

Chung Hung Steel Corporation

**Financial Statements for the
Years Ended December 31, 2011 and 2010 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Chung Hung Steel Corporation

We have audited the accompanying balance sheets of Chung Hung Steel Corporation (the "Corporation") as of December 31, 2011 and 2010, and the related statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Chung Hung Steel Corporation as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the ROC.

March 13, 2012

Notice to Readers

The accompanying financial statements are intended only to present the financial position, results of operations 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 accepted and applied in the Republic of China.

For the convenience of readers, the 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 auditors' report and financial statements shall prevail. Also, as stated in Note 2 to the financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.

CHUNG HUNG STEEL CORPORATION

BALANCE SHEETS

DECEMBER 31, 2011 AND 2010

(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	2011		2010		LIABILITIES AND STOCKHOLDERS' EQUITY	2011		2010	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash	\$ 89,167	-	\$ 68,559	-	Short-term loans (Notes 12 and 24)	\$ 12,836,560	36	\$ 9,736,654	29
Financial assets at fair value through profit or loss (Notes 2 and 4)	4,586	-	2,886	-	Commercial paper payable (Note 13)	1,549,300	4	129,987	-
Accounts receivable (Notes 2, 3 and 5)	751,335	2	866,174	3	Financial liability at fair value through profit or loss (Notes 2 and 4)	-	-	723	-
Accounts receivable from related parties (Note 23)	186,517	1	9,305	-	Accounts payable	1,125,426	3	896,587	3
Other receivables (Note 23)	124,132	-	95,295	-	Accounts payable to related parties (Note 23)	136,458	-	91,058	-
Inventories (Notes 2 and 6)	8,793,195	24	6,431,908	19	Accrued expenses (Note 15)	388,331	1	540,874	2
Prepayments	846,987	2	601,184	2	Other payables (Notes 16 and 23)	321,281	1	434,384	1
Restricted assets (Note 24)	300,000	1	300,000	1	Current portion of long-term loans (Notes 14 and 24)	-	-	857,143	3
Others (Note 23)	199,909	1	675,028	2	Others (Notes 2 and 25)	647,438	2	302,793	1
Total current assets	11,295,828	31	9,050,339	27	Total current liabilities	17,004,794	47	12,990,203	39
INVESTMENTS (Notes 2, 4, 7, 8 and 9)					LONG-TERM LIABILITIES				
Investments accounted for by the equity method	5,209,889	15	5,252,441	15	Long-term loans, net of current portion (Notes 14 and 24)	5,338,336	15	3,354,936	10
Financial asset at fair value through profit or loss	23,979	-	9,863	-	RESERVES				
Available-for-sale financial assets	1,205,266	3	1,335,199	4	Reserve for land value increment tax (Note 10)	144,434	-	-	-
Financial assets carried at cost	290,635	1	290,635	1	OTHER LIABILITIES				
Total investments	6,729,769	19	6,888,138	20	Accrued pension cost (Note 17)	134,027	-	150,261	1
PROPERTIES (Notes 2, 10, 23, 24 and 25)					Guarantee deposits received (Note 11)	35,000	-	-	-
Land	2,886,080	8	2,193,134	7	Deferred credits (Notes 2 and 23)	1,068,844	3	1,150,987	3
Buildings and improvements	2,500,427	7	2,500,427	7	Total other liabilities	1,237,871	3	1,301,248	4
Machinery and equipment	16,081,278	44	16,075,749	48	Total liabilities	23,725,435	65	17,646,387	53
Spare parts	1,354,042	4	1,303,176	4	STOCKHOLDERS' EQUITY				
Other equipment	3,452,078	9	3,369,695	10	Common stock - NT\$10.00 par value; authorized - 2,043,160 thousand shares; issued and outstanding - 1,435,544 thousand shares and 1,380,331 thousand shares as of December 31, 2011 and 2010, respectively (Note 18)	14,355,444	40	13,803,312	41
Total costs	26,273,905	72	25,442,181	76	CAPITAL SURPLUS (Note 18)	342,955	1	344,201	1
Revaluation increment	331,820	1	-	-	RETAINED EARNINGS (ACCUMULATED DEFICIT) (Note 18)				
Cost and revaluation increment	26,605,725	73	25,442,181	76	Legal reserve	154,487	1	-	-
Less: Accumulated depreciation	13,420,474	37	11,977,816	36	Unappropriated earnings (accumulated deficit)	(2,437,867)	(7)	1,544,867	4
Construction in progress	13,185,251	36	13,464,365	40	Total retained earnings (accumulated deficit)	(2,283,380)	(6)	1,544,867	4
Prepayments for equipment	616,883	2	191,182	1	OTHER EQUITY (Notes 10 and 18)				
Net properties	13,969,358	38	13,706,944	41	Unrealized revaluation increment	356,897	1	-	-
OTHER ASSETS (Notes 2 and 11)					Unrealized gain on financial instruments	(244,813)	(1)	207,163	1
Assets leased to others	2,726,924	8	2,545,340	8	Total other equity	112,084	-	207,163	1
Nonoperating assets, net	1,441,942	4	1,277,098	4	Total stockholders' equity	12,527,103	35	15,899,543	47
Refundable deposits	21,894	-	4,218	-	TOTAL	\$ 36,252,538	100	\$ 33,545,930	100
Deferred charges	-	-	7,030	-					
Others	66,823	-	66,823	-					
Total other assets	4,257,583	12	3,900,509	12					

