China Steel Chemical Corporation

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

Deloitte.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and the Shareholders
China Steel Chemical Corporation

Opinion

We have audited the accompanying standalone financial statements of China Steel Chemical Corporation (the "Corporation"), which comprise the standalone balance sheets as of December 31, 2016 and 2015, and the standalone statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the standalone financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying standalone financial statements present fairly, in all material respects, its standalone financial position of the Corporation as of December 31, 2016 and 2015, and its standalone financial performance and its standalone cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

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 Standalone Financial Statements section of our report. We are independent of the Corporation 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 is 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 standalone financial statements for the year ended December 31, 2016. These matters were addressed in the context of our audit of the standalone financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Subsequent Measurement of Inventory

Inventory is material to the standalone balance sheet and amounted to NT$410,967 thousand or 5% of the Corporation's standalone total assets as of December 31, 2016.

The evaluation of inventory loss requires critical accounting estimates by the Corporation. The Corporation's management has to calculate the net realizable value of inventories by estimating selling prices of finished goods, rates of selling and marketing expenses, etc. Since selling prices and oil prices are highly correlated, the Corporation's management may have to make a subjective judgment on the net realizable value when the oil prices fluctuate violently or vary according to special deals.

Refer to Notes 4, 5 and 11 to the standalone financial statements for the accounting policies, accounting estimates, uncertainty of the accounting assumptions and the related disclosures of inventory.

Our audit procedures performed for the ending inventory valuation included the following:

1. Assessing the appropriateness of the methodology used to calculate the write-down of inventory.

2. Verifying the completeness of inventory used in the measurement of the net realizable value of inventory.

3. Verifying the net realizable value of inventory, which includes checking the related original evidence or supporting documents, performing our own recalculation of the net realizable value of inventory.

4. Reviewing whether inventory losses were recognized appropriately.

Evaluation of Impairment Loss on Accounts Receivable

Accounts receivable are material to the standalone balance sheet and amounted to NT$494,606 thousand or 6% of the Corporation's standalone total assets as of December 31, 2016.

For the allowance recognized for past-due accounts receivable as of December 31, 2016, the Corporation's management subjectively based it on the accounts receivable insurance, which means that the judgment may be influenced by the assumptions surrounding customer credit risk.

Refer to Notes 4, 5 and 10 to the standalone financial statements for the accounting policies, accounting estimates, uncertainty of the accounting assumptions and the related disclosures of accounts receivable.

In addition to understanding the policies on the impairment loss of accounts receivable, our audit procedures in respect of this key audit matter included:

1. Verifying the approval process of customer credit lines.

2. Verifying the aging of accounts receivable.

3. Examining the significant past-due accounts receivable individually and referring to customers' payment patterns and other available information to figure out the reason why the Corporation's management would not recognize an allowance for a doubtful account.

4. Reviewing customer's payment history to analyze the allowance for doubtful accounts, checking and tracking irregularities in methodology for recognizing the allowance.

5. Evaluating the circumstances surrounding the recognition of allowance for past-due accounts receivable based on a customer's payment history, credit insurances, bank guarantees and the relevant economic environment.

6. Reviewing the subsequent collection of accounts receivable to evaluate adjustments to the allowance.

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

Management is responsible for the preparation and fair presentation of the standalone financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and for such internal control as management determines is necessary to enable the preparation of standalone financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the standalone financial statements, management is responsible for assessing the Corporation'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 Corporation or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Standalone Financial Statements

Our objectives are to obtain reasonable assurance about whether the standalone 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 standalone 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 standalone 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 Corporation'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 Corporation'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 standalone 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 Corporation to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the standalone financial statements, including the disclosures, and whether the standalone 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 Corporation to express an opinion on the standalone financial statements. We are responsible for the direction, supervision, and performance of the Corporation audit. 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 standalone 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 21, 2017

<u>*Notice to Readers*</u>

The accompanying standalone financial statements are intended only to present the standalone 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 standalone financial statements are those generally applied in the Republic of China.

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

CHINA STEEL CHEMICAL CORPORATION

STANDALONE BALANCE SHEETS
(In Thousands of New Taiwan Dollars)

	December 31, 2016		December 31, 2015	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	$ 1,182,778	13	$ 706,105	9
Financial assets at fair value through profit or loss - current (Notes 4 and 7)	96,790	1	347,427	4
Available-for-sale financial assets - current (Notes 4 and 8)	106,812	1	103,951	1
Notes receivable (Notes 4 and 10)	14,496	-	8,402	-
Accounts receivable, net (Notes 4, 5 and 10)	375,407	4	350,094	5
Accounts receivable - related parties (Notes 4, 5, 10 and 26)	119,199	2	112,139	1
Other receivables (Note 26)	26,355	-	19,708	-
Inventories (Notes 4, 5 and 11)	410,967	5	349,195	5
Other financial assets - current (Notes 4 and 12)	86,846	1	78,500	1
Other current assets	53,169	1	45,997	1
Total current assets	2,472,819	28	2,121,518	27
NONCURRENT ASSETS				
Debt investments with no active market - noncurrent (Notes 4 and 9)	-	-	50,000	1
Investments accounted for using equity method (Notes 4 and 13)	3,141,806	35	2,594,714	33
Property, plant and equipment (Notes 4, 14 and 27)	2,542,737	29	2,429,663	31
Investment properties (Notes 4 and 15)	563,513	6	563,513	7
Deferred tax assets (Notes 4 and 22)	57,495	1	50,295	1
Prepaid equipment	85,842	1	42,172	-
Refundable deposits	5,201	-	3,953	-
Other financial assets - noncurrent (Notes 12 and 15)	1,111	-	1,110	-
Other noncurrent assets	45,111	-	42,099	-
Total noncurrent assets	6,442,816	72	5,777,519	73
TOTAL	$ 8,915,635	100	$ 7,899,037	100

	December 31, 2016		December 31, 2015	
LIABILITIES AND EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Short-term borrowings (Note 16)	$ 821,276	9	$ 12,951	-
Short-term bills payable (Note 16)	620,000	7	700,000	9
Accounts payable	25,923	-	27,600	-
Accounts payable - related parties (Note 26)	188,887	2	169,390	2
Other payables (Notes 17, 18 and 26)	516,495	6	285,114	4
Current tax liabilities (Note 22)	59,286	1	80,918	1
Other current liabilities	14,506	-	27,131	-
Total current liabilities	2,246,373	25	1,303,104	16
NONCURRENT LIABILITIES				
Deferred tax liabilities (Notes 4, 5 and 22)	4,425	-	5,248	-
Net defined benefit liabilities (Notes 4 and 18)	163,622	2	149,805	2
Other noncurrent liabilities (Note 15)	1,110	-	1,110	-
Total noncurrent liabilities	169,157	2	156,163	2
Total liabilities	2,415,530	27	1,459,267	18
EQUITY (Note 19)				
Ordinary shares capital	2,369,044	27	2,369,044	30
Capital surplus	732,977	8	657,295	9
Retained earnings (Note 22)				
Legal reserve	2,291,205	25	2,167,302	27
Special reserve	242,136	3	242,136	3
Unappropriated earnings	1,069,083	12	1,248,132	16
Total retained earnings	3,602,424	40	3,657,570	46
Other equity	(78,684)	(1)	(102,348)	(1)
Treasury shares	(125,656)	(1)	(141,791)	(2)
Total equity	6,500,105	73	6,439,770	82
TOTAL	$ 8,915,635	100	$ 7,899,037	100

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

CHINA STEEL CHEMICAL CORPORATION

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

	For the Year Ended December 31			
	2016		2015	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 4, 20 and 26)	$ 4,894,859	100	$ 5,770,498	100
OPERATING COSTS (Notes 11, 18, 21 and 26)	3,612,015	74	4,236,899	73
GROSS PROFIT	1,282,844	26	1,533,599	27
OPERATING EXPENSES (Notes 18, 21 and 26)				
Selling and marketing expenses	151,355	3	123,082	2
General and administrative expenses	102,303	2	110,194	2
Research and development expenses	90,947	2	98,210	2
Total operating expenses	344,605	7	331,486	6
PROFIT FROM OPERATIONS	938,239	19	1,202,113	21
NON-OPERATING INCOME AND EXPENSES				
Other income (Notes 21 and 26)	45,869	1	48,015	1
Other gains and losses (Notes 21 and 26)	13,524	-	113,768	2
Share of the profit of subsidiaries and associates (Note 4)	202,924	4	74,679	1
Interest expenses (Note 21)	(6,832)	-	(1,888)	-
Total non-operating income and expenses	255,485	5	234,574	4
PROFIT BEFORE INCOME TAX	1,193,724	24	1,436,687	25
INCOME TAX (Notes 4, 5 and 22)	162,820	3	197,654	3
NET PROFIT FOR THE YEAR	1,030,904	21	1,239,033	22
OTHER COMPREHENSIVE INCOME (LOSS) (Notes 18, 21 and 22)				
Items that will not be reclassified subsequently to profit or loss				
Remeasurement of defined benefit plans	(21,846)	-	(23,289)	(1)
Share of the other comprehensive income of subsidiaries and associates accounted for using the equity method	(1,848)	-	(1,744)	-
Income tax benefit relating to items that will not be reclassified subsequently to profit or loss	3,714	-	3,959	-

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CHINA STEEL CHEMICAL CORPORATION

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

	For the Year Ended December 31			
	2016		2015	
	Amount	**%**	**Amount**	**%**
Items that may be reclassified subsequently to profit or loss				
Exchange differences on translating foreign operations	$ (18,982)	(1)	$ 14,479	-
Unrealized gains and losses on available-for-sale financial assets	2,861	-	(35,707)	-
Cash flow hedges	(3,044)	-	-	-
Share of the other comprehensive income of subsidiaries and associates accounted for using the equity method	42,312	1	(398,165)	(7)
Income tax benefit relating to items that may be reclassified subsequently to profit or loss	517	-	-	-
Other comprehensive income (loss) for the year, net of income tax	3,684	-	(440,467)	(8)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 1,034,588	21	$ 798,566	14
EARNINGS PER SHARE (Note 23)				
Basic	$ 4.45		$ 5.37	
Diluted	$ 4.44		$ 5.35	

The accompanying notes are an integral part of the standalone financial statements. (Concluded)

