# Sheng Yu Steel Co., Ltd. and Subsidiaries

**Consolidated Financial Statements for the Years Ended December 31, 2016 and 2015 and Independent Auditors' Report**

## INDEPENDENT AUDITORS' REPORT

The Board of Directors and the Shareholders
Sheng Yu Steel Co., Ltd.

### Opinion

We have audited the accompanying consolidated financial statements of Sheng Yu Steel Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the audit report issued by other independent auditors (refer to Other Matter paragraph), the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission ("FSC") of the Republic of China.

### Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained and the report of other auditors are sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of investments accounted for using equity method

Yodogawa Shengyu (Hefei) High Tech Steel Co., Ltd (YSS) is an investee in which the investment accounted for using equity method amounted to NT$546,821 thousand, representing 5% of the Group's total assets as of December 31, 2016, as disclosed in Note 13 to the consolidated financial statements. The recoverability of the investment is dependent on the future profitability. Since the construction industry in mainland China and the steel market conditions get worse continuously, YSS's turnover was far below its budget; therefore, the Group recognized impairment loss on the investment in 2016 and 2015. We are continuously concerned about if the carrying value of assets has been impaired and impairment test.

We have obtained a copy of an impairment test report from the Company's management and we reviewed the impairment audit procedures of the other auditors, and we evaluated the reasonableness of the assumptions used in the impairment model, including cash flow projections and net realizable value, and we assessed the result of the entire impairment test applied with reference to the industry's external condition.

Inventory valuation

As of December 31, 2016, the carrying value of inventory held by the Group was NT$1,491,716 thousand, representing 14% of the Group's total assets, as disclosed in Note 4 to the consolidated financial statements. Assessing net realizable value of inventory is an area of significant accounting estimation.

We focused on the year-end inventory to evaluate the reasonableness of net realizable value. The audit procedures we performed included the following:

1. We tested the completeness of the year-end inventory valuation.

2. We evaluated the appropriateness of the method of calculating year-end inventory provision and we re-performed the calculation of such provision.

3. We evaluated the underlying assumptions used in the calculation to supporting documentation, and re-performed the calculation of such amounts to check the amounts.

**Other Matter**

We did not audit the financial statements as of and for the years ended December 31, 2016 and 2015 of YSS, which were used as basis of the investment accounted for using equity method. YSS's financial statements had been audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included and the information disclosed for YSS, is based solely on the report of the other auditors. The investment in YSS accounted for using equity method amounted to NT$546,821 thousand and NT$169,717 thousand, representing 5% and 2% of the Group's total assets as of December 31, 2016 and 2015, respectively. The investment loss recognized from YSS amounted to NT$149,455 thousand and NT$809,480 thousand, representing 9% and 1,409% of the Group's profit before income tax, and the other comprehensive income (loss) amounted to loss NT$32,139 thousand and income NT$11,020 thousand, representing 23% and 20% of the Group's other comprehensive income for the years ended December 31, 2016 and 2015, respectively. As discussed in Notes 32 and 33 to the accompanying consolidated financial statements, these amounts were based on the investee's audited financial statements for the same reporting periods.

We have also audited the standalone financial statements of Sheng Yu Steel Co., Ltd. as of and for the years ended December 31, 2016 and 2015 on which we have issued an unmodified opinion and an unqualified opinion modified report, respectively.

**Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the FSC of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

**Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the audit of the Group. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2016 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Jui-Hsuan Hsu and Yu-Hsiang Liu.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 15, 2017

*Notice to Readers*

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

*For the convenience of readers, the independent auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and consolidated financial statements shall prevail.*

# SHENG YU STEEL CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS
**DECEMBER 31, 2016 AND 2015**
**(In Thousands of New Taiwan Dollars)**

| | 2016 | | 2015 | |
|---|---|---|---|---|
| **ASSETS** | **Amount** | **%** | **Amount** | **%** |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents (Notes 4 and 6) | $ 4,163,901 | 38 | $ 4,009,252 | 42 |
| Notes receivable (Note 9) | 1,980 | - | 1,010 | - |
| Trade receivables (Note 9) | 883,957 | 8 | 501,749 | 5 |
| Trade receivables from related parties (Notes 9 and 28) | 14,552 | - | 34,688 | 1 |
| Amounts due from customers for construction contracts (Notes 4 and 10) | 16,019 | - | 16,205 | - |
| Other receivables (Note 9) | 40,214 | - | 29,464 | - |
| Current tax assets (Note 23) | 302 | - | 302 | - |
| Inventories (Notes 4 and 11) | 1,491,716 | 14 | 1,348,377 | 14 |
| Prepayments for purchase | 107,133 | 1 | 18,136 | - |
| Other financial assets - current (Notes 8 and 29) | 370,375 | 4 | 115,694 | 1 |
| Other current assets | 6,932 | - | 4,704 | - |
| Total current assets | 7,097,081 | 65 | 6,079,581 | 63 |
| NON-CURRENT ASSETS | | | | |
| Available-for-sale financial assets - non-current (Notes 4 and 7) | 36,491 | 1 | 44,271 | 1 |
| Investments accounted for using equity method (Notes 4,5 and 13) | 563,569 | 5 | 185,277 | 2 |
| Property, plant and equipment (Notes 4, 5 and 14) | 2,617,024 | 24 | 2,726,381 | 28 |
| Investment properties (Notes 4, 5 and 15) | 324,218 | 3 | 336,929 | 4 |
| Computer software (Note 4) | 351 | - | 1,392 | - |
| Deferred tax assets (Notes 4, 5 and 23) | 140,951 | 1 | 227,493 | 2 |
| Prepayments for equipment | 80,926 | 1 | 9,838 | - |
| Refundable deposits | 2,783 | - | 2,761 | - |
| Other financial assets - non-current (Notes 8 and 29) | 23,000 | - | 36,500 | - |
| Other non-current assets | 2,615 | - | 1,908 | - |
| Total non-current assets | 3,791,928 | 35 | 3,572,750 | 37 |
| TOTAL | $ 10,889,009 | 100 | $ 9,652,331 | 100 |

| | 2016 | | 2015 | |
|---|---|---|---|---|
| **LIABILITIES AND EQUITY** | **Amount** | **%** | **Amount** | **%** |
| CURRENT LIABILITIES | | | | |
| Short-term borrowings (Note 16) | $ 229,940 | 2 | $ 171,227 | 2 |
| Notes payable (Note 17) | 464 | - | 29 | - |
| Trade payables (Note 17) | 273,077 | 3 | 190,855 | 2 |
| Trade payables to related parties (Note 28) | 93,192 | 1 | 75,070 | 1 |
| Amounts due to customers for construction contracts (Notes 4 and 10) | 18,153 | - | 9,082 | - |
| Other payables (Notes 18 and 28) | 433,415 | 4 | 318,671 | 3 |
| Current tax liabilities (Note 23) | 111,860 | 1 | 50,548 | - |
| Receipts in advance | 38,449 | - | 10,986 | - |
| Other current liabilities (Note 10) | 5,765 | - | 4,849 | - |
| Total current liabilities | 1,204,315 | 11 | 831,317 | 8 |
| NON-CURRENT LIABILITIES | | | | |
| Provisions (Note 10) | 2,336 | - | 2,197 | - |
| Deferred tax liabilities (Notes 4 and 23) | 56,614 | - | 62,148 | 1 |
| Net defined benefit liabilities (Notes 4, 5 and 19) | 510,667 | 5 | 1,033,145 | 11 |
| Guarantee deposit | 515 | - | 515 | - |
| Other non-current liabilities | - | - | 2,076 | - |
| Total non-current liabilities | 570,132 | 5 | 1,100,081 | 12 |
| Total liabilities | 1,774,447 | 16 | 1,931,398 | 20 |
| EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 13 and 20) | | | | |
| Ordinary shares | 3,211,800 | 30 | 3,211,800 | 33 |
| Capital surplus | 1,557,364 | 14 | 992,084 | 10 |
| Retained earnings | | | | |
| Legal reserve | 1,417,328 | 13 | 1,417,328 | 15 |
| Unappropriated earnings | 2,863,507 | 26 | 2,005,154 | 21 |
| Total retained earnings | 4,280,835 | 39 | 3,422,482 | 36 |
| Other equity | 21,051 | - | 65,068 | 1 |
| Total equity attributable to owners of the Company | 9,071,050 | 83 | 7,691,434 | 80 |
| NON-CONTROLLING INTERESTS (Note 20) | 43,512 | 1 | 29,499 | - |
| Total equity | 9,114,562 | 84 | 7,720,933 | 80 |
| TOTAL | $ 10,889,009 | 100 | $ 9,652,331 | 100 |

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

(With Deloitte & Touche auditors' report dated March 15, 2017)

## SHENG YU STEEL CO., LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**
**(In Thousands of New Taiwan Dollars, Except Earnings (Loss) Per Share)**

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** |
| OPERATING REVENUES (Notes 4, 21 and 28) | $ 12,834,115 | 100 | $ 12,892,092 | 100 |
| OPERATING COSTS (Notes 11, 19, 22 and 28) | 10,421,569 | 81 | 11,298,251 | 88 |
| GROSS PROFIT | 2,412,546 | 19 | 1,593,841 | 12 |
| REALIZED GAIN ON TRANSACTIONS WITH ASSOCIATES | - | - | 196 | - |
| REALIZED GROSS PROFIT | 2,412,546 | 19 | 1,594,037 | 12 |
| OPERATING EXPENSES (Notes 19, 22 and 28) | | | | |
| Selling and marketing expenses | 320,506 | 3 | 453,096 | 3 |
| General and administrative expenses | 268,919 | 2 | 234,282 | 2 |
| Research and development expenses | 100,297 | 1 | 90,297 | 1 |
| Total operating expenses | 689,722 | 6 | 777,675 | 6 |
| PROFIT FROM OPERATIONS | 1,722,824 | 13 | 816,362 | 6 |
| NON-OPERATING INCOME AND EXPENSES (Note 22) | | | | |
| Other income | 16,414 | - | 19,876 | - |
| Other gains and losses | (2,981) | - | 31,911 | - |
| Finance costs | (4,810) | - | (3,676) | - |
| Share of the net loss of associates | (145,716) | (1) | (807,026) | (6) |
| Net non-operating expenses | (137,093) | (1) | (758,915) | (6) |
| PROFIT BEFORE INCOME TAX | 1,585,731 | 12 | 57,447 | - |
| INCOME TAX EXPENSE (Notes 4, 5 and 23) | 296,313 | 2 | 147,835 | 1 |
| NET PROFIT (LOSS) FOR THE YEAR | 1,289,418 | 10 | (90,388) | (1) |
| OTHER COMPREHENSIVE INCOME (Notes 19, 20 and 23) | | | | |
| Items that will not be reclassified subsequently to profit or loss | | | | |
| Loss on remeasurement of defined benefit plans | (110,038) | (1) | (68,754) | - |

(Continued)

## SHENG YU STEEL CO., LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**
**(In Thousands of New Taiwan Dollars, Except Earnings (Loss) Per Share)**

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** |
| Income tax relating to items that will not be reclassified subsequently to profit or loss | $ 18,707 | - | $ 11,688 | - |
| Items that may be reclassified subsequently to profit or loss | | | | |
| Exchange differences on translating foreign operations | (48,000) | - | 10,035 | - |
| Unrealized loss on available-for-sale financial assets | (7,780) | - | (5,109) | - |
| Income tax relating to items that may be classified subsequently to profit or loss | 7,222 | - | (1,986) | - |
| Other comprehensive income (loss) for the year, net of income tax | (139,889) | (1) | (54,126) | - |
| TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR | $ 1,149,529 | 9 | $ (144,514) | (1) |
| NET PROFIT (LOSS) ATTRIBUTABLE TO: | | | | |
| Owners of the Company | $ 1,270,132 | | $ (91,948) | |
| Non-controlling interests | 19,286 | | 1,560 | |
| | $ 1,289,418 | | $ (90,388) | |
| TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO: | | | | |
| Owners of the Company | $ 1,135,516 | | $ (144,490) | |
| Non-controlling interests | 14,013 | | (24) | |
| | $ 1,149,529 | | $ (144,514) | |
| EARNINGS (LOSS) PER SHARE (Note 24) | | | | |
| Basic | $ 3.96 | | $ (0.29) | |
| Diluted | $ 3.95 | | $ (0.29) | |

(Concluded)

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

(With Deloitte & Touche auditors' report dated March 15, 2017)