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

CHUNG HUNG STEEL CORPORATION

STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2011 AND 2010

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

	2011		2010	
	Amount	%	Amount	%
SALES (Notes 3 and 23)	\$ 47,009,819	103	\$ 42,685,216	102
LESS: SALES RETURNS AND ALLOWANCES	<u>1,513,360</u>	<u>3</u>	<u>651,678</u>	<u>2</u>
NET SALES	45,496,459	100	42,033,538	100
SERVICE REVENUE	124,805	-	220,287	-
OTHER OPERATING REVENUE	<u>13,465</u>	<u>-</u>	<u>2,679</u>	<u>-</u>
TOTAL OPERATING REVENUE	45,634,729	100	42,256,504	100
OPERATING COSTS (Notes 2, 6, 20 and 23)	<u>47,699,715</u>	<u>104</u>	<u>39,796,914</u>	<u>94</u>
GROSS PROFIT (LOSS)	<u>(2,064,986)</u>	<u>(4)</u>	<u>2,459,590</u>	<u>6</u>
OPERATING EXPENSES (Notes 20 and 23)				
Selling	912,290	2	712,047	2
General and administrative	<u>249,236</u>	<u>1</u>	<u>266,730</u>	<u>-</u>
Total operating expenses	<u>1,161,526</u>	<u>3</u>	<u>978,777</u>	<u>2</u>
OPERATING INCOME (LOSS)	<u>(3,226,512)</u>	<u>(7)</u>	<u>1,480,813</u>	<u>4</u>
NONOPERATING INCOME AND GAINS				
Interest income	1,377	-	478	-
Investment income recognized under the equity method, net (Note 9)	121,907	-	-	-
Dividend income	108,645	-	69,979	-
Gain on sale of investments (Note 18)	-	-	104,307	-
Exchange gain, net	91,008	-	108,934	-
Rent revenue (Notes 11 and 20)	51,180	-	4,904	-
Reversal of impairment loss, net (Note 11)	346,971	1	-	-
Others (Notes 4 and 23)	<u>233,290</u>	<u>1</u>	<u>134,330</u>	<u>1</u>
Total nonoperating income and gains	<u>954,378</u>	<u>2</u>	<u>422,932</u>	<u>1</u>
NONOPERATING EXPENSES AND LOSSES				
Interest expense (Note 10)	158,381	-	103,257	-
Investment loss recognized under the equity method (Note 9)	-	-	245,165	1
Others (Notes 4 and 11)	<u>9,171</u>	<u>-</u>	<u>10,464</u>	<u>-</u>
Total nonoperating expenses and losses	<u>167,552</u>	<u>-</u>	<u>358,886</u>	<u>1</u>

(Continued)

CHUNG HUNG STEEL CORPORATION

STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2011 AND 2010

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

	2011		2010	
	Amount	%	Amount	%
INCOME BEFORE INCOME TAX	\$ (2,439,686)	(5)	\$ 1,544,859	4
INCOME TAX EXPENSE (BENEFIT) (Notes 2 and 19)	8,230	-	(8)	-
NET INCOME (LOSS)	<u>\$ (2,447,916)</u>	<u>(5)</u>	<u>\$ 1,544,867</u>	<u>4</u>
	2011		2010	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS (LOSS) PER SHARE (Note 22)				
Basic	<u>\$ (1.70)</u>	<u>\$ (1.71)</u>	<u>\$ 1.08</u>	<u>\$ 1.08</u>
Diluted	<u>\$ (1.70)</u>	<u>\$ (1.71)</u>	<u>\$ 1.07</u>	<u>\$ 1.07</u>

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

(Concluded)

CHUNG HUNG STEEL CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY YEARS ENDED DECEMBER 31, 2011 AND 2010 (In Thousands of New Taiwan Dollars)

	Issued and Outstanding Common Stock	Capital Surplus	Retained Earnings (Accumulated Deficit)			Other Equity		Total Stockholders' Equity
			Legal Reserve	Unappropriated Earnings (Deficit)	Net	Unrealized Revaluation Increment	Unrealized Gain (Loss) on Financial Instruments	
BALANCE, JANUARY 1, 2010	\$ 16,845,706	\$ 345,084	\$ -	\$ (3,042,394)	\$ (3,042,394)	\$ -	\$ 92,963	\$ 14,241,359
Capital reduction to offset the deficit (Note 18)	(3,042,394)	-	-	3,042,394	3,042,394	-	-	-
Change in unrealized loss on available-for-sale financial assets	-	-	-	-	-	-	(36,247)	(36,247)
Adjustment from changes in equity recognized under the equity method	-	(883)	-	-	-	-	150,447	149,564
Net income in 2010	-	-	-	1,544,867	1,544,867	-	-	1,544,867
BALANCE, DECEMBER 31, 2010	13,803,312	344,201	-	1,544,867	1,544,867	-	207,163	15,899,543
Appropriations of 2010 earnings (Note 18)								
Legal reserve	-	-	154,487	(154,487)	-	-	-	-
Cash dividends - 6%	-	-	-	(828,199)	(828,199)	-	-	(828,199)
Stock dividends - 4%	552,132	-	-	(552,132)	(552,132)	-	-	-
Compensation cost of exercised stock options issued by the parent company	-	160	-	-	-	-	-	160
Change in unrealized loss on available-for-sale financial assets	-	-	-	-	-	-	(129,933)	(129,933)
Adjustment from changes in equity recognized under the equity method	-	(1,406)	-	-	-	169,511	(322,043)	(153,938)
Change in unrealized revaluation increment	-	-	-	-	-	187,386	-	187,386
Net loss in 2011	-	-	-	(2,447,916)	(2,447,916)	-	-	(2,447,916)
BALANCE, DECEMBER 31, 2011	\$ 14,355,444	\$ 342,955	\$ 154,487	\$ (2,437,867)	\$ (2,283,380)	\$ 356,897	\$ (244,813)	\$ 12,527,103