CHINA STEEL CHEMICAL CORPORATION

STANDALONE STATEMENTS OF CHANGES IN EQUITY
(In Thousands of New Taiwan Dollars)

			Retained Earnings				Other Equity					
	Ordinary Share Capital	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Total Retained Earnings	Exchange Differences on Translating Foreign Operations	Unrealized Gains and Losses on Available-for-sale Financial Assets	Cash Flow Hedges	Total Other Equity	Treasury Shares	Total Equity
BALANCE AT JANUARY 1, 2015	$ 2,369,044	$ 515,023	$ 1,948,583	$ 242,136	$ 2,215,199	$ 4,405,918	$ 27,989	$ 289,056	$ -	$ 317,045	$ (162,034)	$ 7,444,996
Appropriation of 2014 earnings (Note 19)												
Legal reserve	-	-	218,719	-	(218,719)	-	-	-	-	-	-	-
Cash dividends - 83%	-	-	-	-	(1,966,307)	(1,966,307)	-	-	-	-	-	(1,966,307)
	-	-	218,719	-	(2,185,026)	(1,966,307)	-	-	-	-	-	(1,966,307)
Change in capital surplus from investments in subsidiaries and associates accounted for using equity method	-	(3,124)	-	-	-	-	-	-	-	-	-	(3,124)
Net profit for the year ended December 31, 2015	-	-	-	-	1,239,033	1,239,033	-	-	-	-	-	1,239,033
Other comprehensive income (loss) for the year ended December 31, 2015, net of income tax	-	-	-	-	(21,074)	(21,074)	11,735	(431,128)	-	(419,393)	-	(440,467)
Total comprehensive income (loss) for the year ended December 31, 2015	-	-	-	-	1,217,959	1,217,959	11,735	(431,128)	-	(419,393)	-	798,566
Disposal of the Corporation's shares held by subsidiaries	-	97,028	-	-	-	-	-	-	-	-	20,243	117,271
Adjustment to capital surplus from dividends paid to subsidiaries	-	48,368	-	-	-	-	-	-	-	-	-	48,368
BALANCE AT DECEMBER 31, 2015	2,369,044	657,295	2,167,302	242,136	1,248,132	3,657,570	39,724	(142,072)	-	(102,348)	(141,791)	6,439,770
Appropriation of 2015 earnings (Note 19)												
Legal reserve	-	-	123,903	-	(123,903)	-	-	-	-	-	-	-
Cash dividends - 45%	-	-	-	-	(1,066,070)	(1,066,070)	-	-	-	-	-	(1,066,070)
	-	-	123,903	-	(1,189,973)	(1,066,070)	-	-	-	-	-	(1,066,070)
Change in capital surplus from investments in subsidiaries and associates accounted for using equity method	-	42	-	-	-	-	-	-	-	-	-	42
Net profit for the year ended December 31, 2016	-	-	-	-	1,030,904	1,030,904	-	-	-	-	-	1,030,904
Other comprehensive income (loss) for the year ended December 31, 2016, net of income tax	-	-	-	-	(19,980)	(19,980)	(40,696)	66,989	(2,629)	23,664	-	3,684
Total comprehensive income (loss) for the year ended December 31, 2016	-	-	-	-	1,010,924	1,010,924	(40,696)	66,989	(2,629)	23,664	-	1,034,588
Disposal of the Corporation's shares held by subsidiaries	-	52,791	-	-	-	-	-	-	-	-	16,135	68,926
Adjustment to capital surplus from dividends paid to subsidiaries	-	22,849	-	-	-	-	-	-	-	-	-	22,849
BALANCE AT DECEMBER 31, 2016	$ 2,369,044	$ 732,977	$ 2,291,205	$ 242,136	$ 1,069,083	$ 3,602,424	$ (972)	$ (75,083)	$ (2,629)	$ (78,684)	$ (125,656)	$ 6,500,105

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

CHINA STEEL CHEMICAL CORPORATION

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

	For the Year Ended December 31	
	2016	**2015**
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	$ 1,193,724	$ 1,436,687
Adjustments for:		
Depreciation expense	263,468	267,999
Amortization expense	6,046	2,041
Impairment loss recognized on accounts receivable	30,486	-
Net gain on fair value change of financial assets designated as at fair value through profit or loss	(5,984)	(4,464)
Interest expense	6,832	1,888
Interest income	(3,775)	(4,776)
Dividend income	(1,665)	(2,957)
Share of the profit of subsidiaries and associates	(202,924)	(74,679)
Loss on disposal of property, plant and equipment	867	572
Gain on disposal of noncurrent assets held for sale	-	(66,609)
Gain on disposal of investments	(10,767)	-
Gain on disposal of associates	-	(470)
Write-down of inventories	18,455	39,429
Changes in operating assets and liabilities		
Notes receivable	(6,094)	(1,349)
Accounts receivable	(55,799)	(2,653)
Accounts receivable - related parties	(7,060)	77,392
Other receivables	(7,141)	51,973
Inventories	(80,227)	40,663
Other current assets	(13,207)	16,339
Accounts payable	(1,677)	3,526
Accounts payable - related parties	19,497	(86,708)
Other payables	(8,169)	(84,236)
Other current liabilities	(12,625)	394
Net defined benefit liabilities	(8,029)	(6,540)
Cash generated from operations	1,114,232	1,603,462
Income taxes paid	(188,244)	(300,282)
Net cash generated from operating activities	925,988	1,303,180
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets designated as at fair value through profit or loss	(653,162)	(2,985,791)
Proceeds from disposal of financial assets designated as at fair value through profit or loss	909,783	3,407,372
Proceeds on sale of available-for-sale financial assets	10,767	-
Proceeds from disposal of debt investments with no active market	50,000	-
Acquisition of investments accounted for using equity method	(90,000)	-
Acquisition of subsidiaries	(100,320)	-
Proceeds from disposal of noncurrent assets held for sale	-	98,667

(Continued)

CHINA STEEL CHEMICAL CORPORATION

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

	For the Year Ended December 31 2016	2015
Acquisition of property, plant and equipment	$ (417,951)	$ (1,278,371)
Proceeds from disposal of property, plant and equipment	1,656	647
Increase in refundable deposits	(1,248)	(1,486)
Decrease in other receivables	-	300,000
Acquisition of investment properties	-	(10,525)
Decrease (increase) in other financial assets	(11,543)	153,690
Increase in other noncurrent assets	(3,023)	(25,175)
Interest received	4,269	5,826
Dividends received from subsidiaries and associates	193,531	213,042
Other dividends received	1,665	2,957
Net cash used in investing activities	(105,576)	(119,147)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	3,513,623	3,192,909
Repayments of short-term borrowings	(2,705,298)	(3,280,399)
Increase in short-term bills payable	-	700,000
Decrease in short-term bills payable	(80,000)	-
Increase in other noncurrent liabilities	-	1,110
Cash dividends paid	(1,065,660)	(1,966,426)
Interest paid	(6,404)	(1,924)
Net cash used in financing activities	(343,739)	(1,354,730)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	476,673	(170,697)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	706,105	876,802
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 1,182,778	$ 706,105

The accompanying notes are an integral part of the standalone financial statements. (Concluded)

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

1. GENERAL INFORMATION

China Steel Chemical Corporation (the "Corporation") was incorporated by China Steel Corporation (CSC) and other shareholders in February 1989. The Corporation started operations in May 1993, and CSC is the parent company that has substantive control over the Corporation. As of December 31, 2016 and 2015, CSC owned 29.04% of the Corporation's voting shares. The Corporation mainly engages in the production, processing and sales of coal tar distillation products, Naphtha products and coke products; in addition, it also trades related upstream and downstream products.

The shares of the Corporation have been listed and have been traded on the Taiwan Stock Exchange since November 1998.

The Corporation's functional currency is the New Taiwan dollar; the standalone financial statements of the Corporation are presented in New Taiwan dollars.

2. APPROVAL OF FINANCIAL STATEMENTS

The standalone financial statements were approved by the board of directors and authorized for issue on March 21, 2017.

3. APPLICATION OF NEW AND AMENDED 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 Financial Supervisory Commission (FSC) for application starting from 2017

   Rule No. 1050050021 and Rule No. 1050026834 issued by the FSC stipulated that starting January 1, 2017, the Corporation 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 from 2017.

New, Amended and 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 "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 and 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 27 "Equity Method in Separate Financial Statements"	January 1, 2016
Amendment to IAS 36 "Recoverable Amount Disclosures for Non-Financial Assets"	January 1, 2014
Amendment to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
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.

Except for the following, 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 Corporation's accounting policies:

1) Amendments to IFRS 13 "Fair Value Measurement"

   The basis for conclusions of IFRS 13 was amended by the Annual Improvements to IFRSs: 2010-2012 Cycle to clarify that when the amendment becomes effective in 2017, the short-term receivables and payables with no stated interest rate will be measured at their invoice amounts without discounting, if the effect of not discounting is immaterial. Otherwise, the material effect of discounting will be adjusted retrospectively.

   IFRS 13 was also amended by the Annual Improvements to IFRSs: 2011-2013 Cycle to clarify that the scope in IFRS 13 of the portfolio exception for measuring the fair value of a Corporation of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.

2) Amendments to IAS 16 "Property, Plant and Equipment"

   The amendment "Clarification of Acceptable Methods of Depreciation and Amortization" amended IAS 16 to stipulate that the entity should use appropriate depreciation method to reflect the pattern in which the future economic benefits of property, plant and equipment are expected to be consumed by the entity. It stipulates that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate. The amended standard does not provide any exception from this requirement.

3) Amendment to IAS 36 “Impairment of Assets”

The amendment “Disclosures for Non-financial Assets” clarifies that the recoverable amount of an asset or a cash-generating unit is disclosed only when an impairment loss on the asset has been recognized or reversed during the period. Furthermore, if the recoverable amount of an item of property, plant and equipment for which impairment loss has been recognized or reversed is fair value less costs of disposal, the Corporation are required to disclose the fair value hierarchy. If the fair value measurements are categorized within Level 3, the valuation technique and key assumptions used to measure the fair value are disclosed. The discount rate used is disclosed if such fair value less costs of disposal is measured by using present value technique. The amendment will be applied retrospectively.