## SHENG YU STEEL CO., LTD. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
### FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
### (In Thousands of New Taiwan Dollars)

| | Equity Attributable to Owners of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Other Equity | | | | | |
| | | | Retained Earnings | | | Exchange Differences on Translating Foreign Operations | Unrealized Gain (Loss) on Available-For-Sale Financial Assets | | | | |
| | Ordinary Capital | Capital Surplus | Legal Reserve | Unappropriated Earnings | Subtotal | | | Subtotal | Total | Non-Controlling Interests | Total Equity |
| BALANCE, JANUARY 1, 2015 | $ 3,211,800 | $ 921,236 | $ 1,373,805 | $ 2,567,002 | $ 3,940,807 | $ 42,620 | $ 17,970 | $ 60,590 | $ 8,134,433 | $ 30,077 | $ 8,164,510 |
| Appropriation of 2014 earnings (Note 20) | | | | | | | | | | | |
| Legal reserve | - | - | 43,523 | (43,523) | - | - | - | - | - | - | - |
| Cash dividends distributed by the Company | - | - | - | (369,357) | (369,357) | - | - | - | (369,357) | - | (369,357) |
| Cash dividends distributed by a subsidiary | - | - | - | - | - | - | - | - | - | (554) | (554) |
| Change in capital surplus from investments in associate accounted for using equity method (Note 13) | - | 70,848 | - | - | - | - | - | - | 70,848 | - | 70,848 |
| Net profit (loss) for the year ended December 31, 2015 | - | - | - | (91,948) | (91,948) | - | - | - | (91,948) | 1,560 | (90,388) |
| Other comprehensive income (loss) for the year ended December 31, 2015, net of income tax | - | - | - | (57,020) | (57,020) | 9,587 | (5,109) | 4,478 | (52,542) | (1,584) | (54,126) |
| Total comprehensive income (loss) for the year ended December 31, 2015 | - | - | - | (148,968) | (148,968) | 9,587 | (5,109) | 4,478 | (144,490) | (24) | (144,514) |
| BALANCE, DECEMBER 31, 2015 | 3,211,800 | 992,084 | 1,417,328 | 2,005,154 | 3,422,482 | 52,207 | 12,861 | 65,068 | 7,691,434 | 29,499 | 7,720,933 |
| Appropriation of 2015 earnings (Note 20) | | | | | | | | | | | |
| Cash dividends distributed by the Company | - | - | - | (321,180) | (321,180) | - | - | - | (321,180) | - | (321,180) |
| Change in capital surplus from investments in associate accounted for using equity method (Note 13) | - | 565,280 | - | - | - | - | - | - | 565,280 | - | 565,280 |
| Net profit for the year ended December 31, 2016 | - | - | - | 1,270,132 | 1,270,132 | - | - | - | 1,270,132 | 19,286 | 1,289,418 |
| Other comprehensive loss for the year ended December 31, 2016, net of income tax | - | - | - | (90,599) | (90,599) | (36,237) | (7,780) | (44,017) | (134,616) | (5,273) | (139,889) |
| Total comprehensive income (loss) for the year ended December 31, 2016 | - | - | - | 1,179,533 | 1,179,533 | (36,237) | (7,780) | (44,017) | 1,135,516 | 14,013 | 1,149,529 |
| BALANCE, DECEMBER 31, 2016 | $ 3,211,800 | $ 1,557,364 | $ 1,417,328 | $ 2,863,507 | $ 4,280,835 | $ 15,970 | $ 5,081 | $ 21,051 | $ 9,071,050 | $ 43,512 | $ 9,114,562 |

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

(With Deloitte & Touche auditors' report dated March 15, 2017)

## SHENG YU STEEL CO., LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**
**(In Thousands of New Taiwan Dollars)**

| | 2016 | 2015 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Profit before income tax | $ 1,585,731 | $ 57,447 |
| Adjustments for: | | |
| Depreciation expense | 295,427 | 282,716 |
| Amortization expense | 1,041 | 2,319 |
| Interest expense | 4,810 | 3,676 |
| Interest income | (15,913) | (19,473) |
| Dividend income | (376) | (368) |
| Share of the net loss of associate accounted for using equity method | 145,716 | 807,026 |
| Provision for loss on inventories | 542 | 16,872 |
| Others | 3,444 | 3,840 |
| Changes in operating assets and liabilities | | |
| Financial assets held for trading | - | 568 |
| Notes receivable | (970) | (245) |
| Trade receivables | (382,208) | 291,000 |
| Trade receivables from related parties | 20,136 | (10,996) |
| Amounts due from customers for construction contracts | 186 | (11,244) |
| Other receivables | (11,110) | 54,128 |
| Inventories | (143,881) | 479,083 |
| Prepayments for purchase | (88,997) | 137,994 |
| Other current assets | (2,228) | (514) |
| Financial liabilities held for trading | - | (827) |
| Notes payable | 435 | (59) |
| Trade payables | 82,222 | (33,385) |
| Trade payables to related parties | 18,122 | (35,814) |
| Amount due to customers for construction contracts | 9,071 | 7,883 |
| Other payables | 114,771 | (32,233) |
| Provisions | 8 | (85) |
| Receipts in advance | 27,463 | (2,140) |
| Other current liabilities | 1,047 | (3,098) |
| Net defined benefit liabilities | (632,516) | (29,461) |
| Cash generated from operations | 1,031,973 | 1,964,610 |
| Interest received | 16,273 | 18,503 |
| Dividend received | 376 | 368 |
| Interest paid | (4,581) | (3,513) |
| Income tax paid | (128,064) | (203,321) |
| Net cash generated from operating activities | 915,977 | 1,776,647 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of investments accounted for using equity method | - | (183,720) |
| Acquisition of property, plant and equipment | (249,358) | (203,007) |
| Proceeds from disposal of property, plant and equipment | 627 | 552 |
| Increase in refundable deposits | (22) | - |

(Continued)

## SHENG YU STEEL CO., LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**
**(In Thousands of New Taiwan Dollars)**

| | 2016 | 2015 |
|---|---|---|
| Decrease in refundable deposits | $ - | $ 65 |
| Acquisition of intangible assets | - | (210) |
| Increase in other financial assets | (254,681) | (27,422) |
| Decrease in other financial assets | 13,500 | - |
| Increase in non-current assets | (707) | (1,011) |
| Net cash used in investing activities | (490,641) | (414,753) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from short-term borrowings | 521,839 | 449,270 |
| Repayments of short-term borrowings | (459,204) | (435,817) |
| Dividends paid to owners of the Company | (321,180) | (369,357) |
| Dividends paid to non-controlling interests | - | (554) |
| Net cash used in financing activities | (258,545) | (356,458) |
| EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH AND CASH EQUIVALENTS HELD IN FOREIGN CURRENCIES | (12,142) | 3,957 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 154,649 | 1,009,393 |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | 4,009,252 | 2,999,859 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | $ 4,163,901 | $ 4,009,252 |

(Concluded)

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

(With Deloitte & Touche auditors’ report dated March 15, 2017)

**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

## 1. GENERAL INFORMATION

Sheng Yu Steel Co., Ltd. (the "Company") was incorporated in May 1973 and mainly engages in the manufacture, process and sale of cold rolled steel coils, galvanized steel coils, and pre-painted galvanized steel coils.

As of December 31, 2016, the Company's shareholders were Yodogawa Steel Works Ltd. (YSW) - 52% (parent company and ultimate parent company); Toyota Tsusho Corporation - 11%; Fujiden International Corporation (an investee of YSW) - 1%; and other shareholders - 36%.

The Company's shares have been listed on the Taiwan Stock Exchange since January 1997.

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

## 2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company's board of directors and authorized for issue on March 15, 2017.

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

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

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

| New, Amended or Revised Standards and Interpretations (the "New IFRSs") | Effective Date Announced by IASB (Note 1) |
|---|---|
| Annual Improvements to IFRSs 2010-2012 Cycle | July 1, 2014 (Note 2) |
| Annual Improvements to IFRSs 2011-2013 Cycle | July 1, 2014 |
| Annual Improvements to IFRSs 2012-2014 Cycle | January 1, 2016 (Note 3) |
| Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception" | January 1, 2016 |
| Amendment to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations" | January 1, 2016 |
| IFRS 14 "Regulatory Deferral Accounts" | January 1, 2016 |
| Amendment to IAS 1 "Disclosure Initiative" | January 1, 2016 |

(Continued)

| New, Amended or Revised Standards and Interpretations (the "New IFRSs") | Effective Date Announced by IASB (Note 1) |
|---|---|
| Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization" | January 1, 2016 |
| Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants" | January 1, 2016 |
| Amendment to IAS 19 "Defined Benefit Plans: Employee Contributions" | July 1, 2014 |
| Amendment to IAS 36 "Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets" | January 1, 2014 |
| Amendment to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting" | January 1, 2014 |
| IFRIC 21 "Levies" | January 1, 2014 |

(Concluded)

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

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

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

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

1) Amendment to IFRS 2 "Share-Based Payment"

   IFRS 2 was amended by the Annual Improvements to IFRSs: 2010-2012 Cycle to change the definitions of "vesting condition" and "market condition" and add definitions of "performance condition" and "service condition". The amendment clarifies that a performance target can be based on the operations (i.e. a non-market condition) of the Group or another entity in the same group or the market price of the equity instruments of the Group or another entity in the same group (i.e. a market condition); that a performance target can relate either to the performance of the Group as a whole or to some part of it (e.g. a division); and that the period for achieving a performance condition must not extend beyond the end of the related service period. In addition, a share market index target is not a performance condition because it not only reflects the performance of the Group, but also of other entities outside the Group. The share-based payment arrangements with market conditions, non-market conditions or non-vesting conditions will be accounted for differently, and the aforementioned amendment will be applied prospectively to those share-based payments granted on or after January 1, 2017.

2) Amendment to IFRS 8 "Operating Segments"

   IFRS 8 was amended by the Annual Improvements to IFRSs: 2010-2012 Cycle to require disclosure of the judgments made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have "similar economic characteristics". The amendment also clarifies that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segments' assets are regularly provided to the chief operating decision-maker. The judgements made in applying aggregation criteria should be disclosed retrospectively upon initial application of the amendment in 2017.

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

The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed by the FSC for application starting from 2017. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include emphasis on certain recognition and measurement considerations and add requirements for disclosures of related party transactions.

The amendments stipulate that other companies or institutions of which the chairman of the board of directors or president serves as the chairman of the board of directors or the president, or is the spouse or second immediate family of the chairman of the board of directors or president of the Group are deemed to have a substantive related party relationship, unless it can be demonstrated that no control, joint control, or significant influence exists. Furthermore, the amendments require the disclosure of the names of the related parties and the relationship with whom the Group has significant transaction. If the transaction or balance with a specific related party is 10% or more of the Group's respective total transaction or balance, such transaction should be separately disclosed by the name of each related party.

The disclosures of related party transactions will be enhanced when the above amendments are retrospectively applied in 2017.

Except for the above impacts, as of the date the consolidated financial statements were authorized for issue, the Group continues assessing other possible impacts that application of the aforementioned amendments will have on the Group's financial position and financial performance, and will disclose these other impacts when the assessment is completed.

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

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

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

| New IFRSs | Effective Date Announced by IASB (Note 1) |
|---|---|
| Annual Improvements to IFRSs 2014-2016 Cycle | Note 2 |
| Amendment to IFRS 2 "Classification and Measurement of Share-based Payment Transactions" | January 1, 2018 |
| IFRS 9 "Financial Instruments" | January 1, 2018 |
| Amendments to IFRS 9 and IFRS 7 "Mandatory Effective Date of IFRS 9 and Transition Disclosures" | January 1, 2018 |
| Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" | To be determined by IASB |
| IFRS 15 "Revenue from Contracts with Customers" | January 1, 2018 |
| Amendments to IFRS 15 "Clarifications to IFRS 15 Revenue from Contracts with Customers" | January 1, 2018 |
| IFRS 16 "Leases" | January 1, 2019 |

(Continued)

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

(Concluded)

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

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

1) IFRS 9 "Financial Instruments"

Recognition and measurement of financial assets

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

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

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

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

Except for the above, all other financial assets are measured at fair value through profit or loss. However, the Group may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss. No subsequent impairment assessment is required, and the cumulative gain or loss previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

Impairment of financial assets

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

For purchased or originated credit-impaired financial assets, the Group takes into account the expected credit losses on initial recognition in calculating the credit-adjusted effective interest rate. Subsequently, any changes in expected losses are recognized as a loss allowance with a corresponding gain or loss recognized in profit or loss.