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

CHUNG HUNG STEEL CORPORATION

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2011 AND 2010 (In Thousands of New Taiwan Dollars)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ (2,447,916)	\$ 1,544,867
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Depreciation	1,559,053	1,153,037
Amortization	7,030	7,665
Reversal of allowance for doubtful accounts	-	(17,786)
Compensation cost of exercised stock options issued by the parent company	160	-
Allowance for loss on inventories	1,129,124	499,371
Investment loss (income) recognized under the equity method, net	(121,907)	245,165
Cash dividends received from equity - method investments	3,900	-
Loss on disposal of properties	783	1,375
Gain on sale of investments	-	(104,307)
Valuation gain on financial instruments	(28,284)	(6,730)
Reversal of impairment loss on properties and equity-method investments, net	(346,971)	-
Realized gain on disposal of collaterals of nonperforming loans	(82,143)	(62,461)
Purchase contract loss	1,579,220	634,615
Others	3,400	3,400
Net changes in operating assets and liabilities		
Financial assets at fair value through profit or loss	11,745	19,381
Accounts receivable	114,839	(233,232)
Accounts receivable - related parties	(177,212)	3,969
Others receivables	(28,837)	(23,360)
Inventories	(3,470,417)	(915,639)
Prepayments	(245,803)	47,936
Other current assets	455,125	(253,010)
Accounts payable	228,839	198,878
Accounts payable - related parties	45,400	(65,955)
Accrued expenses	(152,543)	232,825
Other payables	(64,825)	1,753
Other current liabilities	(1,234,575)	(1,059,359)
Provision for pension cost	(16,234)	(137,433)
Net cash provided by (used in) operating activities	<u>(3,279,049)</u>	<u>1,714,965</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of available-for-sale financial assets	-	294,777
Proceeds from capital reduction of equity-method investments	6,621	-
Acquisition of properties	(1,538,165)	(1,237,643)
Proceeds from disposal of assets	-	6,304
Increase in refundable deposits	(17,676)	(1,270)
Increase in other assets	-	(10,740)
Net cash used in investing activities	<u>(1,549,220)</u>	<u>(948,572)</u>

(Continued)

CHUNG HUNG STEEL CORPORATION

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2011 AND 2010 (In Thousands of New Taiwan Dollars)

	2011	2010
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term loans	\$ 3,099,906	\$ 2,412,096
Increase (decrease) in commercial paper payable	1,419,313	(719,813)
Proceeds from long-term loans	1,980,000	1,650,000
Repayments of long-term loans	(857,143)	(4,057,142)
Increase (decrease) in guarantee deposits received	35,000	(1)
Cash dividends	<u>(828,199)</u>	<u>-</u>
Net cash provided by (used in) financing activities	<u>4,848,877</u>	<u>(714,860)</u>
NET INCREASE IN CASH	20,608	51,533
CASH, BEGINNING OF YEAR	<u>68,559</u>	<u>17,026</u>
CASH, END OF YEAR	<u>\$ 89,167</u>	<u>\$ 68,559</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 156,347	\$ 112,477
Capitalized interest	<u>(5,290)</u>	<u>(12,773)</u>
Interest paid excluding capitalized interest	<u>\$ 151,057</u>	<u>\$ 99,704</u>
Income tax paid	<u>\$ 8,230</u>	<u>\$ -</u>
INVESTING ACTIVITIES AFFECTING BOTH CASH AND NONCASH ITEMS		
Acquisition of properties	\$ 1,489,887	\$ 1,380,506
Decrease (increase) in payable for properties purchased	<u>48,278</u>	<u>(142,863)</u>
Cash paid	<u>\$ 1,538,165</u>	<u>\$ 1,237,643</u>
NONCASH INVESTING AND FINANCING ACTIVITIES		
Current portion of long-term loans	\$ -	\$ 857,143

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

(Concluded)

CHUNG HUNG STEEL CORPORATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

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

1. ORGANIZATION AND OPERATIONS

Chung Hung Steel Corporation (the "Corporation") was incorporated in September 1983 and started operations in September 1985. It mainly manufactures and sells steel products, such as cold and hot rolled coils and steel pipes. China Steel Corporation, the Corporation's parent and major stockholder (41%), controls the Corporation's management and operations.

The Corporation's shares have been listed on the Taiwan Stock Exchange since February 1992.

As of December 31, 2011 and 2010, the Corporation had 919 and 918 employees, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Corporation are prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Business Accounting Law, Guidelines Governing Business Accounting and accounting principles generally accepted in the Republic of China.

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

The Corporation's significant accounting policies are summarized as follows.

Foreign - Currency Transactions

Non-derivative foreign-currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Exchange differences arising from settlement of foreign-currency assets and liabilities are recognized in profit or loss.

At the balance sheet date, foreign-currency monetary assets and liabilities are revalued using prevailing exchange rates and the exchange differences are recognized in profit or loss.

