

Stock Code: 2031

The information in the Proceedings Manual can be found at the
following webpage



HSIN KUANG STEEL CO., LTD

**2017 General Shareholders
Meeting
Proceedings Manual**

Date: 9:00 AM, June 15, 2017

Location: No. 120, Gongye 8th Road, Guanyin District,
Taoyuan City

(The Company's Guanyin Plant Conference Office)

Hsin Kuang Steel Co., Ltd.

Proceedings Manual for the 2017 General Shareholders

Meeting

Table of Contents

I. Call Meeting to Order

II. Agenda

1. Reports.....	2
2. Acceptance and Discussions	4
3. Elections.....	6
4. Other Proposals	7
5. Extempore Motions	7

III. Attachments

1. Business Report.....	8
2. Supervisors' Report.....	10
3. Independent Auditor's Report and the 2016 Consolidated Financial Statements.....	11
4. Independent Auditor's Report and the 2016 Individual Financial Statements	22
5. Earnings Distribution Statement	32
6. Table of Comparison of Revised Articles of the Company's "Procedures for the Acquisition or Disposal of Assets"	34
7. The Company's Candidate List for 14th-term Independent Directors	37

IV. Appendices

1. Rules of Procedure for Shareholders' Meeting.....	39
2. Articles of Incorporation.....	43
3. The Company's Procedures for Election of Directors.....	49
4. Shares Held by All Directors and Supervisors and Minimum Shareholdings Required by Law	51
5. The effects of the stock dividends on the Company's business performances, earnings per share and shareholder ROI.....	52

I. Call Meeting to Order

II. Agenda

Hsin Kuang Steel Co., Ltd.

Agenda for the 2017 General Shareholders Meeting

Time: 9:00 AM, June 15 (Thursday), 2017

Location: No. 120, Gongye 8th Road, Guanyin District, Taoyuan City
(The Company's Guanyin Plant Conference Office)

Attendance: All shareholders and proxies

Chaired by: Chairman Alexander, M.T. Su

1. Chairman's speech

2. Reports

Case 1 2016 Business Report

Case 2 Report by supervisors on the review of the 2016 financial statements.

Case 3 Report on the 2016 distribution of remunerations to employees and directors.

Case 4 Report on indirect investment in Mainland China.

Case 5 Report on the Company's total amount for endorsement, guarantee and amount of loans to third parties.

Case 6 Implementation report for the issuance of employee stock options.

Case 7 Other matters: None.

3. Acceptance and Discussions

Case 1 Ratification of the 2016 business report and final financial statements.

Case 2 Approval of 2016 earnings distribution proposal.

Case 3 Approval of the distribution of cash paid from capital reserves.

Case 4 Approval of the amendment of the Procedures for Acquisition and Disposal of Assets.

4. Elections

Case 1: Election of 14th-term directors.

5. Other Proposals

Case 1 Submit the proposal for the waiver of non-competition clauses for newly elected directors of the Company to the shareholders meeting.

6. Extempore Motions

7. Meeting adjourned

Reports

- I. 2016 Business Report
Description: The Company's 2016 Business Report was approved in the 19th meeting of the Company's 13th-term Board of Directors. Please refer to Attachment 1 from page 8 to page 9 of the Proceedings Manual.
- II. Report by supervisors on the review of the 2016 financial statements
Description: Please refer to Attachment 2 on page 10 of the Proceedings Manual for the Auditing Report for the report by supervisors on the review of the 2016 financial statements.
- III. Report on the 2016 distribution of remuneration to employees, directors, and supervisors
Description: (1) Remuneration shall be distributed in accordance with Article 20 the Company's Articles of Incorporation, which states "no less than 3% of any profit made by the Company in a year shall be allocated as employee bonus, and the Board of Directors shall decide to distribute the bonus as shares or cash, which can also be distributed to employees of affiliated companies that meet certain criteria; if the Company sustains profit for the current year, the Board of Directors shall decide to set aside no more than 3% of profit as director and supervisor remuneration."
(2) The Company's 2016 remuneration for employees is NT\$25,876,175 and the remuneration shall be distributed in cash as approved in the Board of Directors meeting resolution on March 14, 2017.
(3) The Company's amount of remuneration appropriated for Directors and Supervisors in 2016 is NT\$25,876,175.
- IV. Report on indirect investment in Mainland China

Description: Report on indirect investment in Mainland China by the Company:

Unit: NT\$1,000

Investee company name	Investment method	Total accumulated amount of investment transferred from Taiwan	Investment limit (60% of the Company's net value)
Advanced Tooling Tek (Shanghai) Co., Ltd.	Investment in company in Mainland China through the Company's subsidiary Sinpao Investment Limited in British Virgin Islands	Cash: US\$1,098	US\$103,157 (Note) NT\$3,326,816

Note 1. The Company's net value as of December 31, 2016 was US\$171,928,000 (calculated on the basis of US\$1: NT\$32.25).

Note 2. The maximum amount of investment is 60% of the Company's net value.

Note 3. The accumulated amount of investment transferred from Taiwan by the Company as of the end of 2016 was US\$1.098 million, which was consistent with the resolution in the shareholder meeting in 2003.

V. Report on total amount for endorsement, guarantee and amount of loans to third parties

Description: (1).The Company's aggregate amount of endorsements and guarantees is as follows as of December 31, 2016:

Unit: NT\$1,000

Guarantee beneficiary	Relationship	Guaranteed amount	Actual amount of utilization
Hsin Kuang Alga Engineering Co., Ltd.	A subsidiary of the Company with 68.16% of shares held by the Company through direct investment	7,400	7,400

The total amount of endorsement and guarantee as of December 31, 2016 amounted to NT\$7.4 million, which is consistent with the Company's regulation on the total amount of external endorsements and guarantees and the maximum amount of endorsements and guarantees for a single enterprise.

(2).The Company's aggregate amount of loans is as follows as of December 31, 2016:

Unit: NT\$1,000

Borrower	Relationship	Amount of loans	Actual amount of utilization
Hsin Ho Fa Metal Co., Ltd.	A subsidiary of the Company with 83.373% of shares held by the Company through direct investment	30,000	13,000

The total amount of loans as of December 31, 2016 amounted to NT\$13 million, which is consistent with the Company's regulation on the total amount of external loans and the maximum amount of loans for a single enterprise.

VI. Implementation report for the issuance of employee stock options

Description: (1).The Company plans to issue a total 2,500 units in accordance with the "Employee Warrant Issuance and Subscription Policy," and the expiration date was March 14, 2016.

(2).A total of 1,905,000 shares of ordinary new stocks shall be distributed in the Company's employee warrant issuance and subscription; the Company shall recover and cancel 595 units.

VII. Other matters: None.

Acceptance and Discussions

Case 1 (proposed by the Board of Directors)

Case: Ratification of the 2016 business report and final financial statements.

Description: (1) The Company's 2016 financial statements, including: the balance sheet, comprehensive income statement, statement of changes in equity and cash flow statement have been audited by Chao-Ling Chen, CPA and Chiang-Pao Liu, CPA, passed in the 19th meeting of the Company's 13th-term Board of Directors, and audited by all supervisors who filed an written auditing report.

- (2) Please refer to and ratify Attachment 1 from page 8 to page 9 and Attachment 3 and 4 from page 11 to 28 of the Proceedings Manual for the Company's 2016 Business Report, CPA Auditing Report and the aforementioned financial statements.

Resolution:

Case 2 (proposed by the Board of Directors)

Case: Approval of 2016 earnings distribution proposal.

Description: (1) The earnings distribution proposal is for the distribution of distributable earnings of 2016 in cash dividend of NT\$1 per ordinary share. In the event that the total number of the Company's stocks in circulation is affected for any reason, please authorize the Chairman to adjust the distribution ratio based on the total amount of earnings to be distributed and the resolution in this shareholders meeting in accordance with the quantity of the Company's shares in external circulation on the record date.

- (2) The Company's 2016 Earnings Distribution Statement was approved in the 19th meeting of the Company's 13th-term Board of Directors and approved by Supervisors as the submitted proposal. Please refer to Attachment 5 on page 29 of the Proceedings Manual and ratify.

Resolution:

Case 3 (proposed by the Board of Directors)

Case: Approval of the distribution of cash paid from capital reserves.

Description: (1) Pursuant to Article 241 of the Company Act, the Company plans to allocate NT\$244,954,991 from the capital reserve that originate from the income on premiums of stocks issued at values exceeding their nominal value and the conversion price of the conversion of corporate bonds to distribute NT\$0.80 for each ordinary share.

- (2) In the event that the total number of the Company's stocks in circulation is affected for any reason, please authorize the Chairman to adjust the distribution ratio based on the total amount of capital reserve to be distributed and the resolution in this shareholders meeting in accordance with the quantity of the Company's shares in external circulation on the payment date.

Resolution:

Case 4 (proposed by the Board of Directors)

Case: Approval of the amendment of the Procedures for Acquisition and Disposal of Assets.

Description: (1) Article 9, Article 11, Article 14, Article 15, and Article 20 of the Procedures for Acquisition and Disposal of Assets are amended in response to the amendment of in Article 9, Article, 11, Article 22, and Article 30 of the Regulations Governing the Acquisition and Disposal of Assets by Public Companies released by the Financial Supervisory Commission.

- (2) Table of Comparison of Revised Articles of the Company's "Procedures for the Acquisition or Disposal of Assets" was approved in the 19th meeting of the Company's 13th-term Board of Directors. Please refer to Attachment 6 from page 30 to page 31 of the Proceedings Manual and ratify.

Resolution:

Votes

Case 1 (proposed by the Board of Directors)

Case: Proposal for the election of 14th-term directors.

Description: (1) The terms of office of the Company's 13th-term directors and supervisors shall expire on August 5, 2017. The position of supervisor in the Company shall be abolished on August 6, 2017.

(2) To expedite the election, the Company's Board of Directors has resolved not to organize a separate extraordinary shareholders meeting for elections and shall hold elections for 9 directors (including 3 independent directors) in this general shareholders meeting.

(3) The Company shall assemble an Audit Committee in accordance with Article 14-4 of the Securities and Exchange Act. The Audit Committee is responsible for carrying out the supervisor duties specified in the Company Act, the Securities and Exchange Act and other relevant regulations. To comply with the requirements for the operations of the Audit Committee, the term of office of 9 directors (including 3 independent directors) elected in this meeting shall start from August 6, 2017 and terminate on August 5, 2020.

(4) The election of independent directors of the Company is held by nomination in accordance with Article 192-1 of the Company Act and shareholders shall vote on the list of candidates. Please refer to Attachment 7 from page 32 to 33 of the Manual for the candidates' education, experience and other information.

Election Results:

Other Proposals

Case 1 (proposed by the Board of Directors)

Case: Approval the proposal for the waiver of non-competition clauses for newly elected directors of the Company to the shareholders meeting is hereby submitted.

Description: (1) Article 209 of the Company Act stipulates that directors should explain the actions they are going to take within the scope of the Company's business operation for themselves or for others in the shareholders' meetings, and obtain approval.

- (2) To make use of the expertise and related experience of the Company's directors and their proxies, if, following reelection, new directors are engaged in the investment or operation of a business entity whose scope of business is similar to that of the Company and acts as a director thereof, we request that the non-competition clauses applicable to the director be waived in order to allow him or her to act as a director or the representative of said business entity, provided that such waiver will not infringe upon the interests of the Company.

Resolution:

Extempore Motions

Meeting adjourned

Hsin Kuang Steel Co., Ltd.

Business Report

We achieved outstanding business performance in 2016 through our concerted efforts. Due to economic cycles, the steel industry bottomed out in the fourth quarter of 2015 and recovery began in the first quarter of 2016 with the rise of China Steel Corporation's wholesale price. The recovery continued in the second and third quarter as international steel prices continued to increase and restored prosperity in the domestic steel market. Full-scale production in the plant and the smooth consolidated operations of procurement, production, and sales were rewarded with great success in the year.

Financial Performance

The Company's combined revenue for 2016 totaled NT\$ 6.41 billion, which was consistent with the NT\$6.45 billion from the previous year. The net operating profit amounted to NT\$750 million and the earnings per share was NT\$2.67. Tremendous growth has been achieved compared with the losses of the previous year and the performance was exceptional.

In products sales, the Company's operating goal in 2016 was the sale of 345,000 metric tons of steel products and the combined sales of the year reached 335,000 metric tons. The achievement rate was 97.1%. Compared with the 329,000 metric tons from 2015, sales increased by 6,000 metric tons.

In income and expenditure, cash flow in 2016 from business activities amounted to NT\$601.66 million, which mainly consisted of the bills receivable and accounts receivable generated in sales as well as inventories in response to supply and demand operations etc. Cash outflow for investment activities amounted to NT\$301.11 million mainly due to the purchase of properties and investment in plants and equipment. Cash outflow for financing activities amounted to NT\$631.68 million mainly due to long-term and short-term loans necessary for operations. The closing cash and cash equivalents of the period was NT\$668.15 million.