Transition

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

2) IFRS 15 "Revenue from Contracts with Customers" and related amendment

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

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

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

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

3) IFRS 16 "Leases"

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 and a number of related interpretations.

Under IFRS 16, if the Group is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for low-value and short-term leases. The Group may elect to apply the accounting method similar to the accounting for operating lease under IAS 17 to the low-value and short-term leases. On the consolidated statements of comprehensive income, the Group should present the depreciation expense charged on the right-of-use asset separately from interest expense accrued on the lease liability; interest is computed by using effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of the lease liability are classified within financing activities; cash payments for interest portion are classified within operating activities.

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

When IFRS 16 becomes effective, the Group may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the initial application of this Standard recognized at the date of initial application.

4) Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”

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

In addition, in determining whether to recognize a deferred tax asset, the Group should assess a deductible temporary difference in combination with all of its other deductible temporary differences, unless the tax law restricts the utilization of losses as deduction against income of a specific type, in which case, a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type. The amendment also stipulates that, when determining whether to recognize a deferred tax asset, the estimate of probable future taxable profit may include some of the Group’s assets for more than their carrying amount if there is sufficient evidence that it is probable that the Group will achieve the higher amount, and that the estimate for future taxable profit should exclude tax deductions resulting from the reversal of deductible temporary differences.

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

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

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

6) IFRIC 22 “Foreign Currency Transactions and Advance Consideration”

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

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

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

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

For readers' convenience, the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the ROC. If inconsistencies arise between the English version and the Chinese version or if differences arise in the interpretations between the two versions, the Chinese version of the consolidated financial statements shall prevail.

a. Statement of compliance

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

b. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair value.

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

1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;

2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

3) Level 3 inputs are unobservable inputs for the asset or liability.

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

Current assets include:

1) Assets held primarily for the purpose of trading;

2) Assets expected to be realized within 12 months after the reporting period; and

3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

1) Liabilities held primarily for the purpose of trading;

2) Liabilities due to be settled within 12 months after the reporting period; and

3) Liabilities for which the Group does not have an unconditional right to defer settlement for at least

12 months after the reporting period.

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

The Group engages in the construction business, which has an operating cycle of over one year, the normal operating cycle applies when considering the classification of the Group's construction-related assets and liabilities.

d. Basis of consolidation

Principles for preparing consolidated financial statements

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (i.e. its subsidiaries). When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company.

All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

See Note 12, Table 5 and 6 for the detailed information of subsidiaries (including the percentage of ownership and main business).

e. Foreign currencies

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

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise.

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

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

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including subsidiaries and associate in other countries that use currency different from the currency of the Company) are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income.

f. Inventories

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

g. Investment in associate

An associate is an entity over which the Group has significant influence and that is not a subsidiary.

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

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

When the Group's share of losses of an associate equals or exceeds its interest in that associate, the Group discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Group has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate.

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

When the Group transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

h. Property, plant, and equipment

Property, plant and equipment ("PPE") are stated at cost, less recognized accumulated depreciation.

PPE in the course of construction are carried at cost. Such assets are depreciated and classified to the appropriate categories of PPE when completed and ready for intended use.

Depreciation on PPE is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

On derecognition of an item of PPE, the difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss.

i. Investment properties

Investment properties ("IPs") are properties held to earn rentals and/or for capital appreciation. IPs also include land held for a currently undetermined future use.

IPs are measured initially at cost, including transaction costs. Subsequent to initial recognition, IPs are measured at cost less accumulated depreciation. Depreciation is recognized using the straight-line method.

On derecognition of an IP, the difference between the net disposal proceeds and the carrying amount of the asset is included in profit or loss.

j. Intangible assets

Intangible assets with finite useful lives that are acquired separately are computer software, which are initially measured at cost and subsequently measured at cost less accumulated amortization. Amortization is recognized on a straight-line basis. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

k. Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the smallest group of cash-generating units on a reasonable and consistent basis of allocation.

The recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

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

l. Financial instruments

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

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

1) Financial assets

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

a) Measurement category

   Financial assets are classified into the following categories: Available-for-sale financial assets ("AFS financial assets") and loans and receivables.

   i. AFS financial assets

      AFS financial assets are non-derivatives that are designated as AFS. Fair value is determined in the manner described in Note 27.

      Dividends on AFS equity instruments are recognized in profit or loss. Other changes in the carrying amount of AFS financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when the investment is disposed of or is determined to be impaired.

      Dividends on AFS equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established.

   ii. Loans and receivables

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

      Cash equivalent includes time deposits and repurchase agreements collateralized by bills and bonds investments with original maturities within 3 months from the date of acquisition, highly liquid, readily convertible to a known amount of cash and may be subject only to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

b) Impairment of financial assets

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

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

   For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

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

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

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or

- Breach of contract, such as a default or delinquency in interest or principal payments; or

- It becoming probable that the borrower will enter bankruptcy or financial re-organization; or

- The disappearance of an active market for that financial asset because of financial difficulties.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

In respect of AFS equity securities, impairment loss previously recognized in profit or loss is not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account.

c) Derecognition of financial assets

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

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

2) Equity instruments

Equity instruments issued by the Group are classified as equity in accordance with the definitions of an equity instrument.

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

3) Financial liabilities

All the financial liabilities are measured at amortized cost using the effective interest method.

m. Revenue Recognition

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

1) Sale of goods

Export sales are recognized when products are loaded onto shipping vessels in accordance with the sales terms, and domestic sales are recognized when products are delivered to and accepted by the customers.

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

2) Rendering of services

Revenue from process contracts and technical support service is recognized at the contractual rates as direct expenses and labor hours are incurred.

3) Construction revenue

Contracts to process steel plates are accounted for by construction contracts accounting.

4) Dividend and interest income

Dividend income from investments is recognized when the shareholder's right to receive payment has been established.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

n. Construction contracts

When the outcome of a construction contract can be estimated reliably, revenue and costs are recognized by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred to date relative to the estimated total contract costs, exception to not applicable to this method. Variations in contract work, claims and incentive payments are included to the extent the amount can be measured reliably and its receipt is considered probable.

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

When contract costs incurred to date plus recognized profits less recognized losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognized profits less recognized losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated balance sheet as receipts in advance, a liability account. Amounts billed for work performed but not yet paid by the customer are included in the consolidated balance sheet under trade receivables.

o. Leasing

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

1) The Group as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

2) The Group as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

p. Employee benefits

1) Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

2) Retirement benefits

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

Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost and net interest on the net defined benefit liability are recognized as employee benefits expense in the period they occur. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liability represents the actual deficit in the Group’s defined benefit plan.

q. Taxation

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

1) Current tax

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

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

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

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

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

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

3) Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income, in which case, the current and deferred tax are also recognized in other comprehensive income.

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

a. Income taxes

Due to the unpredictability of future profit streams, the Company does not recognize deferred tax asset on tax losses. For the carrying amount of deferred tax assets in relation to unused tax losses, refer to Note 23. The realizability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognized in profit or loss for the period in which such a reversal takes place.

b. Useful lives of PPE and IPs

The estimated useful lives of PPE and IPs are determined at each balance sheet date. In cases where the estimated useful lives of the assets are changed, depreciation expense would also change.

c. Impairment of investment in associate

The Group immediately recognizes impairment loss on its net investment in the associate when there are any indications that the investment may be impaired and the carrying amount may not be recoverable. The Group's management evaluates the impairment estimated by the associate's management based on the market conditions and industry development. In cases where the future recoverable amount is lower than the carrying value of the investment, impairment loss would be recognized.

d. Recognition and measurement of defined benefit plans

Net defined benefit liabilities and the pension cost of defined benefit plan under defined benefit pension plans are calculated using the projected unit credit method. Actuarial assumptions comprise the discount rate, rate of employee turnover, future salary increase, etc. Changes in economic circumstances and market conditions will affect these assumptions and may have a material impact on the amount of the expense and the liability.

## 6. CASH AND CASH EQUIVALENTS

| | December 31 | |
|---|---|---|
| | **2016** | **2015** |
| Cash on hand | $ 1,779 | $ 1,354 |
| Checking accounts and demand deposits | 135,036 | 172,617 |
| Cash equivalents | | |
| Time deposits with original maturities less than 3 months | 192,875 | 112,527 |
| Repurchase agreements collateralized by bills and bonds with original maturities less than 3 months | 3,834,211 | 3,722,754 |
| | $ 4,163,901 | $ 4,009,252 |

The market rate intervals rates of cash and cash equivalents were as follows:

| | December 31 | |
|---|---|---|
| | **2016** | **2015** |
| Demand deposits (%) | 0.01-0.60 | 0.01-0.60 |
| Cash equivalent | | |
| Time deposits with original maturities less than three months (%) | 0.59-1.05 | 0.65-1.43 |
| Repurchase agreements collateralized by bills and bonds with original maturities less than three months (%) | 0.34-1.00 | 0.40-0.60 |

## 7. AVAILABLE-FOR-SALE FINANCIAL ASSETS - NON-CURRENT

| | December 31 | |
|---|---|---|
| | **2016** | **2015** |
| Unquoted shares - domestic and foreign investments | | |
| Ascentek Venture Capital Co., Ltd. | $ 5,014 | $ 6,100 |
| United Steel International Developments Co. | 31,477 | 38,171 |
| | $ 36,491 | $ 44,271 |

## 8. OTHER FINANCIAL ASSETS

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Current | | |
| Reserve account (Note 29) | $ 14,516 | $ 3,283 |
| Pledged time deposits (Note 29) | 4,584 | 5,909 |
| Time deposits with original maturities more than 3 months | 351,275 | 106,502 |
| | $ 370,375 | $ 115,694 |
| Non-current | | |
| Pledged time deposits (Note 29) | $ 23,000 | $ 36,500 |

## 9. NOTES RECEIVABLE, TRADE RECEIVABLES, TRADE RECEIVABLES FROM RELATED PARTIES AND OTHER RECEIVABLES

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Notes receivable | | |
| Notes receivable | $ 1,980 | $ 1,010 |
| Less: Allowance for impairment loss | - | - |
| | $ 1,980 | $ 1,010 |
| Trade receivables | | |
| Trade receivables | $ 890,745 | $ 508,537 |
| Less: Allowance for impairment loss | 6,788 | 6,788 |
| | $ 883,957 | $ 501,749 |
| Trade receivables from related parties (Note 28) | | |
| Trade receivables | $ 14,552 | $ 34,688 |
| Less: Allowance for impairment loss | - | - |
| | $ 14,552 | $ 34,688 |
| Other receivables | | |
| Value-added tax refunds | $ 19,867 | $ 15,033 |
| Purchase commitment discounts | 15,293 | 10,384 |
| Others | 5,054 | 4,047 |
| | $ 40,214 | $ 29,464 |

The average credit period for sales of goods was 30-90 days. In determining the recoverability of a trade receivables, the Group considers any change in the credit quality of the trade receivables since the date the credit was initially granted to the end of the reporting period.

The Group’s transactions involved a large number of unrelated customers; thus, no concentration of credit risk was observed.

Aging analysis of trade receivables was as follows:

| | December 31 | |
|---|---|---|
| | **2016** | **2015** |
| Not past due | $ 898,509 | $ 535,347 |
| 1-30 days past due | - | - |
| 31-60 days past due | - | - |
| 61-90 days past due | - | - |
| 91-120 days past due | 6,788 | 7,878 |
| | $ 905,297 | $ 543,225 |

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

The aging of trade receivables that were past due but not impaired was as follows:

| | December 31 | |
|---|---|---|
| | **2016** | **2015** |
| 91-120 days past due | $ - | $ 1,090 |

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

The Group recognized impairment loss on trade receivables amounting to both NT$6,788 thousand as of December 31, 2016 and 2015. These amounts mainly related to customers that were in severe financial difficulties. The Group did not hold any collateral over these balances.

## 10. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONSTRUCTION CONTRACTS AND PROVISIONS

| | December 31 | |
|---|---|---|
| | **2016** | **2015** |
| Amount due from customers for construction contracts | | |
| Construction costs incurred plus recognized profits to date | $ 77,770 | $ 43,623 |
| Less: Progress billings | 61,751 | 27,418 |
| Amount due from customers for construction contracts | $ 16,019 | $ 16,205 |
| Amount due to customers for construction contracts | | |
| Progress billings | $ 36,810 | $ 13,199 |
| Less: Construction costs incurred plus recognized profits to date | 18,657 | 4,117 |
| Amount due to customers for construction contracts | $ 18,153 | $ 9,082 |

The provision for construction warranties represents the present value of management's best estimate of the future outflow of economic benefits that will be required under the Group's obligations for warranties. The estimate had been made on the basis of historical warranty trends.