Accounting Estimates

According to these guidelines, laws and principles, the Corporation is required to make certain assumptions and estimates, which affect the amounts of recorded assets, liabilities, revenues and expenses, including allowances for doubtful accounts and inventory losses, allowance for sales discounts, purchase contract loss, depreciation of properties, impairment loss on assets, pension cost, income tax, bonuses to employees, directors and supervisors, etc. Actual results could differ from these estimates.

Current and Noncurrent Assets and Liabilities

Current assets include cash and those assets held primarily for trading purposes or to be realized, sold or consumed within one year from the balance sheet date. All other assets such as properties are classified as noncurrent. Current liabilities are obligations incurred for trading purposes or to be settled within one year from the balance sheet date. All other liabilities are classified as noncurrent.

Financial Instruments at Fair Value Through Profit or Loss

Financial instruments at fair value through profit or loss include financial assets or financial liabilities held for trading. The Corporation recognizes a financial asset or a financial liability on its balance sheet when the Corporation becomes a party to the contractual provisions of the financial instrument. A financial asset is derecognized when the Corporation has lost control of its contractual rights over the financial asset. A financial liability is derecognized when the obligation specified in the relevant contract is discharged, cancelled or expired. These financial instruments are initially recognized at fair value, and related transaction costs are expensed currently. When these instruments are remeasured at fair value, the changes in fair value are recognized under current income. A regular purchase or sale of financial assets is recorded using trade date accounting.

Derivatives that do not meet the criteria for hedge accounting are treated as financial assets or liabilities held for trading. When the fair value of the derivative is a positive number, the financial instrument is recorded as a financial asset; when the fair value is a negative number, the financial instrument is recorded as a financial liability.

Available-for-sale Financial Assets

Available-for-sale financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition. When these assets are subsequently measured at fair value, the changes in fair value are reported as a separate component of stockholders' equity. The accumulated gains or losses in stockholders' equity are recognized in earnings when the financial asset is derecognized from the balance sheet. A regular purchase or sale of financial assets is recorded using trade date accounting.

The recognition, derecognition and the fair value bases of available-for-sale financial assets are the same with those of financial assets at fair value through profit or loss.

Cash dividends received on investment in equity securities are recognized as income in the period received. Stock dividends received are recognized only as an increase in the number of shares of stock held on the ex-dividend date. Costs of investments sold are determined by the weighted-average method.

If there is objective evidence that a financial asset is impaired, an impairment loss is recognized. If the impairment loss decreases, for equity securities, the previously recognized impairment loss is reversed to the extent of the decrease and recorded as an adjustment to stockholders' equity.

The fair value of financial assets and financial liabilities at the balance sheet date are determined at the closing prices of publicly traded stocks.

Financial Assets Carried at Cost

Investments in non-publicly traded stocks and stocks traded in the Emerging Stock Market are measured at their original cost. If there is objective evidence of financial asset impairment, impairment loss is recognized. No recording of a subsequent recovery of fair value is allowed.

Factoring of Accounts Receivable

The following three conditions must be met to recognize factoring of accounts receivable:

- a. The accounts receivable have been legally isolated from the Corporation.
- b. The transferees have obtained the right to pledge or exchange the accounts receivable, which are either the transferred accounts receivable or the beneficial interest in the transferred assets.
- c. The transferor does not maintain effective control, through an agreement to repurchase or redeem the transferred accounts receivable before their maturity, over the transferred accounts receivable.

If the three conditions are met, the difference between the proceeds and the face value of the accounts receivable is recognized as a loss and recorded as nonoperating expense.

Impairment of Accounts Receivable

An allowance for doubtful accounts is provided on the basis of a review of the collectibility of accounts receivable. The Corporation assesses the probability of collections of accounts receivable by examining the aging analysis of the outstanding receivables and economic conditions provided by customers.

As discussed in Note 3 to the financial statements, on January 1, 2011, the Corporation adopted the third-time revised Statement of Financial Accounting Standards (SFAS) No. 34, "Financial Instruments: Recognition and Measurement." One of the main revisions is that impairment of receivables originated by the Corporation should be covered by SFAS No. 34. Accounts receivable are assessed for impairment at the end of each reporting period and considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the accounts receivable, the estimated future cash flows of the asset have been affected. Objective evidence of impairment could include:

- Significant financial difficulty of the debtor;
- Accounts receivable becoming overdue;
- It becomes probable that the debtor will enter bankruptcy or financial re-organization.

Accounts receivable that are assessed as not impaired individually are further assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of accounts receivable could include the Corporation's past experience in the collection of payments, an increase in the number of delayed payments, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

The amount of the impairment loss recognized is the difference between the asset carrying amount and the present value of estimated future cash flows, after taking into account the related collateral and guarantees, discounted at the receivable's original effective interest rate. The carrying amount of the accounts receivable is reduced through the use of an allowance account.

Impairment of Asset

If the recoverable amount of an asset (mainly properties, investments accounted for by the equity method and other assets) is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased accordingly, but the increased carrying amount may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized in earnings, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is first recognized as gains to the extent that an impairment loss on the same revalued asset

was previously charged to earnings. Any excess amount is treated as an increase in the unrealized revaluation increment.

For long-term equity investments in which the Corporation has significant influence but has no control, the carrying amount of each investment is compared with its own recoverable amount for the purpose of impairment testing.