4) Amendment to IAS 40 “Investment Property”

IAS 40 was amended by the Annual Improvements to IFRSs: 2011-2013 Cycle to clarify that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required to determine whether the investment property acquired is acquisition of an asset or a business combination. The amendment will be applied prospectively to acquisitions of investment property on or after January 1, 2017.

5) 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 and goodwill.

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

The amendments also require additional disclosure if there is a significant difference between the actual operation after business combination and the expected benefit on acquisition date.

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

Except for the above impact, as of the date the standalone financial statements were authorized for issue, the Corporation is continuously assessing the possible impact that the application of the aforementioned amendments and the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers will have on the Corporation’s financial position and financial performance, and will disclose the relevant impact when the assessment is completed.

b. International Accounting Standards Board (IASB) issued but not yet endorsed by the FSC

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

New, Amended or Revised Standards and Interpretations (the “New IFRSs”)	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
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
Amendment to IFRS 15 “Clarifications to IFRS 15”	January 1, 2018
IFRS 16 “Leases”	January 1, 2019
Amendment to IAS 7 “Disclosure Initiative”	January 1, 2017
Amendment 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

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 are stated below.

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

b) Debt instruments held within a business model whose objective is achieved by both the collecting of contractual cash flows and the selling of 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 is recognized in other comprehensive income, except for impairment gain or loss and foreign exchange gain and loss. When the debt instruments are derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

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

Impairment of financial assets

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 a 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.

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

Hedge accounting

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

Transition

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

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

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

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

a) Identify the contract with the customer;

b) Identify the performance obligations in the contract;

c) Determine the transaction price;

d) Allocate the transaction price to the performance obligations in the contract; and

e) Recognize revenue when a performance obligation has been satisfied.

When IFRS 15 and related amendment are effective, the Corporation 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, the lessee shall recognize right-of-use assets and lease liabilities for all leases on the standalone balance sheets except for low-value and short-term leases. The lessee 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 standalone statements of comprehensive income, the lessee 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 standalone 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 financing activities.

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

When IFRS 16 becomes effective, the Corporation 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) Amendment to IAS 12 "Recognition of Deferred Tax Assets on Unrealized Losses"

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

In addition, in determining whether to recognize a deferred tax asset, the Corporation should assess a deductible temporary difference in combination with all other deductible temporary differences, unless the tax law restricts the utilization of losses as deduction against income of a specific type, in which case, a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type. The amendment also stipulates that, when determining whether to recognize a deferred tax asset, the estimate of probable future taxable profit may include some of the Corporation's assets at more than their carrying amount if there is sufficient evidence that it is probable that the Corporation will realize 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 Corporation should transfer to, or from, investment property when, and only when, the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments also clarify that the evidence of the change in use is not limited to those illustrated in IAS 40.

The Corporation may elect to apply the amendments prospectively and reclassify the property as required to reflect the conditions that exist at the date of initial application. The Corporation 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 Corporation may elect to apply the amendments retrospectively if, and only if, that is possible without the use of hindsight.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

For readers' convenience, the accompanying standalone 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 standalone financial statements shall prevail. However, the accompanying standalone financial statements do not include English translation of the additional footnote disclosures that are not required under generally accepted accounting principles but are required by the Securities and Futures Bureau for their oversight purposes.

a. Statement of Compliance

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

b. Basis of Preparation

The standalone financial statements have been prepared on the historical cost basis except for financial instruments which 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.

When preparing its parent company only financial statements, the Corporation used equity method to account for its investment in subsidiaries and associates. In order for the amounts of the net profit for the year, other comprehensive income for the year and total equity in the parent company only financial statements to be the same with the amounts attributable to the owner of the Corporation in its consolidated financial statements, adjustments arising from the differences in accounting treatment between parent company only basis and consolidated basis were made to investments accounted for using equity method, share of profit or loss of subsidiaries and associates, share of other comprehensive income of subsidiaries and associates and related equity items, as appropriate, in the parent company only financial statements.

c. Classification of Current and Noncurrent Assets and Liabilities

Current assets include:

1) Assets held primarily for the purpose of trading;

2) Assets are realized within twelve months after the balance sheet date; and

3) Cash and cash equivalents unless the asset is restricted from being used for an exchange or used to settle a liability for more than twelve months after the balance sheet date.

Current liabilities include:

1) Liabilities held primarily for the purpose of trading;

2) Liabilities expected to be settled within twelve months after the balance sheet date; and

3) Liabilities without an unconditional right to defer settlement for at least twelve months after the balance sheet date.

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

d. Foreign Currencies

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

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

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

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

For the purpose of presenting standalone financial statements, the financial statements of foreign subsidiaries are translated into the presentation currency - New Taiwan dollars as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the 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 accumulated in equity attributed to the owners of the Corporation as appropriate.

e. Inventories

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

f. Investments in Subsidiaries

The Corporation uses the equity method to account for its investments in subsidiaries.

A subsidiary is an entity that is controlled by the Corporation. Under the equity method, an investment is initially recognized at cost and adjusted thereafter to recognize the Corporation's share of the profit or loss and other comprehensive income of the subsidiary. The Corporation also recognizes the changes in the share of other equity of subsidiaries.

Changes in the Corporation's ownership interest in a subsidiary that do not result in the Corporation losing control over the subsidiary are accounted for as equity transaction. Any difference between the carrying amount of the investment and the fair value of consideration paid or received is directly recognized in equity.

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

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 investment and the carrying amount is net of impairment loss. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases. An impairment loss recognized on goodwill cannot be reversed in a subsequent period.

When the Corporation loses control of a subsidiary, it recognizes the investment retained in the former subsidiary at its fair value at the date when control is lost. The difference between the fair value of the retained investment plus any consideration received and the carrying amount of previous investment at the date when control is lost is recognized as a gain or loss in profit or loss. Besides, the Corporation accounts for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Corporation had directly disposed of the related assets or liabilities.

Unrealized profits or losses on downstream transactions with subsidiaries are eliminated in the standalone financial statements. Profits and losses on transactions with subsidiaries other than downstream are recognized in standalone financial statements only to the extent of interests in the subsidiary that are not related to the Corporation.

g. Investments in Associates

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

The Corporation uses the equity method to account for its investments in associates. Under the equity method, investments in an associate are initially recognized at cost and adjusted thereafter to recognize the Corporation's share of the profit or loss and other comprehensive income of the associate. The Corporation also recognizes the changes in the share of equity of associates.

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

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

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

The Corporation discontinues the use of the equity method from the date on which its investment ceases to be an associate. Any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. The Corporation account for all amount previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities.

When the Corporation transacts with its associates, profits or losses on the transactions are recognized in the standalone financial statements only to the extent of interests in the associate that are not related to the Corporation.

h. Property, Plant and Equipment

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

Property, plant and equipment in the course of construction are carried at cost. Cost includes professional fees and borrowing costs eligible for capitalization. Such assets are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use and depreciated.

Depreciation of property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. If the lease term is shorter than the useful lives, assets are depreciated over the lease term. 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 property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

i. Investment Properties

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

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

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

j. Impairment of Tangible Assets

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

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, 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 on the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

k. Financial Instruments

Financial assets and financial liabilities are recognized when the Corporation 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 held by the Corporation include financial assets at fair value through profit or loss, available-for-sale financial assets and loans and receivables.

i Financial assets at fair value through profit or loss

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

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

i) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

ii) The financial asset forms part of the Corporation's financial asset which is managed and its performance is evaluated on a fair value basis, in accordance with the Corporation's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

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

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 25.

ii Available-for-sale financial assets

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

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

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

iii Loans and receivables

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

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

b) Impairment of financial assets

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

Financial assets carried at amortized cost, such as accounts receivable, are assessed for impairment on a collective basis even if there is no objective evidence of impairment individually. Objective evidence of impairment for a portfolio of receivables could include the Corporation'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 available-for-sale equity investments, a significant or prolonged decline in the fair value of the securities below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, breach of contract, such as default or delinquency in interest or principal payments, higher probability that the borrower will enter bankruptcy or financial re-organization, or there is disappearance of an active market for that financial asset because of financial difficulties.

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

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

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

c) Derecognition of financial assets

The Corporation derecognize 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 Corporation are classified as equity in accordance with the substance of the contractual arrangements and the definitions of an equity instrument.

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

Repurchase of the Corporation's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Corporation's own equity instruments.

3) Financial liabilities

a) Subsequent measurement

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

b) Derecognition of financial liabilities

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

l. Hedge Accounting

The Corporation designates certain hedging instruments (non-derivatives in respect of foreign currency risk) as cash flow hedges.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

The associated gains or losses that were recognized in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment in the line item relating to the hedged item in the same period when the hedged item affects profit or loss. If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the associated gains and losses that were recognized in other comprehensive income are removed from equity and included in the initial cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued prospectively when the Corporation revokes the designated hedging relationship; when the hedging instrument expires or is sold, terminated, or exercised; or when the hedging instrument no longer meets the criteria for hedge accounting. The cumulative gain or loss on the hedging instrument that has been previously recognized in other comprehensive income from the period when the hedge was effective remains separately in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

m. Treasury Shares

Shares of the Corporation held by subsidiaries are reclassified to treasury shares from investments accounted for using equity method at the acquisition cost. The Corporation distributes dividends to its subsidiaries will write off investment income in account and also adjust additional paid-in capital - treasury shares.

n. Revenue Recognition

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

1) Sale of goods

Sales revenue is recognized when goods are delivered and the ownership of the goods has been transferred as follows: domestic sale - when products are delivered; export sales - when the sales conditions of a contract are fulfilled.

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

2) Rendering of services

Service revenue is recognized when services are provided.

3) Dividend and interest income

Dividend income from investments is recognized when the shareholder’s right to receive payment has been established provided that it is probable that the economic benefits will flow to the Corporation and the amount of income can be measured reliably.

