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(d) Other equity interest (net of taxes)

	Exchange difference on translation of foreign operations	Unrealized gains (losses) on available-for-sale financial investments	Cash flow hedge	Others	Total
Balance as of January 1, 2015	\$ 173,123	(4,696)	(5,698)	(2,261)	160,468
Exchange differences on translation of foreign (net of taxes):		-			
The Consolidated Company	(40,604)	-	-	-	(40,604)
Effective portion of cash flow hedge (net of taxes):					
The Consolidated Company	-	-	(11,687)	-	(11,687)
Unrealized gains (losses) on available-for-sale investments:					
The Consolidated Company	-	91,569	-	-	91,569
Associates	-	(681)	-	-	(681)
Balance as of June 30, 2015	<u>\$ 132,519</u>	<u>86,192</u>	<u>(17,385)</u>	<u>(2,261)</u>	<u>199,065</u>
Balance as of January 1, 2014	\$ 103,011	(386,282)	-	(1,868)	(285,139)
Exchange differences on translation of foreign (net of taxes):		-			
The Consolidated Company	(34,400)	-	-	-	(34,400)
Effective portion of cash flow hedge (net of taxes):					
The Consolidated Company	-	-	566	-	566
Unrealized gains (losses) on available-for-sale investments:					
The Consolidated Company	-	(124,856)	-	-	(124,856)
Associates	-	3,405	-	-	3,405
Balance as of June 30, 2014	<u>\$ 68,611</u>	<u>(507,733)</u>	<u>566</u>	<u>(1,868)</u>	<u>(440,424)</u>

(21) Earnings per share

The basic earnings per share and diluted earnings per share were calculated as follows:

	For the three-month periods ended June 30,		For the six-month periods ended June 30,	
	2015	2014 (restated)	2015	2014 (restated)
Basic earnings per share (dollars)	<u>\$ 0.36</u>	<u>0.42</u>	<u>0.77</u>	<u>0.85</u>
Profit attributable to ordinary shareholders of the Company (basic)	<u>\$ 362,072</u>	<u>421,658</u>	<u>764,243</u>	<u>852,136</u>
Weighted-average number of ordinary shares (basic) (in thousands)	<u>998,221</u>	<u>998,202</u>	<u>998,221</u>	<u>998,202</u>
Diluted earnings per share (dollars)	<u>\$ 0.35</u>	<u>0.38</u>	<u>0.73</u>	<u>0.75</u>
Profit attributable to the Company	362,072	421,658	764,243	852,136
Effect of dilutive potential ordinary shares:				
Convertible bonds	17,728	2,257	32,955	(12,026)
Profit attributable to ordinary shareholders of the Company (diluted)	<u>\$ 379,800</u>	<u>423,915</u>	<u>797,198</u>	<u>840,110</u>

(Continued)

TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

	For the three-month periods ended June 30,		For the six-month periods ended June 30,	
	2015	2014 (restated)	2015	2014 (restated)
Weighted-average number of ordinary shares (dilutive) (in thousands)	998,221	998,202	998,221	998,202
Effect of dilutive potential ordinary shares:				
Effect of employee stock bonus	2,466	3,175	2,466	3,175
Effect of conversion of convertible bonds	93,528	122,374	93,528	122,374
Weighted-average number of ordinary shares (dilutive) (in thousands) (after adjusting the effect of dilutive potential ordinary shares)	<u>\$ 1,094,215</u>	<u>1,123,751</u>	<u>1,094,215</u>	<u>1,123,751</u>

(22) Operating revenue

The details of revenue were as follows:

	For the three-month periods ended June 30,		For the six-month periods ended June 30,	
	2015	2014	2015	2014
Operating revenue of goods sold	\$ 6,214,502	8,540,421	13,520,620	15,926,191
Service revenue	20,445	14,156	42,326	46,720
Construction contract revenue	2,008,269	1,027,196	3,114,975	1,974,221
	<u>\$ 8,243,216</u>	<u>9,581,773</u>	<u>16,677,921</u>	<u>17,947,132</u>

(23) Remuneration of employees, directors and supervisors

For the three-month and six-month periods ended June 30, 2015, the Company estimated the employee bonuses at \$9,776 thousand and \$20,635 thousand, and the remuneration to directors and supervisors bonuses at \$9,776 thousand and \$20,635 thousand, respectively. Such remunerations were calculated based on the Company's net profit after tax for each period and the earnings allocation percentage as stated under the Company's articles of incorporation. These employee bonuses were charged to profit or loss, recognized either under cost of goods sold or operating expenses for the three-month and six-month periods ended June 30, 2015. If the actual amounts were subsequently decided after the approval, and the issuance date of the financial statements in the following year differ from the estimated amounts, the differences are accounted for as changes in accounting estimates and recognized in profit or loss in the following year.

(24) Non-operating income and expense

(a) Other income

The details of other income were as follows:

	For the three-month periods ended June 30,		For the six-month periods ended June 30,	
	2015	2014	2015	2014
Interest income	\$ 7,799	8,026	14,370	13,650
Rental income	9,037	9,665	19,948	19,534
Dividend income	797	560	797	560
	<u>\$ 17,633</u>	<u>18,251</u>	<u>35,115</u>	<u>33,744</u>

(Continued)

TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(b) Other gains and losses

The details of other gains and losses were as follows:

	For the three-month periods ended June 30,		For the six-month periods ended June 30,	
	2015	2014	2015	2014
Foreign exchange gain (loss)	\$ 13,304	40,458	41,997	(24,825)
Net (loss) gain on disposal of property, plant, and equipment and noncurrent assets held for sale	(111)	(1,131)	10,088	(1,149)
Net gain on disposal of financial assets carried at cost	43,547	19,760	43,547	19,760
Net gain (loss) on financial assets/liabilities at fair value through profit or loss	(23,384)	40,557	(41,703)	204,784
Others	26,376	11,100	56,298	17,062
	<u>\$ 59,732</u>	<u>110,744</u>	<u>110,227</u>	<u>215,632</u>

(c) Financial cost

The details of financial cost were as follows:

	For the three-month periods ended June 30,		For the six-month periods ended June 30,	
	2015	2014	2015	2014
Bank borrowings	\$ 22,770	27,660	46,282	54,376
Amortized interest of domestic corporate bond	7,727	11,970	15,455	23,940
Less: capitalized interest	(4,400)	(3,626)	(8,161)	(5,926)
	<u>\$ 26,097</u>	<u>36,004</u>	<u>53,576</u>	<u>72,390</u>

(25) Reclassification of the components of other comprehensive income

The details of reclassification of the composites of comprehensive income were as follows:

	For the three-month periods ended June 30,		For the six-month periods ended June 30,	
	2015	2014	2015	2014
Cash flow hedge:				
Income (loss) in the current period	\$ -	566	-	566
Net income (loss) recognized in other comprehensive income	<u>\$ -</u>	<u>566</u>	<u>-</u>	<u>566</u>
Available-for-sale financial assets:				
Change in net fair value in the current period	\$ (19,515)	(34,586)	91,569	(124,856)
Change in net fair value recognized in other comprehensive income	<u>\$ (19,515)</u>	<u>(34,586)</u>	<u>91,569</u>	<u>(124,856)</u>

(Continued)

TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(26) Financial instruments

Except for the following, there were no significant changes in the fair value of the Consolidated Company's financial instruments and the exposure to credit risks, liquidity risks, and market risks. Please refer to Note 6(28) of the consolidated financial statement for the year ended December 31, 2014.