Inventories

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

Investments Accounted for by the Equity Method

The equity method is applied to investments in companies in which the Corporation owns 20% or more of investees' common stock or exercises significant influence over their operating and financial policy decisions.

These investments are initially stated at cost, and their carrying amounts are subsequently adjusted for the Corporation's proportionate share in the net income or net loss and cumulative translation adjustment of the investee. Cash dividends received are accounted for as a reduction of the carrying value of the investments. When the investee recognizes net loss not recognized as pension cost and unrealized valuation gains or losses on financial instruments, the Corporation also records its equity in the investee's net loss not recognized as pension cost and unrealized gains or losses as an adjustment to stockholders' equity.

Properties

Land is stated at cost or cost plus revaluation increment, and other properties are stated at cost less accumulated depreciation. Major additions, renewals and betterments are capitalized, while maintenance and repairs are expensed currently. Interest incurred during the construction and acquisition period is also capitalized as cost of the property.

Depreciation of the roller that belongs to the cold rolling department and the hot rolling department is calculated based on their level of wear. Others are calculated using the straight-line method over service lives estimated as follows: buildings and improvements, 10 to 60 years; machinery and equipment, 3 to 18 years; and miscellaneous equipment, 3 to 18 years. Depreciation of the roller in the steel pipe department is calculated by the straight-line method over 5 years. Property still in use beyond their original estimated useful lives are further depreciated over their newly estimated useful lives..

Upon retirement or disposal of properties, the related cost (including revaluation increment), accumulated depreciation and the unrealized revaluation increment are removed from the accounts. Any gain or loss on disposal of the asset is included in nonoperating gains or losses in the year of disposal.

Rental Assets

Rental assets are stated at the lower of carrying value (cost less accumulated depreciation) or recoverable value. Depreciation is calculated by the straight-line method over estimated service lives of 55 years.

Nonoperating Assets

Nonoperating assets are stated at the lower of carrying value or net fair value.

Deferred Charges

Deferred charges which consist of computer software cost are amortized over 3 years.

Purchase Contract Losses

Purchase contract losses pertain to losses on irrevocable raw materials purchase contracts. If the estimated costs of finished goods are in excess of their expected net realizable values, the excess is recorded as other liabilities, payable on purchase contract losses, and operating losses.

Deferred Credits

Deferred credit is unrealized gain on the disposal of nonperforming loans and is recognized throughout the amortization period of the collaterals for these loans.

Pension

Pension costs under the defined contribution plan are recognized on the basis of the Corporation's required monthly contributions to the employees' individual pension accounts.

Pension costs under the defined benefit plan are recognized on the basis of actuarial calculations. The balance of total pension obligation less the funded amounts is recorded as accrued pension cost. Payment of retirement benefits is made initially from the pension fund then charged against accrued pension costs, and any shortage will be charged to expense when paid.

Income Tax

The Corporation applies the inter-year income tax allocation method. Tax effects of deductible temporary differences and unused loss carryforwards are recognized as deferred income tax assets. Valuation allowance is provided for deferred tax assets that are not certain to be realized. Tax effects of taxable temporary differences are recognized as deferred tax liabilities. A deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred income tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or noncurrent based on the expected length of time before it is realized or settled.

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

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

Revenue Recognition

Revenue is recognized when the titles to products and evident risks of ownership are transferred to customers, primarily upon shipment. Domestic sales are recognized when products are delivered to and accepted by the customers, and export sales are recognized when products are loaded onto shipping vessels in accordance with the sales terms.

Sales are measured at fair value, which is a price (net of trade discounts and sales discounts) agreed by the Corporation and customers. However, if the related receivables are due within one year, the differences between their fair values and receivable amounts are immaterial and sales transactions are frequent, the fair values of related receivables are not calculated using the discounted imputed interest rate.

Sales returns are recorded as reductions of sales in the year of actual return, and the related cost of sales is reversed to inventory. Sales allowances are monetary discounts given to customers when sales volume reaches a certain level and are recorded as sales allowances payable.

Reclassifications

Certain accounts in the financial statements as of and for the year end December 31, 2010 have been reclassified to conform to the presentation of the financial statements as of and for the year end December 31, 2011.

Starting January 1, 2011, the Corporation reclassified standby equipment and service equipment from office supplies and deferred charges to inventory and fixed assets to conform to IFRS. When the items are expected to be used in twelve months and their amounts are not considered material, they are listed under inventory. When the items are not expected to be used in twelve months and their amounts are considered material, they are listed under fixed assets. The reclassified items of balance sheet for the year ended December 31, 2010 were as follows:

	Before Reclassification	After Reclassification
Balance sheets		
Current assets		
Inventory	\$ 6,114,510	\$ 6,431,908
Office supplies	1,068,547	-
Fixed assets		
Cost - standby equipment	-	1,303,176
Accumulated depreciation - standby equipment	-	(386,914)
Other assets		
Deferred charges	<u>172,143</u>	<u>7,030</u>
	<u>\$ 7,355,200</u>	<u>\$ 7,355,200</u>

3. EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES

Financial Instruments

Starting January 1, 2011, the Corporation adopted the newly revised Statement of Financial Accounting Standards (SFAS) No. 34, "Financial Instruments: Recognition and Measurement." The main revisions include: (1) finance lease receivables impairment are now covered by SFAS No. 34; (2) the scope of the applicability of SFAS No. 34 to insurance contracts is amended; (3) loans and receivables originated by the enterprise are now covered by SFAS No. 34; (4) additional guidelines on impairment of financial assets carried at amortized cost when the debtor has financial difficulties and the terms of obligations have been modified; and (5) accounting treatment by a debtor for modifications in the terms of obligations. This accounting change did not have a significant impact on the financial statements as of and for the year ended December 31, 2011.