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

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. The operating leases are as follows:

1) The Corporation as lessor

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

2) The Corporation as lessee

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

p. Borrowing Costs

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

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

Other than stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

q. Employee Benefits

1) Shore-term employee benefits

Liabilities recognized in respect of shore-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 (including current 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 Corporation's defined benefit plan.

r. 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 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 subsidiaries and associates, except where the Corporation 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 and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

3) Current tax and deferred tax for the year

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Corporation’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

Since the earnings are expected to be used for expanding foreign operations in the future and will not be remitted inward in the foreseeable future, the Corporation did not recognize deferred tax liabilities on earnings of NT$295,253 thousand and NT$295,054 thousand as of December 31, 2016 and 2015, respectively. The realization of deferred income tax liabilities mainly depends on the scale of operation expansion in the future. If the actual investment amount in the future is less than the expected investment amount, a significant income tax reversal will occur and such reversal amount will be recognized in profit and loss upon occurrence. The unrecognized deferred income tax liability related to the invested subsidiaries amounted to NT$50,193 thousand and NT$50,159 thousand as of December 31, 2016 and 2015, respectively.

b. Estimated impairment of accounts receivable

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

c. Write-down of inventory

Net realizable value of inventory is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The estimation of net realizable value was based on current market conditions and the historical experience of selling products of a similar nature. Changes in market conditions may have a material impact on the estimation of net realizable value.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2016	2015
Cash on hand	$ 430	$ 330
Checking accounts and demand deposits	50,572	705,775
Cash equivalents		
Time deposits with original maturities less than three months	970,459	-
Commercial papers	161,317	-
	$ 1,182,778	$ 706,105

The market rate intervals of cash in bank and cash equivalents at the balance sheet date were as follows:

	December 31	
	2016	2015
Demand deposits (%)	0.05-0.35	0.08-0.12
Time deposits (%)	0.975-6.6	-
Commercial papers (%)	0.898	-

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS - CURRENT

	December 31	
	2016	2015
Financial assets designated as at FVTPL		
Non-derivative financial assets		
Mutual funds	$ 96,790	$ 280,120
Credit - linked notes	-	66,221
Domestic quoted shares	-	1,086
	$ 96,790	$ 347,427

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS - CURRENT

	December 31	
	2016	2015
Domestic investments		
Quoted shares	$ 106,812	$ 103,951

9. DEBT INVESTMENTS WITH NO ACTIVE MARKET - NONCURRENT

	December 31	
	2016	2015
Subordinated financial bond - Taiwan Business Bank	$ -	$ 50,000

In October 2009, the Corporation bought subordinated financial bond without maturity date issued by Taiwan Business Bank; and the par value was NT$50,000 thousand. The issuer has the option to redeem the bond after seven years from the issue date. The bond were redeemed in 2016.

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

	December 31	
	2016	2015
Notes receivable		
Operating	$ 14,496	$ 8,402
Accounts receivable (including related parties)	$ 525,092	$ 462,233
Less: Allowance for impairment loss	30,486	-
	$ 494,606	$ 462,233

The Corporation grants an average period of 30 days - 90 days for credit sales of goods. The Corporation assesses allowance for bad debt by referring to the doubtful account aging analysis, historical experience, and the current financial situation of the client and any change in the client's credit quality.

The aging of receivables was as follows:

	December 31	
	2016	2015
Not past due	$ 494,606	$ 449,047
Up to 30 days	-	8,799
31-60 days	-	3,911
61-180 days	-	476
More than 180 days	30,486	-
	$ 525,092	$ 462,233

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

For the accounts receivables balances that were past due at the end of the reporting period, the Corporation did not recognize an allowance for impairment loss because there was no significant change in credit quality and the amounts were still considered recoverable. The Corporation did not hold any collateral or other credit enhancements for these balances.

The accounts receivable that were past due and individually impaired (before subtracting the allowance for bad debt) were as follows:

	December 31	
	2016	2015
More than 180 days	$ 30,486	$ -

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

	December 31	
	2016	**2015**
Up to 30 days	$ -	$ 8,799
31-60 days	-	3,911
61-180 days	-	476
	$ -	$ 13,186

The movements of the allowance for impairment loss were as follows:

	Individually Assessed for Impairment	**Collectively Assessed for Impairment**	**Total**
Balance at January 1, 2016	$ -	$ -	$ -
Plus: Impairment losses recognized on receivables	30,486	-	30,486
Balance at December 31, 2016	$ 30,486	$ -	$ 30,486

11. INVENTORIES

	December 31	
	2016	**2015**
Finished goods	$ 302,928	$ 231,534
Work in progress	54,678	72,587
Raw materials	5,834	4,589
Supplies	47,527	40,485
	$ 410,967	$ 349,195

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2016 and 2015 was NT$3,557,791 thousand and NT$4,186,018 thousand, respectively. The cost of goods sold included inventory write-downs of NT$18,455 thousand and NT$39,429 thousand, respectively.

12. OTHER FINANCIAL ASSETS

	December 31	
	2016	**2015**
Current		
Deposits of designated hedging foreign-currency	$ 86,846	$ -
Time deposits with original maturities more than three months	-	78,500
	$ 86,846	$ 78,500
Non-Current		
Deposits for projects (Note 15)	$ 1,111	$ 1,110

In order to purchase the production and graphitization equipment, which is expected to be paid in foreign currency, the Corporation had purchased a foreign currency demand deposit of JPY329,838 thousand to avoid cash flow risk arising from exchange rate fluctuation. The unrealized gains and losses arising from this foreign currency valuation were recognized in other comprehensive income under cash flow hedges. The period of expected cash flow in the next 12 months from the foreign currency deposit is the same as the payment period of the equipment. The unrealized gains and losses are expected to realize as depreciation expenses along with the depreciation of the equipment.

Movements of unrealized gains and losses arising from the valuation of other financial assets for the cash flow hedge were as follows:

	For the Year End December 31	
	2016	**2015**
Balance, beginning of year	$ -	$ -
Recognized in other comprehensive income	(3,196)	-
Transferred to prepaid equipment	152	-
Balance, end of year	$ (3,044)	$ -

13. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31	
	2016	**2015**
Investments in subsidiaries	$ 2,009,574	$ 1,680,562
Investments in associates	1,132,232	914,152
	$ 3,141,806	$ 2,594,714

a. Investments in subsidiaries

	December 31			
	2016		**2015**	
	Amount	**% of Owner - ship**	**Amount**	**% of Owner - ship**
Unlisted companies				
Ever Wealthy Investment Corporation (EWI)	$ 1,404,613	100	$ 1,415,410	100
Ever Glory International Co., Ltd.	400,061	100	406,943	100
Formosa Ha Tinh CSCC (Cayman) International Limited (CSCCC)	330,556	50	-	-
	2,135,230		1,822,353	
Less: Shares held by subsidiaries accounted for as treasury shares	125,656		141,791	
	$ 2,009,574		$ 1,680,562	

The above investments accounted for using equity method and the Corporation’s share of profit or loss and other comprehensive income were based on the audited financial statements of the subsidiaries for the same reporting period.

In October 2015, the Corporation entered into a joint venture agreement with Formosa Ha Tinh (Cayman). According to the agreement, CSCCC was to be established through a joint investment with the counterparties in which the Corporation would own 50% of the equity. CSCCC mainly engages in the processing and sale of the by-products produced by Formosa Ha Tinh Steel Corporation such as coal tar products, naphtha products and coke. CSCCC was established in January 2016 with a paid-in capital of USD10,000 thousand from the Corporation. As of December 31, 2016, USD3,000 thousand has been paid to this account.

b. Investments in associates

	December 31	
	2016	**2015**
Material associates		
CHC Resources Corporation (CHC)	$ 254,736	$ 263,458
Transglory Investment Corporation (TIC)	524,338	351,452
	779,074	614,910
Associates that are not individually material	353,158	299,242
	$ 1,132,232	$ 914,152

1) Material associates

	Proportion of Ownership and Voting Rights (%)	
	December 31	
Name of Associate	**2016**	**2015**
CHC	6	6
TIC	9	9

The Corporation held more than 20% of the shares with CSC and fellow subsidiaries and accounted for using the equity method.

The investments accounted for using the equity method and the Corporation's share of profit or loss and other comprehensive income of those investments for the years ended December 31, 2016 and 2015 were based on the associates' financial statements audited by auditors for the same years.

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

	December 31	
	2016	**2015**
CHC	$ 722,294	$ 816,506

The summarized financial information below represents amounts shown in the associates' financial statements prepared in accordance with IFRSs adjusted by the Corporation for equity accounting purposes.

CHC

	December 31	
	2016	**2015**
Current assets	$ 2,010,396	$ 2,310,918
Noncurrent assets	5,013,276	4,669,138
Current liabilities	(2,210,509)	(2,031,993)

(Continued)

	December 31	
	2016	**2015**
Noncurrent liabilities	$ (477,266)	$ (469,143)
Equity	4,335,897	4,478,920
Non-controlling interests	(118,418)	(117,033)
	$ 4,217,479	$ 4,361,887
Proportion of the Corporation's ownership (%)	6	6
Equity attributable to the Corporation	$ 254,736	$ 263,458
Carrying amount	$ 254,736	$ 263,458

(Concluded)

	For the Year Ended December 31	
	2016	**2015**
Operating revenue	$ 6,851,222	$ 7,716,388
Net profit for the year	$ 621,760	$ 919,731
Other comprehensive income (loss)	32,038	(147,662)
Total comprehensive income	$ 653,798	$ 772,069

TIC

	December 31	
	2016	**2015**
Current assets	$ 1,725	$ 754
Noncurrent assets	6,396,510	4,630,039
Current liabilities	(698,910)	(810,664)
Equity	$ 5,699,325	$ 3,820,129
Proportion of the Corporation's ownership (%)	9	9
Equity attributable to the Corporation	$ 524,338	$ 351,452
Carrying amount	$ 524,338	$ 351,452

	For the Year Ended December 31	
	2016	**2015**
Operating income	$ 129,963	$ 259,968
Net profit for the year	$ 108,668	$ 235,660
Other comprehensive income (loss)	1,770,528	(2,206,553)
Total comprehensive income (loss)	$ 1,879,196	$ (1,970,893)

2) Aggregate information of associates that are not individually material

	For the Year Ended December 31 2016	2015
The Corporation's share of		
Net profit for the year	$ 6,639	$ 10,459
Other comprehensive loss	(27,453)	(21,993)
Total comprehensive loss	$ (20,814)	$ (11,534)