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Warranties | | |
| Current (included within other current liabilities) | $ 1,658 | $ 1,789 |
| Non-current | 2,336 | 2,197 |
| | $ 3,994 | $ 3,986 |

Movements in the provision for construction warranties were as follows:

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Balance at January 1 | $ 3,986 | $ 5,735 |
| Additional provisions recognized (reversed) | 234 | (1,664) |
| Usage | (226) | (85) |
| Balance at December 31 | $ 3,994 | $ 3,986 |

## 11. INVENTORIES

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Finished goods | $ 131,844 | $ 265,139 |
| Work in progress | 206,587 | 173,791 |
| Raw materials | 1,106,469 | 863,556 |
| Supplies | 37,678 | 33,644 |
| Others | 9,138 | 12,247 |
| | $ 1,491,716 | $ 1,348,377 |

The cost of inventories recognized as operating costs was as follows:

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Provision for loss on inventories | $ 542 | $ 16,872 |

## 12. SUBSIDIARIES

Subsidiaries included in consolidated financial statements

| Investor Company | Investee Company | Main Businesses and Products | Percentage of Ownership December 31, 2016 | Percentage of Ownership December 31, 2015 | Note |
|---|---|---|---|---|---|
| Sheng Yu Steel Co., Ltd. | Yodoko International Co., Ltd. (YI) | Manufactures and sells rolled steel for construction of buildings | 78 | 78 | |

(Continued)

| Investor Company | Investee Company | Main Businesses and Products | Percentage of Ownership December 31, 2016 | Percentage of Ownership December 31, 2015 | Note |
|---|---|---|---|---|---|
| | Sheng-Shing Corp. (SS) | Manufactures and sells galvanized rolled steel | 45 | 45 | Note |
| YI | Yodoko International (HK) Ltd. | General investment | 100 | 100 | |
| SS | Sheng-Shing (Dongguan) Corp. | Manufactures and sells galvanized rolled steel | 100 | 100 | Note |
| | Sheng-Yu Trading (Dongguan) Corp. | Selling hardware, steels and import and export trading | 100 | 100 | Note |

(Concluded)

Note : As of December 31, 2016, the Company invested a total of NT$50,322 thousand (US$1,568,800) in SS and held 45% equity of SS. The Company held less than 50% equity, but the Company can control the financial policy, operation and personnel of SS; thus, SS is accounted for using the equity method and deemed as subsidiary. SS held 100% equity of Sheng-Shing (Dongguan) Corp. and deemed it as subsidiary. SS invested additional US$600 thousand in Sheng-Yu Trading (Dongguan) Corp. in April 2016, which was approved by the authority in China.

## 13. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

Investments in associates

| | December 31 2016 | December 31 2015 |
|---|---|---|
| Material associate | | |
| Yodogawa-Shengyu (Hefei) High Tech Steel Co., Ltd (YSS) | $ 546,821 | $ 169,717 |
| Associates not individually material | 16,748 | 15,560 |
| | $ 563,569 | $ 185,277 |

a. Material associate

| Name of Associate | Nature of Activities | Principal Place of Business | Proportion of Ownership and Voting Rights (%) December 31, 2016 | Proportion of Ownership and Voting Rights (%) December 31, 2015 |
|---|---|---|---|---|
| YSS | Manufacturing, processing and selling galvanized steel coils (plates) and pre-painted steel coils (plates) | China (Hefei) | 20.91 | 35.38 |

When YSS issued new shares for cash in 2015 and 2016, and the Company invested additional NT$183,720 thousand (US$6,000 thousand) and NT$0 thousand, respectively. The Company recognized NT$70,848 thousand and NT$565,280 thousand capital surplus in 2015 and 2016, respectively, because did not invest additional shares at its original shareholding percentage. YSS was incorporated mainly to manufacture, process and sell galvanized steel coils (plates) and pre-painted steel coils (plates). Since the construction in mainland China and the steel market conditions get worse continuously, YSS's turnover was far below its budget; therefore, the Company recognized NT$42,009 thousand (RMB9,099 thousand) and NT$554,331 thousand (RMB107,096 thousand) share of the net loss of subsidiaries and associate based on the Company's shareholding percentage in YSS's impairment loss of RMB43,514 thousand and RMB302,703 thousand in 2016 and 2015, respectively.

YSS

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Current assets | $ 1,986,340 | $ 2,168,909 |
| Non-current assets | 1,016,514 | 1,367,972 |
| Current liabilities | (285,963) | (2,935,468) |
| Non-current liabilities | (101,772) | (121,716) |
| Equity | $ 2,615,119 | $ 479,697 |
| Proportion of the Group’s ownership (%) | 20.91 | 35.38 |
| Equity attributable to the Group (Carrying amount) | $ 546,821 | $ 169,717 |

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Turnover | $ 1,660,100 | $ 1,171,475 |
| Net loss for the year | $ (574,462) | $ (2,257,630) |
| Other comprehensive income | - | - |
| Total comprehensive loss for the year | $ (574,462) | $ (2,257,630) |

The investment accounted for using the equity method and the share of profit or loss and other comprehensive income of the investment for the years ended December 31, 2016 and 2015 was based on the associate’s financial statements audited by auditors for the same years.

b. Aggregate information of associates that are not individually material

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| The Group’s share of | | |
| Net profit for the year | $ 3,739 | $ 2,454 |
| Other comprehensive loss | (1,006) | (745) |
| Total comprehensive income for the year | $ 2,733 | $ 1,709 |

The investment accounted for using the equity method and the share of profit or loss and other comprehensive income of the investment for the years ended December 31, 2016 and 2015 was based on the associate’s financial statements audited by auditors for the same years.

## 14. PROPERTY, PLANT AND EQUIPMENT

For the year ended December 31, 2016

| | Land | Buildings | Machinery and Equipment | Transportation Equipment | Other Equipment | Construction in Progress | Total |
|---|---|---|---|---|---|---|---|
| Cost | | | | | | | |
| Balance at January 1, 2016 | $ 491,938 | $ 1,938,139 | $ 9,252,046 | $ 58,768 | $ 318,182 | $ 87,635 | $ 12,146,708 |
| Additions | - | 3,128 | 149,421 | 603 | 9,593 | 17,345 | 180,090 |
| Disposals | - | (388) | (70,823) | (9,706) | (4,994) | - | (85,911) |
| Effect of exchange rate changes | - | (183) | (7,325) | (201) | (413) | - | (8,122) |
| Balance at December 31, 2016 | 491,938 | 1,940,696 | 9,323,319 | 49,464 | 322,368 | 104,980 | 12,232,765 |

(Continued)

| | Land | Buildings | Machinery and Equipment | Transportation Equipment | Other Equipment | Construction in Progress | Total |
|---|---|---|---|---|---|---|---|
| Accumulated depreciation | | | | | | | |
| Balance at January 1, 2016 | $ - | $ 1,397,160 | $ 7,736,116 | $ 42,122 | $ 244,929 | $ - | $ 9,420,327 |
| Depreciation expense | - | 50,811 | 219,195 | 2,576 | 10,134 | - | 282,716 |
| Disposals | - | (243) | (67,983) | (9,397) | (4,217) | - | (81,840) |
| Effect of exchange rate changes | - | (41) | (5,010) | (113) | (298) | - | (5,462) |
| Balance at December 31, 2016 | - | 1,447,687 | 7,882,318 | 35,188 | 250,548 | - | 9,615,741 |
| Net balance at December 31, 2016 | $ 491,938 | $ 493,009 | $ 1,441,001 | $ 14,276 | $ 71,820 | $ 104,980 | $ 2,617,024 |

(Concluded)

For the year ended December 31, 2015

| | Land | Buildings | Machinery and Equipment | Transportation Equipment | Other Equipment | Construction in Progress | Total |
|---|---|---|---|---|---|---|---|
| Cost | | | | | | | |
| Balance at January 1, 2015 | $ 491,938 | $ 1,926,795 | $ 9,125,645 | $ 50,964 | $ 292,819 | $ 43,350 | $ 11,931,511 |
| Additions | - | 14,493 | 129,975 | 10,229 | 37,802 | 44,285 | 236,784 |
| Disposals | - | (3,106) | (104,706) | (2,373) | (12,333) | - | (122,518) |
| Effect of exchange rate changes | - | (43) | (525) | (52) | (106) | - | (726) |
| Reclassification | - | - | 101,657 | - | - | - | 101,657 |
| Balance at December 31, 2015 | 491,938 | 1,938,139 | 9,252,046 | 58,768 | 318,182 | 87,635 | 12,146,708 |
| Accumulated depreciation | | | | | | | |
| Balance at January 1, 2015 | - | 1,336,019 | 7,640,338 | 41,583 | 248,848 | - | 9,266,788 |
| Depreciation expense | - | 63,138 | 196,675 | 2,539 | 7,652 | - | 270,004 |
| Disposals | - | (1,988) | (101,068) | (1,978) | (11,491) | - | (116,525) |
| Effect of exchange rate changes | - | (9) | 171 | (22) | (80) | - | 60 |
| Balance at December 31, 2015 | - | 1,397,160 | 7,736,116 | 42,122 | 244,929 | - | 9,420,327 |
| Net balance at December 31, 2015 | $ 491,938 | $ 540,979 | $ 1,515,930 | $ 16,646 | $ 73,253 | $ 87,635 | $ 2,726,381 |

Construction in progress is mainly control system revamping.

The PPE held by the Group are depreciated on a straight-line basis over estimated useful lives as follows:

| | |
|---|---|
| Buildings | |
| Office | 20, 30 and 45-60 years |
| Plant | 5-15, 20-40 and 45-60 years |
| Building improvements | 5-40 and 45-60 years |
| Ancillary equipment | 5-40 and 45-60 years |
| Machinery and equipment | |
| Main equipment | 10-25 and 31-37 years |
| Ancillary equipment | 3-20 and 25-40 years |
| Transportation equipment | 5-10, 12 and 17 years |
| Other equipment | |
| Main equipment | 2-17 and 20-26 years |

## 15. INVESTMENT PROPERTIES

Except for depreciation expense, there was no change in 2016 and 2015.

The IPs located at Fangliao and Jiadong Township in Pingtung County are available-for-sale and for rent.

The IPs held by the Group are depreciated on the straight-line basis over estimated useful lives as follows:

| | |
|---|---|
| Buildings | |
| Administration and engineering centers | 32-47 years |
| Main plant | 12 years |
| Electrical and power equipment | 8-9 years |

The fair value of the Group's IPs as of December 31, 2016 and 2015 was both NT$511,929 thousand. The fair value had been arrived at on the basis of a valuation carried out on December 31, 2015, by an independent qualified professional valuer not connected to the Group. The valuation was arrived at by reference to market evidence of transaction prices for similar properties. The Group believes any change in the fair value of IPs within 2 years since the valuation date will not be material; thus, appraisal of IPs is conducted biennially.

## 16. SHORT-TERM BORROWINGS

| | December 31 | |
|---|---|---|
| | **2016** | **2015** |
| Secured borrowings (Note 29) | | |
| Bank loans | $ 129,705 | $ 62,565 |
| Unsecured borrowings | | |
| Bank loans | 88,613 | 107,652 |
| Loans from third party | 11,622 | 1,010 |
| | $ 229,940 | $ 171,227 |
| Interest rate (%) - Secured borrowings | 2.29-5.66 | 2.30-2.41 |
| Interest rate (%) - Unsecured borrowings | 2.40-6.25 | 0.00-2.30 |

The subsidiary, Sheng-Yu Trading (Dongguan) Corp., borrowed from third party amounting to NT$11,622 thousand (RMB2,500 thousand) and NT$1,010 thousand (RMB200 thousand) as of December 31, 2016 and 2015, respectively; the fund was used for short-term operating capital.

## 17. NOTES PAYABLE AND TRADE PAYABLES

| | December 31 | |
|---|---|---|
| | **2016** | **2015** |
| Notes payable | | |
| Non-operating | $ 464 | $ 29 |
| Trade payables | | |
| Operating | $ 273,077 | $ 190,855 |

a. Notes payable

Notes payable are refundable deposits made as guarantee under raw materials and natural gas purchase contract that can be recovered and cancelled upon termination of the guarantee in the amounts of NT$130,372 thousand and NT$141,476 thousand as of December 31, 2016 and 2015, respectively.

b. Trade payables

Except for raw material hot rolled steel paid by letter of credit and raw material zinc and aluminum ingots paid in advance, the average credit period of other raw materials and supplies was within 3 months. The Group has financial risk management policies in place to ensure the all payables are paid within the pre-agreed credit terms. Thus, no interest was charged on the trade payables.