(a) Credit risk

(i) Exposure to credit risk

The carrying amount of financial assets excluding cash and cash equivalents represents the Consolidated Company's maximum credit exposure. As of June 30, 2015 and 2014, the maximum exposure to credit risk amounted to \$5,874,063 thousand and \$6,014,948 thousand, respectively.

(ii) Concentration of credit risk

Credit risk, which is mainly generated from operating activities, is the risk that counterparties default. The Consolidated Company only deals with counterparties that are reputable. Therefore, it is not expected to generate any material credit risk. Moreover, the Consolidated Company has numerous clients and does not make any concentrative transactions with any single client. Therefore, there is no concentration of credit risk for account receivables.

The Consolidated Company does not expect the timing of the predicted cash flow to become significantly earlier or changes in the amount of cash flows.

(b) Exchange rate risk

(i) Exposure to exchange rate risk

The Consolidated Company's financial assets and liabilities exposed to exchange rate risk were as follows:

	June 30, 2015			December 31, 2014			June 30, 2014			
	Foreign Currency	Exchange rate (dollars)	NTD	Foreign Currency	Exchange rate (dollars)	NTD	Foreign Currency	Exchange rate (dollars)	NTD	
Financial assets										
Monetary items										
USD	\$	2,427	30.86	74,897	10,557	31.65	334,129	9,542	29.87	285,020
EUR		3,002	34.46	103,449	2	38.47	77	-	-	-
JPY		167	0.2524	42	167	0.2646	44	-	-	-
CNY		19,685	4.973	97,894	26,775	5.092	136,338	-	-	-
Financial liabilities										
Monetary items										
USD		69,405	30.86	2,141,838	92,949	31.65	2,941,836	78,496	29.87	2,135,586
EUR		1,211	34.46	41,731	1,634	38.47	62,860	4,761	40.78	194,154
JPY		311,764	0.2524	78,682	63,563	0.2646	16,819	52,601	0.2946	15,496

(Continued)

TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Because there are a variety of functional currencies, the Consolidated Company disclosed a summary of its information on exchange gain or loss. The realized and unrealized exchange gain or loss amounted to \$41,997 thousand and \$(24,825) thousand for the six-month period ended June 30, 2015 and 2014, respectively.

(i) Sensitivity analysis

The Consolidated Company's exposure to exchange rate risk arises from the foreign currency exchange fluctuations on cash and cash equivalents, accounts receivable loans and borrowings, which were denominated in different foreign currencies. The overall effects on net income before tax for the year ended June 30, 2015 and 2014, assuming the NTD depreciated by 1% against the USD, JPY, EUR and CNY, as of June 30, 2015 and 2014, were as follows:

	<u>Effect of appreciation on net income after tax</u>	<u>Effect of depreciation on net income after tax</u>
June 30, 2015		
USD (appreciation/depreciation of 1%)	\$ (17,881)	17,881
JPY (appreciation/depreciation of 1%)	534	(534)
EUR (appreciation/depreciation of 1%)	(680)	680
CNY (appreciation/depreciation of 1%)	847	(847)
	<u>\$ (17,180)</u>	<u>17,180</u>
June 30, 2014		
USD (appreciation/depreciation of 1%)	\$ (20,977)	20,977
JPY (appreciation/depreciation of 1%)	(135)	135
EUR (appreciation/depreciation of 1%)	(1,683)	1,683
	<u>\$ (22,795)</u>	<u>22,795</u>

(c) Information on fair value

(i) Types and fair value of financial instruments

The Consolidated Company's financial assets and liabilities are listed as follows: (including (1) the information on the levels in fair value hierarchy, wherein, disclosures are not required for financial instruments not measured at fair value with a carrying value approximating its fair value; and (2) those equity investments in which the fair value cannot be reliably measured and without any quoted price in the open market)

(Continued)

TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

		June 30, 2015				
		Carrying value	Fair value			
			Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss						
Derivative financial instrument—forward foreign exchange contracts	\$	381	-	381	-	381
Financial assets held for trading—publicly listed stocks		<u>227,331</u>	<u>227,331</u>	<u>-</u>	<u>-</u>	<u>227,331</u>
Financial assets carried at cost						
Unlisted domestic/foreign ordinary shares		<u>328,622</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Available-for-sale financial assets						
Stocks listed on emerging market		570,549	570,549	-	-	570,549
Financial bonds		<u>393,418</u>	<u>303,789</u>	<u>108,870</u>	<u>-</u>	<u>412,659</u>
Subtotal		<u>963,967</u>	<u>874,338</u>	<u>108,870</u>	<u>-</u>	<u>983,208</u>
Loans and receivables						
Cash and cash equivalents		2,678,540	-	-	-	-
Notes and accounts receivable		3,963,969	-	-	-	-
Other receivables		101,898	-	-	-	-
Other refundable deposits and pledged deposits		<u>287,895</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal		<u>7,032,302</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	\$	<u><u>8,552,603</u></u>	<u><u>1,101,669</u></u>	<u><u>109,251</u></u>	<u><u>-</u></u>	<u><u>1,210,920</u></u>
Financial liabilities at fair value through profit or loss						
Redemption options on convertible bonds	\$	57,500	-	57,500	-	57,500
Financial liabilities held for trading—forward foreign exchange contracts		<u>5,518</u>	<u>-</u>	<u>5,518</u>	<u>-</u>	<u>5,518</u>
Subtotal		<u>63,018</u>	<u>-</u>	<u>63,018</u>	<u>-</u>	<u>63,018</u>
Financial liabilities measured at amortized cost						
Short-term borrowings		3,705,167	-	-	-	-
Long-term loans (including current portion)		2,691,147	-	-	-	-
Bonds payable (including current portion)		2,427,875	-	2,440,000	-	2,440,000
Short-term notes and bills payable		854,194	-	-	-	-
Notes and accounts payable		1,789,412	-	-	-	-
Other payables		<u>2,700,010</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal		<u>14,167,805</u>	<u>-</u>	<u>2,440,000</u>	<u>-</u>	<u>2,440,000</u>
Total	\$	<u><u>14,230,823</u></u>	<u><u>-</u></u>	<u><u>2,503,018</u></u>	<u><u>-</u></u>	<u><u>2,503,018</u></u>