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	$ 1,145,237	$ 467,277	$ 3,493,680	$ 105,130	$ 94,125	$ 75,841	$ 5,381,290
Additions	-	-	79,024	3,675	1,122	295,244	379,065
Disposals	-	-	(11,886)	(16,343)	(157)	-	(28,386)
Balance at December 31, 2016	$ 1,145,237	$ 467,277	$ 3,560,818	$ 92,462	$ 95,090	$ 371,085	$ 5,731,969
Accumulated depreciation							
Balance at January 1, 2016	$ -	$ 213,287	$ 2,608,831	$ 66,472	$ 63,037	$ -	$ 2,951,627
Depreciation expense	-	24,602	218,928	10,905	9,033	-	263,468
Disposals	-	-	(11,173)	(14,534)	(156)	-	(25,863)
Balance at December 31, 2016	$ -	$ 237,889	$ 2,816,586	$ 62,843	$ 71,914	$ -	$ 3,189,232
Carrying amount at December 31, 2016	$ 1,145,237	$ 229,388	$ 744,232	$ 29,619	$ 23,176	$ 371,085	$ 2,542,737

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	$ 60,698	$ 399,522	$ 3,312,701	$ 90,203	$ 78,278	$ 170,724	$ 4,112,126
Additions	1,084,539	67,755	204,000	17,363	16,715	(94,883)	1,295,489
Disposals	-	-	(23,021)	(2,436)	(868)	-	(26,325)
Balance at December 31, 2015	$ 1,145,237	$ 467,277	$ 3,493,680	$ 105,130	$ 94,125	$ 75,841	$ 5,381,290
Accumulated depreciation							
Balance at January 1, 2015	$ -	$ 190,554	$ 2,406,811	$ 55,748	$ 55,621	$ -	$ 2,708,734
Depreciation expense	-	22,733	224,035	12,947	8,284	-	267,999
Disposals	-	-	(22,015)	(2,223)	(868)	-	(25,106)
Balance at December 31, 2015	$ -	$ 213,287	$ 2,608,831	$ 66,472	$ 63,037	$ -	$ 2,951,627
Carrying amount at December 31, 2015	$ 1,145,237	$ 253,990	$ 884,849	$ 38,658	$ 31,088	$ 75,841	$ 2,429,663

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

Buildings	
Main structure	2-50 years
Facility	5-25 years
Machinery and equipment	
Power equipment	3-15 years
Examination equipment	3-5 years
Computer equipment	3-10 years

(Continued)

Transportation equipment	
Transportation equipment	3-5 years
Telecommunication equipment	3-10 years
Other equipment	
Extinguishment equipment	5-8 years
Air condition and utilities equipment	3-10 years
Monitoring, office and other equipment	3-10 years

(Concluded)

15. INVESTMENT PROPERTIES

For the Year Ended December 31, 2016

	Land	Buildings	Total
Cost			
Balance at December 31, 2016	$ 572,338	$ 47,665	$ 620,003
Accumulated depreciation and impairment			
Balance at December 31, 2016	$ 8,825	$ 47,665	$ 56,490
Carrying amount at December 31, 2016	$ 563,513	$ -	$ 563,513

For the Year Ended December 31, 2015

	Land	Buildings	Total
Cost			
Balance at January 1, 2015	$ 561,813	$ 47,665	$ 609,478
Additions	10,525	-	10,525
Balance at December 31, 2015	$ 572,338	$ 47,665	$ 620,003
Accumulated depreciation and impairment			
Balance at January 1, 2015 and December 31, 2015	$ 8,825	$ 47,665	$ 56,490
Carrying amount at December 31, 2015	$ 563,513	$ -	$ 563,513

Buildings classified as investment properties are depreciated on a straight line basis over 50 years.

The Corporation participated in “Qianzhen Residential Building Project” conducted by the fellow subsidiary China Prosperity Development Corporation and signed land purchase agreement cost NT$10,525 thousand in June 2015 and recognized as investment properties. The Corporation also signed land purchase agreement with its employees. According to the purchase agreement, land prices received from employees were deposited in Bank of Taiwan and recognized as other financial assets - noncurrent with contra other noncurrent liabilities.

As of December 31, 2016 and 2015, the fair value of investment properties were both NT$863,606 thousand. The fair value was based on the appraisal value presented by independent qualified professional appraiser using Level 3 inputs and with reference to comparison of the similar transaction price in the market and by, income approach and land developing analysis approach. The significant and unobservable inputs include the rate of capitalization of return and related fee rates in March 2015 and December 2015.

All of the Corporation's investment properties are held under freehold interests.

Please refer to Note 26 for the lease transactions conducted with related party.

16. BORROWINGS

a. Short-term borrowings

	December 31	
	2016	**2015**
Bank loans - interest at 0.7% p.a.	$ 660,000	$ -
Letters of credit borrowings - interest at 1.2% p.a. and 1.45% p.a. as of December 31, 2016 and 2015, respectively	61,276	12,951
Related parties borrowings - interest at 0.45% p.a. (Note 26)	100,000	-
	$ 821,276	$ 12,951

b. Short-term bills payable

	December 31	
	2016	**2015**
Commercial papers - interest at 0.898% p.a. and 1.028% p.a. as of December 31, 2016 and 2015, respectively	$ 620,000	$ 700,000
Less: Unamortized discounts	-	-
	$ 620,000	$ 700,000

The above commercial papers were secured by Mega Bills Finance Corporation, International Bills Finance Corporation and China Bills Finance Corporation.

17. OTHER PAYABLES

	December 31	
	2016	**2015**
Investments payable	$ 225,750	$ -
Salaries and incentive bonus	83,511	91,899
Employees' compensation and remuneration of directors and supervisors	58,229	69,706
Purchase of equipment	44,127	39,495
Outsourced repair and construction	33,668	35,794
Dividend payable	4,627	4,217
Others (soil remediation expenses, freight, commission and insurance)	66,583	44,003
	$ 516,495	$ 285,114

18. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

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

b. Defined benefit plans

The defined benefit plan adopted by the Corporation in accordance with the Labor Standards Law (the "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 Corporation contributes amounts equal to 12% 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 Corporation 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 Corporation 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 Corporation has no right to influence the investment policy and strategy.

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

	December 31	
	2016	**2015**
Present value of defined benefit obligation	$ 306,771	$ 279,816
Fair value of plan assets	(141,694)	(128,723)
Net defined benefit liability	$ 165,077	$ 151,093
Current (including in other payables)	$ 1,455	$ 1,288
Noncurrent	163,622	149,805
	$ 165,077	$ 151,093

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**
For the Year Ended December 31, 2016			
Balance at January 1, 2016	$ 279,816	$ (128,723)	$ 151,093
Service cost			
Current service cost	6,444	-	6,444
Interest expense (income)	4,547	(2,228)	2,319
Recognized in profit or loss	10,991	(2,228)	8,763

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	$ -	$ 1,084	$ 1,084
Actuarial loss - changes in demographic assumptions	2,545	-	2,545
Actuarial loss - changes in financial assumptions	9,484	-	9,484
Actuarial loss - experience adjustments	8,733	-	8,733
Recognized in other comprehensive income	20,762	1,084	21,846
Contributions from the employer	-	(16,625)	(16,625)
Benefits paid	(4,798)	4,798	-
Balance at December 31, 2016	$ 306,771	$ (141,694)	$ 165,077
For the Year Ended December 31, 2015			
Balance at January 1, 2015	$ 245,022	$ (110,850)	$ 134,172
Service cost			
Current service cost	6,031	-	6,031
Interest expense (income)	4,594	(2,216)	2,378
Recognized in profit or loss	10,625	(2,216)	8,409
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(880)	(880)
Actuarial loss - changes in demographic assumptions	2,924	-	2,924
Actuarial loss - changes in financial assumptions	8,909	-	8,909
Actuarial loss - experience adjustments	12,336	-	12,336
Recognized in other comprehensive income	24,169	(880)	23,289
Contributions from the employer	-	(14,777)	(14,777)
Balance at December 31, 2015	$ 279,816	$ (128,723)	$ 151,093

(Concluded)

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	$ 6,028	$ 5,670
Selling and marketing expenses	992	905

(Continued)

	For the Year Ended December 31	
	2016	2015
General and administrative expenses	$ 867	$ 895
Research and development expenses	876	939
	$ 8,763	$ 8,409

(Concluded)

Through the defined benefit plans under the LSL, the Corporation 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 and 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 (%)	1.375	1.625
Expected rate of salary increase (%)	3	3

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		
0.25% increase	$ (9,508)	$ (8,942)
0.25% decrease	$ 9,922	$ 9,342
Expected rate of salary increase		
0.25% increase	$ 9,589	$ 9,053
0.25% decrease	$ (9,240)	$ (8,712)

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	$ 18,551	$ 16,710
The average duration of the defined benefit obligation	13.1 years	13.6 years

19. EQUITY

a. Ordinary share capital

	December 31	
	2016	**2015**
Number of shares authorized (in thousands)	300,000	300,000
Shares authorized	$ 3,000,000	$ 3,000,000
Number of shares issued and fully paid (in thousands)	236,904	236,904
Shares issued	$ 2,369,044	$ 2,369,044

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

b. Capital surplus

	December 31	
	2016	**2015**
May be used to offset deficits, distribute cash or transfer to share capital (see note below)		
Additional paid-in capital	$ 218	$ 218
Treasury share transactions	230,172	177,381
May be used to offset deficits		
Share of change in equity of associates	1,727	1,685
Treasury share transactions	500,860	478,011
	$ 732,977	$ 657,295

Note: Such capital surplus may be used to offset a deficit; in addition, when the Corporation has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Corporation's capital surplus and once a year).

In 2009, CSC had transferred its treasury shares to its subsidiaries' employees. The Corporation recognized a compensation cost and capital surplus of NT$161 thousand. In July 2011, CSC issued ordinary shares for cash capital. Under the Company Law, CSC should reserve 10% of the shares for its employees and subsidiaries. The Corporation recognized NT$57 thousand of compensation cost and capital surplus.

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 had resolved amendments to the Corporation's Articles of Incorporation (the "Articles") in that meeting, particularly the amendment to the policy on dividend distribution and the addition of the policy on distribution of employees' compensation.

Under the dividend policy as set forth in the amended Articles, where the Corporation 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 Corporation'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 of directors and supervisors after the amendment, refer to Employee benefits expense in Note 21(e).