## 18. OTHER PAYABLES

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Year-end bonus | $ 203,473 | $ 141,257 |
| Sales discounts | 65,288 | 28,161 |
| Unused annual leave | 21,549 | 20,223 |
| Electric power | 21,121 | 24,033 |
| Employees' compensation and remuneration to directors and supervisors (Note 22) | 20,600 | 7,240 |
| Salaries | 19,825 | 16,513 |
| Others | 81,559 | 81,244 |
| | $ 433,415 | $ 318,671 |

## 19. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Company and YI adopted a pension plan under the Labor Pension Act ("LPA"), which is a state-managed defined contribution plan. Under the LPA, the Company and YI make monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

Sheng-Shing (Dongguan) Corp. and Sheng-Yu Trading (Dongguan) Corp. adopted local legal which is also state-managed defined contribution plan. Entities make monthly employee insurance to government organization, in order to pay to employees when they retire.

b. Defined benefit plans

The defined benefit plan adopted by the Company and YI in accordance with the Labor Standards Law ("LSL") is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company and YI contribute amounts equal to certain percentage of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Group assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Group is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); the Group has no right to influence the investment policy and strategy.

The amounts included in the consolidated balance sheets in respect of the Group's defined benefit plans were as follows:

| | December 31, | |
|---|---|---|
| | 2016 | 2015 |
| Present value of the defined benefit obligation | $ 1,287,296 | $ 1,172,742 |
| Fair value of the plan assets | (776,629) | (139,597) |
| Net defined benefit liability | $ 510,667 | $ 1,033,145 |

Movements in net defined benefit liability were as follows:

| | Present Value of the Defined Benefit Obligation | Fair Value of the Plan Assets | Net Defined Benefit Liability |
|---|---|---|---|
| Balance at January 1, 2015 | $ 1,106,951 | $ (113,099) | $ 993,852 |
| Service cost | | | |
| Current service cost | 17,279 | - | 17,279 |
| Net interest expense (income) | 18,789 | (1,985) | 16,804 |
| Recognized in profit or loss | 36,068 | (1,985) | 34,083 |
| Remeasurement | | | |
| Return on plan assets (excluding amounts included in net interest) | - | (1,133) | (1,133) |
| Actuarial loss - change in financial assumptions | 73,539 | - | 73,539 |
| Actuarial gain - experience adjustments | (3,652) | - | (3,652) |
| Recognized in other comprehensive income | 69,887 | (1,133) | 68,754 |
| Contributions from the employer | - | (58,405) | (58,405) |
| Benefits paid | (40,164) | 35,025 | (5,139) |
| Balance at December 31, 2015 | 1,172,742 | (139,597) | 1,033,145 |
| Service cost | | | |
| Current service cost | 14,864 | - | 14,864 |
| Net interest expense (income) | 11,701 | (5,343) | 6,358 |
| Recognized in profit or loss | 26,565 | (5,343) | 21,222 |
| Remeasurement | | | |
| Return on plan assets (excluding amounts included in net interest) | - | 873 | 873 |
| Actuarial gain - change in financial assumptions | (21,881) | - | (21,881) |
| Actuarial loss - experience adjustments | 131,046 | - | 131,046 |
| Recognized in other comprehensive income | 109,165 | 873 | 110,038 |
| Contributions from the employer | - | (653,738) | (653,738) |
| Benefits paid | (21,176) | 21,176 | - |
| Balance at December 31, 2016 | $ 1,287,296 | $ (776,629) | $ 510,667 |

An analysis by function of the amounts recognized in profit or loss in respect of the defined benefit plans is as follows:

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Operating costs | $ 13,776 | $ 20,996 |
| Selling and marketing expenses | 2,413 | 3,782 |

(Continued)

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| General and administrative expenses | $ 2,768 | $ 5,786 |
| Research and development expenses | 2,265 | 3,519 |
| | $ 21,222 | $ 34,083 |

(Concluded)

Through the defined benefit plans under the LSL, the Group is exposed to the following risks:

1) Investment risk

   The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.

2) Interest risk

   A decrease in the government/corporate bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.

3) Salary risk

   The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Discount rate (%) | 1.2-1.6 | 1.0-1.5 |
| Expected rate of salary increase (%) | 2.0 | 2.0 |
| Turnover rate (%) | 0.0-1.0 | 0.0-1.0 |
| Expected rate of return on plan assets (%) | 1.2-1.6 | 1.0-1.5 |
| Mortality rate | Based on 1989 Taiwan Standard Ordinary Experience Mortality Table | Based on 1989 Taiwan Standard Ordinary Experience Mortality Table |

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

| | December 31 | |
|---|---|---|
| | **2016** | **2015** |
| Discount rate | | |
| 1% increase | $ (103,088) | $ (103,115) |
| 1% decrease | $ 116,375 | $ 117,254 |
| Expected rate of salary increase | | |
| 1% increase | $ 100,748 | $ 102,480 |
| 1% decrease | $ (91,697) | $ (92,656) |

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

| | December 31 | |
|---|---|---|
| | **2016** | **2015** |
| The expected contributions to the plan for the next year | $ 179,928 | $ 788,926 |
| The average duration of the defined benefit obligation for the Company and YI | 8 and 15 years | 9 and 17 years |

## 20. EQUITY

a. Capital stock

| | |
|---|---|
| Number of shares authorized (in thousands) | 450,000 |
| Shares authorized | $ 4,500,000 |
| Number of shares issued and fully paid (in thousands) | 321,180 |
| Shares issued | $ 3,211,800 |

b. Capital surplus

| | December 31 | |
|---|---|---|
| | **2016** | **2015** |
| May be used to offset a deficit, distributed as cash dividends, or transferred to share capital | | |
| Arising from issuance of capital stock | $ 870,000 | $ 870,000 |
| May be used to offset a deficit only | | |
| Changes in capital surplus of investments in associate accounted for using equity method (Note 13) | 687,364 | 122,084 |
| | $ 1,557,364 | $ 992,084 |

The capital surplus from shares issued in excess of par may be used to offset a deficit; in addition, when the Company has no deficit, the capital surplus may be distributed as cash dividends or transferred to capital stock but subject to a specific limit once a year. The capital surplus arises from investments in associate accounted for using equity method may not be used for any purpose.

c. Retained earnings and dividend policy

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The shareholders held their regular meeting in June 2016 and, in that meeting, had resolved amendment to the Company's Articles of Incorporation (the "Articles"), particularly the amendment to the policy on dividend distribution and the addition of the policy on distribution of employee's compensation.

Under the dividend policy as set forth in the amended Articles, where the Company made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for distribution of dividends and bonus to shareholders. For the policies on distribution of employees' compensation and remuneration to directors and supervisors before and after amendment, please refer to d. Employee benefits expense in Note 22.

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

Under Rule No. 1010012865 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs", the Company should appropriate or reverse to a special reserve.

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

The appropriations of earnings and dividends per share for 2015 and 2014 approved in the shareholders' meetings in June 2016 and 2015, respectively, were as follows:

| | **Appropriation of Earnings** | | **Dividends Per Share (NT$)** | |
|---|---|---|---|---|
| | **For the Year Ended December 31** | | **For the Year Ended December 31** | |
| | **2015** | **2014** | **2015** | **2014** |
| Legal reserve | $ - | $ 43,523 | | |
| Cash dividends | 321,180 | 369,357 | $ 1 | $ 1.15 |
| | $ 321,180 | $ 412,880 | | |

The appropriations of earnings for 2016 had been proposed by the Company's board of directors on March 15, 2017. The appropriations of earnings and dividends per share were as follows:

| | **Appropriation of Earnings** | **Dividends Per Share (NT$)** |
|---|---|---|
| Legal reserve | $ 127,013 | |
| Cash dividends | 786,891 | $ 2.45 |

The appropriations of earnings for 2016 are subject to the resolution of the shareholders in their meeting to be held on June 15, 2017.

d. Other equity items

1) Exchange differences on translating the financial statements of foreign operations

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Balance at January 1 | $ 52,207 | $ 42,620 |
| Exchange differences arising on translating the financial statements of foreign operations | (43,459) | 11,573 |
| Related income tax | 7,222 | (1,986) |
| Balance at December 31 | $ 15,970 | $ 52,207 |

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

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Balance at January 1 | $ 12,861 | $ 17,970 |
| Unrealized loss arising on revaluation of AFS financial assets | (7,780) | (5,109) |
| Balance at December 31 | $ 5,081 | $ 12,861 |

e. Non-controlling interests

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Balance at January 1 | $ 29,499 | $ 30,077 |
| Attributable to non-controlling interests | | |
| Share of profit for the year | 19,286 | 1,560 |
| Cash dividend | - | (554) |
| Exchange differences arising on translation of foreign entities | (4,541) | (1,538) |
| Remeasurement on defined benefit plans | (882) | (55) |
| Related income tax | 150 | 9 |
| Balance at December 31 | $ 43,512 | $ 29,499 |

## 21. OPERATING REVENUE

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Revenue from the sale of goods | $ 12,468,792 | $ 12,607,855 |
| Other revenues | 365,323 | 284,237 |
| | $ 12,834,115 | $ 12,892,092 |

## 22. PROFIT BEFORE INCOME TAX

Profit before income tax was arrived at after crediting or charging:

a. Other income

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Interest income | $ 15,913 | $ 19,473 |
| Rental income | 125 | 35 |
| Dividend income | 376 | 368 |
| | $ 16,414 | $ 19,876 |

b. Other gains and losses

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Net foreign exchange gain | $ 5,803 | $ 39,160 |
| Loss on disposal of property, plant and equipment | (3,443) | (5,441) |
| Others | (5,341) | (1,808) |
| | $ (2,981) | $ 31,911 |

The above net foreign exchange gain was as follows:

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Foreign exchange gains | $ 73,495 | $ 99,082 |
| Foreign exchange losses | (67,692) | (59,922) |
| | $ 5,803 | $ 39,160 |

c. Depreciation and amortization

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Property, plant and equipment | $ 282,716 | $ 270,004 |
| Investment property | 12,711 | 12,712 |
| Intangible assets | 1,041 | 2,319 |
| | $ 296,468 | $ 285,035 |
| | | |
| An analysis of depreciation by function | | |
| Operating costs | $ 259,475 | $ 244,705 |
| Operating expenses | 35,952 | 38,011 |
| | $ 295,427 | $ 282,716 |

(Continued)

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| An analysis of amortization by function | | |
| Operating costs | $ - | $ 22 |
| Operating expenses | 1,041 | 2,297 |
| | $ 1,041 | $ 2,319 |

(Concluded)

d. Employee benefits expense

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Short-term employee benefits | | |
| Salaries | $ 762,312 | $ 651,017 |
| Insurance | 48,807 | 48,655 |
| Others | 43,335 | 39,059 |
| | 854,454 | 738,731 |
| Post-employment benefits | | |
| Defined contribution plans | 15,012 | 14,220 |
| Defined benefit plans (Note 19) | 21,222 | 34,083 |
| | 36,234 | 48,303 |
| Termination benefits | - | 302 |
| | $ 890,688 | $ 787,336 |
| An analysis of employee benefits expense by function | | |
| Operating costs | $ 527,582 | $ 476,066 |
| Operating expenses | 363,106 | 311,270 |
| | $ 890,688 | $ 787,336 |

1) Employees' compensation and remuneration to directors and supervisors for 2016 and 2015

In compliance with the Company Act as amended in May 2015 and the amended Articles as resolved in the shareholders' meeting in June 2016, the Company distributed employees' compensation and remuneration to directors and supervisors at the rates no less than 0.1% and no higher than 3%, respectively, of net profit before income tax, employees' compensation, and remuneration to directors and supervisors. The employees' compensation and remuneration to directors and supervisors (all in cash) for the years ended December 31, 2016 and 2015 which have been approved by the Company's board of directors in March 2017 and 2016, were as follows:

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Employees' compensation | $ 15,500 | $ 5,800 |
| Remuneration to directors and supervisors | 5,000 | 1,440 |

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

There was no difference between the actual amounts of the employees' compensation and the remuneration to directors and supervisors paid and the amounts recognized in the consolidated financial statements for the year ended December 31, 2015.