Annual Corporate Development

In 2017, the Company will continue to implement the business guidelines of the previous year and focus on 1. Maintenance of consistent sales volumes in each month, optimize inventory structure, and ensure market share. 2. Enhance management of regional customer relations to maintain stable margins. 3. Continue to develop new steel types and new markets. 4. Integrate value chains, improve joint participation in public engineering projects and market development. 5. Continue to recruit talent with potential and cultivate strong leadership for the Company through training and execution of actual tasks. 6. Strengthen the expansion of sales to overseas markets. 7. Achieve goals in both revenue and profits.

The total annual sales goal of 2017 is set at 380,000 metric tons of steel. After a year of recovery, demand for related materials in the steel market has continued to grow. The demand and the influence of the anti-dumping duties on imports have brought stability to the market and provide a great opportunity for intensifying old partnerships as well as developing new customers. Due to abundant upstream supply, ample current inventory, updated cutting equipment, substantial improvement in production procedures, and more efficient transportation services, the overall operating performance shall continue to improve and we expect to complete the annual target of 380,000 metric tons.

We shall continue the guidelines and goals from the previous period in our development strategy and fully implement the following items: (1). Customer relationship management (CRM), establishment of customer KPI lists, periodically review performance, and enhance the operations capabilities of the Company. (2). Continue to develop EG and GA products and customers. (3). Develop the POC market and collaborate with upstream suppliers to increase product quality and stability in supplies. (4). Streamline production management to improve production efficiency, quality management, yield rate, standard operating procedures, production management personnel, and cultivate management personnel. (5). Build commercial roof-top photovoltaic (PV) system and partner with PV companies to create value in joint ventures and help the government promote the energy saving and carbon reduction policy. (6). Streamline corporate procedures, promote and bring in digitalization and information technology across departments to increase operating efficiency and maximize overall performance. (7). Develop land for investment in Guanyin District to revitalize assets and establish a foundation for diversified development.

Future Outlook

The economy continues to recover at a slow pace but there is room for development; Tougher environmental protection regulations and difficulty in obtaining land favor businesses in industrial zones that follow regulations; Unstable cross-strait policy and difficulty in negotiation of trade agreements affect short-term development of Taiwan's economy; New labor regulations shorten the working hours of laborers and increase the cost of business operations. They also affect existing business model and production efficiency, organization, and management must all improve to succeed in the new era; As anti-dumping regulations are established, the price, supply, and sales of steel plates and galvanized steel coil have also stabilized and supplier management and channel deployment shall be important items in operations and management; Values such as diligence, honesty, teamwork, value of innovation, optimism, continuous education, and advancing with the times are everlasting. We are prepared to embrace a year of changes.

Legal Representative: Alexander Su Managing Director: Alexander Su Accounting Manager: Jessica Liu

Hsin Kuang Steel Co., Ltd. Supervisors' Report

We have examined the 2016 individual financial statements and consolidated financial statements, together with business report, earning distribution proposal prepared by the Board of Directors and audited and certified by Deloitte & Touche and did not find any discrepancy. We hereby produce this report in accordance with provisions specified in Article 219 of the Company Act and submit it for your review.

To

The Company's 2017 General Shareholders Meeting

Hsin Kuang Steel Co., Ltd.

Supervisor: Wen-Lung Li

Supervisor: Shih-Yang Chen

Supervisor: Yung-Yu Chiu

March 15, 2017

Independent Auditor's Report and 2016 Consolidated Financial Statements

Independent Auditor's Report

The Board of Directors and Shareholders
Hsin Kuang Steel Company Limited

Opinion

We have audited the accompanying consolidated financial statements of Hsin Kuang Steel Company Limited (the “Company”) and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2016 and 2015, and their consolidated financial performance and their consolidated cash flows for the years then ended, in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission (FSC) of Taiwan, the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in Taiwan, the Republic of China. Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with The Norm of Professional Ethics for Certified Public Accountant of Taiwan, 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 consolidated financial statements for the year ended December 31, 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the consolidated financial statements for the year ended December 31, 2016 are stated as follows:

Estimated Impairment of Trade Receivables

As of December 31, 2016, the net amount of notes receivable, trade receivables and overdue receivables, in New Taiwan dollars (“NT\$”), was NT\$2,339,922 thousand, representing 20% of the Company and its subsidiaries’ total assets. When the management estimates the recoverability of note receivables, trade receivables and overdue receivables, it is based on the objective impairment evidence of the individual receivables and the condition of collateral or other credit enhancements. When there is no objective impairment evidence, the allowance for impairment loss recognized against trade receivables is based on historical experience with the counterparties and the aging of receivables. Since the amount of trade receivables is significant for the consolidated financial statements and the estimation of impairment of notes receivable, trade receivables and overdue receivables is subject to management’s judgment, it has been identified as a key audit matter.

Refer to Notes 4, 5 and 9 to the accompanying consolidated financial statements for the accounting policies and related information on the estimated impairment of trade receivables.

For our audit procedures performed in respect of the above area, we:

1. Understood and tested the design and operating effectiveness of key control over the estimated impairment of trade receivables;
2. Obtained the accounting policies for the provision of impairment of trade receivables and the aging report in order to confirm whether the sales customers have credit insurance or collateral, assessed the overall economic situation, and assessed the reasonableness of management’s assumptions on the estimated impairment of trade receivables and the reasonableness of the customer credit management;
3. Tested the completeness and accuracy of the aging of receivables, compared the aging report to those of previous years, reviewed the bad debt write-offs in the current year and the prior year, and checked the recoverability of outstanding debts;
4. Examined and assessed the reasonableness of the overdue receivables of subsequent-to-period-end cash receipts, and considered if additional provisions were required.

Write-down of Inventory

As of December 31, 2016, the inventory of the Company and its subsidiaries amounted to NT\$2,263,475 thousand, representing 19% of the Company and its subsidiaries' total assets. The Company and its subsidiaries mainly engage in the sale, cutting and logistics of various steel products. In this mode of operation, the Company and its subsidiaries must reserve all kinds of steel products in response to market and customer demand. As the steel industry is highly affected by fluctuations of international steel prices, it may lead to changes in the value of inventory, which will affect the net realizable value of inventory. Since the amount of inventory is significant for the consolidated financial statements and the provision of the valuation of inventory is subject to management's judgment, in particular, the decision on the net realizable value of inventory, which is estimated based on past selling prices and actual transactions, it has been identified as a key audit matter.

Refer to Notes 4, 5 and 11 to the consolidated financial statements for the accounting policies and related information on the write-down of inventory.

For our audit procedures performed in respect of the above area, we:

1. Understood and tested the design and operating effectiveness of key controls over the write-down of inventory;
2. Compared the wholesale steel price charts of China Steel Corporation to the reasonableness of management's provision for the inventory write-downs;
3. Checked the data used by the management in calculating the allowance for inventory write-downs, tested the completeness and accuracy of the year-end inventory valuation, which included testing the data used for the net realizable value by the management, and recalculated the amount of impairment loss.

Other Matters

We have also audited the parent company only financial statements of Hsin Kuang Steel Company Limited as of and for the years ended December 31, 2016 and 2015 on which we have issued an unmodified opinion.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Company and its subsidiaries' 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 Company and its subsidiaries or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and its subsidiaries' 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 Company and its subsidiaries' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company and its subsidiaries to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Company and its subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group 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 consolidated financial statements for the year ended December 31, 2016 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Chao-Ling Chen and Chiang-Pao Liu.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 14, 2017

Notice to Readers

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

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

HSIN KUANG STEEL COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In Thousands of New Taiwan Dollars)

ASSETS	December 31, 2016		December 31, 2015 (Audited after Restated)		January 1, 2015 (Audited after Restated)	
	Amount	%	Amount	%	Amount	%
CURRENT ASSETS						
Cash and cash equivalents (Note 6)	\$ 668,153	6	\$ 998,296	9	\$ 398,927	3
Financial assets at fair value through profit or loss - current (Notes 4, 7 and 31)	823,390	7	608,933	6	846,768	6
Available-for-sale financial assets - current (Notes 4 and 8)	330,402	3	240,181	2	352,570	3
Notes receivable (Notes 4, 5, 9 and 33)	966,558	8	956,937	9	1,087,652	8
Trade receivables (Notes 4, 5, 9 and 32)	1,330,865	11	1,181,404	11	1,616,925	12
Amounts due from customers for construction contracts (Notes 4 and 10)	2,345	-	7,723	-	39,430	-
Other receivables	68,178	-	6,735	-	3,246	-
Current tax assets (Notes 4 and 26)	-	-	99	-	-	-
Prepayments	42,915	-	21,705	-	79,466	1
Inventories (Notes 4, 5 and 11)	2,263,475	19	1,983,998	19	3,500,985	27
Non-current assets held for sale (Notes 4 and 12)	-	-	150,509	1	219,041	2
Other current financial assets (Notes 4, 13 and 33)	70,073	1	80,307	1	94,778	1
Other current assets (Note 18)	435	-	2,441	-	152	-
Total current assets	<u>6,566,789</u>	<u>55</u>	<u>6,239,268</u>	<u>58</u>	<u>8,239,940</u>	<u>63</u>
NON-CURRENT ASSETS						
Available-for-sale financial assets - non-current (Notes 4, 8 and 33)	1,908,377	16	1,444,121	14	1,919,686	15
Investments accounted for using equity method (Notes 4 and 15)	39,725	-	39,800	-	16,494	-
Property, plant and equipment (Notes 4, 16 and 33)	3,033,067	26	2,834,422	27	2,846,204	22
Investment properties, net (Notes 4 and 17)	271,313	2	-	-	-	-
Deferred tax assets (Notes 4 and 26)	6,629	-	54,105	-	39,910	-
Other non-current assets (Notes 4, 5, 9 and 18)	95,256	1	78,535	1	28,834	-
Total non-current assets	<u>5,354,367</u>	<u>45</u>	<u>4,450,983</u>	<u>42</u>	<u>4,851,128</u>	<u>37</u>
TOTAL	<u>\$ 11,921,156</u>	<u>100</u>	<u>\$ 10,690,251</u>	<u>100</u>	<u>\$ 13,091,068</u>	<u>100</u>
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Short-term borrowings (Notes 4 and 19)	\$ 3,395,094	28	\$ 3,615,554	34	\$ 4,646,478	36
Short-term bills payable (Notes 4 and 19)	189,774	2	698,402	7	279,723	2
Financial liabilities at fair value through profit or loss - current (Notes 4 and 7)	91	-	13,652	-	8,335	-
Notes payable (Notes 4, 20 and 31)	420,766	3	85,566	1	374,117	3
Trade payables (Notes 4, 20 and 31)	68,644	-	24,806	-	62,416	-
Other payables (Note 21)	235,508	2	72,146	1	85,669	1
Current tax liabilities (Notes 4 and 26)	11,157	-	417	-	11,626	-
Liabilities directly associated with non-current assets held for sale	-	-	-	-	3,382	-
Current portion of long-term borrowings (Notes 4, 19 and 22)	318,884	3	450,577	4	2,080	-
Other current liabilities	76,018	1	34,961	-	19,613	-
Total current liabilities	<u>4,715,936</u>	<u>39</u>	<u>4,996,081</u>	<u>47</u>	<u>5,493,439</u>	<u>42</u>
NON-CURRENT LIABILITIES						
Bonds payable (Notes 4 and 22)	-	-	-	-	438,334	3
Long-term borrowings (Notes 4 and 19)	1,608,558	14	1,496,145	14	1,646,845	13
Deferred tax liabilities (Notes 4 and 26)	3,733	-	4	-	11	-
Net defined benefit liabilities - non-current (Notes 4 and 23)	19,692	-	37,211	-	36,594	-
Other non-current liabilities	300	-	300	-	58	-
Total non-current liabilities	<u>1,632,283</u>	<u>14</u>	<u>1,533,660</u>	<u>14</u>	<u>2,121,842</u>	<u>16</u>
Total liabilities	<u>6,348,219</u>	<u>53</u>	<u>6,529,741</u>	<u>61</u>	<u>7,615,281</u>	<u>58</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 4 and 24)						
Share capital	2,991,876	25	2,756,380	26	2,788,380	21
Capital surplus	1,016,806	9	1,045,575	10	1,049,463	8
Retained earnings						
Legal reserve	579,610	5	579,610	6	556,465	5
Special reserve	231,141	2	-	-	-	-
Unappropriated earnings	744,667	6	231,141	2	937,606	7
Total retained earnings	1,555,418	13	810,751	8	1,494,071	12
Other equity	(19,407)	-	(482,368)	(5)	97,326	1
Total equity attributable to owners of the Company	<u>5,544,693</u>	<u>47</u>	<u>4,130,338</u>	<u>39</u>	<u>5,429,240</u>	<u>42</u>
NON-CONTROLLING INTERESTS						
	28,244	-	30,172	-	46,547	-
Total equity	<u>5,572,937</u>	<u>47</u>	<u>4,160,510</u>	<u>39</u>	<u>5,475,787</u>	<u>42</u>
TOTAL	<u>\$ 11,921,156</u>	<u>100</u>	<u>\$ 10,690,251</u>	<u>100</u>	<u>\$ 13,091,068</u>	<u>100</u>