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TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

	December 31, 2014				
	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss					
Derivative financial instrument—forward foreign exchange contracts	\$ 157,904	-	157,904	-	157,904
Financial assets held for trading—publicly listed stocks	177,586	177,586	-	-	177,586
Subtotal	335,490	177,586	157,904	-	335,490
Financial assets carried at cost					
Unlisted domestic/foreign ordinary shares	343,099	-	-	-	-
Available-for-sale financial assets					
Stocks listed on emerging market	485,152	485,152	-	-	485,152
Financial bonds	387,246	306,487	107,977	-	414,464
Subtotal	872,398	791,639	107,977	-	899,616
Loans and receivables					
Cash and cash equivalents	1,910,409	-	-	-	-
Notes and accounts receivable	3,959,735	-	-	-	-
Other receivables	65,376	-	-	-	-
Other refundable deposits and pledged deposits	288,004	-	-	-	-
Subtotal	6,223,524	-	-	-	-
Total	<u>\$ 7,774,511</u>	<u>969,225</u>	<u>265,881</u>	<u>-</u>	<u>1,235,106</u>
Financial liabilities at fair value through profit or loss					
Redemption options on convertible bonds	\$ 40,000	-	40,000	-	40,000
Derivative financial liabilities used for hedging					
Forward foreign exchange contracts	5,698	-	5,698	-	5,698
Financial liabilities measured at amortized cost					
Short-term borrowings	4,027,187	-	-	-	-
Long-term loans (including current portion)	3,398,610	-	-	-	-
Bonds payable (including current portion)	2,412,420	-	2,422,250	-	2,422,250
Short-term notes and bills payable	464,714	-	-	-	-
Notes and accounts payable	1,845,582	-	-	-	-
Other payables	1,485,350	-	-	-	-
Subtotal	13,633,863	-	2,422,250	-	2,422,250
Total	<u>\$ 13,679,561</u>	<u>-</u>	<u>2,467,948</u>	<u>-</u>	<u>2,467,948</u>

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TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

	June 30, 2014				
	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss					
Financial assets held for trading — publicly listed stocks	\$ 302,496	302,496	-	-	302,496
Financial assets carried at cost					
Unlisted domestic/foreign ordinary shares	355,281	-	-	-	-
Available-for-sale financial assets					
Stocks listed on emerging market	550,747	550,747	-	-	550,747
Financial bonds	388,755	307,996	80,759	-	388,755
Subtotal	939,502	858,743	80,759	-	939,502
Derivative financial assets used for hedging					
Forward foreign exchange contracts	566	-	566	-	566
Loans and receivables					
Cash and cash equivalents	3,609,819	-	-	-	-
Notes and accounts receivable	4,060,182	-	-	-	-
Other receivables	70,835	-	-	-	-
Other refundable deposits and pledged deposits	286,086	-	-	-	-
Subtotal	8,026,922	-	-	-	-
Total	\$ 9,624,767	1,161,239	81,325	-	1,242,564
Financial liabilities at fair value through profit or loss					
Redemption options on convertible bonds	\$ 46,664	-	46,664	-	46,664
Forward foreign exchange contracts	25,504	-	25,504	-	25,504
Subtotal	72,168	-	72,168	-	72,168
Financial liabilities measured at amortized cost					
Short-term borrowings	3,673,448	-	-	-	-
Long-term loans (including current portion)	3,453,210	-	-	-	-
Bonds payable (including current portion)	3,290,121	-	3,292,421	-	3,292,421
Short-term notes and bills payable	726,256	-	-	-	-
Notes and accounts payable	1,711,436	-	-	-	-
Other payables	3,058,686	-	-	-	-
Subtotal	15,913,157	-	3,292,421	-	3,292,421
Total	\$ 15,985,325	-	3,364,589	-	3,364,589

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TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(ii) Technique for fair value evaluation of financial instruments not measured at fair value

The Consolidated Company's assumption and technique used to evaluate its financial instruments not measured at fair value are as follows:

i) Financial assets held to maturity

If a quoted price is available on an active market, the market price should be used as the fair value; if there is no market price available for reference, the evaluation method should be used to estimate the fair value or the quoted price given by the counterparties of which the Company has business transaction with.

ii) Debt investments with no active market and financial liabilities measured at amortized cost

If the information on the quoted price of the market deals and market manipulation is available, the latest price of the transaction and quotation information should be used as the basis for evaluating its fair value. If no market information is available for reference, the evaluation method should be adopted. Estimates and assumptions of the evaluation method should be used to assess the fair value of the discounted cash flows.

(iii) Technique for fair value evaluation of financial instruments measured at fair value

i) Non-derivative financial instrument

If a quoted price is available on an active market, the market price should be used as the fair value; the market price published by the primary stock exchanges and the security exchange center of the central government qualify as the basis of fair value evaluation for listed equity instruments and debt instruments with an active market.

If an open quoted price can be timely and frequently obtained from exchanges, brokers, underwriters, industry associations, pricing service institutions, or authorities, and if such price can represent the actual and frequent transaction price on the fair market, then a quoted price is considered as the active market price. If the above conditions are not met, then the market is deemed as inactive. Generally, a great difference and an increasing gap between the buying and selling price, as well as having a small transaction volume are indicators of an inactive market.

Fair value of the Consolidated Company's financial instruments that have an active market is displayed by category and attributed as follows:

Listed stocks are financial assets and liabilities with standard transaction terms and conditions, and are traded on an active market. The fair value of such items is determined in reference to the quoted market price.

TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
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Except for the above-mentioned financial instruments with an active market price, the fair value of other financial instruments is measured using the valuation techniques. The fair value obtained through valuation techniques can be used as a reference to the current fair value, discounted cash flow, or other valuation techniques for other financial instruments with substantially similar properties and conditions. Fair value calculated using the valuation models and the available market information on the balance sheet date are also accepted by the market.

ii) Derivative financial instruments

Such items are valued using the valuation models which are widely accepted by the market. Foreign forward exchange contracts normally are valued using the current forward exchange rates. Interest rate structured financial instruments are valued using the option pricing models or other valuation methods.

There were no transfers among the fair value hierarchy levels for the six-month periods ended June 30, 2015 and 2014.

(27) Financial risk management

The policies and the objectives of the financial risk management are consistent with those disclosed in Note 6(29) of the consolidated financial statement for the year ended December 31, 2014.