Operating Segments

Starting January 1, 2011, the Corporation adopted the newly issued SFAS No. 41, "Operating Segments." The requirements of the statement are based on the information about the components of the Corporation that management uses to make decisions about operating matters. SFAS No. 41 requires identification of operating segments on the basis of internal reports that are regularly reviewed by the Corporation's chief operating decision maker in order to allocate resources to the segments and assess their performance. This statement supersedes SFAS No. 20, "Segment Reporting." The information for the year ended December 31, 2010 has been recast to conform to SFAS No. 41 Disclosure of segment information is made in the consolidated financial statements.

4. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Corporation entered into derivative contracts during the years ended December 31, 2011 and 2010 to manage exposures due to exchange rate and interest rate fluctuations. The financial risk management objective of the Corporation is to minimize risks due to changes in fair value or cash flows. Derivatives that do not meet the criteria for hedge accounting are treated as financial assets or liabilities held for trading.

Outstanding forward exchange contracts as of December 31, 2011 and 2010 were as follows:

	Currency	Maturity Date	Amount (In Thousands)
<u>December 31, 2011</u>			
Buy	NTD/JPY	2012.10.30-2014.12.30	NT\$296,821/JPY832,860
<u>December 31, 2010</u>			
Buy	NTD/JPY	2011.03.15-2013.02.27	NT\$378,838/JPY1,056,684

	<u>Year Ended December 31</u>	
	<u>2011</u>	<u>2010</u>
Financial assets at fair value through profit or loss	\$ 28,565	\$ 12,749
Less: Classified as noncurrent assets	<u>23,979</u>	<u>9,863</u>
	<u>\$ 4,586</u>	<u>\$ 2,886</u>
Financial liabilities at fair value through profit or loss	<u>\$ -</u>	<u>\$ 723</u>

On financial instruments designated as at fair value through profit or loss, in 2011 and 2010, net gains on financial assets were NT\$29,111 thousand and NT\$8,020 thousand, respectively, and net losses on financial liabilities were NT\$827 thousand and NT\$1,290 thousand, respectively.

5. ACCOUNTS RECEIVABLE

Movements of the allowance for doubtful account for the year 2010 were as follows:

	Amount (In Thousands)
Balance, beginning of year	\$ 17,786
Reversal of the allowance	<u>(17,786)</u>
Balance, end of year	<u>\$ -</u>

The Corporation entered into accounts receivable factoring contract (without recourse) with Mega International Commercial Bank ("Mega Bank"). Under the contract, the Corporation is authorized to sell accounts receivable to Mega Bank upon the delivery of products to customers and is required to complete related formalities on the next banking day. Under this contract, the Corporation does not bear the risk of the uncollectibility of the accounts receivable. The receivables sold and the related credit lines, which may be used on a revolving basis, were as follows:

Buyer of Accounts Receivable	Advances Received at Beginning of Year	Receivables Sold	Amounts Collected	Advances Received at Year-end	Interest Rates on Advances Received (%)	Credit Line
Year ended <u>December 31, 2011</u>						
Mega Bank	<u>\$ 922,320</u>	<u>\$ 3,252,218</u>	<u>\$ 2,953,122</u>	<u>\$ 1,221,416</u>	1.30	\$3 billion
Year ended <u>December 31, 2010</u>						
Mega Bank	<u>\$ 1,032,740</u>	<u>\$ 3,206,860</u>	<u>\$ 3,317,280</u>	<u>\$ 922,320</u>	1.08	\$3 billion

6. INVENTORIES

	December 31	
	2011	2010
Raw materials	\$ 4,952,849	\$ 2,123,612
Supplies	396,459	380,211
Work-in-process	735,795	802,373
Finished goods	2,374,670	2,479,508
Raw materials and supplies in transit	325,605	643,983
Others	<u>7,817</u>	<u>2,221</u>
	<u>\$ 8,793,195</u>	<u>\$ 6,431,908</u>

As of December 31, 2011 and 2010, the allowance for inventory devaluation was NT\$1,109,130 thousand and NT\$450,020 thousand, respectively, and recorded as reduction in inventories.

The costs of inventories recognized as operating costs were NT\$47,638,858 thousand in 2011 and NT\$39,674,515 thousand in 2010. The items recorded as operating costs were as follows:

	December 31	
	2011	2010
Allowance for loss on inventories	\$ 1,129,124	\$ 499,371
Allowance for purchase contract loss	1,579,220	634,615
Income from supplies and scraps	(1,175,726)	(1,023,476)

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS - NONCURRENT

	December 31	
	2011	2010
Domestic quoted stocks		
China Steel Corporation	\$ 840,116	\$ 840,116
Adjustments for appraisal (Note 18)	<u>365,150</u>	<u>495,083</u>
	<u>\$ 1,205,266</u>	<u>\$ 1,335,199</u>

8. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

	<u>December 31</u>	
	<u>2011</u>	<u>2010</u>
Emerging market stocks		
Yieh United Steel Corp.	\$ 257,600	\$ 257,600
Domestic unquoted common stocks		
Riselink Venture Capital Corp.	30,000	30,000
Pacific Harbour Stevedoring Corp.	2,750	2,750
Cheng Shin House Management Consulting Corp.	<u>285</u>	<u>285</u>
	<u>\$ 290,635</u>	<u>\$ 290,635</u>

The Corporation also had investments in Grand Fortune Special Steel Co. Ltd., Chateau Bridge Top Inc., Taiwan Vespa and Sol Hwang Enterprise. The carrying amounts of these investments were reduced to zero because of impairment losses on these investments.