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

HSIN KUANG STEEL COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

	For the Years Ended December 31			
	2016		2015	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4 and 32)				
Sales	\$ 6,398,105	117	\$ 6,442,967	92
Other operating revenue	<u>13,581</u>	<u>-</u>	<u>6,732</u>	<u>-</u>
Total operating revenue	<u>6,411,686</u>	<u>117</u>	<u>6,449,699</u>	<u>92</u>
OPERATING COSTS				
Cost of goods sold (Notes 11, 23, 25 and 32)	5,484,318	100	6,995,578	100
Construction costs	-	-	1,809	-
Other operating costs	<u>10,379</u>	<u>-</u>	<u>20,685</u>	<u>-</u>
Total operating costs	<u>5,494,697</u>	<u>100</u>	<u>7,018,072</u>	<u>100</u>
GROSS PROFIT (LOSS)	<u>916,989</u>	<u>17</u>	<u>(568,373)</u>	<u>(8)</u>
OPERATING EXPENSES				
Selling and marketing expenses (Notes 23 and 25)	(148,301)	(2)	(147,912)	(2)
General and administrative expenses (Notes 23 and 25)	<u>(95,577)</u>	<u>(2)</u>	<u>(44,938)</u>	<u>(1)</u>
Total operating expenses	<u>(243,878)</u>	<u>(4)</u>	<u>(192,850)</u>	<u>(3)</u>
OTHER OPERATING INCOME AND EXPENSES (Note 25)	<u>78,989</u>	<u>1</u>	<u>(93,900)</u>	<u>(1)</u>
PROFIT (LOSS) FROM OPERATIONS	<u>752,100</u>	<u>14</u>	<u>(855,123)</u>	<u>(12)</u>
NON-OPERATING INCOME AND EXPENSES				
Other income (Note 25)	11,729	-	14,025	-
Other gains (Note 25)	140,895	3	524,180	8
Finance costs (Note 25)	(94,132)	(2)	(105,840)	(2)
Share of profit or loss of associates and joint ventures	<u>688</u>	<u>-</u>	<u>849</u>	<u>-</u>
Total non-operating income and expenses	<u>59,180</u>	<u>1</u>	<u>433,214</u>	<u>6</u>
PROFIT (LOSS) BEFORE INCOME TAX FROM CONTINUING OPERATIONS	811,280	15	(421,909)	(6)
INCOME TAX (EXPENSE) BENEFIT (Notes 4 and 26)	<u>(61,496)</u>	<u>(1)</u>	<u>13,130</u>	<u>-</u>
NET PROFIT (LOSS) FOR THE YEAR	<u>749,784</u>	<u>14</u>	<u>(408,779)</u>	<u>(6)</u>

(Continued)

HSIN KUANG STEEL COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

	For the Years Ended December 31			
	2016		2015	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified to profit or loss:				
Remeasurement of defined benefit plans	\$ (3,107)	-	\$ (2,606)	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	(8,529)	-	7,672	-
Unrealized gain (loss) on available-for-sale financial assets	<u>471,450</u>	<u>8</u>	<u>(587,503)</u>	<u>(8)</u>
	<u>462,921</u>	<u>8</u>	<u>(579,831)</u>	<u>(8)</u>
Other comprehensive income (loss) for the year, net of income tax	<u>459,814</u>	<u>8</u>	<u>(582,437)</u>	<u>(8)</u>
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	<u>\$ 1,209,598</u>	<u>22</u>	<u>\$ (991,216)</u>	<u>(14)</u>
NET PROFIT (LOSS) ATTRIBUTABLE TO:				
Owners of the Company	\$ 747,774	14	\$ (401,876)	(6)
Non-controlling interests	<u>2,010</u>	<u>-</u>	<u>(6,903)</u>	<u>-</u>
	<u>\$ 749,784</u>	<u>14</u>	<u>\$ (408,779)</u>	<u>(6)</u>
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:				
Owners of the Company	\$ 1,207,628	22	\$ (984,176)	(14)
Non-controlling interests	<u>1,970</u>	<u>-</u>	<u>(7,040)</u>	<u>-</u>
	<u>\$ 1,209,598</u>	<u>22</u>	<u>\$ (991,216)</u>	<u>(14)</u>
EARNINGS (LOSSES) PER SHARE (Note 27)				
From continuing operations				
Basic	\$ <u>2.67</u>		\$ <u>(1.45)</u>	
Diluted	\$ <u>2.62</u>		\$ <u>(1.45)</u>	

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

HSIN KUANG STEEL COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Company											
	Share Capital		Capital Surplus	Retained Earnings			Other Equity		Treasury Shares	Total	Non-controlling Interests	Total Equity
	Shares (In Thousands)	Amount		Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets				
BALANCE AT JANUARY 1, 2015	\$ 278,838	\$2,788,380	\$1,049,463	\$ 556,465	\$ -	\$ 937,606	\$ 9,714	\$ 87,612	\$ -	\$5,429,240	\$ 46,547	\$5,475,787
Appropriation of 2014 earnings												
Legal reserve	-	-	-	23,145	-	(23,145)	-	-	-	(278,838)	-	(278,838)
Cash dividends distributed by the Company	-	-	-	-	-	(278,838)	-	-	-	-	-	(278,838)
Cash dividends distributed by the subsidiaries	-	-	-	-	-	-	-	-	-	-	(1,581)	(1,581)
Other changes in capital surplus:												
Changes in percentage of ownership interest in subsidiaries	-	-	465	-	-	-	-	-	-	465	(7,754)	(7,289)
Recognition of employee share options by the Company	-	-	6,833	-	-	-	-	-	-	6,833	-	6,833
Net loss for the year ended December 31, 2015	-	-	-	-	-	(401,876)	-	-	-	(401,876)	(6,903)	(408,779)
Other comprehensive income (loss) for the year ended December 31, 2015, net of income tax	-	-	-	-	-	(2,606)	7,809	(587,503)	-	(582,300)	(137)	(582,437)
Total comprehensive income (loss) for the year ended December 31, 2015	-	-	-	-	-	(404,482)	7,809	(587,503)	-	(984,176)	(7,040)	(991,216)
Buy-back of ordinary shares	-	-	-	-	-	-	-	-	(43,186)	(43,186)	-	(43,186)
Cancellation of treasury shares	(3,200)	(32,000)	(11,186)	-	-	-	-	-	43,186	-	-	-
BALANCE AT DECEMBER 31, 2015	275,638	2,756,380	1,045,575	579,610	-	231,141	17,523	(499,891)	-	4,130,338	30,172	4,160,510
Special reserve reversed under Rule No. 1010012865 issued by the FSC	-	-	-	-	231,141	(231,141)	-	-	-	-	-	-
Appropriation of 2015 earnings												
Share dividends distributed from capital surplus	-	-	(165,976)	-	-	-	-	-	-	(165,976)	-	(165,976)
Cash dividends distributed by the subsidiaries	-	-	-	-	-	-	-	-	-	-	(1,938)	(1,938)
Other changes in capital surplus:												
Recognition of employee share options by the Company	-	-	66	-	-	-	-	-	-	66	(1,960)	(1,894)
Changes in percentage of ownership interest in subsidiaries	-	-	1,424	-	-	-	-	-	-	1,424	-	1,424
Convertible bonds converted to ordinary shares	22,562	225,616	131,370	-	-	-	-	-	-	356,986	-	356,986
Net profit for the year ended December 31, 2016	-	-	-	-	-	747,774	-	-	-	747,774	2,010	749,784
Other comprehensive income (loss) for the year ended December 31, 2016	-	-	-	-	-	(3,107)	(8,489)	471,450	-	459,854	(40)	459,814
Total comprehensive income (loss) for the year ended December 31, 2016	-	-	-	-	-	744,667	(8,489)	471,450	-	1,207,628	1,970	1,209,598
Issue of ordinary shares under employee share options	988	9,880	4,347	-	-	-	-	-	-	14,227	-	14,227
BALANCE AT DECEMBER 31, 2016	\$ 299,188	\$2,991,876	\$1,016,806	\$ 579,610	\$ 231,141	\$ 744,667	\$ 9,034	\$ (28,441)	\$ -	\$5,544,693	\$ 28,244	\$5,572,937

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

HSIN KUANG STEEL COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

	For the Years Ended December 31	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax	\$ 811,280	\$ (421,909)
Adjustments for:		
Depreciation expense	75,797	86,806
Amortization expense	1,031	1,046
Recognition (reversal) of provisions	8,793	(3,601)
Net (gain) loss on fair value change of financial assets held for trading	(9,136)	197,720
Net (gain) loss on fair value change of financial liabilities held for trading	(5,556)	5,317
Finance costs	94,132	105,840
Compensation costs of employee share options	1,424	6,833
Loss (gain) on disposal of property, plant and equipment	3,926	(390,688)
Net gain on disposal of available-for-sale financial assets	-	(417)
Share of (profit) loss of associates and joint ventures	(688)	(849)
Interest income	(985)	(910)
Dividend income	(61,876)	(88,320)
Gain on disposal of associates	(102,218)	-
Impairment loss recognized on available-for-sale financial assets	1,715	-
(Reversal of) write-down of inventories	(305,355)	296,223
Net loss on foreign currency exchange	782	99,742
Net defined benefit liabilities	(21,262)	(1,989)
Changes in operating assets and liabilities		
(Increase) decrease in financial assets held for trading	(205,321)	40,115
(Increase) decrease in notes receivable	(9,181)	130,523
(Increase) decrease in trade receivables	(205,929)	440,475
Increase in other receivables	(61,443)	(3,599)
Decrease in amounts due from customers for construction contracts	5,378	31,707
Decrease in inventories	25,878	1,220,764
(Increase) decrease in prepayments	(21,210)	57,761
Decrease in other current assets	2,105	2,615
Increase (decrease) in notes payable	335,200	(288,551)
Increase (decrease) in trade payables	42,425	(37,417)
Increase (decrease) in other payables	160,674	(6,809)
Increase in other current liabilities	41,057	11,966
Cash generated from operating activities	601,437	1,490,394
Interest received	985	910
Income tax paid	(766)	(12,380)
Net cash generated from operating activities	601,656	1,478,924

(Continued)

HSIN KUANG STEEL COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

	For the Years Ended December 31	
	2016	2015
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of available-for-sale financial assets	\$ (39,142)	\$ -
Proceeds from the capital reduction on available-for-sale financial assets	12,450	868
Acquisition of joint ventures	-	(27,500)
Increase in prepayments for investments	-	(44,529)
Proceeds from the capital reduction of associates	-	4,000
Proceeds from disposal of non-current assets held for sale	246,137	459,935
Payments for property, plant and equipment	(278,057)	(69,035)
Proceeds from disposal of property, plant and equipment	14,084	2,732
Payments for investment properties	(239,222)	-
Decrease in other current financial assets	10,234	14,471
Increase in prepayments for equipment	(49,771)	(10,291)
Dividends received from associates	763	1,042
Other dividends received	61,876	88,320
(Increase) decrease in refundable deposits	(40,466)	1,338
Net cash (used in) generated from investing activities	(301,114)	421,351
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	8,558,258	11,589,999
Repayments of short-term borrowings	(8,766,874)	(12,725,565)
(Decrease) increase in short-term bills payable	(510,000)	420,000
Proceeds from long-term borrowings	823,900	-
Repayments of long-term borrowings	(504,481)	(152,080)
Proceeds from guarantee deposits received	-	242
Dividends paid	(165,976)	(278,838)
Proceeds from issue of ordinary shares under employee share options	14,227	-
Payments for buy-back of ordinary shares	-	(43,186)
Interest paid	(76,834)	(104,791)
Decrease in non-controlling interests	(3,898)	(9,335)
Net cash used in financing activities	(631,678)	(1,303,554)
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	993	2,648
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(330,143)	599,369
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	998,296	398,927
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	\$ 668,153	\$ 998,296

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

[Attachment 4]

Independent Auditor's Report and 2016 Individual Financial Statements

Independent Auditor's Report

The Board of Directors and Shareholders
Hsin Kuang Steel Company Limited

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2016 and 2015, and its financial performance and its 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 Taiwan, the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with The Norm of Professional Ethics for Certified Public Accountant of Taiwan, 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 financial statements for the year ended December 31, 2016. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the Company's financial statements for the year ended December 31, 2016 are stated as follows:

Estimated Impairment of Trade Receivables

As of December 31, 2016, the net amount of notes receivable, trade receivables and overdue receivables, in New Taiwan dollars (“NT\$”), was NT\$2,269,098 thousand, representing 20% of the Company’s total assets. When the management estimates the recoverability of note receivables, trade receivables and overdue receivables, it is based on the objective impairment evidence of the individual receivables and the condition of collateral or other credit enhancements. When there is no objective impairment evidence, the allowance for impairment loss recognized against trade receivables is based on historical experience with the counterparties and the aging of receivables. Since the amount of trade receivables is significant for the financial statements and the estimation of impairment of notes receivable, trade receivables and overdue receivables is subject to management’s judgment, it has been identified as a key audit matter.