(28) Capital management

The objectives, policies, and procedures are the same as those stated in the consolidated financial statement for the year ended December 31, 2014. There was no material change on quantitative data of the capital management. For relevant information, please refer to Note 6(30) of the consolidated statement for the year ended December 31, 2014.

(29) Investing and financing activities of noncash transactions

Information on the Consolidated Company's cash flow of noncash investing and financing transactions were as follows:

	For the six-month periods ended June 30,	
	2015	2014
Reclassification of prepayment of land and supplies to property, plant, and equipment	\$ <u>191,866</u>	<u>175,285</u>
Unrealized gain (loss) on financial instruments	\$ <u>91,569</u>	<u>(124,856)</u>
Unrealized (loss) gain on financial instruments of equity method investees	\$ <u>(681)</u>	<u>3,405</u>
Increase in cumulative translation adjustment	\$ <u>(40,604)</u>	<u>(34,400)</u>
Cash dividends payable	\$ <u>1,297,688</u>	<u>1,597,123</u>
Increase in property, plant, and equipment	\$ 211,113	371,536
Add: payable on machinery and equipment, January 1	15,297	10,822
Less: payable on machinery and equipment, June 30	<u>(3,411)</u>	<u>(27,802)</u>
Cash paid	\$ <u>222,999</u>	<u>354,556</u>

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TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

7. Related-party Transactions

1 Parent company and ultimate controlling party

The Company is the ultimate controlling party of the Consolidated Company and its subsidiaries.

2 Significant related-party transactions

(a) Sales to related parties

Significant sales to related parties and the balance of accounts receivable were as follows:

	Operating revenue				Accounts receivable		
	For the three-month periods ended June 30,		For the six-month periods ended June 30,		June 30, 2015	December 31, 2014	June 30, 2014
	2015	2014	2015	2014			
Associates	\$ <u>4,859</u>	<u>6,633</u>	<u>9,813</u>	<u>13,066</u>	<u>4,146</u>	<u>3,498</u>	<u>5,507</u>

The selling price and payment terms for sales to subsidiaries are not significantly different from those with third-party customers.

(b) Borrowings from related parties

	Other payables		
	June 30, 2015	December 31, 2014	June 30, 2014
Other related parties	\$ <u>100,000</u>	<u>100,000</u>	<u>100,000</u>

Interest expense and other interest payable resulting from the above-mentioned financing from the related parties were as follows:

	Interest expense			
	For the three-month periods ended June 30,		For the six-month periods ended June 30,	
	2015	2014	2015	2014
Other related parties	\$ <u>486</u>	<u>515</u>	<u>967</u>	<u>1,353</u>

	Interest payable (recognized as other payables)		
	June 30, 2015	December 31, 2014	June 30, 2014
Other related parties	<u>160</u>	<u>174</u>	<u>181</u>
Interest rate	<u>1.95%</u>	<u>1.70%~2.10%</u>	<u>1.70%~2.10%</u>

(Continued)

TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(c) Financing to related parties

Financing transactions with related parties were as follows:

	<u>June 30, 2015</u>	<u>December 31, 2014</u>	<u>June 30, 2014</u>
Associates	\$ <u>70,978</u>	<u>41,145</u>	<u>35,844</u>
	(USD 2,300 thousand)	(USD 1,300 thousand)	(USD 1,200 thousand)

The Consolidated Company's financing to its related parties is without security collaterals. Such loans, after evaluation, do not require provisions for bad debt.

Interest income and other interest receivable incurred by the above financing were as follows:

	<u>Interest income</u>			
	<u>For the three-month</u>		<u>For the six-month</u>	
	<u>periods ended June 30,</u>		<u>periods ended June 30,</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Associates	\$ <u>571</u>	<u>273</u>	<u>1,093</u>	<u>472</u>

	<u>Interest receivable</u>		
	<u>(recognized as other payables)</u>		
	<u>June 30,</u>	<u>December 31,</u>	<u>June 30,</u>
	<u>2015</u>	<u>2014</u>	<u>2014</u>
Associates	<u>1,015</u>	<u>740</u>	<u>368</u>
Interest rate	<u>3.5%</u>	<u>3.5%</u>	<u>3.5%</u>

(d) Disposal of property, plant, and equipment

In February, 2015, a subsidiary sold its noncurrent asset held for sale to an associate at \$31,041 thousand. The carrying value of the disposed asset was \$20,640 thousand. And the subsidiary recognized a disposal gain of \$10,401 thousand. Please refer to Note 6(9) for related information.

(e) Endorsements and Guarantees

The details regarding balances of financing endorsements were as follows:

		Expressed in thousands of USD				
		<u>June 30, 2015</u>				
		<u>Highest balance</u>		<u>Ending amount</u>		<u>Actual amount</u>
		<u>for current period</u>		<u>(Note)</u>		<u>provided</u>
Associates	USD\$	7,340	USD	6,527	USD	5,629

(Continued)

TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

		December 31, 2014			
		Highest balance for current period	Ending amount (Note)	Actual amount provided	
Associates	USD\$	8,249	USD 7,340	USD	6,462

		June 30, 2014			
		Highest balance for current period	Ending amount (Note)	Actual amount provided	
Associates	USD\$	8,052	USD 7,143	USD	6,448

Note: The credit limit is agreed by the board of directors.

(f) Others

		Rental income			
		For the three-month periods ended June 30,		For the six-month periods ended June 30,	
		2015	2014	2015	2014
Associates	\$	912	1,006	1,827	2,040
Other related parties		-	-	23	91
	\$	<u>912</u>	<u>1,006</u>	<u>1,850</u>	<u>2,131</u>

		Other income			
		For the three-month periods ended June 30,		For the six-month periods ended June 30,	
		2015	2014	2015	2014
Associates	\$	(90)	-	13	48
Other related parties		210	210	420	420
	\$	<u>120</u>	<u>210</u>	<u>433</u>	<u>468</u>

		Other expense			
		For the three-month periods ended June 30,		For the six-month periods ended June 30,	
		2015	2014	2015	2014
Associates	\$	14,954	9,174	24,951	16,678
Other related parties		505	412	517	424
	\$	<u>15,459</u>	<u>9,586</u>	<u>25,468</u>	<u>17,102</u>

(Continued)

TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

	Notes receivable			Notes payable		
	June 30, 2015	December 31, 2014	June 30, 2014	June 30, 2015	December 31, 2014	June 30, 2014
Associates	\$ -	-	-	4,324	-	-
Other related parties	221	221	221	344	666	400
	<u>\$ 221</u>	<u>221</u>	<u>221</u>	<u>4,668</u>	<u>666</u>	<u>400</u>

	Other receivables			Other payables		
	June 30, 2015	December 31, 2014	June 30, 2014	June 30, 2015	December 31, 2014	June 30, 2014
Associates	\$ 377	33	119	7,311	4,696	2,399

	Deposits received		
	June 30, 2015	December 31, 2014	June 30, 2014
Associates	\$ 304	423	422

3 Compensation of key management personnel

Compensation of key management personnel consisted of:

	For the three-month periods ended June 30,		For the six-month periods ended June 30,	
	2015	2014	2015	2014
Short-term employee benefits	\$ 2,276	1,441	30,661	31,060
Post-employment benefits	471	410	942	814
	<u>\$ 2,747</u>	<u>1,851</u>	<u>31,603</u>	<u>31,874</u>

In the six-month periods ended June 30, 2015 and 2014, the Consolidated Company offered three cars that cost \$9,381 thousand and \$9,381 thousand for the key management personnel of the entity.