The Articles provide that the annual net income, less any deficit, should be appropriated in the following order:

1) 10% as legal reserve;

2) Special reserve according to operating needs and legal requirements;

3) Any remaining balance shall be allocated according to the resolution of the shareholders' in their meeting, with 1% as remuneration of directors and supervisors and 5% as bonus to employees;

The Corporation is currently in a growing industry environment and the Corporation intends to take advantage of the economic environment to seek for a sustainable operation. The Corporation's dividend policy is to focus on dividend stability and growth by referring to future operating conditions; also, the Corporation should distribute not less than 50% of distributable earnings, and cash dividend may not be less than 50% of the amount distributed.

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

Under Rule No. 1010012865, Rule No. 1010047490 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs", the Corporation should appropriate or reverse a special reserve. For the subsequent decrease in the deduction amount to stockholders' equity, any special reserve appropriated may be reversed to the extent that the net debit balance reverses.

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 Corporation.

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

	Appropriation of Earnings For the Year Ended December 31		Dividend Per Share (NT$) For the Year Ended December 31	
	2015	2014	2015	2014
Legal reserve	$ 123,903	$ 218,719		
Cash dividends	1,066,070	1,966,307	$ 4.5	$ 8.3

The appropriation of earnings for 2016 had been proposed by the Corporation's board of directors in March 2017. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT$)
Legal reserve	$ 77,839	
Reversal of special reserve	(91,543)	
Cash dividends	1,066,070	$ 4.5
	$ 1,052,366	

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

d. Other equity items

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

	For the Year Ended December 31	
	2016	2015
Balance, beginning of year	$ 39,724	$ 27,989
Exchange differences arising on translating the net assets of foreign operations	(18,982)	14,479
Share of exchange difference of subsidiaries and associates accounted for using the equity method	(21,714)	(2,744)
Balance, end of year	$ (972)	$ 39,724

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

	For the Year Ended December 31	
	2016	2015
Balance, beginning of year	$ (142,072)	$ 289,056
Unrealized gains and losses on available-for-sale financial assets	13,628	(35,707)
Reclassified to profit or loss on disposal of available-for-sale financial assets	(10,767)	-
Share of unrealized gains and losses on available-for-sale financial assets of subsidiaries and associates accounted for using the equity method	64,128	(395,421)
Balance, end of year	$ (75,083)	$ (142,072)

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

	For the Year Ended December 31	
	2016	2015
Balance, beginning of year	$ -	$ -
Fair value changes of hedging instrument	(3,196)	-
Income tax relating to fair value changes	543	-
Fair value changes of hedging instruments transferred to adjust carrying amount of hedged items	152	-
Income tax relating to amounts transferred to adjust carrying amount of hedged items	(26)	-
Share of fair value changes of hedging instrument of associates accounted for using the equity method	(102)	-
Balance, end of year	$ (2,629)	$ -

e. Treasury shares

The Corporation's shares acquired and held by subsidiary - EWI for the purpose of investment accounted for as treasury shares were as follows (number of shares in thousands):

For the Year Ended December 31, 2016

Beginning of Year		Decrease During the Year			End of Year		
Number of Shares Held	Carrying Amount	Number of Shares Held	Carrying Amount	Selling Price	Number of Shares Held	Carrying Amount	Market Price
5,730	$ 141,791	652	$ 16,135	$ 68,926	5,078	$ 125,656	$ 604,227

For the Year Ended December 31, 2015

Beginning of Year		Decrease During the Year			End of Year		
Number of Shares Held	Carrying Amount	Number of Shares Held	Carrying Amount	Selling Price	Number of Shares Held	Carrying Amount	Market Price
6,548	$ 162,034	818	$ 20,243	$ 117,271	5,730	$ 141,791	$ 610,196

The Corporation's shares held by the subsidiaries are accounted for as treasury shares with all shareholders' rights, except the rights to participate in the Corporation's capital increase in cash and right to vote.

20. OPERATING REVENUES

	For the Year Ended December 31	
	2016	2015
Revenue from the sale of goods	$ 4,819,978	$ 5,697,344
Revenue from the rendering of services	74,881	73,154
	$ 4,894,859	$ 5,770,498

21. PROFIT BEFORE INCOME TAX

Profit before income tax consisted of following items:

a. Other income

	For the Year Ended December 31	
	2016	2015
Rental revenue (Note 26)	$ 15,879	$ 14,740
Revenue from technology services (Note 26)	7,106	7,612
Interest income (Note 26)	3,775	4,776
Dividend income	1,665	2,957
Others	17,444	17,930
	$ 45,869	$ 48,015

b. Other gains and losses

	For the Year Ended December 31	
	2016	2015
Gain on disposal of investments	$ 10,767	$ 470
Gain on fair value change of financial assets designated as at FVTPL	5,984	4,464
Net foreign exchange gain (loss)	(2,360)	36,164
Loss on disposal of property, plant and equipment	(867)	(572)
Gain on disposal of noncurrent assets held for sale (Note 26)	-	73,242
	$ 13,524	$ 113,768

The components of net foreign exchange gain (loss) were as follows:

	For the Year Ended December 31	
	2016	2015
Foreign exchange gain	$ 42,585	$ 53,051
Foreign exchange loss	(44,945)	(16,887)
Net foreign exchange gain (loss)	$ (2,360)	$ 36,164

c. Finance costs

	For the Year Ended December 31	
	2016	2015
Interest on bank overdrafts, loans and related parties borrowings (Note 26)	$ 6,832	$ 1,888

Information about capitalized interest was as follows:

	For the Year Ended December 31	
	2016	2015
Capitalized interest	$ -	$ 1,279
Capitalization rate (%)	-	1.028

d. Depreciation and amortization

	For the Year Ended December 31	
	2016	2015
Property, plant and equipment	$ 263,468	$ 267,999
Long-term prepayments for lease	6,046	2,041
	$ 269,514	$ 270,040
An analysis of depreciation by function		
Operating costs	$ 240,446	$ 246,923
Operating expenses	23,022	21,076
	$ 263,468	$ 267,999
An analysis of amortization by function		
Operating costs	$ 6,046	$ 2,041

e. Employee benefits

	For the Year Ended December 31	
	2016	2015
Short-term employee benefits		
Salaries	$ 319,793	$ 364,817
Labor and health insurance	17,393	16,302
Others	8,525	9,143
	345,711	390,262
Post-employment benefits (Note 18)		
Defined contribution plans	4,932	3,990
Defined benefit plans	8,763	8,409
	13,695	12,399
	$ 359,406	$ 402,661
An analysis by function		
Operating costs	$ 228,118	$ 247,385
Operating expenses	131,288	155,276
	$ 359,406	$ 402,661

1) Employees' compensation and remuneration of directors and supervisors for the year ended December 31, 2016 and 2015

In compliance with the Company Act as amended in May 2015, and the amended Articles of Incorporation of the Corporation (the "Articles") approved in June 2016 stipulated the Corporation to distribute employees' compensation and remuneration of directors and supervisors at the rates no less than 0.1% and no higher than 1%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors.

The employees' compensation and remuneration of directors and supervisors for the year ended December 31, 2016 and 2015 which have been approved by the Corporation's board of directors in March 2017 and 2016, respectively, were as follows:

	Cash	
	For the Year Ended December 31	
	2016	2015
Employees' compensation	$ 50,968	$ 55,757
Remuneration of directors and supervisors	10,193	11,151

Material differences between such estimated amounts and the amounts resolved by the board of directors on or before the date the annual standalone financial statements are authorized for issue are adjusted in the year the bonus and remuneration were recognized. If there is a change in the proposed amounts after the annual standalone financial statements were authorized for issue, the differences are recorded as a change in accounting estimate.

The appropriations of employees' compensation and remuneration of directors and supervisors for 2016 and 2015 having been resolved by the board of directors in March 2017 and 2016 and standalone financial statements for 2016 and 2015 as follows:

	For the Year Ended December 31 2016		For the Year Ended December 31 2015	
	Employees' Compensation	Remuneration of Directors and Supervisors	Employees' Compensation	Remuneration of Directors and Supervisors
The board of directors approved amounts	$ 50,968	$ 10,193	$ 55,757	$ 11,151
Standalone financial statements amounts	$ 48,941	$ 9,788	$ 55,732	$ 11,146

Above mentioned are adjusting profit and loss in 2017 and 2016.

Information on employees' compensation and remuneration of directors and supervisors resolved by the Corporation's board of directors is available on the Market Observation Post System website of the Taiwan Stock Exchange.

2) Bonus to employees and remuneration of directors and supervisors for the year ended December 31, 2014

The bonus to employees and remuneration of directors and supervisors for 2014 which have been approved in the shareholders' meetings in June 2015, were as follows:

	Cash
Bonus to employees	$ 104,591
Remuneration of directors and supervisors	20,918

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

Information on the bonus to employees and remuneration of directors and supervisors resolved by the shareholders' meetings is available on the Market Observation Post System website of the Taiwan Stock Exchange.

22. 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	$ 155,846	$ 203,672
Income tax on unappropriated earrings	2,799	-
Adjustments for prior years	7,967	(5,911)
Deferred tax		
In respect of the current year	(3,792)	(107)
	$ 162,820	$ 197,654

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

	For the Year Ended December 31	
	2016	**2015**
Profit before income tax	$ 1,193,724	$ 1,436,687
Income tax expense at the statutory rate	$ 202,933	$ 244,237
Tax-exempt income	(14,000)	(19,500)
Deductible income in determining taxable income	(36,879)	(27,805)
Income tax on unappropriated earnings	2,799	-
Land value increment tax	-	6,633
Adjustments for prior years	7,967	(5,911)
	$ 162,820	$ 197,654

The Corporation is subject to the income tax rate of 17%.

As the status of 2017 appropriation of earnings is uncertain, the potential income tax consequences of 2016 unappropriated earnings were not reliably determinable.