Refer to Notes 4, 5 and 9 to the accompanying financial statements for the accounting policies and related information on the estimated impairment of trade receivables.

For our audit procedures performed in respect of the above area, we:

1. Understood and tested the design and operating effectiveness of key control over the estimated impairment of trade receivables;
2. Obtained the accounting policies for the provision of impairment of trade receivables and the aging report in order to confirm whether the sales customers have credit insurance or collateral, assessed the overall economic situation, and assessed the reasonableness of management’s assumptions on the estimated impairment of trade receivables and the reasonableness of the customer credit management;
3. Tested the completeness and accuracy of the aging of receivables, compared the aging report to those of previous years, reviewed the bad debt write-offs in the current year and the prior year, and checked the recoverability of outstanding debts;
4. Examined and assessed the reasonableness of the overdue receivables of subsequent-to-period-end cash receipts, and considered if additional provisions were required.

Write-down of Inventory

As of December 31, 2016, the inventory of the Company amounted to NT\$2,197,079 thousand, representing 19% of the Company’s total assets. The Company mainly engages in the sale, cutting and logistics of various steel products. In this mode of operation, the Company must reserve all kinds of steel products in response to market and customer demand. As the steel industry is highly affected by fluctuations of international steel prices, it may lead to changes in the value of inventory, which will affect the net realizable value of inventory. Since the amount of inventory is significant for the financial statements and the provision of the valuation of inventory is subject to management’s judgment, in particular, the decision on the net realizable value of inventory, which is estimated based on past selling prices and actual transactions, it has been identified as a key audit matter.

Refer to Notes 4, 5 and 10 to the financial statements for the accounting policies and related information on the write-down of inventory.

For our audit procedures performed in respect of the above area, we:

1. Understood and tested the design and operating effectiveness of key controls over the write-down of inventory;
2. Compared the wholesale steel price charts of China Steel Corporation to the reasonableness of management's provision for the inventory write-downs;
3. Checked the data used by the management in calculating the allowance for inventory write-downs, tested the completeness and accuracy of the year-end inventory valuation, which included testing the data used for the net realizable value by the management, and recalculated the amount of impairment loss.

Responsibilities of Management and those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 Taiwan, 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 financial statements.

As part of an audit in accordance with the auditing standards generally accepted in Taiwan, 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 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 Company'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 Company'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 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 Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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 the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the 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 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 Chao-Ling Chen and Chiang-Pao Liu.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 14, 2017

Notice to Readers

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

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

HSIN KUANG STEEL COMPANY LIMITED

BALANCE SHEETS

(In Thousands of New Taiwan Dollars)

ASSETS	December 31, 2016		December 31, 2015 (Audited after Restated)		January 1, 2015 (Audited after Restated)	
	Amount	%	Amount	%	Amount	%
CURRENT ASSETS						
Cash and cash equivalents (Note 6)	\$ 512,490	4	\$ 911,349	9	\$ 336,587	3
Financial assets at fair value through profit or loss - current (Notes 4 and 7)	522,760	5	355,254	4	560,918	4
Available-for-sale financial assets - current (Notes 4 and 8)	330,402	3	240,181	2	352,570	3
Notes receivable (Notes 4, 5, 9, 29 and 30)	972,621	9	975,740	9	1,107,899	8
Trade receivables (Notes 4, 5, 9 and 29)	1,253,978	11	1,142,735	11	1,606,084	12
Other receivables (Notes 9 and 29)	13,651	-	6,732	-	811	-
Current tax assets (Notes 4 and 23)	-	-	85	-	-	-
Prepayments	38,464	-	14,251	-	65,125	-
Inventories (Notes 4, 5 and 10)	2,197,079	19	1,930,517	18	3,437,579	27
Non-current assets held for sale (Notes 4 and 13)	-	-	-	-	73,920	1
Other current financial assets (Notes 4, 11 and 30)	65,576	1	73,392	1	88,640	1
Other current assets (Note 15)	429	-	2,417	-	250	-
Total current assets	5,907,450	52	5,652,653	54	7,630,383	59
NON-CURRENT ASSETS						
Available-for-sale financial assets - non-current (Notes 4, 8 and 30)	1,811,627	16	1,444,121	14	1,919,686	15
Investments accounted for using equity method (Notes 4 and 12)	512,323	4	557,723	5	498,300	4
Property, plant and equipment (Notes 4, 13 and 30)	2,807,392	25	2,818,446	27	2,823,380	22
Investment properties, net (Note 14)	271,313	2	-	-	-	-
Deferred tax assets (Notes 4 and 23)	6,422	-	54,105	-	39,813	-
Other non-current assets (Notes 4, 5, 9 and 15)	71,150	1	18,570	-	24,706	-
Total non-current assets	5,480,227	48	4,892,965	46	5,305,885	41
TOTAL	\$ 11,387,677	100	\$ 10,545,618	100	\$ 12,936,268	100
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Short-term borrowings (Notes 4 and 16)	\$ 3,202,344	28	\$ 3,512,306	33	\$ 4,577,509	36
Short-term bills payable (Notes 4 and 16)	189,774	2	698,402	7	279,723	2
Financial liabilities at fair value through profit or loss - current (Notes 4 and 7)	91	-	13,652	-	8,335	-
Notes payable (Notes 4, 17 and 29)	433,608	4	81,433	1	370,890	3
Trade payables (Notes 4, 17 and 29)	73,151	-	25,348	-	39,557	-
Other payables (Note 18)	128,613	1	67,985	1	82,185	1
Current tax liabilities (Notes 4 and 23)	10,679	-	-	-	9,150	-
Liabilities directly associated with non-current assets held for sale	-	-	-	-	3,382	-
Current portion of long-term borrowings (Notes 4, 16 and 19)	308,418	3	448,497	4	-	-
Other current liabilities	75,935	1	34,868	-	17,413	-
Total current liabilities	4,422,613	39	4,882,491	46	5,388,144	42
NON-CURRENT LIABILITIES						
Bonds payable (Notes 4 and 19)	-	-	-	-	438,334	3
Long-term borrowings (Notes 4 and 16)	1,396,658	12	1,495,278	14	1,643,898	13
Net defined benefit liabilities - non-current (Notes 4 and 20)	19,692	-	37,211	1	36,594	-
Other non-current liabilities	300	-	300	-	58	-
Deferred tax liabilities (Notes 4 and 23)	3,721	-	-	-	-	-
Total non-current liabilities	1,420,371	12	1,532,789	15	2,118,884	16
Total liabilities	5,842,984	51	6,415,280	61	7,507,028	58
EQUITY (Notes 4 and 21)						
Share capital	2,991,876	26	2,756,380	26	2,788,380	22
Capital surplus	1,016,806	9	1,045,575	10	1,049,463	8
Retained earnings						
Legal reserve	579,610	5	579,610	6	556,465	4
Special reserve	231,141	2	-	-	-	-
Unappropriated earnings	744,667	7	231,141	2	937,606	7
Total retained earnings	1,555,418	14	810,751	8	1,494,071	11
Other equity	(19,407)	-	(482,368)	(5)	97,326	1
Total equity	5,544,693	49	4,130,338	39	5,429,240	42
TOTAL	\$ 11,387,677	100	\$ 10,545,618	100	\$ 12,936,268	100

The accompanying notes are an integral part of the financial statements

HSIN KUANG STEEL COMPANY LIMITED

STATEMENTS OF COMPREHENSIVE INCOME

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

	For the Years Ended December 31			
	2016		2015	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4 and 29)	\$ 6,262,775	100	\$ 6,373,639	100
OPERATING COSTS	<u>(5,364,745)</u>	<u>(86)</u>	<u>(6,925,594)</u>	<u>(109)</u>
GROSS PROFIT (LOSS)	<u>898,030</u>	<u>14</u>	<u>(551,955)</u>	<u>(9)</u>
OPERATING EXPENSES				
Selling and marketing expenses	(138,688)	(2)	(137,362)	(2)
General and administrative expenses	<u>(88,534)</u>	<u>(1)</u>	<u>(41,669)</u>	<u>(1)</u>
Total operating expenses	<u>(227,222)</u>	<u>(3)</u>	<u>(179,031)</u>	<u>(3)</u>
OTHER OPERATING INCOME AND EXPENSES (Note 22)	<u>69,644</u>	<u>1</u>	<u>(93,593)</u>	<u>(1)</u>
PROFIT (LOSS) FROM OPERATIONS	<u>740,452</u>	<u>12</u>	<u>(824,579)</u>	<u>(13)</u>
NON-OPERATING INCOME AND EXPENSES				
Other income (Note 22)	11,534	-	13,930	-
Other gains and losses (Note 22)	40,570	1	526,842	8
Finance costs (Note 22)	(90,316)	(2)	(104,006)	(1)
Share of profit or loss of subsidiaries and joint ventures	<u>106,450</u>	<u>2</u>	<u>(27,985)</u>	<u>-</u>
Total non-operating income and expenses	<u>68,238</u>	<u>1</u>	<u>408,781</u>	<u>7</u>
PROFIT (LOSS) BEFORE INCOME TAX FROM CONTINUING OPERATIONS	808,690	13	(415,798)	(6)
INCOME TAX (EXPENSE) BENEFIT (Notes 4 and 23)	<u>(60,916)</u>	<u>(1)</u>	<u>13,922</u>	<u>-</u>
NET PROFIT (LOSS) FOR THE YEAR	<u>747,774</u>	<u>12</u>	<u>(401,876)</u>	<u>(6)</u>
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified to profit or loss:				
Remeasurement of defined benefit plan	<u>(3,107)</u>	<u>-</u>	<u>(2,606)</u>	<u>-</u>
	<u>(3,107)</u>	<u>-</u>	<u>(2,606)</u>	<u>-</u>

(Continued)

HSIN KUANG STEEL COMPANY LIMITED

STATEMENTS OF COMPREHENSIVE INCOME

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

	For the Years Ended December 31			
	2016		2015	
	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	\$ (8,489)	-	\$ 7,809	-
Unrealized gain (loss) on available-for-sale financial assets	<u>471,450</u>	<u>7</u>	<u>(587,503)</u>	<u>(9)</u>
	<u>462,961</u>	<u>7</u>	<u>(579,694)</u>	<u>(9)</u>
Other comprehensive income (loss) for the year, net of income tax	<u>459,854</u>	<u>7</u>	<u>(582,300)</u>	<u>(9)</u>
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	<u>\$ 1,207,628</u>	<u>19</u>	<u>\$ (984,176)</u>	<u>(15)</u>
EARNINGS PER SHARE (Note 24)				
From continuing operations				
Basic	<u>\$ 2.67</u>		<u>\$ (1.45)</u>	
Diluted	<u>\$ 2.62</u>		<u>\$ (1.45)</u>	

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

HSIN KUANG STEEL COMPANY LIMITED

STATEMENTS OF CHANGES IN EQUITY

(In Thousands of New Taiwan Dollars)