Information on the employees' compensation and remuneration to directors and supervisors resolved by the Company's board of directors in 2017 and 2016 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

2) Bonus to employees and remuneration to directors and supervisors for 2014

The bonus to employees and remuneration to directors and supervisors (all in cash) for 2014 which have been approved in the shareholders' meeting in June 2015 were as follows:

| | For the Year Ended December 31, 2014 |
|---|---|
| Bonus to employees | $ 6,300 |
| Remuneration to directors and supervisors | 2,200 |

There was no difference between the amounts of the bonus to employees and the remuneration to directors and supervisors approved in the shareholders' meeting in June 2015 and the amounts recognized in the consolidated financial statements for the year ended December 31, 2014.

Information on the bonus to employees and remuneration to directors and supervisors resolved by the shareholders in their meeting in 2015 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

## 23. INCOME TAX

a. Income tax recognized in profit or loss

The major components of income tax expense were as follows:

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Current tax | | |
| In respect of the current year | $ 190,074 | $ 141,466 |
| Income tax on unappropriated earnings | - | 89 |
| Adjustment for prior years | (698) | 3,753 |
| Deferred tax | | |
| In respect of the current year | 106,937 | 2,527 |
| | $ 296,313 | $ 147,835 |

A reconciliation of accounting profit and current income tax expenses was as follows:

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Profit before income tax | $ 1,585,731 | $ 57,447 |

(Continued)

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Income tax expense calculated at the statutory rate | $ 282,689 | $ 11,016 |
| Nondeductible expenses in determining taxable income | 673 | 309 |
| Income tax on unappropriated earnings | - | 89 |
| Loss carryforwards used | (10,064) | (1,701) |
| Unrecognized deductible temporary differences | 23,331 | 133,549 |
| Adjustments for prior years | (698) | 3,753 |
| Sources of income withholding tax in mainland China | 382 | 820 |
| | $ 296,313 | $ 147,835 |

(Concluded)

The temporary difference above were mainly share of profit or loss of associate accounted for using the equity method.

The applicable tax rate used above is the corporate tax rate of 17% payable by the Group in the ROC, while the applicable tax rate used by subsidiaries in China is 25%.

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

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Deferred tax | | |
| In respect of the current year | | |
| Remeasurement on defined benefit plan | $ 18,707 | $ 11,688 |
| Exchange differences on translating of foreign operations | 7,222 | (1,986) |
| | $ 25,929 | $ 9,702 |

c. Current tax assets and liabilities

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Current tax assets | | |
| Tax refund receivable | $ 302 | $ 302 |
| Current tax liabilities | | |
| Income tax payable | $ 111,860 | $ 50,548 |

d. Deferred tax assets and liabilities

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

For the year ended December 31, 2016

| | Opening Balance | Recognized in Profit or Loss | Recognized in Other Comprehensive Income | Closing Balance |
|---|---|---|---|---|
| **Deferred Tax Assets** | | | | |
| Temporary differences | | | | |
| Allowance for reduction of inventory to market | $ 2,324 | $ (542) | $ - | $ 1,782 |
| Defined benefit obligation | 175,849 | (107,531) | 18,707 | 87,025 |
| Depreciation expense | 35,506 | 294 | - | 35,800 |
| Unrealized sales discounts | 4,787 | 3,576 | - | 8,363 |
| Others | 9,027 | (1,046) | - | 7,981 |
| | $ 227,493 | $ (105,249) | $ 18,707 | $ 140,951 |
| **Deferred Tax Liabilities** | | | | |
| Temporary differences | | | | |
| Land value increment tax | $ (48,432) | $ - | $ - | $ (48,432) |
| Unrealized gain on foreign currency exchange | (275) | (335) | - | (610) |
| Others | (13,441) | (1,353) | 7,222 | (7,572) |
| | $ (62,148) | $ (1,688) | $ 7,222 | $ (56,614) |

For the year ended December 31, 2015

| | Opening Balance | Recognized in Profit or Loss | Recognized in Other Comprehensive Income | Closing Balance |
|---|---|---|---|---|
| **Deferred Tax Assets** | | | | |
| Temporary differences | | | | |
| Allowance for reduction of inventory to market | $ 5,242 | $ (2,918) | $ - | $ 2,324 |
| Defined benefit obligation | 168,429 | (4,268) | 11,688 | 175,849 |
| Depreciation tax difference | 34,730 | 776 | - | 35,506 |
| Unrealized sales discounts | 3,877 | 910 | - | 4,787 |
| Others | 6,452 | 2,575 | - | 9,027 |
| | $ 218,730 | $ (2,925) | $ 11,688 | $ 227,493 |
| **Deferred Tax Liabilities** | | | | |
| Temporary differences | | | | |
| Land value increment tax | $ (48,432) | $ - | $ - | $ (48,432) |
| Unrealized gain on foreign currency exchange | (1,044) | 769 | - | (275) |
| Others | (11,084) | (371) | (1,986) | (13,441) |
| | $ (60,560) | $ 398 | $ (1,986) | $ (62,148) |

e. Deductible temporary differences and unused loss carryforwards for which no deferred tax assets have been recognized in the consolidated balance sheets

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Loss carryforwards | | |
| Expiry in 2019 | $ - | $ 380 |
| Expiry in 2018 | - | 6,077 |
| | $ - | $ 6,457 |
| Deductible temporary differences | | |
| Loss on investments in subsidiaries and associate accounted for using the equity method | $ 1,580,559 | $ 1,453,869 |

f. Integrated income tax related information

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Unappropriated earnings | | |
| Generated before January 1, 1998 | $ 718,562 | $ 718,562 |
| Generated on and after January 1, 1998 | 2,144,945 | 1,286,592 |
| | $ 2,863,507 | $ 2,005,154 |
| Imputation credits account ("ICA") | $ 533,483 | $ 565,135 |

The creditable ratio for distribution of earnings of 2016 and 2015 was 29.97% (expected ratio) and 47.79% (actual ratio), respectively.

The actual imputation credits allocated to shareholders of the Company are based on the balance of the ICA as of the date of dividend distribution. Therefore, the expected creditable ratio for the 2016 earnings may differ from the actual creditable ratio to be used in allocating imputation credits to the shareholders.

g. Income tax assessments

The Company's and YI's income tax returns through 2013 have been assessed by the tax authorities.

## 24. EARNINGS (LOSS) PER SHARE

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

Net Profit (Loss) for the Year

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Profit (loss) for the year attributable to owners of the Company | $ 1,270,132 | $ (91,948) |

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

| | For the Year Ended December 31 | |
|---|---|---|
| | **2016** | **2015** |
| Weighted average number of ordinary shares used in computation of basic earnings (loss) per share | 321,180 | 321,180 |
| Effect of potentially dilutive ordinary shares: | | |
| Employees' compensation | 517 | - |
| Weighted average number of ordinary shares used in the computation of diluted earnings (loss) per share | 321,697 | 321,180 |

The Company had net loss for the year ended December 31, 2015; hence, diluted loss per share was the same as basic loss per share.

Since the Company offered to settle compensation paid to employees in cash or shares, the Company assumed that the entire amount of compensation or bonus would be settled in shares and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the shares have a dilutive effect. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the shareholders resolve the number of shares to be distributed to employees at their meeting in the following year.

## 25. NON-CASH TRANSACTIONS

For the years ended December 31, 2016 and 2015, the Group entered into the following non-cash investing activities which were not reflected in the consolidated statement of cash flows:

| | For the Year Ended December 31 | |
|---|---|---|
| | **2016** | **2015** |
| INVESTMENT ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS | | |
| Acquisition of PPE | $ 180,090 | $ 236,784 |
| Increase (Decrease) in prepayment for equipment purchased | 71,088 | (43,116) |
| Decrease (Increase) in payable for equipment purchased | (1,820) | 9,339 |
| Cash paid for acquisition of PPE | $ 249,358 | $ 203,007 |

## 26. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to shareholders through the optimization of the debt and equity balance. The Group's overall strategies are unchanged in the recent 2 years.

The capital structure of the Group consists of equity attributable to owners of the company (comprising capital stock, capital surplus, retained earnings and other equity items).

The Group is not subject to any externally imposed capital requirements.

## 27. FINANCIAL INSTRUMENTS

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

The Group's management considers that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values.

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

1) Fair value hierarchy

| | Level 3 |
|---|---|
| **December 31, 2016** | |
| AFS financial assets | |
| Unlisted securities - ROC Equity securities | $ 5,014 |
| Unlisted securities - Other countries Equity securities | 31,477 |
| | $ 36,491 |
| **December 31, 2015** | |
| AFS financial assets | |
| Unlisted securities - ROC Equity securities | $ 6,100 |
| Unlisted securities - Other countries Equity securities | 38,171 |
| | $ 44,271 |

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

| | Available-for-sale Financial Assets For the Year ended December 31 | |
|---|---|---|
| | **2016** | **2015** |
| Balance at January 1 | $ 44,271 | $ 49,380 |
| Total gains or losses | | |
| In other comprehensive income | (7,780) | (5,109) |
| Balance at December 31 | $ 36,491 | $ 44,271 |

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

The fair values of unlisted equity securities - ROC were estimated by the observable market price or net value.

c. Categories of financial instruments

| | December 31 | |
|---|---|---|
| | **2016** | **2015** |
| **Financial assets** | | |
| Loans and receivables 1) | $ 5,500,762 | $ 4,731,118 |
| AFS financial assets | 36,491 | 44,271 |

(Continued)

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Financial liabilities | | |
| Measured at amortized cost 2) | $ 1,034,597 | $ 760,353 |

(Concluded)

1) The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, notes receivable, trade receivables (including related parties), other receivables, and other financial assets (including current and non-current), and refundable deposits.

2) The balances included financial liabilities measured at amortized cost, which comprise short-term borrowings, notes payable, trade payables (including related parties), other payables, guarantee deposits, and provisions (including current and non-current).

d. Financial risk management objectives and policies

The Group's major financial instruments include repurchase agreements collateralized by bills and bonds, equity investments, trade receivable, trade payables and borrowings. The Group's Corporate Treasury function provides services to the business, manages the Group entities' capital and foreign exchange risk and financial risk. These risks include market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk.

1) Market risk

The Group's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates (see (a) below) and interest rates (see (b) below).

There was no change to the Group's exposure to market risks or the manner in which these risks were managed and measured.

a) Foreign currency risk

The Group had foreign currency sales and purchases, which exposed the Group to foreign currency risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities are set out in Note 31.

<u>Sensitivity analysis</u>

The Group was mainly exposed to the foreign currency USD and RMB.

The following table details the Group's sensitivity to a 1% increase and decrease in New Taiwan dollars (the functional currency) against USD and RMB, respectively. The sensitivity rate of 1% is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 1% change in foreign currency rates. A positive number in the table below indicates an increase in pre-tax profit and other comprehensive income if New Taiwan dollars weakened by 1% against USD and RMB. If New Taiwan dollars strengthened by 1% against USD and RMB, there would be an equal and opposite impact on pre-tax profit and other comprehensive income and the balances in the table below would be negative.

| | Amount<br>For the Year Ended December 31<br>2016 | <br><br>2015 |
|---|---|---|
| Impact of USD | | |
| Profit or loss | $ 3,579 | $ 4,456 |
| Impact of RMB | | |
| Other comprehensive income | 5,468 | 1,697 |

b) Interest rate risk

The group manages liquidity funds by depositing fixed-income financial instruments, including time deposits and repurchase agreements collateralized by bills and bonds.

The following table shows the carrying amount of the Group's financial assets exposed to interest rates risk at the end of the reporting period.

| | December 31<br>2016 | <br>2015 |
|---|---|---|
| Cash flow interest rate risk | | |
| Financial assets | $ 668,579 | $ 415,711 |
| Financial liabilities | 218,318 | 170,217 |

Sensitivity analysis

The sensitivity analysis below was determined based on the Group's exposure to interest rates for financial assets at the end of the reporting period. The analysis was prepared assuming the amount of the net assets outstanding at the end of the reporting period was outstanding for the whole year. A 1% increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates of financial asset had been 1% higher/lower and all other variables were held constant, the Group's pre-tax profit for the years ended December 31, 2016 and 2015 would increase/decrease by NT$6,686 thousand and NT$4,157 thousand, respectively.

2) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. As at the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure of counterparties to discharge an obligation could arise from the carrying amount of the respective recognized financial assets as stated in the consolidated balance sheets.

The Group adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group uses publicly available financial information and its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee periodically.

Trade receivables consisted of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of trade receivables.