Stocks which have no quoted prices in active market and of which verifiable fair values cannot be determined at a reasonable cost, are carried at cost.

9. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	<u>December 31</u>			
	<u>2011</u>		<u>2010</u>	
	Amount	% of Owner- ship	Amount	% of Owner- ship
Hung Li Steel Corp. (HLC)	\$ 2,828,024	100	\$ 2,747,668	100
Trans Glory Investment Corp. (TGIC)	2,318,687	41	2,431,268	41
Hong Kao Investment Corp. (HKIC)	37,026	100	40,884	100
Taiwan Steel Corp.(TSC)	<u>26,152</u>	100	<u>32,621</u>	100
	<u>\$ 5,209,889</u>		<u>\$ 5,252,441</u>	

Significant movements were as follows:

TSC reduced capital to offset deficit of NT\$23,745 thousand and to return cash of NT\$6,621 thousand in June 2011, which resulted in the decrease in common stock by 3,037 thousand shares.

The recognition of the following investment income (loss) from investments accounted for by the equity method was based on the investees' audited financial statements for the same reporting periods as those of the Corporation:

	<u>Years Ended December 31</u>	
	<u>2011</u>	<u>2010</u>
TGIC	\$ 207,887	\$ 40,916
HLC	(89,155)	(297,774)
HKIC	3,023	2,189
TSC	<u>152</u>	<u>9,504</u>
	<u>\$ 121,907</u>	<u>\$ (245,165)</u>

The Corporation's consolidated financial statements included (HLC, HKIC and TSC).

10. PROPERTIES

Accumulated depreciation consisted of:

	<u>December 31</u>	
	2011	2010
Buildings and improvements	\$ 957,995	\$ 892,094
Machinery and equipment	9,807,280	8,754,142
Spare parts	466,185	386,914
Miscellaneous equipment	<u>2,189,014</u>	<u>1,944,666</u>
	<u>\$ 13,420,474</u>	<u>\$ 11,977,816</u>

Interest expenses capitalized were as follows:

	<u>Years Ended December 31</u>	
	2011	2010
Total interest expenses	\$ 163,671	\$ 116,030
Capitalized interest	<u>(5,290)</u>	<u>(12,773)</u>
Interest expenses reflected in the income statement	<u>\$ 158,381</u>	<u>\$ 103,257</u>
Capitalization rate	0.96%-1.15%	0.89%-0.94%

The Corporation revalued its land in September 2011, which resulted in total revaluation increments of NT\$331,820 thousand. The net revaluation amount of NT\$187,386 thousand after deducting the reserve for land value increment tax of NT\$144,434 thousand was credited to equity as unrealized revaluation increment.

11. OTHER ASSETS

a. Rental assets

	<u>December 31</u>	
	2011	2010
Land - Kaohsiung Long Dong Section	\$ 2,640,958	\$ 2,640,958
Land - Taipei office	64,026	64,026
Buildings and improvements – Taipei office	<u>30,289</u>	<u>30,289</u>
	2,735,273	2,735,273
Less: Accumulated depreciation	8,349	7,806
Accumulated impairment losses	<u>-</u>	<u>182,127</u>
	<u>\$ 2,726,924</u>	<u>\$ 2,545,340</u>

On June 30, 2010, the Corporation entered into a contract with a third party on the lease of the Corporation's land in Kaohsiung Long Dong Section.

Based on the lease contract, the rental is collectible monthly, and the rental is subject to change intermittently from the construction period throughout the building operating period.

On the lessee's obtaining of a building license on December 16, 2010, the Corporation started to collect the construction period rental of NT\$2,941 thousand per month and the operating period rental of NT\$5,883 thousand per month. The lessee began to operate in August 2011. The rental revenue of NT\$47,794 thousand for 2011 was included in nonoperating income and gains. Based on the lease contract, in August 2011, the Corporation obtained the deposit of NT\$35,000 thousand which was included in guaranteed deposits received.

As of December 31 2011, the total amount of future rentals payables and their present value were as follows:

Year	Future Rentals Payables	Present Value of Future Rentals Payables
2012	\$ 70,591	\$ 70,591
2013	70,591	70,591
2014	71,768	71,768
2015	74,121	74,121
2016-2020	389,260	356,478
2021-2025	432,680	370,351
2026-2030	477,704	382,119
Jan-Aug 2031	<u>67,120</u>	<u>51,688</u>
	<u>\$ 1,653,835</u>	<u>\$ 1,447,707</u>

The present value of the above future rentals payables over five years was discounted at the interest rate (1.355%) quoted by the Bank of Taiwan for a one-year time deposit.

As of December 31, 2011, notes received and advance rental were as follows:

	Amount (In Thousands)
Notes receivable received	\$ 43,237
Less: Advance rental	<u>(43,237)</u>
	<u>\$ -</u>

The Corporation leased the Taipei office to third party under a renewable operating lease contract. The rental revenue was both NT\$3,422 thousand in 2011 and 2010.