8. Pledged Assets

The details of the Consolidated Company's assets pledged to secure loans were as follows:

Pledged assets	Pledged to secure	June 30, 2015	December 31, 2014	June 30, 2014
Other current and noncurrent assets	Bank loan and preformance guarantees	\$ 3,823	4,587	3,063
Refundable deposits	Secured debts and civil ruling	213,000	213,000	213,000
Land use right (listed as other noncurrent assets)	Bank loan guarantees	8,437	8,737	8,403
Property, plant, and equipment	Bank loan guarantees	864,300	866,211	707,021
Prepayment for land and equipment	Bank loan guarantees	523,796	523,796	523,796
		<u>\$ 1,613,356</u>	<u>1,616,331</u>	<u>1,455,283</u>

(Continued)

TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

9. Commitments and Contingencies

(1) Commitments

- (a) The above-mentioned guarantees were mainly for securing loans. These guarantees gave rise to potential off-balance-sheet credit risk, which represents the risk of loss incurred by the default of counterparties or by the devaluation of collateral provided by the counterparties. The Company did not ask counterparties for collateral as secure guarantees. The amounts of the Consolidated Company's guarantees were as following:

	<u>June 30,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>	<u>June 30,</u> <u>2014</u>
Amounts of security guarantees	\$ <u>201,419</u>	<u>232,314</u>	<u>213,365</u>

- (b) The amount of guaranteed notes issued by the Consolidated Company were as follows:

Nature	<u>June 30,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>	<u>June 30,</u> <u>2014</u>
Bank credit limit	\$ 4,486,989	4,290,673	3,431,798
Leases	200	200	200
Guaranteed payment for purchases of raw materials	<u>53,560</u>	<u>57,690</u>	<u>57,690</u>
	\$ <u>4,540,749</u>	<u>4,348,563</u>	<u>3,489,688</u>

- (c) The amount of unused outstanding letters of credit for the importation of raw materials for related parties were as follows:

	<u>June 30,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>	<u>June 30,</u> <u>2014</u>
Unused outstanding letters	\$ <u>1,532,470</u>	<u>2,219,893</u>	<u>1,672,729</u>

(2) Contingencies

Because Hosing Tai Co., Ltd. buried a large quantity of cinders in the government-owned land without permission, the Northern Region Water Resources Office (NRWRO), Water Resources Agency, under the Ministry of Economic Affairs, filed a lawsuit to the Taoyuan District Court against the Company, claiming a compensation of \$211,764 thousand for the damage. However, according to the Waste Disposal Act, NRWRO should also be held responsible together with the Company. Hence, NRWRO lost the litigation. On March 5, 2013, NRWRO filed an appeal to the Taiwan High Court on the same matter. However, the appeal has been denied. In July 2014, NRWRO filed another appeal against the Company regarding the same matter, but this time, to the Supreme Court. The Supreme Court decided that four of the employees of Hosing Tai Co., Ltd. should pay the amount of \$185,600 thousand for the removal of the cinders from the said land, as well as \$71,004 for cleaning expense. Hosing Tai Co., Ltd. disagreed with the decision of the court, therefore, filed an appeal to the Supreme Court against the NRWRO. The case is still in progress.

(Continued)

TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

10. Less from Significant Disasters : None.

11. Subsequent Events : None.

12. Others

The Consolidated Company's personnel, depreciation, and amortization expense, categorized by function, were as follows:

	For the three-month periods ended June 30,					
	2015			2014(restated)		
	Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
Employee benefit						
Salaries	285,585	110,876	396,461	274,212	107,201	381,413
Labor and health insurance	24,867	8,031	32,898	24,127	8,174	32,301
Pension	15,763	4,303	20,066	15,160	5,235	20,395
Others	10,861	12,639	23,500	6,998	13,254	20,252
Depreciation	285,124	8,005	293,129	280,640	20,697	301,337
Amortization	3,461	1,861	5,322	4,424	7,238	11,662

	For the six-month periods ended June 30,					
	2015			2014(restated)		
	Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
Employee benefit						
Salaries	557,264	227,172	784,436	558,297	230,087	788,384
Labor and health insurance	50,222	17,299	67,521	50,372	17,022	67,394
Pension	31,187	8,625	39,812	30,227	10,519	40,746
Others	17,976	25,382	43,358	13,893	26,774	40,667
Depreciation	541,267	39,053	580,320	557,848	38,729	596,577
Amortization	7,152	5,134	12,286	8,418	15,252	23,670

13. Other Disclosures

(1) Information on significant transactions

The followings are the information on significant transactions required by the Guidelines for the Consolidated Company:

(a) Fund financing to other parties (the amounts are expressed in thousands of NTD/USD):

No	Name of Lenders	Name of Borrowers	Account name	Related party	Highest balance of financing to other parties during the period	Ending Balance	Actual usage during the period	Range of interest rates during the period	Purposes of fund financing for the borrowers (Note 2)	Transaction amount for business between two parties	Reasons for short-term financing	Allowance for bad debt	Collateral		Individual funding loan limits	Maximum limitation on fund financing
													Name	Value		
1	Tung Yuan International Corp. (Note 1)	Duc Hoa International Joint Stock Company	Other receivables-related parties	Yes	72,243 (USD2,300)	70,978 (USD2,300)	70,978 (USD2,300)	3.5%	2	-	Operating capital	-	-	-	119,305 (USD3,866)	238,610 (USD7,732)

Note 1: Financing to an individual party should not exceed 10% of the net equity on its latest financial statements. The maximum amount allowed for financing should not exceed 20% of the net equity on its latest financial statements.

Note 2: Reasons for short-term financing were as follows:

(1) Those with business please fill in 1.

(2) Those necessary for short-term fund financing please fill in 2.