3) Liquidity risk

The Group manages liquidity risk by maintaining a sufficient level of cash and cash equivalents to meet the Group's operational demand and mitigate the effects of fluctuations in cash flows.

Liquidity risk tables

The following tables detail the Group's remaining contractual maturity of its non-derivative liabilities with agreed repayment periods. The tables had been drawn up based on the undiscounted cash flow of financial liabilities from the earliest date on which the Group can be required to pay.

| | Less Than 3 Months | 3 Months to 1 Year | >1 Year | Total |
|---|---|---|---|---|
| December 31, 2016 | | | | |
| Non-derivative financial liability | | | | |
| Non-interest bearing | $ 801,806 | $ - | $ 2,851 | $ 804,657 |
| Variable interest rate liabilities | 43,332 | 188,994 | - | 232,326 |
| | $ 845,138 | $ 188,994 | $ 2,851 | $ 1,036,983 |
| December 31, 2015 | | | | |
| Non-derivative financial liability | | | | |
| Non-interest bearing | $ 587,424 | $ - | $ 4,788 | $ 592,212 |
| Variable interest rate liabilities | 72,949 | 98,395 | - | 171,344 |
| | $ 660,373 | $ 98,395 | $ 4,788 | $ 763,556 |

The amounts included above for variable interest rate instruments for non-derivative financial liabilities was subject to change if changes in variable interest rates differ from those estimates of interest rates determined at the end of the reporting period.

## 28. TRANSACTIONS WITH RELATED PARTIES

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Besides as disclosed elsewhere in the other notes, details of transactions between the Group and other related parties are disclosed below.

a. Trading transactions

| Line Items | Related Party Categories | For the Year Ended December 31 2016 | 2015 |
|---|---|---|---|
| Sales of goods | Associates | $ - | $ 42 |
| | Other related party - Subsidiary of the subsidiary's key management | 7 | 1,361 |
| | | $ 7 | $ 1,403 |

(Continued)

| Line Items | Related Party Categories | For the Year Ended December 31 2016 | 2015 |
|---|---|---|---|
| Service Revenue | Associates | $ 15,372 | $ 36,303 |
| | Other related party - Subsidiary of the subsidiary's key management | 4,749 | 5,658 |
| | | $ 20,121 | $ 41,961 |
| Purchases of goods | Parent Company | $ 847 | $ 1,158 |
| | Institutional director and supervisor | 807,626 | 782,777 |
| | Fellow subsidiaries | 3,604 | - |
| | Other related party - The responsible party is an institutional director of the Company | 11,564 | 12,162 |
| | | $ 823,641 | $ 796,097 |

(Concluded)

Under the terms of the technical support service agreement entered into between the Company and YSS, the service fees are determined and collected on cost-plus basis and recognized as service revenue.

The sales or purchase prices of the above transactions were similar to those with third parties, except the prices of part of products purchased from institutional directors - Yung Chi Paint & Varnish Mfg Co., Ltd., which have no third parties to compare with. The credit terms of the transactions are 10 days to 3 months.

Trade receivables from related parties at the balance sheet date were as follows:

| Related Party Categories | December 31 2016 | 2015 |
|---|---|---|
| Associates | $ 13,095 | $ 31,870 |
| Other related party - Subsidiary of the subsidiary's key management | 1,457 | 2,818 |
| | $ 14,552 | $ 34,688 |

For the years ended December 31, 2016 and 2015, no impairment loss was recognized on receivables from related parties.

Trade payables to related parties at the balance sheet date were as follows:

| Related Party Categories | December 31 2016 | 2015 |
|---|---|---|
| Parent entity | $ 95 | $ - |
| Institutional director | 91,676 | 73,709 |

(Continued)

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Other related party - The responsible party is an institutional director of the Company | $ 1,421 | $ 1,361 |
| | $ 93,192 | $ 75,070 |

(Concluded)

The outstanding trade payables to related parties are unsecured and will be paid by cash, and no guarantee had been received for receivables from related parties.

b. Compensation of key management personnel

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Short-term employee benefits | $ 31,455 | $ 26,883 |
| Post-employment benefits | 1,257 | 1,411 |
| | $ 32,712 | $ 28,294 |

c. Other transactions with related parties

Under the terms of the technical service agreement entered into by the Company and YSW from 2016 to 2018, the Company should calculate and pay semi-annually technical service fees to YSW for providing technical assistance. Also, YI has technical service agreement with YSW; under the terms of the agreement, YI should calculate technical service fees semi-annually on constant rate of operating revenue and pay to YSW.

Information about service fees was as follows:

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Operating costs | $ 4,960 | $ 4,940 |
| Operating expenses | $ 2,818 | $ 1,233 |

Other payables to related parties at the balance sheet date were as follows:

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Related Party Categories | | |
| YSW | $ 2,753 | $ 1,443 |

d. Significant lease

Sheng-Shing (Dongguan) Corp. leased premises from other related party as plant and office which will end on November 30, 2019; the rent expense paid monthly was NT$5,463 thousand (RMB1,076 thousand) and NT$5,686 thousand (RMB1,116 thousand) for the years ended December 31, 2016 and 2015, respectively.

## 29. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for natural gas purchase contract and for bank financing credits. The pledged assets recognized as other financial assets - current or non-current by guarantee purpose were as follows:

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Current | $ 19,100 | $ 9,192 |
| Non-current | $ 23,000 | $ 36,500 |

## 30. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

Significant commitments of the Group as of December 31, 2016 were as follows:

a. As of December 31, 2016 unused letters of credit for purchases of raw materials amounted to approximately NT$368,037 thousand.

b. As of December 31, 2016 outstanding construction contracts for YI aggregated approximately NT$221,106 thousand.

## 32. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information is a disclosure of the significant assets and liabilities denominated in foreign currencies other than the functional currencies of the Group entities and the exchange rates between the foreign currencies and respective functional currencies.

| | Foreign Currencies (In Thousands) | Exchange Rate | | Carrying Amount (In Thousands of New Taiwan Dollars) |
|---|---|---|---|---|
| December 31, 2016 | | | | |
| Assets | | | | |
| Monetary items | | | | |
| USD | $ 12,206 | 32.25 | (USD:NTD) | $ 393,644 |
| USD | 4,123 | 6.937 | (USD:RMB) | 132,967 |
| Non-monetary items | | | | |
| Investments accounted for using equity method | | | | |
| RMB | 118,437 | 4.617 | (RMB:NTD) | 546,821 |
| Liabilities | | | | |
| Monetary items | | | | |
| USD | 5,232 | 6.937 | (USD:RMB) | 168,732 |
| JPY | 26,366 | 0.2756 | (JPY:NTD) | 7,266 |

(Continued)

| December 31, 2015 | Foreign Currencies (In Thousands) | Exchange Rate | | Carrying Amount (In Thousands of New Taiwan Dollars) |
|---|---|---|---|---|
| Assets | | | | |
| Monetary items | | | | |
| USD | $ 14,406 | 32.825 | (USD:NTD) | $ 472,877 |
| USD | 5,190 | 6.4936 | (USD:RMB) | 170,362 |
| Non-monetary items | | | | |
| Investments accounted for using equity method | | | | |
| RMB | 33,977 | 4.995 | (RMB:NTD) | 169,717 |
| Liabilities | | | | |
| Monetary items | | | | |
| USD | 6,022 | 6.4936 | (USD:RMB) | 197,672 |

(Concluded)

The total realized and unrealized net foreign exchange gains were NT$5,803 thousand and NT$39,160 thousand for the years ended December 31, 2016 and 2015, respectively. It is impractical to disclose net foreign exchange gains and losses by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of each entity.

## 32. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

1) Financing provided to others. (Table 1)

2) Endorsements/guarantees provided. (None)

3) Marketable securities held. (Table 2)

4) Marketable securities acquired and disposed at costs or prices of at least NT$300 million or 20% of the paid-in capital. (None)

5) Acquisition of individual real estate at costs of at least NT$300 million or 20% of the paid-in capital. (None)

6) Disposal of individual real estate at prices of at least NT$300 million or 20% of the paid-in capital. (None)

7) Total purchases from or sales to related parties of at least NT$100 million or 20% of the paid-in capital. (Table 3)

8) Trade receivables from related parties of at least NT$100 million or 20% of the paid-in capital. (Table 4)

9) Trading in derivative instruments. (None)

10) Intercompany relationships and significant intercompany transactions. (Table 7)

11) Information on investees. (Table 5)

b. Information on investments in mainland China

1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, investment gain or loss, carrying amount of the investment at the end of the period, repatriated investment gain or loss, and limit on the amount of investment in the mainland China area. (Table 6)

2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third area, and their prices, payment terms, and unrealized gains or losses:

a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period. (None)

b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period.

| | **Amount** | **Account for %** |
|---|---|---|
| Sales | $ 38,928 | - |
| Receivables from related parties | 5,585 | - |

c) The amount of property transactions and the amount of the resultant gains or losses. (None)

d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes. (None)

e) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds. (None)

f) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receiving of services. (Note 28, a. Service Revenue)

## 33. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. Specifically, the Group’s reportable segments under IFRS 8 “Operating Segments” were as follows:

Sheng Yu Steel Co., Ltd. (Sheng Yu) - manufactures and sells galvanized steel coils and pre-painted galvanized steel coils.

Others - subsidiaries referred to in Note 12 which do not reach the quantitative threshold are considered as operating segments.

a. Segment revenues and results

The following was an analysis of the Group's revenue and results from operations by reportable segment.

| | Sheng Yu | Others | Total |
|---|---|---|---|
| For the year ended December 31, 2016 | | | |
| Revenues from external customers | $ 12,211,073 | $ 623,042 | $ 12,834,115 |
| Inter-segment revenues | 84,446 | 296,034 | 380,480 |
| Segment revenues | $ 12,295,519 | $ 919,076 | 13,214,595 |
| Eliminations | | | (380,480) |
| Consolidated revenues | | | $ 12,834,115 |
| Segment income | $ 1,660,576 | $ 62,248 | $ 1,722,824 |
| Interest income | | | 15,913 |
| Interest expense | | | (4,810) |
| Share of the net loss of associates accounted for using the equity method | | | (145,716) |
| Other non-operating income and expenses | | | (2,480) |
| Profit before tax | | | $ 1,585,731 |
| For the year ended December 31, 2015 | | | |
| Revenues from external customers | $ 12,406,835 | $ 485,257 | $ 12,892,092 |
| Inter-segment revenues | 84,316 | 352,448 | 436,764 |
| Segment revenues | $ 12,491,151 | $ 837,705 | 13,328,856 |
| Eliminations | | | (436,764) |
| Consolidated revenues | | | $ 12,892,092 |
| Segment income | $ 805,299 | $ 11,063 | $ 816,362 |
| Interest income | | | 19,473 |
| Interest expense | | | (3,676) |
| Share of the net loss of associates accounted for using the equity method | | | (807,026) |
| Other non-operating income and expenses | | | 32,314 |
| Profit before tax | | | $ 57,447 |

Segment profit represented the profit before tax earned by each segment without allocation of central administration costs and directors' salaries, share of profit or loss of associates, interest income, gain or loss on disposal of property, plant and equipment, exchange gain or loss, valuation gain or loss on financial instruments, finance costs and income tax expense. This was the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

b. Segment total assets and liabilities

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Segment assets | | |
| Sheng Yu | $ 10,550,524 | $ 9,402,807 |
| Others | 495,645 | 412,185 |
| Eliminations | (157,160) | (162,661) |
| Consolidated total assets | $ 10,889,009 | $ 9,652,331 |
| Segment liabilities | | |
| Sheng Yu | $ 1,479,474 | $ 1,711,373 |
| Others | 363,688 | 311,013 |
| Eliminations | (68,715) | (90,988) |
| Consolidated total liabilities | $ 1,774,447 | $ 1,931,398 |

c. Other segment information

Other information reviewed by the chief operating decision maker or regularly provided to the chief operating decision maker was as following:

| | Depreciation and amortization | | Amounts of additions to non-current assets | |
|---|---|---|---|---|
| | For the Year Ended December 31 | | For the Year Ended December 31 | |
| | 2016 | 2015 | 2016 | 2015 |
| Sheng Yu | $ 283,842 | $ 270,841 | $ 249,310 | $ 236,308 |
| Others | 12,626 | 14,194 | 2,575 | 686 |
| | $ 296,468 | $ 285,035 | $ 251,885 | $ 236,994 |

Note: Non-current assets exclude financial instruments and deferred tax assets.

d. Revenue from major products and services

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Galvanized steel coils | $ 5,998,845 | $ 6,865,758 |
| Pre-painted galvanized steel coils | 5,957,129 | 5,265,939 |
| Other steel products | 512,818 | 476,158 |
| Services | 53,926 | 58,712 |
| Construction | 154,816 | 64,829 |
| Others | 156,581 | 160,696 |
| | $ 12,834,115 | $ 12,892,092 |

e. Geographical information

The Group operates in two principal geographical areas - Taiwan and Asia.