	Share Capital		Capital Surplus	Retained Earnings			Other Equity		Treasury Shares	Total Equity
	Shares	Amount		Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets		
	(In Thousands)									
BALANCE AT JANUARY 1, 2015	278,838	\$ 2,788,380	\$ 1,049,463	\$ 556,465	\$ -	\$ 937,606	\$ 9,714	\$ 87,612	\$ -	\$ 5,429,240
Appropriation of 2014 earnings										
Legal reserve	-	-	-	23,145	-	(23,145)	-	-	-	-
Cash dividends distributed by the Company	-	-	-	-	-	(278,838)	-	-	-	(278,838)
Other changes in capital surplus										
Changes in percentage of ownership interest in subsidiaries	-	-	465	-	-	-	-	-	-	465
Recognition of employee share options by the Company	-	-	6,833	-	-	-	-	-	-	6,833
Net loss for the year ended December 31, 2015	-	-	-	-	-	(401,876)	-	-	-	(401,876)
Other comprehensive income (loss) for the year ended December 31, 2015, net of income tax	-	-	-	-	-	(2,606)	7,809	(587,503)	-	(582,300)
Total comprehensive income (loss) for the year ended December 31, 2015	-	-	-	-	-	(404,482)	7,809	(587,503)	-	(984,176)
Buy-back of ordinary shares	-	-	-	-	-	-	-	-	(43,186)	(43,186)
Cancelation of treasury shares	(3,200)	(32,000)	(11,186)	-	-	-	-	-	43,186	-
BALANCE AT DECEMBER 31, 2015	275,638	2,756,380	1,045,575	579,610	-	231,141	17,523	(499,891)	-	4,130,338
Special reserve under Rule No. 1010012865 issued by the FSC	-	-	-	-	231,141	(231,141)	-	-	-	-
Appropriation of 2015 earnings										
Share dividends distributed from capital surplus	-	-	(165,976)	-	-	-	-	-	-	(165,976)
Other changes in capital surplus										
Recognition of employee share options by the Company	-	-	1,424	-	-	-	-	-	-	1,424
Changes in percentage of ownership interest in subsidiaries	-	-	66	-	-	-	-	-	-	66
Convertible bonds converted to ordinary shares	22,562	225,616	131,370	-	-	-	-	-	-	356,986
Net profit for the year ended December 31, 2016	-	-	-	-	-	747,774	-	-	-	747,774
Other comprehensive income (loss) for the year ended December 31, 2016, net of income tax	-	-	-	-	-	(3,107)	(8,489)	471,450	-	459,854
Total comprehensive income (loss) for the year ended December 31, 2016	-	-	-	-	-	744,667	(8,489)	471,450	-	1,207,628
Issue of ordinary shares under employee share options	988	9,880	4,347	-	-	-	-	-	-	14,227
BALANCE AT DECEMBER 31, 2016	299,188	\$ 2,991,876	\$ 1,016,806	\$ 579,610	\$ 231,141	\$ 744,667	\$ 9,034	\$ (28,441)	\$ -	\$ 5,544,693

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

HSIN KUANG STEEL COMPANY LIMITED

STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

	For the Years Ended December 31	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax	\$ 808,690	\$ (415,798)
Adjustments for:		
Depreciation expenses	73,330	79,730
Amortization expenses	529	739
Recognition (reversal) of provisions	8,793	(3,601)
Net (gain) loss on fair value changes of financial assets held for trading	(8,308)	174,428
Net (gain) loss on fair value changes of financial liabilities held for trading	(5,556)	5,317
Finance costs	90,316	104,006
Compensation costs of employee share options	1,424	6,833
Loss (gain) on disposal of property, plant and equipment	3,156	(390,688)
Net gain on disposal of available-for-sale financial assets	-	(417)
Share of (profit) loss of subsidiaries, associates and joint ventures	(106,450)	27,985
Interest income	(913)	(853)
Dividend income	(57,495)	(85,735)
Impairment loss recognized on available-for-sale financial assets	1,715	-
(Reversal of) write-down of inventories	(302,350)	294,711
Net (gain) loss on foreign currency exchange	(1,908)	100,167
Net defined benefit liabilities	(21,262)	(1,989)
Changes in operating assets and liabilities		
(Increase) decrease in financial assets held for trading	(159,198)	31,236
Decrease in notes receivable	3,559	131,967
(Increase) decrease in trade receivables	(167,711)	468,303
Increase in other receivables	(6,919)	(5,920)
Decrease in inventories	35,788	1,212,351
(Increase) decrease in prepayments	(24,213)	50,874
Decrease in other current assets	2,073	2,532
Increase (decrease) in notes payable	352,175	(289,457)
Increase (decrease) in trade payables	47,803	(14,209)
Increase (decrease) in other payables	58,039	(7,637)
Increase in other current liabilities	41,068	14,073
Interest received	913	853
Income tax paid	(48)	(9,605)
	667,040	1,480,196
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of available-for-sale financial assets	(442)	-
Proceeds from the capital reduction on available-for-sale financial assets	12,450	868
Net cash outflow on acquisition of subsidiaries	(16,625)	(89,195)

(Continued)

HSIN KUANG STEEL COMPANY LIMITED

STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

	For the Years Ended December 31	
	2016	2015
Decrease in prepayments for investments	\$ -	\$ 11,766
Proceeds from the capital reduction of associates	-	4,000
Decrease in other financial assets	7,816	15,248
Proceeds from disposal of non-current assets held for sale	-	459,935
Payments for property, plant and equipment	(52,642)	(68,566)
Proceeds from disposal of property, plant and equipment	1,605	2,491
Payments for investment properties	(239,222)	-
(Increase) decrease in refundable deposits	(16,738)	1,088
Increase in prepayments for equipment	(49,771)	(10,079)
Dividends received from subsidiaries and associates	161,903	6,061
Other dividends received	57,495	85,735
Net cash (used in) generated from investing activities	(134,171)	419,352
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	8,184,440	11,445,320
Repayments of short-term borrowings	(8,481,302)	(12,615,307)
(Decrease) increase in short-term bills payable	(510,000)	420,000
Proceeds from long-term borrowings	600,000	-
Repayments of long-term borrowings	(500,000)	(150,000)
Proceeds from guarantee deposits received	-	242
Dividends paid	(165,976)	(278,838)
Proceeds from issue of ordinary shares under employee share options	14,227	-
Payments for buy-back of ordinary shares	-	(43,186)
Interest paid	(73,117)	(103,017)
Net cash used in financing activities	(931,728)	(1,324,786)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(398,859)	574,762
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	911,349	336,587
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	\$ 512,490	\$ 911,349

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

(Concluded)

[Attachment 5]

Hsin Kuang Steel Co., Ltd.
Earnings distribution statement
2016

Unit: NT\$

Net profit in 2016	747,773,568.00
Minus:	
Ten percent set aside as the statutory surplus reserve	-74,777,357.00
Distributable earnings in 2016	672,996,211.00
Plus:	
- Unappropriated retained earnings from previous years	0.00
- Reversal of special surplus reserve	211,734,796.00
Minus:	
- Actuarial losses on defined benefit plan of the year	-3,107,053.00
Retained earnings available for distribution as of the end of 2016	881,623,954.00
Distributions:	
- Common stock cash dividend (NT\$1 per share)	-306,193,739.00
Undistributed retained earnings at the end of the period transferred to following year	575,430,215.00

Hsin Kuang Steel Co., Ltd.

Table of Comparison of Revised Articles of the Company's "Procedures for the Acquisition or Disposal of Assets"

17th Revision on March 14, 2017

Revised content (underlined)	Original content
<p>Article 9 Evaluation and Operating Procedures for the Acquisition or Disposal of Real Property or Other Fixed Assets</p> <p>2. Appointment of experts to provide appraisal report In acquiring or disposing of real estate or equipment where the transaction amount reaches 20 percent of the Company's paid-in capital or NT\$300 million or more, the Company, unless transacting with a government <u>authority</u>, engaging others to build on its own land, engaging others to build on rented land, or acquiring or disposing of equipment for business use, shall obtain an appraisal report prior to the date of occurrence of the event from a professional appraiser and shall further comply with the following provisions: (Omitted)</p>	<p>Article 9 Evaluation and Operating Procedures for the Acquisition or Disposal of Real Property or Other Fixed Assets</p> <p>2. Appointment of experts to provide appraisal report In acquiring or disposing of real estate or equipment where the transaction amount reaches 20 percent of the company's paid-in capital or NT\$300 million or more, the Company, unless transacting with a government agency, engaging others to build on its own land, engaging others to build on rented land, or acquiring or disposing of equipment for business use, shall obtain an appraisal report prior to the date of occurrence of the event from a professional appraiser and shall further comply with the following provisions: (Omitted)</p>
<p>Article 11 Evaluation and Operating Procedures for the Acquisition or Disposal of Memberships or Intangible Assets</p> <p>2. Appointment of experts to provide appraisal report</p> <p>(1) Where the acquisition or disposal of a membership reaches 5% or more of the Company's paid-in capital or NT\$10 million, an expert shall be appointed to provide an appraisal report.</p> <p>(2) Where the acquisition or disposal of an intangible asset reaches 10% or more of the Company's paid-in capital or NT\$20 million, an expert shall be appointed to provide an appraisal report.</p> <p>(3) If the dollar amount of memberships or intangible assets to be acquired or disposed of by the Company is 20% or more of the Company's paid-in capital or NT\$300 million or more, except in transactions with a government <u>authority</u>, the Company shall engage a certified public accountant prior to the date of occurrence of the event to provide an opinion regarding the reasonableness of the transaction price; the certified public accountant shall comply with the provisions of the Statement of Auditing Standards No. 20 published by the Accounting Research and Development Foundation (ARDF). (Omitted)</p>	<p>Article 11 Evaluation and Operating Procedures for the Acquisition or Disposal of Memberships or Intangible Assets</p> <p>2. Appointment of experts to provide appraisal report</p> <p>(1) Where the acquisition or disposal of a membership reaches 5% or more of the Company's paid-in capital or NT\$10 million, an expert shall be appointed to provide an appraisal report.</p> <p>(2) Where the acquisition or disposal of an intangible asset reaches 10% or more of the Company's paid-in capital or NT\$20 million, an expert shall be appointed to provide an appraisal report.</p> <p>(3) If the dollar amount of memberships or intangible assets to be acquired or disposed of by the Company is 20% or more of the Company's paid-in capital or NT\$300 million or more, except in transactions with a government agency, the Company shall engage a certified public accountant prior to the date of occurrence of the event to provide an opinion regarding the reasonableness of the transaction price; the certified public accountant shall comply with the provisions of the Statement of Auditing Standards No. 20 published by the Accounting Research and Development Foundation (ARDF). (Omitted)</p>
<p>Article 14 Evaluation and Operating Procedures for Mergers, Demergers, Acquisitions, and Assignment of Shares</p> <p>2. Appointment of experts to provide opinion When the Company conducts a merger, demerger, acquisition, or transfer of shares, it shall engage a CPA, attorney, or securities underwriter to give an opinion on the reasonableness of the share exchange ratio, acquisition price, or distribution of cash or other property to shareholders prior to the resolution of the Board of Directors Meeting, and submit it to the Board of Directors Meeting for discussion and passage. <u>However, if a public company merges subsidiaries for which it retains 100% of issued shares or total capital, or for mergers between subsidiaries for which it retains 100% of issued shares or total capital, the aforementioned expert's opinion on the reasonableness may be exempted.</u> (Omitted)</p>	<p>Article 14 Evaluation and Operating Procedures for Mergers, Demergers, Acquisitions, and Assignment of Shares</p> <p>2. Appointment of experts to provide opinion When the Company conducts a merger, demerger, acquisition, or transfer of shares, it shall engage a CPA, attorney, or securities underwriter to give an opinion on the reasonableness of the share exchange ratio, acquisition price, or distribution of cash or other property to shareholders prior to the resolution of the Board of Directors Meeting, and submit it to the Board of Directors Meeting for discussion and passage. (Omitted)</p>

Revised content (underlined)	Original content
<p>Article 15 Public Announcement and Regulatory Filing Procedures</p> <p>1. Under any of the following circumstances, the Company shall, within 2 days from the date of occurrence of the event, publicly announce and report the relevant information about the acquisition or disposal of assets on the designated website of the Financial Supervisory Commission using the specified format:</p> <p>(1) When the Company intends to acquire or dispose of real estate from or to a related party, or when it intends to acquire or dispose of assets other than real estate from or to a related party and the transaction amount reaches 20 percent or more of paid-in capital, 10 percent or more of the company's total assets, or NT\$300 million or more. However, trade of government bonds or bonds under repurchase and resale agreements, or subscription or <u>repurchase</u> of domestic money market funds issued by <u>securities investment trusts</u> shall not be restricted.</p> <p>(Omitted)</p> <p>(5) Asset transactions other than the ones specified in the preceding (1) to (4) clauses, disposals of debt entitlement by a financial institution, or investments in Mainland China that amount to 20% of the company's paid-up capital or more than NT\$300 million. This shall not apply to the following circumstances:</p> <ol style="list-style-type: none"> 1. Trading of government bonds. 2. Securities trading by investment professionals on foreign or domestic securities exchanges or places of business of securities firm, subscription and issuance of regular corporate bonds on the domestic primary market and regular financial bonds that do not involve shareholding rights, or securities required for subscription <u>by the Taipei Exchange due to the business requirements of a securities firm or an advisory recommending securities firm of the issuer registered for TPEX trading of Emerging Stock.</u> 	<p>Article 15 Public Announcement and Regulatory Filing Procedures</p> <p>1. Under any of the following circumstances, the Company shall, within 2 days from the date of occurrence of the event, publicly announce and report the relevant information about the acquisition or disposal of assets on the designated website of the Financial Supervisory Commission using the specified format:</p> <p>(1) When the Company intends to acquire or dispose of real estate from or to a related party, or when it intends to acquire or dispose of assets other than real estate from or to a related party and the transaction amount reaches 20 percent or more of paid-in capital, 10 percent or more of the company's total assets, or NT\$300 million or more. However, trade of government bonds or bonds under repurchase and resale agreements, or subscription or redemption of domestic money market funds shall not be restricted.</p> <p>(Omitted)</p> <p>(5) Asset transactions other than the ones specified in the preceding (1) to (4) clauses, disposals of debt entitlement by a financial institution, or investments in Mainland China that amount to 20% of the company's paid-up capital or more than NT\$300 million. This shall not apply to the following circumstances:</p> <ol style="list-style-type: none"> 1. Trading of government bonds. 2. Where the company is an investment specialist, any securities traded through domestic and overseas exchanges or through securities firms, or securities subscribed by a securities firm in the primary market and according to laws.