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

	For the Year Ended December 31	
	2016	2015
Recognized in other comprehensive income (loss):		
Remeasurement on defined benefit pension plan	$ (3,714)	$ (3,959)
Fair value changes of cash flow hedges	(543)	-
Fair value changes of hedging instruments in cash flow hedges transferred to adjust carrying amounts of hedged items	26	-
	$ (4,231)	$ (3,959)

c. Current tax liabilities

	December 31	
	2016	2015
Current tax liabilities		
Income tax payable	$ 59,286	$ 80,918

d. Deferred tax assets and liabilities

Movements of deferred tax assets and liabilities were as follows:

For the Year Ended December 31, 2016

Deferred tax assets	Balance, Beginning of Year	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Balance, End of Year
Temporary differences				
Defined benefit liabilities	$ 25,686	$ (1,337)	$ 3,714	$ 28,063
Unrealized losses on inventories	15,434	-	-	15,434
Difference between tax reporting and financial reporting - depreciation methods	6,796	(245)	-	6,551
Foreign investment loss	2,379	252	-	2,631
Unrealized losses from impairment loss	-	4,299	-	4,299
Unrealized losses from cash flow hedges	-	-	517	517
	$ 50,295	$ 2,969	$ 4,231	$ 57,495
Deferred tax liabilities				
Temporary differences				
Unrealized exchange gains, net	$ 5,248	$ (823)	$ -	$ 4,425

For the Year Ended December 31, 2015

	Balance, Beginning of Year	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Balance, End of Year
Deferred tax assets				
Temporary differences				
Defined benefit liabilities	$ 22,809	$ (1,082)	$ 3,959	$ 25,686
Unrealized loss on inventories	11,999	3,435	-	15,434
Difference between tax reporting and financial reporting - depreciation methods	7,184	(388)	-	6,796
Foreign investment loss	652	1,727	-	2,379
	$ 42,644	$ 3,692	$ 3,959	$ 50,295
Deferred tax liabilities				
Temporary differences				
Unrealized exchange gains, net	$ 1,663	$ 3,585	$ -	$ 5,248

e. The aggregate amount of temporary differences of investments for which deferred tax liabilities have not been recognized

The taxable temporary differences of investments in subsidiaries for which no deferred tax liabilities have been recognized were NT$295,253 thousand and NT$295,054 thousand as of December 31, 2016 and 2015, respectively.

f. Integrated income tax

	December 31	
	2016	2015
Unappropriated earnings		
Unappropriated earnings generated on and after January 1, 1998	$ 1,069,083	$ 1,248,132
Shareholder-imputed credit account (“ICA”)	$ 124,778	$ 139,354

	For the Year Ended December 31	
	2016 (Estimated)	2015 (Actual)
Creditable ratio for distribution of earnings (%)	17.50	19.75

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

g. Income tax assessments

The Corporation’s income tax returns through 2013 have been assessed by the tax authorities.

23. EARNINGS PER SHARE

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

Net profit for the year

	For the Year Ended December 31	
	2016	**2015**
Net profit for the year	$ 1,030,904	$ 1,239,033

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

	For the Year Ended December 31	
	2016	**2015**
Weighted average number of ordinary shares outstanding	236,904	236,904
Less: Number of treasury shares acquired by subsidiaries	5,112	6,037
Weighted average number of ordinary shares used in computation of basic earnings per share	231,792	230,867
Plus: Effect of dilutive potential ordinary shares - employees' compensation	513	894
Weighted average number of ordinary shares used in the computation of diluted earnings per share	232,305	231,761

Since the Corporation is allowed to settle compensation paid to employees by cash or shares, the Corporation assumed that the entire amount of the compensation will be settled in shares and the resulting potential shares are included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, 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.

24. CAPITAL MANAGEMENT

The capital management of the Corporation is aimed at ensuring effective use of capital and ensuring a smooth operation and ensuring optimized debt and equity balance. The overall strategy of the Corporation has not significantly changed over the years. The capital structure of the Corporation consists of net liabilities and equity without any need for complying with other external capital requirements. The Corporation reviews capital structure on a quarterly basis, including the consideration of capital costs and related risks. Currently, the equity in the capital structure is greater than liabilities and it will be used to pay for dividends or debts; also, the Corporation has invested in financial instruments as part of capital and fund management.

25. FINANCIAL INSTRUMENTS

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

	Level 1	Level 2	Level 3	Total
December 31, 2016				
Financial assets measured at fair value through profit and loss				
Mutual funds	$ 96,790	$ -	$ -	$ 96,790
Available-for-sale financial assets				
Domestic quoted stock	$ 106,812	$ -	$ -	$ 106,812
December 31, 2015				
Financial assets measured at fair value through profit and loss				
Mutual funds	$ 280,120	$ -	$ -	$ 280,120
Credit - linked notes	-	66,221	-	66,221
Domestic quoted shares	1,086	-	-	1,086
	$ 281,206	$ 66,221	$ -	$ 347,427
Available-for-sale financial assets				
Domestic quoted shares	$ 103,951	$ -	$ -	$ 103,951

There were no transfer between Level 1 and Level 2 for the years ended December 31, 2016 and 2015.

b. Categories of financial instruments

	December 31	
	2016	2015
Financial assets		
Measured at fair value through profit or loss		
Designated as at fair value through profit or loss	$ 96,790	$ 347,427
Available-for-sale financial assets	106,812	103,951
Loans and receivables (Note 1)	1,811,393	1,330,011
Financial liabilities		
Measured at amortized cost (Note 2)	2,172,581	1,195,055

Note 1: The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, other financial assets (including noncurrent), debt investments with no active market, notes and accounts receivable (including related parties), other receivables and refundable deposits.

Note 2: The balances included financial liabilities measured at amortized cost, which comprise short-term borrowings, short-term bills payable, accounts payable (including related parties) and other payables.

c. Financial risk management objectives and policies

The Corporation's major financial instruments include equity and debt investments, accounts receivable, accounts payable, short-term borrowings and short-term bills payable. The Corporation's treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Corporation through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

The Corporation sought to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives was governed by the Corporation's policies approved by the board of directors, which provided written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits was reviewed by the internal auditors on a continuous basis. The Corporation did not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

1) Market risk

The Corporation's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. There had been no change to the Corporation's exposure to market risks or the manner in which these risks were managed and measured.

a) Foreign currency risk

The Corporation had sales in foreign currencies, which were exposed to foreign currency risk. Approximately 36% of the Corporation's sales revenues were denominated in currencies other than the functional currency. Exchange rate exposures were managed within approved policy parameters utilizing forward foreign exchange contracts or were mitigated by future receivables and payables denominated in the same foreign currency.

The carrying amounts of the Corporation's foreign currency denominated monetary assets and monetary liabilities at the balance sheet date are set out in Note 28.

<u>Sensitivity analysis</u>

The Corporation was mainly exposed to the currency USD. The following table details the Corporation's sensitivity to a 3% increase and decrease in the functional currency against the relevant foreign currency. The sensitivity rate of 3% represents management's assessment of the reasonably possible change in foreign exchange rates.

The sensitivity analysis includes only the outstanding foreign monetary items at each balance sheet date. Scenario 1 in the following table indicates the profit and loss of the Corporation when the functional currency against the USD appreciated by 3%. Scenario 2 in the following table indicates the profit or loss of the Corporation when the functional currency against the USD depreciated by 3%.

	USD Effect (Note)	
	For the Year Ended December 31	
	2016	**2015**
Profit or loss in Scenario 1	$ (31,840)	$ (23,809)
Profit or loss in Scenario 2	31,840	23,809

Note: It was mainly derived from the cash and cash equivalents, receivables, debt investment with no active market price, payables, and other payables denominated in foreign currency without cash flow hedging arranged at each balance sheet date by the Corporation.

The exchange rate sensitivity of the Corporation in 2016 was increased mainly due to the increase of USD assets. The management believes that the sensitivity analysis is not representative of the inherent risk of exchange rate since the foreign currency risk exposure at balance sheet date does not reflect the interim risk exposure; also, the sales denominated in USD will be affected by customer orders and shipping schedules.

b) Interest rate risk

The loans of the Corporation are mainly less than twelve months short-term loans with an interest rates based on the NTD market interest rate; therefore, the interest rate sensitivity was low. Interest rate risk was immaterial to the Corporation.

The carry amount of the Corporation’s financial assets and financial liabilities with exposure to interest rates at the balance sheet date were as follows:

	December 31	
	2016	**2015**
Cash flow interest rate risk		
Financial assets	$ 114,653	$ 699,703
Financial liabilities	61,276	12,951

c) Other price risk

The Corporation are exposed to equity price risk through its investments in quoted shares, mutual funds, and emerging shares the risk is managed; by maintaining a portfolio with of investments with different risks. The equity price risk of the Corporation was primarily concentrated on the share and fund market in Taiwan and it was evaluated by the closing price of the equity securities and net value of mutual funds on a monthly basis.

Sensitivity analysis

The sensitivity analysis measures the exposure to equity price risk at the balance sheet date. Considering the market price fluctuation of the Corporation’s main investment targets, the fluctuation of 6% was used for the sensitivity analysis of equity securities.

If equity prices had been 6% higher/lower for the years ended December 31, 2016 and 2015, respectively, the pre-tax profit for the years ended December 31, 2016 and 2015 would have been higher/lower by NT$5,807 thousand and NT$16,872 thousand, respectively, as a result of the fair value changes of financial assets at fair value through profit or loss, and the pre-tax other comprehensive income for the years ended December 31, 2016 and 2015 would have been higher/lower by NT$6,409 thousand and NT$6,237 thousand, respectively, as a result of the changes in fair value of available-for-sale financial assets.

2) Credit risk

Credit risk refers to the risk that counterparty will default resulting in financial loss to the Corporation. As at the balance sheet date, the Corporation’s maximum exposure to credit risk is the carrying amount of accounts receivables on the standalone balance sheets. The main customers of the Corporation were creditworthy. Annual credit investigation of the credit status of the customers is conducted and a credit report is issued. The business unit uses the credit report as basis for the rating of the customers and the credit line granted. In addition, the credit rating and customer credit status are compiled in a weekly report for use as reference of the business department. If necessary, the customers will be requested to provide collaterals or to pay cash for each transaction. The business department also understands the credit status of customers through external credit investigation and industry reports. The credit risk was immaterial to the Corporation.

The Corporation's concentrations of credit risk in total of notes receivable and accounts receivable were as follows:

	December 31	
	2016	**2015**
Customer A	$ 79,428	$ 62,098
Customer B	57,682	49,870
Customer C	82,766	56,943
	$ 219,876	$ 168,911

3) Liquidity risk

The Corporation supported business operation through management and by maintaining sufficient cash and cash equivalents or easily realizable financial instruments. In addition, the Corporation signed line of credit contracts with financial institutions for a ready source of funds to support the business operation of the Corporation.