(Continued)

TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(b) Guarantees and endorsements for other parties (the amounts are expressed in thousands of NTD/USD):

No.	Endorsement / Guarantee provider	Counterparty of guarantee and endorsement		Limitation amount of guarantees and endorsements for a specific enterprise	Highest balance for guarantee and endorsements during the period	Balance of guarantees and endorsements as of June 30, 2015	Amount of actual usage	Endorsement and guarantee secured by assets	Ratio of accumulated amounts of guarantees and endorsements to net worth of the latest financial statements	Maximum amounts for guarantees and endorsements	Parent Company endorses/ guarantees to third parties on behalf of subsidiary	Subsidiary endorses/ guarantees to third parties on behalf of parent Company	Endorsements /guarantees to the third parties on behalf of the Companies in Mainland China
		Name	Relationship with the Company (Note1)										
0	The Company (Note 2, 3)	Fujian Tung Kang Steel Co., Ltd	2	4,512,760	504,000 (USD 16,000)	493,760 (USD 16,000)	279,436 (USD 9,055)	-	2.19	9,025,520	Y	N	Y
0	The Company (Note 2, 3)	Tung Yuan International Corp.	2	4,512,760	65,838 (USD 2,090)	39,404 (USD 1,277)	11,694 (USD 379)	-	0.17	9,025,520	Y	N	N
1	Tung Yuan International Corp. (Note 4, 5)	Fujian Sino-Japan Metal Corp.	6	596,493 (USD 19,329)	165,375 (USD 5,250)	162,015 (USD 5,250)	162,015 (USD 5,250)	-	13.58	1,193,017 (USD 38,659)	N	N	Y
1	Tung Yuan International Corp. (Note 4, 5)	Duc Hoa International Joint Stock Company	6	596,493 (USD 19,329)	65,838 (USD 2,090)	39,404 (USD 1,277)	11,694 (USD 379)	-	3.30	1,193,017 (USD 38,659)	N	N	N

Note 1: There are six conditions in which the Company may have guarantees or endorsements for the receiving parties:

- (1) The Company has business with the receiving parties.
- (2) The Company holds directly more than 50% of the common stock of the subsidiaries.
- (3) In aggregate, the Company and its subsidiaries hold more than 50% of the investee.
- (4) In aggregate, the Company holds directly or indirectly through its subsidiaries more than 50% of the investee.
- (5) The Company is required to make guarantees or endorsements for the construction project based on the construction contract.
- (6) The stockholders of the Company make guarantees or endorsements for the investee in proportion to their stockholding percentage.

Note 2: Not exceeding 20% of the net equity of the latest financial statements.

Note 3: Not exceeding 40% of the net equity of the latest financial statements.

Note 4: Not exceeding 50% of the net equity of the latest financial statements.

Note 5: The total amount of guarantees and endorsements should not exceed the company's net worth on its latest financial statements. The limitation amount for the current period is USD 38,659 thousand. Guarantees and endorsements for an individual company should not exceed 50% of the company's net worth on its latest financial statements. Moreover, according to the Company's policy, the total amount of guarantees and endorsements made by the Consolidated Company should not exceed 45% of the Company's latest financial statement (limit of the current period: 10,153,710 thousand); the total amount of guarantees and endorsements on an individual company should not exceed 20% of the Company's net worth of its latest financial statements (limit of the current period: 4,512,760 thousand.)

(c) Information regarding securities held at balance sheet date (excluding subsidiaries, associates and joint ventures) (the amounts are expressed in thousands of NTD):

Security holder	Category and name of security	Relationship between issuer of security and the company which holds securities	Account name	June 30, 2015				Notes
				Number of shares	Carrying value	Shareholding percentage	Market value or net asset value	
The Company	Stock—Zenitron Corporation	-	1	3,825,000	72,484	1.79 %	72,484	None
The Company	Stock—Adlink	-	1	1,488,916	154,847	0.81 %	154,847	"
The Company	Foreign Bond—KBC	-	2	-	-	-	-	(Note 4)
The Company	Stock—Shiao Kang Warehousing Corp.	One of its directors	3	3,158,880	24,469	19.87 %	-	None
The Company	Stock—Hexawave Photonic System, Inc.	Common chairman	3	11,687,916	80,201	16.35 %	-	"
The Company	Stock—Overseas Investment & Development Corp	-	3	1,000,000	8,491	1.11 %	-	"
The Company	Stock—Power World Fund, Inc.	One of its directors	3	1,016,909	5,140	5.68 %	-	"
The Company	Stock—Universal Venture Fund, Inc.	One of its directors	3	854,895	5,835	4.76 %	-	"
The Company	Stock—Tung Jiang Investment Corp.	One of its directors	3	-	36,650	9.03 %	-	"

(Continued)

TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Security holder	Category and name of security	Relationship between issuer of security and the company which holds securities	Account name	June 30, 2015				Notes
				Number of shares	Carrying value	Shareholding percentage	Market value or net asset value	
The Company	Stock—AIR ASIA Company Limited	-	3	1,621,441	18,030	1.19 %	-	None
The Company	Stock—Universal Venture Capital Investment Corp.	-	3	2,800,000	26,258	2.33 %	-	"
The Company	Stock—IBT	-	3	2,365,200	23,652	4.17 %	-	"
The Company	Stock—Chien Shing Harbour Service Co., Ltd	One of its directors	3	7,859,800	82,160	12.20 %	-	"
The Company	Katec Creative Resources Corporation—preferred stock	Subsidiary of the Company	3	2,340,000	23,400	65.18 %	-	(Note 5)
The Company	Financial bonds—Ta Chang Bank	-	4	-	89,629	-	108,870	(Note 1)
The Company	Financial bonds—Cathay United Bank	-	4	-	303,789	-	303,789	(Note 2)
The Company	Stock—Taiwan High Speed Rail Corporation	One of its directors	4	123,763,440	570,549	1.18 %	570,549	(Note 3)
Tung Yuan International Corp.	Chinese Products Promotion Center	-	3	2,500	242	0.66 %	-	None
Tung Yuan International Corp.	Pech alliance Corp.	-	3	1,990,625	13,409	5.69 %	-	"
Tung Yuan International Corp.	Gapura Incorporated	-	3	591,663	2,214	11.11 %	-	"
Tung Kang Engineering & Construction Corp.	Toko Sanitaryware Trading Development Corp.	-	3	150,000	1,871	15.00 %	-	"

Account name:

1. Financial assets at fair value through profit or loss—current.
2. Financial assets at fair value through profit or loss—noncurrent.
3. Financial assets carried at cost—noncurrent.
4. Available-for-sale financial assets—noncurrent.

(Note 1): Net market value is calculated using the theoretic models in reference to interests published by financial institutions.

(Note 2): Market value is calculated using bond market price on the latest closing date.

(Note 3): Fair value is calculated using the price on the latest closing date.