Revised content (underlined)	Original content
<p>3. Trade of bonds under repurchase and resale agreements, or subscription or <u>repurchase of domestic money market funds issued by securities investment trusts.</u></p> <p>4. Where the type of asset acquired or disposed is equipment/machinery for business use, <u>the trading counterparty is not a related party, and the transaction amount has reached one of the following conditions:</u></p> <p><u>(1). Where a public company's paid-in capital is less than NT\$10 billion and the transaction amount is more than NT\$500 million.</u></p> <p><u>(2). Where a public company's paid-in capital is more than NT\$10 billion and the transaction amount is more than NT\$1 billion.</u></p> <p>5. Acquisition or disposal by a public company in the construction business of real estate for construction use, where the trading counterparty is not a related party, and the transaction amount is less than NT\$500 million.</p> <p>6. Where land is acquired under an arrangement engaging others to build on the company's own land, engaging others to build on rented land, joint construction and allocation of housing units, joint construction and allocation of ownership percentages, or joint construction and separate sale, and the amount the Company expects to invest in the transaction is less than NT\$500 million.</p> <p>(Omitted)</p> <p>3. When the Company at the time of public announcement makes an error or omission in an item required by regulations to be publicly announced and so is required to correct it, all the items shall be again publicly announced and reported in their entirety <u>within two days of learning the error or omission.</u></p> <p>(Omitted)</p>	<p>3. Trade of government bonds or bonds under repurchase and resale agreements, or subscription or redemption of domestic money market funds.</p> <p>4. Where the type of asset acquired or disposed is equipment/machinery for business use, the trading counterparty is not a related party, and the transaction amount is less than NT\$500 million.</p> <p>5. Acquisition or disposal by a public company in the construction business of real estate for construction use, where the trading counterparty is not a related party, and the transaction amount is less than NT\$500 million.</p> <p>6. Where land is acquired under an arrangement engaging others to build on the company's own land, engaging others to build on rented land, joint construction and allocation of housing units, joint construction and allocation of ownership percentages, or joint construction and separate sale, and the amount the Company expects to invest in the transaction is less than NT\$500 million.</p> <p>(Omitted)</p> <p>3. When the Company at the time of public announcement makes an error or omission in an item required by regulations to be publicly announced and so is required to correct it, all the items shall be again publicly announced and reported in their entirety.</p> <p>(Omitted)</p>
<p>Article 20 Date of Revision</p> <p><u>The Operating Procedures are submitted to the shareholders meeting on June 15, 2017 for review.</u></p> <p>The 1st amendment was on May 26, 1994. ... The 15th amendment was on March 18, 2014. The 16th amendment was on March 17, 2015. <u>The 17th amendment was on March 14, 2017.</u></p>	<p>Article 20 Date of Revision</p> <p>The Operating Procedures were passed in the shareholders meeting on June 10, 2015.</p> <p>The 1st amendment was on May 26, 1994. ... The 15th amendment was on March 18, 2014. The 16th amendment was on March 17, 2015.</p>

Candidate List for 14th-term Independent Directors

Candidate for Independent Directors	Main academic and career background	Number of shares held
Winston Won	<ul style="list-style-type: none"> ●Education <ul style="list-style-type: none"> –EMBA, College of Management, National Taiwan University ●Professional Qualifications <ul style="list-style-type: none"> – Certified Public Accountant of the Republic of China ●Experiences <ul style="list-style-type: none"> – CPA and Director at Deloitte & Touche – Chief Operating Officer, Dar Harn Industry Co., Ltd. ●Job Title <ul style="list-style-type: none"> – Chairman of: <ul style="list-style-type: none"> ■Ofuna Technology Co., Ltd. ■Ofuna Develop Technology Co., Ltd. ■Shao Rui Development Co., Ltd. – Position as Independent Director, Chair of Remuneration Committee and Audit Committee: <ul style="list-style-type: none"> ■Hold-Key Electric Wire & Cable Co., Ltd. (Independent Director) ■Taiwan Name Plate Co., Ltd. (Independent Director and Chair of the Audit Committee and Remuneration Committee) ■Hsin Kuang Steel Co., Ltd. (Chair of Remuneration Committee) ■Max Zipper Co., Ltd. (Chair of Remuneration Committee) 	0
Po-Yung Chu	<ul style="list-style-type: none"> ●Education <ul style="list-style-type: none"> – Ph.D. in Business Administration, Purdue University ●Professional Qualifications <ul style="list-style-type: none"> – Professor, Republic of China – Research Fellow, Chinese Society for Management of Technology ●Experiences <ul style="list-style-type: none"> – Dean of Aspire Academy – Consultant, Philips Taiwan Limited – Consultant, Chung-Hua Institution for Economic Research 	0

Candidate for Independent Directors	Main academic and career background	Number of shares held
	<ul style="list-style-type: none"> – Consultant, Industrial Technology Research Institute – Independent Director, Advantech Co., Ltd. – Independent Director, Pixart Imaging Inc. – Independent director, IC Plus Corp – Independent Director, Sunplus Technology Co., Ltd. – Independent director, Chilisun Electronics Corp. ● Job Title <ul style="list-style-type: none"> – Professor, Department of Management Science, National Chiao Tung University – Position as Independent Director, Chair of Remuneration Committee and Audit Committee: <ul style="list-style-type: none"> ■ Taigen Biotechnology Co., Ltd. (Independent Director and Chair of the Audit Committee and Remuneration Committee) ■ Shin Foong Specialty and Applied Materials Co., Ltd. (Independent Director and Chair of the Audit Committee and Remuneration Committee) ■ Polytronics Technology Corp. (Independent Director) 	
Paul T.Y.Huang	<ul style="list-style-type: none"> ● Education <ul style="list-style-type: none"> – BA in Business Administration, National Chengchi University ● Experiences <ul style="list-style-type: none"> – Assistant Vice President of Commercial Division, China Steel Corporation – President of China Steel Global Trading Corporation – Director/CEO of CSC Steel Sdn. Bhd. – Assistant Vice President of Commercial Division, China Steel Corporation – Vice President of Commercial Division, China Steel Corporation – Chairman of China Steel Global Trading Corporation – Chairman of Chung Hung Steel Corporation ● Job Title <ul style="list-style-type: none"> – Director, Taiwan Steel & Iron Industries Association – Honorary Consultant, Chung Hung Steel Corporation 	0

Hsin Kuang Steel Co., Ltd.

Rules of Procedure for the Shareholders' Meeting

- Article 1: To establish a strong governance system and sound supervisory capabilities for the Company's shareholders meetings, and to strengthen management capabilities, these Rules are adopted pursuant to Article 5 of the Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies. Unless otherwise specified by law or Articles of Incorporation, the company shall proceed its shareholders' meetings according to the terms of this policy. Unless otherwise specified by law or Articles of Incorporation, shareholders' meetings are convened by the board of directors. Election or dismissal of Directors or Supervisors, amendments to the Articles of Incorporation, the dissolution, merger, or demerger of the Company, any matter under Article 185, Paragraph 1 of the Company Act, and Articles 26-1 and 43-6 of the Securities and Exchange Act or Article 56-1 and Article 60-2 of the Regulations Governing the Offering and Issuance of Securities by Securities Issuers shall be set out in the notice of the reasons for convening the shareholders meeting. None of the above matters may be raised through an extraordinary motion.
- Article 2: Shareholders attending the meeting in person (or their proxies) shall wear attendance and present badges and shall submit sign-in cards in lieu of signing in. The Company's weight of share ownership in attendance shall be based on the weight of share ownership in the submitted sign-in cards, plus the weight of share ownership exercised via electronic voting. The shareholders referred to in the Rules shall be based on the records in the Company's list of shareholders.
- Article 3: Each shareholder of the Company shall be entitled to one vote for each share held, except when the shares are restricted shares or are deemed non-voting shares under Article 179, Paragraph 2 of the Company Act. The votes that may be cast by one proxy representing two or more shareholders shall not exceed three percent of the votes of total shares issued; any votes in excess of that limit shall not be counted. The related regulations in Article 177, Article 177-1, and Article 177-2 of the Company Act shall apply mutatis mutandis to the Company's regulations on attendance of proxies of shareholders, the exercise of voting rights, and expression of opinions. Votes in a shareholders' meeting are determined by the number of shares represented during the meeting. Except in the exercise of voting rights for electing Directors and Supervisors, when a shareholder is an interested party in relation to an agenda item, and there is the likelihood that such a relationship would prejudice the interests of the Company, that shareholder may not vote on that item, and may not exercise voting rights as proxy for any other shareholder. .
- Article 4: Shareholders in attendance are obligated to follow the rules of the meeting, accept the resolution, and maintain the order of the meeting.

- Article 5: Unless otherwise specified in these Rules, shareholder meetings shall be convened by the Board of Directors and chaired by the Chairman. If the Chairman is unable to perform such duties due to leave of absence or any other reason, the Chairman shall appoint one of the directors to act on the Chairman's behalf. If no delegate is appointed by the Chairman, one shall be elected from among the directors to act on the Chairman's behalf. If a shareholders meeting is convened by someone having the right to convene a meeting, but who is not a member of the Board of Directors, the said person shall chair the meeting. If more than one person has the right to convene the meeting, one shall be elected to chair the meeting.
- Article 6: The Company may designate retained lawyers, certified public accountants or relevant personnel to attend the shareholders' meeting.
It is advisable that shareholders meetings convened by the Board of Directors be attended by a majority of the Directors and at least one Supervisor who attends the meeting in person. The attendance records shall be included in the meeting minutes of the shareholders meeting.
Organizers of the meeting must wear proper identification or arm badges.
- Article 7: The Company shall record the whole course of the shareholders' meeting on audio tape or video tape, and shall keep the tapes on file for at least one year.
- Article 8: The chair shall announce the commencement of the meeting when the scheduled time arrives. If the number of shareholders present represents less than half of all voting rights, the chair may postpone the meeting. A meeting may be postponed twice for a combined maximum of thirty minutes (the first postponement shall be twenty minutes and the second postponement shall be ten minutes). If after two postponements the number of shareholders present is still insufficient while representing at least one third of the total issued shares, provisional resolutions may be adopted in accordance with Article 175 Paragraph 1 of the Company Act.
When, prior to conclusion of the meeting, the attending shareholders represent the legal required number of the total number of issued shares, the chair may resubmit the tentative resolution for a vote by the shareholders meeting pursuant to Article 174 of the Company Act.
- Article 9: Agenda of a shareholders meeting called by the board shall be decided by the board. The meeting shall proceed according to the agenda unless changed by a shareholders meeting resolution.
If the shareholders' meeting is convened by someone entitled to convene such a meeting but who is not a member of the Board of Directors, the rules of the preceding paragraph shall apply *mutatis mutandis*.
Unless otherwise resolved at the meeting, the chairman may not announce adjournment of the meeting before all the discussion items (including special motions) listed in the agenda are resolved.
The shareholders cannot designate any other person as chairman and continue the Meeting in the same or another place after the Meeting is adjourned.

- Article 10: When a meeting is in progress, the chair may announce a break based on time considerations. If a force majeure event occurs, the chair may rule the meeting temporarily suspended and announce a time when, in view of the circumstances, the meeting will be resumed, or a resolution may be passed in the shareholders meeting to reconvene the meeting within five days without requiring service of notice or public announcement in accordance with Article 182 of the Company Act.
- Article 11: When a shareholder (or proxy) present at the meeting wishes to speak, a Speech Note shall be filled out with summary of the speech, the shareholder's number (or the number on their attendance card) and the name of the shareholder. The sequence of speeches by shareholders shall be decided by the chair. A shareholder (or proxy) present at the meeting that merely submits a statement slip without speaking is considered not to have spoken. When the content of the speech does not correspond to the subject given on the speaker's slip, the spoken content shall prevail. Unless given consent by the chair and the speaking shareholder (or proxy), other shareholders may not speak to interrupt when a shareholder is speaking; otherwise the chair shall stop the interruption.
- Article 12: Unless permitted by the chair, no shareholder may speak more than twice regarding the same proposal (including extempore motions), and shall not speak for more than five minutes each time.
If a shareholder violates the rules outlined in the preceding paragraph, goes beyond the scope of proposals in speaking, or affect the order of the meeting, the chair may stop him/her from speaking.
- Article 13: An institutional shareholder may assign only one proxy representative to attend the meeting on its behalf. In the event an institutional shareholder assigns two or more representatives to attend the shareholders' meeting, only one of the representatives may speak on any single agenda item.
- Article 14: After a shareholder present at the meeting speaks, the chair may reply in person or assign relevant personnel to reply.
- Article 15: The chair may announce to discontinue further discussions if the agenda is considered to have been sufficiently discussed to proceed with the voting.
- Article 16: The chair shall appoint personnel to monitor or count the votes. The individuals monitoring the votes, however, shall be the shareholders of the Company. Ballot counting will proceed openly during the meeting. The outcome of the vote must be documented and announced on site.
- Article 17: Except for special resolutions otherwise provided by the Company Act or the Articles of Incorporation, a proposal shall be approved by the consent of more than half of the votes of shares represented by shareholders present. If the voting method has been decided as a non-ballot vote prior to the vote and the chair has inquired whether there are any objections, the proposal shall be deemed as passed with the same validity as a ballot vote.
At the time of a vote, the chair or a person designated by the chair shall first announce the total number of voting rights represented by the attending shareholders for each proposal. The shareholder shall vote on each proposal and the results of shareholders' agreement, objection, and abstention shall be input on the Market Observation Post System.