The equity of the Corporation is far greater than its liabilities; also, cash and cash equivalents were sufficient to repay bank loans and other obligations of the Corporation; also, the bank credit lines have available unused amount; therefore, there is no liquidity risk.

The Corporation relies on bank borrowings as a significant source of liquidity. As of December 31, 2016 and 2015, the Corporation had available unutilized short-term bank loan facilities in the amounts of NT$3.3 billion and NT$2.7 billion, respectively.

26. TRANSACTIONS WITH RELATED PARTIES

Details of transactions between the Corporation and other related parties were as follow:

a. Operating revenues

		For the Year Ended December 31	
Account Items	**Related Parties Types**	**2016**	**2015**
Revenue from sales of goods	Parent entity	$ 13,777	$ 14,290
	Subsidiaries	302,745	317,448
	Fellow subsidiaries	12,148	12,893
	Others	803,058	1,005,403
		$ 1,131,728	$ 1,350,034
Revenue from the rendering of services	Parent entity	$ 74,881	$ 73,154

Part of sales to the parent entity, subsidiaries and fellow subsidiaries were charged at the cost plus additional percentage; sales to others were charged in accordance with the agreed pricing formula. Sales referred to above except for revenue from the rendering of services from the parent entity, did not have similar transactions for comparison; but not significantly different from regular trading.

b. Purchase of goods

Related Parties Types	For the Year Ended December 31 2016	2015
Parent entity	$ 1,671,747	$ 1,759,164
Subsidiaries	46,368	105,692
Fellow subsidiaries	612,599	733,584
	$ 2,330,714	$ 2,598,440

The Corporation and its parent entity had purchase contracts for light oil products and coal tar signed in March 2013 and July 2010 for a period of 5 years, respectively. In addition, the Corporation and a fellow subsidiary had a purchase contract for light oil products and coal tar signed in May 2008 for a period of 5 years; also, the contracts would be extended automatically for 5 years each time upon maturity if there was no objection raised by either party. The purchases referred to above were paid with an issued letter of credit at sight; also, any price adjustment according to market price would be settled separately. The Corporation and a subsidiary also signed a batch purchase contract which is at cost plus an additional percentage.

In addition, the Corporation signed a contract with the parent entity in January 2008 for fine coke processing for a 5-year period; the contract would be extended automatically for 5 years each time upon maturity if there was no objection raised by either party.

c. Receivables from related parties

Account Items	Related Parties Types	December 31 2016	2015
Accounts receivable	Parent entity	$ 8,132	$ 7,403
	Subsidiaries	29,574	41,669
	Fellow subsidiaries	2,065	969
	Others	79,428	62,098
		$ 119,199	$ 112,139
Other receivables	Parent entity	$ 20,896	$ 13,405
	Subsidiaries	4,682	4,590
	Fellow subsidiaries	476	683
		$ 26,054	$ 18,678

No guarantee had been received for receivables from related parties. For the years ended December 31, 2016 and 2015, no impairment loss was recognized on receivables from related parties.

d. Payables to related party

Account Items	Related Parties Types	December 31 2016	2015
Accounts payable	Parent entity	$ 183,869	$ 159,356
	Subsidiaries	4,751	9,900
	Fellow subsidiaries	267	134
		$ 188,887	$ 169,390

(Continued)

Account Items	Related Parties Types	December 31 2016	December 31 2015
Other payables	Parent entity	$ 9,732	$ 9,763
	Subsidiaries	225,750	-
	Fellow subsidiaries	10,082	1,973
		$ 245,564	$ 11,736

(Concluded)

The outstanding accounts payable to related parties were unsecured.

e. Investment properties acquired - For the year ended December 31, 2015

Related Parties Types	Price
Fellow subsidiaries	$ 10,525

f. Noncurrent assets held for sale disposed - For the year ended December 31, 2015

Related Parties Types	Proceeds	Gain on Disposal
Fellow subsidiaries	$ 98,667	$ 73,242

g. Loans to related parties

The Corporation provided short-term loan of NT$300,000 thousand to the parent entity and it had been received at January, 2015. The loan to the parent entity was unsecured loan. Interest income was NT$112 thousand for the year ended December 31, 2015.

h. Loans from related parties (recognized as short-term borrowings)

Related Parties Types	December 31 2016	December 31 2015
Subsidiaries	$ 100,000	$ -

The rate of loans from subsidiaries was calculated at the latest 30-day average rate of the Corporation's short-term time deposits and commercial papers in the same currencies as ordinary financial institutions and adjusted based on the circumstances. As of December 31, 2016, the interest rate for the loan was 0.45% p.a. Loans from the subsidiaries were unsecured loans and with an interest expense of NT$92 thousand for the year ended December 31, 2016.

i. Other related party transactions

1) Leased land and factories

The Corporation leased the current factory land from the parent entity under three contracts. The annual rent amount was calculated according to 3% of the announced total present value or 6% of the announced total land value. The three contracts were signed for periods of 5 years (ending in December 2020), 5 years (ending in December 2017), and 10 years (ending in June 2019). Rent was paid once every six months; the annual rent expense was NT$16,355 thousand and NT$15,674 thousand for the years ended December 31, 2016 and 2015, respectively.

The Corporation leased the coke plant from the parent entity for a period to December 2017 with the rental paid once every six months; the annual rent expense was NT$2,223 thousand and NT$2,438 thousand for the years ended December 31, 2016 and 2015, respectively.

The Corporation and fellow subsidiaries had signed a land and warehouse lease contract for a period up to August 2017; the annual rent expense was NT$1,603 thousand and NT$1,282 thousand for the year ended December 31, 2016 and 2015, respectively.

The Corporation and other non-related parties had no similar transactions available for comparison.

2) Leased office building

The Corporation had leased office buildings and office from the parent entity for a period up to October 2019 and December 2019, respectively; the annual rent expense was NT$6,358 thousand and NT$6,256 thousand for the years ended December 31, 2016 and 2015, respectively. The rent mentioned above was based on the negotiation between two parties, and the payments follow the terms of the contract. There was no significant difference in the rent and in the terms between the above mentioned contract and the contracts signed with unrelated parties.

3) Rent revenue

As described in Note 15, the Corporation and the parent entity had signed a land lease contract (located in Siaogang District, Kaohsiung City) with the rent advanced every six months and for a period up to December 2020. The annual rent revenue (included in non-operating income - other income) was NT$12,317 thousand and NT$11,920 thousand for the years ended December 31, 2016 and 2015, respectively. In addition, the Corporation and a fellow subsidiary had signed a land and housing equipment rental contract with the rent advanced every six months. The annual rent revenue (included in non-operating income - other income) was NT$240 thousand for the year ended December 31, 2015.

4) Public fluid and reservoir

The Corporation's factory located inside the parent entity's plant; the primary energy needed for production was supplied by the parent entity. The Corporation paid the parent entity on a monthly basis expense for public fluid and reservoir, including electricity, wastewater treatment, waste gas treatment, consumption of steam, and coke ovens, in accordance with the market price or cost plus percentage. The expense mentioned above amounted to NT$332,439 thousand and NT$393,852 thousand for the years ended December 31, 2016 and 2015, respectively. The Corporation and other non-related parties had no similar transactions available for comparison.

5) Technical service fees

The Corporation commissioned the parent entity to provide technical services, including Isotropic graphite block material analysis, Ultra capacitor activated carbon electrode development, and the assessment of soft asphalt applied to fuel. The fees for technical services amounted to NT$11,194 thousand and NT$10,307 thousand for the years ended December 31, 2016 and 2015, respectively.

6) Technical service revenue

The Corporation signed technical service contract with its subsidiaries. Technical service revenue amounted to NT$7,106 thousand and NT$7,612 thousand for the years ended December 31, 2016 and 2015, respectively.

j. Compensation of key management personnel

	For the Year Ended December 31	
	2016	2015
Short-term employee benefits	$ 41,220	$ 35,199
Post-employment benefits	451	447
	$ 41,671	$ 35,646

The compensation of the directors and the other management was determined by the Remuneration Committee in accordance with the personal performance evaluation and market trends.

27. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

The Corporation's significant commitments and contingencies as of December 31, 2016 were as follow:

a. Unused balance of the letter of credit issued by the Corporation for the purchase of raw materials and commodities in the amount of NT$730,944 thousand.

b. Property, plant and equipment construction contract signed for total amount of NT$826,055 thousand; with the construction contracts amounted the completed NT$644,612 thousand were not yet being.

28. EXCHANGE RATE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES DENOMINATED IN FOREIGN CURRENCY

The following information was aggregated by the foreign currencies other than functional currencies of the Corporation and the exchange rate between foreign currencies and respective functional currencies were disclosed.

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

December 31, 2016	Foreign Currencies (In Thousands)	Exchange Rate		Carrying Amount (In Thousands of New Taiwan Dollars)
Monetary financial assets				
USD	$ 40,142	32.25	(USD:NTD)	$ 1,294,574
RMB	7,620	4.617	(RMB:NTD)	35,181
Non-monetary financial assets				
Designated as at fair value through profit or loss				
USD	3,001	32.25	(USD:NTD)	96,790
Investment accounted for using equity method				
USD	22,655	32.25	(USD:NTD)	730,617
Monetary financial liabilities				
USD	7,233	32.25	(USD:NTD)	233,249

(Continued)

December 31, 2015	Foreign Currencies (In Thousands)	Exchange Rate		Carrying Amount (In Thousands of New Taiwan Dollars)
Monetary financial assets				
USD	$ 24,475	32.825	(USD:NTD)	$ 803,396
RMB	1,800	4.995	(RMB:NTD)	8,991
Non-monetary financial assets				
Designated as at fair value through profit or loss				
USD	397	32.825	(USD:NTD)	13,026
RMB	6,219	4.995	(RMB:NTD)	31,062
Investment accounted for using equity method				
USD	12,397	32.825	(USD:NTD)	406,943
Monetary financial liabilities				
USD	297	32.825	(USD:NTD)	9,756

(Concluded)

For the years ended December 31, 2016 and 2015, realized and unrealized net foreign exchange gains and losses were losses NT$2,360 thousand and gains NT$36,164 thousand. It is impractical to disclose net foreign exchange gains or losses by each significant foreign currency due to the variety of the foreign currency transaction and functional currencies of the Corporation.

29. SEGMENT INFORMATION

Disclosure of the segment information in standalone financial statements is waived.