(Note 4): Foreign bonds have been valued to fair market value until the book value is 0.

(Note 5): The transaction has been written off in the consolidated financial statements.

- (d) Information regarding securities where the accumulated purchase or sale amounts for the period exceeding \$300 million or 20% of the paid-in capital: None.
- (e) Information on the acquisition of real estate which exceeds \$300 million or 20% of the paid-in capital : None.
- (f) Information on the disposal of real estate which exceeds \$300 million or 20% of the paid-in capital : None.
- (g) Information regarding related-party purchase and sale transactions which exceed \$100 million or 20% of the paid-in capital (the amounts are expressed in thousands of NTD):

Company name	Related party	Relationship	Transaction details				Abnormal transaction		Note/Account (payable) receivable		Note
			Purchase /Sale	Amount	% to total purchase/sale	Credit period	Unit price	Payment terms	Ending balance	% to total	
The Company	Tung Kang Steel Structure Corp.	Subsidiary of the Company	Sale	907,377	5.44 %	Receivable within 60 days	-	-	504,610	12.73 %	

Note: The transaction has been written off in the consolidated financial statements.

(Continued)

TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

- (h) Information regarding receivables from related parties which exceed \$100 million or 20% of the paid-in capital (the amounts are expressed in thousands of NTD):

Company name	Related party	Relationship	Ending balance	Turnover day	Overdue		Amounts received in subsequent periods	Allowance for bad debts
					Amount	Action taken		
The Company	Tung Kang Steel Structure Corp.	Subsidiary of the Company	504,610	3.37	-	-	-	-
			(Accounts receivable—related parties)					
			325	-	-	-	-	-
			(Other receivables—related parties)					

Note: The transaction has already been written off in the consolidated financial statements.

- (i) For information regarding trading in financial derivative instruments, please refer to Note 6(2)
- (j) Intercompany relationships and significant intercompany transactions were listed as follows: (the amounts are expressed in thousands of NTD):

No.	Company name	Counter party	Relationship	Intercompany transactions			
				Financial Statement Item	Amount	Terms	Percentage of consolidated total gross sales or total assets
0	The Company	Tung Kang Steel Structure Corp. and its subsidiaries	1	Sales	933,067	General conditions	5.59 %
0	The Company	Tung Kang Steel Structure Corp. and its subsidiaries	1	Accounts receivable	511,761	OA60	1.32 %
0	The Company	Fujian Tung Kang Steel Co., Ltd.	1	Sales	38,172	General conditions	0.23 %
1	Tung Kang Steel Structure Corp. and its subsidiaries	The Company	2	Sales	77,150	General conditions	0.46 %
1	Tung Kang Steel Structure Corp. and its subsidiaries	The Company	2	Contra account of cost of goods sold	23,059	General conditions	0.14 %
1	Tung Kang Steel Structure Corp. and its subsidiaries	The Company	2	Accounts receivable	21,833	OA30	0.06 %
2	Katec Creative Resources Corporation	The Company	2	Sales	14,390	General conditions	0.09 %

Note 1: Numbers are filled in as follows:

1. 0 represents the parent company.
2. Subsidiaries are numbered from 1.

Note 2: Transactions are categorized as follows:

1. The parent company to subsidiary.
2. Subsidiary to the parent company.
3. Subsidiary to subsidiary.

For significant intercompany transactions, only information regarding funding and finances, sales, and accounts receivables were disclosed; the opposing items of the transactions were not disclosed.

(Continued)

TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

- (2) Information on investment for six-month period ended June 30, 2015 was as follows (excluding those in Mainland China) (the amounts are expressed in thousands of NTD):

Investor company	Investee company	Location	Major operations	Original investment Amount		Balance as of June 30, 2015			Net income of investee	Investment income (loss) recognized by the investor company	Notes
				June 30, 2015	December 31, 2014	Shares	%	Carrying value			
The Company	Tung Yuan International Corp.	British Virgin Islands	Investment activities	800,984	800,984	82	100.00 %	1,170,755	(24,204)	(24,204)	Subsidiary (Note 3)
The Company	Tung Kang Steel Structure Corp.	Taiwan	H-beam manufacturing and trading activities	1,091,120	1,091,120	117,407,286	97.35 %	1,558,229	(168,467)	(161,700)	Subsidiary (Note 3)
The Company	Katec R & D Corp.	Taiwan	Recycling	35,352	35,352	4,267,875	46.19 %	47,172	4,386	2,026	Investee accounted for using equity method
The Company	Goldham Development Ltd.	British Virgin Islands	Investment activities	438,915	438,915	15,000,000	100.00 %	439,078	(19,548)	(16,903)	Subsidiary (Note 3)
The Company	Taiwan Steel Union Co., Ltd.	Taiwan	Waste disposal	227,471	227,471	36,011,411	25.22 %	554,023	269,603	67,994	Investee accounted for using equity method
The Company	Katec Creative Resources Corporation	Taiwan	Waste recycling	311,442	311,442	23,213,836	85.63 %	109,553	(36,144)	(30,355)	Subsidiary (Note 3)
The Company	Right Investment Corp.	Taiwan	Investment activities	189,827	189,827	499,800	49.00 %	15,092	(98)	(48)	Investee accounted for using equity method
The Company	Tung Kang Wind Power Corp.	Taiwan	Electric power generation	155,000	155,000	15,500,000	100.00 %	89,681	(8,433)	(8,433)	Subsidiary (Note 3)
The Company	Fa Da Enterprise Corp.	Taiwan	Recycling	500		50,000	100.00 %	458	(42)	(42)	Subsidiary (Note 3)
Tung Yuan International Corp. (Note 1)	3 Oceans International Inc.	Brunei	Investment activities	61,720	61,720	2,000,000	66.67 %	61,180	(423)	(282)	Subsidiary (Note 3)
Tung Yuan International Corp. (Note 2)	Duc Hoa International Join Stock Company	Vietnam	Quicklime Factory	67,892	67,892	-	49.25 %	36,081	4,551	2,241	Investee accounted for using equity method
Tung Kang Steel Structure Corp.	Tung Kang Engineering & Construction Corp.	Taiwan	Civil engineering	259,350	259,350	15,001,000	100.00 %	149,461	2,208	2,208	Subsidiary (Note 3)

1 USD=30.86 NTD, 1 CNY=4.973 NTD

Note 1 :Tung Yuan International Corp.'s initial investment in 3 Oceans International Inc. was 2,000 thousand US dollars.

Note 2:Tung Yuan International Corp.'s initial investment in Duc Hoa International Join Stock Company was 2,200 thousand US dollars.

Note3 :The transaction has been written off in the consolidated financial statements.