Article 18: A shareholder holding one percent or more of the total number of outstanding shares of the Company may submit to the company a written proposal for discussion at a general shareholders meeting within the period for accepting shareholders' proposals announced by the Company. Each shareholder may only submit one proposal. A shareholder who submits more than one proposal or a proposal with over 300 words shall not be included in the agenda. In addition, when the circumstances of any subparagraph of Article 172-1, Paragraph 4 of the Company Act apply to a proposal put forward by a shareholder, the Board of Directors may exclude it from the agenda.

The announced period of acceptance of shareholder proposals, the location and time period for their submission; the period for submission of shareholder proposals may not be less than 10 days.

Prior to the date for issuance of notice of a shareholders meeting, the Company shall inform the shareholders who submitted proposals of the proposal screening results, and shall list in the meeting notice the proposals that conform to the acceptance regulations. At the shareholders meeting the Board of Directors shall explain the reasons for exclusion of any shareholder proposals not included in the agenda.

Where there is an amendment or an alternative for a proposal, the chair shall determine the order in which they are to be voted on with the original proposal. If any of these proposals is approved, alternative proposals shall be treated as rejected and not be voted on separately.

Article 19: The chair may instruct the inspectors (or security personnel) to assist in maintaining order in the meeting venue. While maintaining order in the meeting, all marshals or security staff must wear arm bands which identify their roles as "Proctor."

At the place of a shareholders meeting, if a shareholder attempts to speak through any device other than the public address equipment set up by the Company, the chair may prevent the shareholder from so doing.

When a shareholder violates the rules of procedure and defies the chair's correction, obstructing the proceedings and refusing to heed calls to stop, the chair may direct the proctors or (security personnel) to escort the shareholder from the meeting.

Article 20: All matters not provided by these Rules herein shall be handled in accordance with the Company Act, relevant laws and regulations, as well as the Articles of Incorporation.

Article 21: These Rules shall come into force after a resolution in the Board of Directors meeting and on the approval of the shareholders' meeting. The same procedures shall apply for future amendments.

Article 22: Revision Date

The Rules of Procedure were passed in the shareholders meeting on June 15, 2016.

The 1st amendment was on May 26, 1994.

The 2nd amendment was on June 13, 1997.

The 3rd amendment was on May 21, 2002.

The 4th amendment was on April 27, 2004.

The 5th amendment was on March 21, 2006.

Hsin Kuang Steel Co., Ltd.

Articles of Incorporation

Chapter 1 General Provisions

Article 1: The Company is constituted in accordance with the Company Act, and shall be known as "Hsin Kuang Steel Company Limited."

Article 2: The business items operated by the Company are as follows:

- (1). Leveling of various steel coils; cutting and stamping of various steel plates, steel section, alloy steel, and special steels.
- (2). Wholesale and retail of various steel and iron plates, iron tubes, hardware, and machinery equipment.
- (3). Processing and manufacture of steel frames, building structures, steel tubes, and steel hardware.
- (4). Contracting vendors to build public housing and commercial buildings for sale and lease.
- (5). Import and export of aforementioned products and agency for quotation and tenders.
- (6). ZZ99999 All business items that are not prohibited or restricted by law, except those that are subject to special approval.

Article 3: The Company's head office is established at New Taipei City. Where necessary the Company may establish branches at appropriate domestic or overseas locations, subject to resolution by its Board of Directors.

Article 4: Public announcements of the Company shall be made in accordance with the Company Act and other relevant rules and regulations.

Chapter 2 Shares

Article 5: The Company's registered capital is NT\$3.6 billion, divided into 360 million shares with a face value of NT\$10 per share. Stock options of 20 million shares are set aside for employee subscription. The Board of Directors is authorized to issue the remainder in multiple installments.

Before issuing any employee stock options at a strike price which is lower than the closing price of the Company's common stocks on the date of issuance, the Company should firstly obtain the agreement of at least two-thirds of the voting rights present at the shareholders meeting attended by shareholders representing a majority of total issued shares.

Transfer of shares to employees at prices below the Company's average purchase price are subject to shareholders' meeting resolution and must be resolved with the presence of shareholders representing more than half of outstanding shares, and voted in favor by more than two-thirds of votes present in the meeting.

Article 6: The Company's stocks shall be registered, and signed or sealed by at least three Directors. The stocks shall be issued after the proper certification procedures in accordance with the law.

Registered share certificates issued by the Company are not required to be printed. The Company, however, should contact the securities depository and custodian institution for registration of the share certificates.

Article 7: Title transfer of stocks shall be not be allowed within sixty days before the general shareholders meeting is held, within thirty days before an extraordinary shareholders meeting is held, or within five days before the base date for distribution of stock dividends and bonuses or other benefits determined by the Company.

Article 8: Unless otherwise specified by law, all stock-related affairs including transfer, creation of pledge, reporting of loss, transfer via inheritance, transfer via gift, application for lost or change of the specimen chop shall be handled according to "Regulations Governing the Administration of Shareholder Services of Public Companies."

Chapter 3 Shareholder's Meeting

Article 9: Shareholders meetings include general meetings and special meetings. Unless otherwise provided in regulations, the shareholders' meeting shall be convened by the Board of Directors in accordance with laws. The annual general shareholders meeting is convened within six months of the end of each fiscal year by the Board of Directors. The organization of extraordinary shareholders meetings shall be governed by the relevant regulations.

Article 10: Shareholders may attend meetings in person or appoint a proxy to attend a shareholders' meeting in his/her/its behalf by executing a power of attorney.

A shareholder who cannot attend shareholders' meeting may appoint a proxy to attend on his/her behalf by executing a power of attorney in accordance with Article 177 of the Company Act.

Article 11: Shareholders of the Company shall be entitled to one vote for each share held, except for the circumstances described in Paragraph 2 under Article 179 of the Company Act where shareholders are restricted or prohibited from exercising voting rights.

According to regulations of the competent authority, the Company's shareholders may also exercise voting rights by means of electronic transmission. A shareholder who exercises his/her/its voting power at a shareholders meeting by way of electronic transmission shall be deemed to have attended the shareholders' meeting in person. Other related matters shall be carried out in accordance with regulations.

Article 12: Unless otherwise stipulated in the Company Act, any resolutions in a shareholders' meeting should be approved by a majority vote at a meeting attended by shareholders representing at least one half of its outstanding shares.

Article 13: The company shall have six to nine Directors. The number of Directors to be elected in each term shall be determined by the Board of Directors. In the number of Directors specified in the previous paragraph, the number of Independent Directors shall be no less than three and they shall not represent less than one-fifth of the directors to be elected.

Directors shall serve a term of three years and may be eligible for re-election.

Each share shall be empowered with voting rights equal to the number of elected directors in elections of Directors. These voting rights may be concentrated on one candidate or separated across a number of candidates. Candidates with the highest number of votes shall be elected as the Directors.

When the number of vacancies in the Board of Directors reaches one third of the total number of members, the Board of Directors shall call a meeting of shareholders to elect Directors to fill the vacancies. With the exception of a comprehensive reelection of directors, the term of the newly-elected Director shall expire on the original expiry date of his/her predecessor.

The professional qualifications, restrictions on both shareholding and concurrent positions held, determination of independence, method of nomination, and other requirements with regard to the Independent Directors shall be set forth in accordance with the Securities and Exchange Act and other relevant regulations.

The total proportion of shares held by all Directors of the Company shall be determined in accordance with regulations of the competent authority responsible for securities.

Article 13-1: Shareholders retaining at least 1% of all outstanding shares and the board may nominate candidates for independent directorship. A list of candidates determined at board meetings to meet the criteria for being elected independent directors are submitted by the board to the shareholders meeting for consideration; if the shareholder's meeting is convened by another person with the authority to convene the meeting, after the person with the authority to convene the meeting examines the qualifications of the candidate(s) for serving as an independent director, the names are sent to the shareholder's meeting for election. All matters regarding the acceptance method and announcement of the nomination of candidates for independent director will be handled according to the Company Act, the Securities and Exchange Act, and other applicable laws and regulations.

Article 13-2: Starting from the 14th-term Board of Directors, the Company shall establish an Audit Committee in accordance with Article 13-2. Upon the establishment of the Audit Committee, the regulations regarding supervisors in the Articles of Incorporation shall cease to apply and the supervisors shall be dismissed at the same time.

The Company has established an Audit Committee in accordance with regulations in Article 14-4 of the Securities and Exchange Act. The Audit Committee shall consist of all independent directors and its powers and related matters shall be devised by the Board of Directors in accordance with the applicable laws.

Following the Company's establishment of the Audit Committee, the duties that are previously exercised by supervisors in accordance with the Securities and Exchange Act, the Company Act, other laws and regulations, and the Articles of Incorporation, except for the power and authority stipulated in Article 14-4, Paragraph 4 of the Securities and Exchange Act, shall henceforth be exercised by the Audit Committee. The resolutions of the Audit Committee shall require agreement from more than one half of all members. The convener of the Audit Committee shall represent the Committee externally.

Article 13-3: The Company may purchase liability insurance policies that cover the directors' term of service, and therefore insure itself against liabilities incurred by the directors over the course of service.

Article 13-4: The Company shall have three supervisors who shall be elected from among the shareholders with capacity at the shareholders meeting in accordance with the consolidated election method to serve a term of three years and may be eligible for re-election. The total proportion of shares held by all supervisors of the Company shall be determined in accordance with regulations of the competent authority responsible for securities.

When all supervisors leave their positions, the Board of Directors shall call, within thirty days, an extraordinary shareholders meeting to elect supervisors to fill the vacancies; each successor so elected shall hold office for the remaining term of their predecessors only.

In addition to executing their duties in accordance with laws, supervisors may attend the meetings of the Board of Directors to express their opinions. They are however not eligible to vote in the meetings.

Chapter 4 Directors and Supervisors

Article 14: The Board of Directors shall appoint one Chairman of the Board during a board meeting with more than two-thirds of Directors present, and with the approval of more than half of all attending Directors. The Chairman shall represent the Company externally.

A director may present a written proxy statement to entrust another director as proxy to attend the board meeting and exercise voting rights on his/her behalf with regard to all matters put forward in the meeting. However, the proxy may only represent one director.

Article 15: The board meeting shall be convened at least once every quarter. The first meeting of the Board of Directors for each term shall be convened in accordance with Article 203 of the Company Act. The Board of Directors meeting shall be convened by the Chairman. Other meetings shall be convened and chaired by the Chairman.

Notices for the Company's Board of Directors meetings shall be distributed to the Directors and Supervisors at least seven days before the meeting. The date, location, and agenda of the meeting shall be clearly stated in the notice. However, a Board of Directors meeting may be called at any time in the event of an emergency without requiring notices described above. The notice in the preceding paragraph shall be provided in print or in electronic format.

Directors' attendance via video conference shall be considered as attendance in person.

The Chairman shall chair the Board of Directors meeting. In addition, the Chairman retains the right to represent the Company in signing documents in accordance with resolutions passed in the Board of Directors meeting. The Chairman shall represent the Board of Directors to take actions for furthering the Company's goals during the recess of the Board in accordance with the Board's resolutions.

Where the Chairman is absent, the Vice Chairman or other Directors shall act on his/her behalf in accordance with Article 208 of the Company Act. If the Chairman is unable to perform the duties, the Chairman may appoint one of the directors to act on his/her behalf. If no one is appointed, the remaining Directors will appoint one among them to perform the Chairman's duties.

The Company's operating guidelines and other important items shall be determined by the Board of Directors. The Directors shall exercise their powers in accordance with resolutions adopted by the Board of Directors or the shareholders meeting.