The Group's revenue from external customers by customers' location and information about its non-current assets by location of assets are detailed below:

| | Revenue from External Customers For the Year Ended December 31 | | Non-current Assets | |
|---|---|---|---|---|
| | 2016 | 2015 | December 31, 2016 | December 31, 2015 |
| Taiwan | $ 8,162,688 | $ 6,016,514 | $ 2,998,595 | $ 3,038,180 |
| Europe and America | 2,361,556 | 4,526,339 | - | - |
| Asia | 1,681,803 | 1,762,506 | 26,539 | 38,268 |
| Others | 628,068 | 586,733 | - | - |
| | $ 12,834,115 | $ 12,892,092 | $ 3,025,134 | $ 3,076,448 |

Non-current assets exclude financial instruments and deferred tax assets.

e. Information about major customers

No other single customers contributed 10% or more to the Group's revenue for both 2016 and 2015.

TABLE 1

# SHENG YU STEEL CO., LTD. AND SUBSIDIARIES

**FINANCING PROVIDED TO OTHERS**
**FOR THE YEAR ENDED DECEMBER 31, 2016**
**(Amounts in Thousands of New Taiwan Dollars)**

| No. | Lender | Borrower | Financial Statement Account | Related Parties | Highest Balance for the Year | Ending Balance | Actual Borrowing Amount (Note 4) | Interest Rate (%) | Nature of Financing | Business Transaction Amounts | Reason for Short-term Financing | Allowance for Bad Debt | Collateral | | Financing Limits for Each Borrower (Note 2) | Aggregate Financing Limits (Note 3) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | | | Item | Value | | |
| 0 | SYSCO | YI | Other receivables | Y | $ 11,000 | $ 11,000 | $ 11,000 | 1.043-1.233 | Short-term financing | $ - | Operating capital | $ - | Promissory notes | $ 11,000 | $ 907,105 | $ 1,814,210 |
| 0 | SYSCO | SS | Other receivables | Y | 96,750 | 48,375 | 48,375 | 1.043-1.233 | Short-term financing | - | Operating capital | - | Promissory notes | 48,375 | 907,105 | 1,814,210 |

Note 1: The amount of highest balance for the year of SS was US$3,000 thousand, the amount of ending balance, actual borrowing amount and collateral value were all US$1,500 thousand; the exchange rate above was USD1 : NTD32.25 at balance sheet date.

Note 2: The total amount for lending to a company for funding for a short-term period shall not exceed ten percent (10%) of the net worth of SYSCO.

Note 3: The total amount available for lending purpose shall not exceed twenty percent (20%) of the net worth of SYSCO.

Note 4: The actual borrowing amounts were eliminated in full upon consolidation.

**TABLE 2**

## SHENG YU STEEL CO., LTD. AND SUBSIDIARIES

**MARKETABLE SECURITIES HELD**
**DECEMBER 31, 2016**
**(Amounts in Thousands of New Taiwan Dollars)**

| Holding Company Name | Type and Name of Marketable Securities | Relationship with the Holding Company | Financial Statement Account | December 31, 2016 | | | | Note |
|---|---|---|---|---|---|---|---|---|
| | | | | Shares | Carrying Amount | Percentage of Ownership (%) | Fair Value | |
| SYSCO | Stock | | | | | | | |
| | Ascentek Venture Capital Co., Ltd. | - | Available-for-sale financial assets - non-current | 392,000 | $ 5,014 | 1 | $ 5,014 | |
| | United Steel International Development Co. | - | Available-for-sale financial assets - non-current | 1,000,000 | 31,477 | 2 | 31,477 | |
| | | | | | $ 36,491 | | $ 36,491 | |

Note: Information on investment in subsidiaries and associates, please refer to Table 5 and Table 6.

TABLE 3

## SHENG YU STEEL CO., LTD. AND SUBSIDIARIES

**TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES OF AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL**
**FOR THE YEAR ENDED DECEMBER 31, 2016**
**(Amounts in Thousands of New Taiwan Dollars)**

| Company Name | Related Party | Relationships | Transaction Details | | | | Abnormal Transaction | | Notes/Accounts Payable or Receivable | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Purchase/ Sale | Amount | % to Total | Payment Terms | Unit Price | Payment Terms | Ending Balance | % to Total |
| SYSCO | Yung Chi Paint & Varnish Mfg Co., Ltd | Director | Purchase | $ 355,279 | 4 | 3 months | Note 28 | - | $ (91,676) | (26) |
| | Toyota Tsusho Corporation | Director | Purchase | 446,445 | 5 | 10 days | $ - | - | - | - |
| SS | Sheng-Shing (Dongguan) Corp. | Subsidiary | Sale | (263,268) (Note) | (2) | 10 month | - | - | 123,336 (Note) | 17 |

Note: The amount was eliminated in full upon consolidation.

## SHENG YU STEEL CO., LTD. AND SUBSIDIARIES

**TRADE RECEIVABLES FROM RELATED PARTIES OF AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL**
**DECEMBER 31, 2016**
**(In Thousands of New Taiwan Dollars)**

| Company Name | Related Party | Relationship | Ending Balance (Note) | Turnover Rate | Overdue | | Amounts Received in Subsequent Period | Allowance for Impairment Loss |
|---|---|---|---|---|---|---|---|---|
| | | | | | Amount | Actions Taken | | |
| SS | Sheng-Shing (Dongguan) Corp. | Subsidiary | $ 123,336 | 1.83 | $ - | | $ - | $ - |

Note: The amount was eliminated in full upon consolidation.

**TABLE 5**

# SHENG YU STEEL CO., LTD. AND SUBSIDIARIES

**INFORMATION OF INVESTEES**
**FOR THE YEAR ENDED DECEMBER 31, 2016**
**(Amounts in Thousands of New Taiwan Dollars)**

| Investor Company | Investee Company | Location | Main Businesses and Products | Original Investment Amount | | Balance as of December 31, 2016 | | | Net Income of the Investee | Share of Profit | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | December 31, 2016 | December 31, 2015 | Shares | % | Carrying Amount | | | |
| SYSCO | YI | Taiwan | Processing steel, engineering, procurement and construction | $ 19,607 | $ 19,607 | 1,945,750 | 78 | $ 50,141 | $ 14,464 | $ 12,438 | Subsidiary |
| | SS | Republic of Mauritius | Processing and selling galvanized steel coils (plates) | 50,322 | 50,322 | 1,665,000 | 45 | 22,612 | 29,234 | 13,155 | Subsidiary |
| YI | Yodoko International (HK) Ltd. | Hong Kong | Investment | 9,702 | 9,702 | 2,200,000 | 100 | 18,173 | 3,739 | 3,739 | Subsidiary |

Note 1: Information on investments in mainland China, please refer to Table 6.

Note 2: The amounts were eliminated in full upon consolidation.

**TABLE 6**

# SHENG YU STEEL CO., LTD. AND SUBSIDIARIES

**INFORMATION ON INVESTMENTS IN MAINLAND CHINA**
**FOR THE YEAR ENDED DECEMBER 31, 2016**
**(In Thousands of New Taiwan Dollars)**

| Investee Company | Main Businesses and Products | Total Amount of Paid-in Capital | Method of Investment | Accumulated Outflow of Investment from Taiwan as of January 1, 2016 | Investment Flows | | Accumulated Outflow of Investment from Taiwan as of December 31, 2016 | Net Income (Loss) of the Investee | Percentage of Ownership (%) | Share of Profit/Losses | Carrying Amount as of December 31, 2016 | Accumulated Inward Remittance of Earnings as of December 31, 2016 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Outflow | Inflow | | | | | | |
| Yodoko Building Material (Hangzhou) Co., Ltd. | Manufacturing and selling metal architectural materials | $ 43,215 | Note 1 | $ 9,514 | $ - | $ - | $ 9,514 | $ 17,894 | 16 | $ 3,739 | $ 16,748 | $ - |
| Sheng-Shing (Dongguan) Corp. | Processing and selling galvanized steel coils (plates) | 104,522 | Note 2 | 50,752 (Note 7) | - | - | 50,752 (Note 5) | 22,320 | 45 | 10,044 | 38,544 | - |
| Sheng-Yu Trading (Dongguan) Corp. | Selling hardware, steels and import and export trading | 32,250 | Note 2 | 5,400 (Note 8) | 8,708 | - | 14,108 (Note 6) | 5,194 | 45 | 2,337 | 15,378 | - |
| YSS | Manufacturing, processing and selling galvanized steel coils (plates) and pre-painted steel coils (plates) | 7,095,000 | Note 3 | 1,388,640 | - | - | 1,388,640 | (574,462 ) | Note 7 | (149,455 ) (Note 5) | 546,821 | - |

| Accumulated Investment in Mainland China as of December 31, 2016 | Investment Amounts Authorized by Investment Commission, MOEA | Upper Limit on Investment (Note 8) |
|---|---|---|
| $1,463,014 | $1,496,299 | $5,442,630 |

Note 1: Investments were made through a holding company registered in a third region, Yodoko International (HK) Ltd.

Note 2: Investments were made through a holding company registered in a third region, Sheng-Shing Corp.

Note 3: SYSCO directly invested in companies located in mainland China.

Note 4: Amount was recognized based on the financial statements audited by an international accounting firm with cooperation relationships with the accounting firm in the Republic of China.

Note 5: Including SS's investment in Sheng-Shing (Dongguan) by bank financing US$198 thousand (US$441 thousand × 45%).

Note 6: Including SS's investment in Sheng-Yu Trading (Dongguan) by bank financing US$450 thousand (US$1,000 thousand × 45%).

Note 7: The original percentage of ownership was 35%, the Company had not participated in the capital increase by cash at its original shareholding percentage for YSS in 2016; thus, the percentage of ownership decreased to 21%.

Note 8: The maximum amount that can be invested shall not exceed sixty percent (60%) of the net worth of SYSCO, in accordance with the "Principles Governing the Review of Investments or Technical Cooperation in Mainland China" issued by the Investment Commission.

Note 9: Except for YBMH and YSS, the other amounts were eliminated in full upon consolidation.

**TABLE 7**

# SHENG YU STEEL CO., LTD. AND SUBSIDIARIES

**INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS**
**FOR THE YEAR ENDED DECEMBER 31, 2016**
**(In Thousands of New Taiwan Dollars)**

| Buyer / Seller | Related Party | Relationship | Transaction Details | | | |
|---|---|---|---|---|---|---|
| | | | Financial Statement Account | Amount | Payment Terms | % to Total Operating Revenue or Total Assets |
| SYSCO | YI | Parent company on behalf of subsidiaries | Trade receivables | $ 2,725 | Similar to those with third parties | - |
| | | | Other receivables | 11,065 | Based on the commitment | - |
| | | | Other payable | 736 | Similar to those with third parties | - |
| | | | Operating revenue | 38,604 | Similar to those with third parties | - |
| | SS | Parent company on behalf of subsidiaries | Trade receivables | 5,765 | Similar to those with third parties | - |
| | | | Other receivables | 48,424 | Based on the commitment | - |
| | | | Operating revenue | 45,842 | Similar to those with third parties | - |
| SS | Sheng - Shing (Dongguan) | Parent company on behalf of subsidiaries | Trade receivables | 123,336 | Based on the commitment | 1 |
| | | | Operating revenue | 263,268 | Based on the commitment | 2 |
| | Sheng - Yu Trading (Dongguan) Corp. | Parent company on behalf of subsidiaries | Trade receivables | 21,432 | Based on the commitment | - |
| | | | Operating revenue | 26,308 | Based on the commitment | - |
| YI | SYSCO | Subsidiaries on behalf of parent company | Trade receivables | 591 | Based on the commitment | - |
| | | | Operating revenue | 4,123 | Based on the commitment | - |
| Sheng - Shing (Dongguan) | Sheng - Yu Trading (Dongguan) Corp. | Subsidiaries on behalf of subsidiaries | Trade receivables | 2,630 | Based on the commitment | - |
| | | | Operating revenue | 2,335 | Based on the commitment | - |