(Continued)

TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(3) Information regarding investments in Mainland China:

(a) Information on investment in Mainland China (the amounts are expressed in thousands of NTD/USD) :

Name of the PRC investee company	Primary business scope	Amount of paid-in capital	Method of investment	Investment transferred from Taiwan, beginning of period	For the six-month period ended June 30, 2015		Investment transferred from Taiwan, end of period	Equity in the earnings (losses)	Direct and indirect shareholding percentage by the company	The maximum holding percentage for the period	Recognized gain or loss from investment for the current period (Note 2)	Carrying value of investment, end of period (Note 1)	Remitted gain on investment, end of period
					Remittance	Remittance							
Fujian Sino-Japan Metal Corp.	Tin-coated plate	1,604,720 (USD 52,000)	Indirect investment	566,806 (USD 18,367)	-	-	566,806 (USD 18,367)	(81,469)	35.00 %	35.00 %	(28,514)	927,221	-
Fujian Tung Kang Steel Co., Ltd.	H-beam and steel bar manufacturing	462,900 (USD 15,000)	Indirect investment	411,364 (USD 13,330)	-	-	411,364 (USD 13,330)	(19,548)	100.00 %	100.00 %	(16,903)	439,078	-

Note 1 : On June 30, 2015, 1 USD=30.86 NTD, 1 CNY=4.973 NTD.

Note 2 : For the six-month period ended June 30, 2015, 1 USD=31.179 NTD, 1 CNY = 5.008 NTD.

(b) Quota for investment in Mainland China:

Accumulative remittance from Taiwan to Mainland China, end of the period	Amount of investment approved by Investment Commission, Ministry of Economic Affairs	Limit on the amount of investment in Mainland China (Note)
1,039,889 (USD 33,697)	1,039,889 (USD 33,697)	13,538,281

Note: 60% of net equity

(c) For information on significant transaction among investees in Mainland China:

For direct and indirect significant transactions between the Company and its investee companies in Mainland China during the six-month period ended June 30, 2015, please refer to "Information on Significant Transactions" and "Intercompany Relationships and Significant Intercompany Transactions."

14. Operating Segments

There are four reportable segments in the Consolidated Company, namely, Kaohsiung, Miaoli, Taoyuan, and Steel Structure. Kaohsiung and Miaoli Department manufacture steel bars for construction and civil engineering, steels for building structure, H-beams, universal plates, and tampered and parallel flange channels, while Taoyuan only produces steels for building structures and steel bars for construction and civil engineering. The Steel Structure department exclusively assembles H-beams and others.

The reportable segments are the Consolidated Company's strategic divisions. They offer different products and services, and are managed separately because they require different technology and marketing strategies. Most of the strategic divisions were acquired separately. The management of the acquired divisions remains employed by the Consolidated Company.

(Continued)

TUNG HO STEEL ENTERPRISE CORPORATION AND SUBSIDIARIES
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The operating segment accounting policies are similar to the ones described in Note 4 "Significant Accounting Policies." The Consolidated Company treats intersegment sales and transfers as third-party transactions. They are measured at market price.

The operations segments of the Consolidated Company for the six-month periods ended June 30, 2015 and 2014, were as follows:

For the six-month periods ended June 30, 2015							
	<u>Kaohsiung</u>	<u>Taoyuan</u>	<u>Miaoli</u>	<u>Steel Structure</u>	<u>Others</u>	<u>Adjustments and Eliminations</u>	<u>Total</u>
Revenue:							
Net revenue from external customers	\$ 2,298,637	6,056,673	4,134,195	3,070,105	1,118,311	-	16,677,921
Inter-consolidated entities' revenue	43,201	25,728	902,348	77,150	14,390	(1,062,817)	-
Total revenues	<u>\$ 2,341,838</u>	<u>6,082,401</u>	<u>5,036,543</u>	<u>3,147,255</u>	<u>1,132,701</u>	<u>(1,062,817)</u>	<u>16,677,921</u>
Reportable segment profit or loss	<u>\$ (179,400)</u>	<u>481,344</u>	<u>651,392</u>	<u>(132,034)</u>	<u>(16,344)</u>	<u>127,439</u>	<u>932,397</u>
For the six-month periods ended June 30, 2014							
	<u>Kaohsiung</u>	<u>Taoyuan</u>	<u>Miaoli</u>	<u>Steel Structure</u>	<u>Others</u>	<u>Adjustments and eliminations</u>	<u>Total</u>
Revenue:							
Net revenue from external customers	\$ 3,671,508	6,225,720	5,150,513	1,965,291	934,100	-	17,947,132
Inter-consolidated entities' revenue	5,325	2,990	746,956	17,033	33,958	(806,262)	-
Total revenues	<u>\$ 3,676,833</u>	<u>6,228,710</u>	<u>5,897,469</u>	<u>1,982,324</u>	<u>968,058</u>	<u>(806,262)</u>	<u>17,947,132</u>
Reportable segment profit or loss	<u>\$ (78,858)</u>	<u>255,214</u>	<u>690,546</u>	<u>(118,073)</u>	<u>149,766</u>	<u>83,972</u>	<u>982,567</u>
	<u>Kaohsiung</u>	<u>Taoyuan</u>	<u>Miaoli</u>	<u>Steel Structure</u>	<u>Others</u>	<u>Adjustments and eliminations</u>	<u>Total</u>
Assets of reportable segment							
June 30, 2015	\$ 2,868,703	10,997,700	7,320,901	5,853,868	3,284,312	8,352,476	38,677,960
December 31, 2014	<u>\$ 3,164,209</u>	<u>11,182,721</u>	<u>7,834,188</u>	<u>4,567,964</u>	<u>3,349,054</u>	<u>8,250,935</u>	<u>38,349,071</u>
June 30, 2014	<u>\$ 3,590,665</u>	<u>11,121,180</u>	<u>7,614,902</u>	<u>4,770,741</u>	<u>3,272,383</u>	<u>9,625,144</u>	<u>39,995,015</u>
	<u>Kaohsiung</u>	<u>Taoyuan</u>	<u>Miaoli</u>	<u>Steel Structure</u>	<u>Others</u>	<u>Adjustments and eliminations</u>	<u>Total</u>
Liabilities of reportable segment							
June 30, 2015	\$ 582,516	962,681	868,043	3,714,231	1,466,302	8,422,000	16,015,773
December 31, 2014	<u>\$ 715,292</u>	<u>1,126,426</u>	<u>1,006,130</u>	<u>2,228,869</u>	<u>1,457,988</u>	<u>8,646,747</u>	<u>15,181,452</u>
June 30, 2014	<u>\$ 744,536</u>	<u>989,137</u>	<u>1,114,594</u>	<u>2,531,147</u>	<u>1,417,706</u>	<u>10,798,296</u>	<u>17,595,416</u>