In addition to executing their duties in accordance with laws, supervisors may attend the meetings of the Board of Directors to express their opinions. They are however not eligible to vote in the meetings.

Article 16: The Board of Directors shall be authorized to determine the remuneration for the Chairman, Directors and Supervisors in accordance with their contribution to the Company and the industry's prevailing rates regardless of profits or losses.

Chapter 5 Managers

Article 17: The Company may have a General Manager and several Vice General Managers. Their appointment, dismissal and remuneration shall comply with Article 29 of the Company Act.

The General Manager shall be in charge of the Company's business operations. The General Manager's scope of duties shall exclude duties of the Board of Directors and the Chairman that are specified in the Company Act, Securities and Exchange Act, related regulations, and the "Authorization of Approval Table of the Board of Directors and Management" established by the Company; all other powers may be exercised by the General Manager.

Chapter 6 Accounting

Article 18: At the end of each fiscal year, the Company's Board of Directors shall compile the following reports and submit them to the Supervisors for review at least 30 days before the annual general shareholders meeting: (1) Business Report (2) Financial Statements (3) Proposals on distribution of earnings or make-up of deficits, etc. The documents shall be submitted to the general shareholders meeting for ratification.

Article 19: (Deleted).

Article 20: If the Company has generated profits for the current year, it shall allocate at least 3% of profits as employee bonus. The Board of Directors shall decide to distribute the bonus as shares or cash, which can also be distributed to employees of affiliated companies that meet certain criteria; if the Company sustains profit for the current year, the Board of Directors shall decide to set aside no more than 3% of profit as director and supervisor remuneration. Employee bonus and director remuneration proposals shall be presented to the shareholders meeting.

However when the Company still has accumulated loss, a certain amount of the earnings shall be retained for making up the loss and the remainder may be set aside as employee compensation and remuneration to Directors and Supervisors according to the percentage specified in the preceding paragraph.

Article 20-1: In the event of surplus earnings after closing of annual accounts, due taxes shall be paid in accordance with the law, and losses incurred in previous years shall be compensated. Upon completion of the preceding actions, 10% of the remainder surplus shall be allocated as legal reserve. However, in the event that the accumulated legal reserve is equivalent to or exceeds the Company's total paid-in capital, such allocation may be exempted. The remainder may be set aside or reversed as special surplus reserve in accordance with laws and

regulations. If there is remainder surplus, the Board of Directors shall draft a surplus distribution proposal regarding the remainder of the surplus as well as accumulated undistributed surplus for approval at the shareholders' meeting, at which the allocation of shareholders' dividends shall be decided.

The Company has adopted a balanced dividend policy to protect shareholder interest and the goal of sustainable development. The optimal dividend policy shall be consistent with current and future development plans while accounting for the investment environment, capital needs, domestic and international competition, the interest of shareholders, as well as the capital budgets for the following year. The Board of Directors shall formulate a distribution plan for approval in the shareholders meeting before implementation.

Dividends for shareholders may be distributed in cash or shares. The cash portion shall not be lower than 30% of total dividends.

Article 20-2: The Company may make reinvestments in Taiwan or abroad following resolution in a Board of Directors meeting. When the Company becomes the shareholder of limited liability in other companies, its total amount of investment in such companies shall not be subject to Article 13 of the Company Act which stipulates that the total amount of investment may not exceed 40% of the amount of its own paid-in capital.

Chapter 7 Supplementary Provisions

Article 21: Any matters that are not addressed in the Articles of Incorporation shall be governed by the Company Act and the relevant regulations.

Article 22: The Articles of Incorporation were formalized on December 2, 1976.

The 1st amendment was on October 12, 1978. The 2nd amendment was on December 11, 1978. The 3rd amendment was on January 8, 1979. The 4th amendment was on November 16, 1981. The 5th amendment was on April 28, 1985. The 6th amendment was on June 19, 1987. The 7th amendment was on September 5, 1988. The 8th amendment was on April 24, 1989. The 9th amendment was on June 15, 1990. The 10th amendment was on November 15, 1990. The 11th amendment was on April 27, 1991. The 12th amendment was on December 3, 1991. The 13th amendment was on July 4, 1992. The 14th amendment was on December 19, 1992. The 15th amendment was on May 26, 1994. The 16th amendment was on April 22, 1995. The 17th amendment was on April 20, 1996. The 18th amendment was on September 9, 1996. The 19th amendment was on June 13, 1997. The 20th amendment was on April 11, 1998. The 21st amendment was on April 14, 2000. The 22nd amendment was on April 9, 2001. The 23rd amendment was on May 21, 2002. The 24th amendment was on May 15, 2003. The 25th amendment was on May 17, 2005. The 26th amendment was on June 15, 2006. The 27th amendment was on June 13, 2007. The 28th amendment was on June 13, 2008. The 29th amendment was on June 10, 2009. The 30th amendment was on June 25, 2010. The 31st amendment was on June 15, 2016.

Hsin Kuang Steel Co., Ltd.

Rules Governing the Election of Directors

- I. The elections of Company's Director shall be performed in accordance with the provisions in the Rules.
- II. The election of the Company's Directors may be executed by way of electronic voting. The election of Directors shall adopt the cumulative voting system. The open ballot voting, with the exception of shareholders voting electronically, may make use of the ballots prepared by the Board of Directors and printed with their attendance pass serial numbers and the number of votes represented. Each share shall be empowered with voting rights equal to the number of elected Directors in elections of Directors of the Company. These voting rights may be concentrated on one candidate or separated across a number of candidates. Elections for Independent Directors and non-Independent Directors shall be carried out at the same time and the number of elected candidates shall be counted separately.
- III. Before the election begins, the chair shall appoint a number of individuals to perform the respective duties of vote monitoring and counting personnel, provided that all monitoring personnel shall be shareholders of the Company.

The missions of the monitoring personnel are as follows:

 1. inspect the ballot box publicly prior to voting.
 2. immediately open the seal and retrieve ballots after voting is completed and deliver the ballots to the counting personnel for counting.
 3. inspection or determination of invalid ballots.
 4. verify the number of ballots and number of voting rights compiled by the counting personnel.
 5. assist the chair in maintaining order in voting and vote counting.
- IV. The Company's Directors shall be elected from among the shareholders with capacity at the shareholders meeting. Based on the number of seats predefined in the Articles of Incorporation, candidates with the highest votes in the election shall be assigned to fill independent director positions, followed by non-independent director and supervisor positions. In situations where there are two or more candidates with the same number of votes as represented by voting right shares but fewer positions to accommodate them, the matter shall be decided by a drawing of lots by these equally-voted candidates and the Chairman shall draw lots on behalf of those who are not in attendance.

If an elected Independent Director or non-Independent Director is found to have provided erroneous personal information or if his or her election is determined to be invalid under applicable laws, the vacant position shall be filled by the next candidate with the highest number of votes in the same election, and subsequently announced at the same shareholders' meeting.
- V. The Board of Directors shall prepare ballots for Directors in numbers corresponding to the Directors to be elected and the serial number on attendance cards shall also be printed and filled with the number of voting rights, which shall then be distributed to shareholders of ordinary shares attending the shareholders meeting.

The name of a voter may be replaced by the attendance card serial number printed on the ballot.

No ballots shall be produced for shareholders of ordinary shares who exercised their voting rights electronically.

- VI. When a candidate is a shareholder, the candidate must indicate in the "candidate" column of the ballot his/her name on the account and account number. If the candidate is not a shareholder, he/she shall indicate his/her name and National ID number. If the candidate is the government or an institution, the name of the government or institution shall be provided in the candidate's column on the ballot; the name of the government or institution along with that of its representative may also be provided. In cases of several representatives, names of all the additional representatives shall be provided.
- VII. A ballot with one of the following conditions is invalid:
1. A ballot not in compliance with these Rules.
 2. A blank ballot placed in the ballot box.
 3. The writing is unclear and illegible or has been altered.
 4. Information of two candidates or more is provided on the same ballot.
 5. There is additional information than the name on the account (name) or account number (National ID number) of the candidate and the assigned voting rights.
 6. The candidate whose name is entered in the ballot is a shareholder, but the candidate's account name and shareholder account number do not conform with those given in the shareholder register.
 7. The name and National ID number provided on the ballot are verified to be invalid if the candidate is not a shareholder.
 8. The name on the account (name) or account number (National ID number) of the candidate is not provided.
 9. The selected number of candidates exceed the number of candidates that should be elected.
 10. The sum of distributed voting rights exceed the number of voting rights held by the voter.
 11. The selected candidate for Independent Director or non-Independent Director is not in the list of candidates for Independent Directors or non-Independent Directors.
- VIII. The ballots should be counted during the meeting right directly after vote casting and the results of the vote shall be announced by the Chairman at the meeting.
- IX. The Board of Directors of the Company shall issue notifications to the individuals elected as Independent Directors or non-Independent Directors.
- X. The eligibility of individuals who do not meet conditions specified in Article 26-3, Paragraph 3 and 4 of the Securities and Exchange Act shall be invalid.
- XI. Matters not addressed in these Rules shall be governed by the Company Act, the Articles of Incorporation of the Company, and other relevant laws and regulations.
- XII. These Rules, and any amendments hereto, shall be implemented after approval by a shareholders meeting.
- XIII. Revision dates

The Rules Governing the Election of Directors were passed in the shareholders meeting on June 15, 2016.

Formalized on May 26, 1994.

The 1st amendment was on May 21, 2002.

The 2nd amendment was on June 13, 2007.

The 3rd amendment was on March 15, 2016, where the name of the Rules were changed to the "Rules Governing the Election of Directors" and were approved in a resolution of the 12th meeting of the 13th-term Board of Directors. The revised Rules Governing the Election of Directors shall be first applied at the election of the 14th-term Directors.

[Appendix 4]

Status of Holdings of Directors and Supervisors

- (1). According to Article 26 of the Securities Exchange Act, all directors shall retain no less than 15,309,687 shares in total and all supervisors no less than 1,530,969 shares in total.
- (2). As of the ex-dividend date (April 17, 2017) shares retained by directors and supervisors are as follows:

April 17, 2017

Title	Name	Shares currently held	
		Number of shares	Shareholding ratio
Director	Han De Investment Co., Ltd. Chairman : Alexander M.T.Su	16,850,276	5.50%
Director	Trickle Co., Ltd.: Chairman : Trickle T.C.Chang	14,662,469	4.79%
Director	Ming-shan Tseng	1,812,999	0.59%
Director	Fisher C.H. Yu	186,242	0.06%
Director	Xiao-Ru Su	1,238,413	0.40%
Director	Wan-Chin Tsai	1,142,419	0.37%
Supervisor	Wen-Lung Li	1,374,000	0.45%
Supervisor	Shih-Yang Chen	10,193	0.00%
Supervisor	Yung-Yu Chiu	149,526	0.05%

Note 1: As of the ex-dividend date, a total of 35,892,818 shares were retained by all Directors, which meets the requirement of 15,309,687 shares as specified under Article 26 of the Securities and Exchange Act.

Note 2: As of the ex-dividend date, a total of 1,533,719 shares were retained by all Supervisors, which meets the requirement of 1,530,969 shares as specified under Article 26 of the Securities and Exchange Act.

Effect of the stock dividends in the current year on the operating performance, earnings per share and shareholder ROI

Item		2017 (Estimation)	
Initial paid-in capital (NT\$1,000)		2,991,876	Note 1
Status of distribution of shares and dividends for the current year	Cash dividend per share	NT\$1.8	
	Number of shares distributed for each share in earned surplus turned capital increase	—	
	Share distribution per share when capitalizing capital reserve	—	
Change in operating performance	Operating income (NT\$1,000)	Not applicable (Note 2)	
	Increase (decrease) ratio of operating profits compared to the same period last year		
	Net profit after tax (NT\$1,000)		
	Increase (decrease) ratio of after-tax net earnings compared to the same period last year		
	Earnings per share (NT\$)		
	Increase (decrease) ratio of earnings per share compared to the same period last year		
	Average annual rate of return (counting average annual P/E ratio in reverse)		
Projected earnings per share and P/E R a t i o	If earned surplus-turned capital increase is completely replaced by distribution of cash dividends	Projected earnings per share (NT\$)	Not applicable (Note 2)
		Projected average annual rate of return	
	If capital reserve-turned capital increase is not conducted	Projected earnings per share (NT\$)	
		Projected average annual rate of return	
	If capital reserve-turned capital increase is not conducted and earned surplus-turned capital increase is distributed in cash dividend instead	Projected earnings per share (NT\$)	
		Projected average annual rate of return	

Note 1: Cash dividend to be distributed in accordance with the resolution in the 2017 General Shareholders Meeting: NT\$1.8 / share (NT\$1 in earnings distribution for each share and NT\$0.8 in capital reserve distribution for each share)

Note 2: According to the Regulations Governing the Publication of Financial Forecasts of Public Companies, the Company is not required to disclose its financial forecasts for 2017.