On the basis of the related land appraisal reports, the Corporation recognized a gain on the impairment loss reversal amounting to NT\$182,127 thousand (NT\$143,627 thousand for Long Dong Section and NT\$38,500 thousand for Taipei office). The gain was included in nonoperating income and gains.

b. Nonoperating assets, net

	<u>December 31</u>	
	<u>2011</u>	<u>2010</u>
Land		
Kaohsiung Long Hua Section	\$ 226,557	\$ 226,557
Tainan Kuo An Section	2,782,496	2,782,496
Shin Bin Industrial District	<u>122,502</u>	<u>122,502</u>
	<u>3,131,555</u>	<u>3,131,555</u>
Less:		
Accumulated impairment loss - Kaohsiung Long Hua Section	52,692	102,844
Accumulated impairment loss - Tainan Kuo An Section	1,636,921	1,724,863
Accumulated impairment loss - Shin Bin Industrial District	<u>-</u>	<u>26,750</u>
	<u>1,689,613</u>	<u>1,854,457</u>
	<u>\$ 1,441,942</u>	<u>\$ 1,277,098</u>

On the basis of the related land appraisal reports, the Corporation recognized a gain on the impairment loss reversal amounting to NT\$164,844 thousand (NT\$50,152 thousand for Long Hua Section, NT\$87,942 thousand for Kuo An Section and NT\$26,750 thousand for Shin Bin Industrial District). The gain was included in nonoperating income and gains.

c. Others

The Corporation bought farmlands for warehousing at the Jia Xing Section and Bai Mi Section of the Gangshan Town in Kaohsiung County in July 2007, October 2005, and April 2005, respectively. The farmlands amounted to NT\$56,399 thousand, included in others of other assets. However, certain regulations prohibit the Corporation from registering the title of these farmlands in the Corporation's name; thus, the registration was made in the name of an individual person. The individual person consented to fully cooperate with the Corporation in changing the land title in the future and pledged the land to the Corporation as collateral.

In May 2010, the Corporation sold part of Jia Xing section to a third party. The disposal gain of NT\$81 thousand was calculated from the disposal proceeds of NT\$397 thousand less the cost of NT\$316 thousand and was recognized as a reduction of loss on disposal of properties. In addition, in August 2010, there was a landfill work in another part of the Jia Xing Section, and the related expenditure of NT\$10,740 thousand was recognized as capitalized cost.

12. SHORT-TERM LOANS

	<u>December 31</u>	
	<u>2011</u>	<u>2010</u>
Revolving loans - interest of 0.95%-1.15% in 2011 and 0.72%-0.92% in 2010	\$ 7,919,680	\$ 7,652,270
Letter of credit loans - interest of 0.95%-1.15% in 2011 and 0.72%-0.91% in 2010	4,660,986	1,792,843
Bank overdraft - interest of 0.619% in 2011 and 0.45% in 2010	<u>255,894</u>	<u>291,541</u>
	<u>\$ 12,836,560</u>	<u>\$ 9,736,654</u>

13. COMMERCIAL PAPER PAYABLE

	<u>December 31</u>	
	<u>2011</u>	<u>2010</u>
Commercial paper - interest of 0.762%-0.89% in 2011 and 0.362% in 2010	\$ 1,550,000	\$ 130,000
Less: Unamortized discounts	<u>700</u>	<u>13</u>
	<u>\$ 1,549,300</u>	<u>\$ 129,987</u>

14. LONG-TERM LOANS

	<u>December 31</u>	
	<u>2011</u>	<u>2010</u>
Syndicated bank loans		
Mega International Commercial Bank, etc.		
Type A	\$ 1,714,286	\$ 2,571,429
Revolving credit loan		
Mega Bank	825,000	375,000
TCB Bank	825,000	375,000
Land Bank	550,000	250,000
Taiwan Business Bank	550,000	250,000
Taipei Fubon Bank	550,000	250,000
Taishin Bank	<u>330,000</u>	<u>150,000</u>
	5,344,286	4,221,429
Less: Current portion	-	857,143
Syndicated loan fee	<u>5,950</u>	<u>9,350</u>
	<u>\$ 5,338,336</u>	<u>\$ 3,354,936</u>

In September 2006, the Corporation entered into a syndicated credit facility agreement with Mega International Commercial Bank (“Mega Bank”) and 20 other banks, as follows:

- a. The credit line is NT\$14 billion, which consists of Type A NT\$6 billion, Type B NT\$5 billion and Type C NT\$3 billion. The first drawdown of the Corporation was on October 23, 1996. The Corporation canceled Type C in October, 2010 and cancelled Type B in February, 2012.
- b. Type A is a secured loan (non-revolving credit). The used balance is repayable in 14 installments from April 2007 to October 2013. As of December 31, 2011 and 2010, the interest rates were 1.4535% and 1.2061%, respectively.
- c. Under the agreement, China Steel Corporation and its related parties should collectively hold at least 30% of the Corporation’s issued shares and have over half of the seats in the board of directors and control the Corporation’s operation. From January 1, 2007, the net tangible assets of the Corporation should not be less than half of the capital, and the ratio of financial liabilities to net tangible assets should not exceed 350%.

The amounts referred to the above restrictions should be based on audited annual financial statements. If the Corporation breaches the agreement, the Corporation should take remedial measures within six months from the next day after the issue date of the financial statements’ or adjust the interest rate and the rate of the guarantee fee in accordance with the agreement.

- d. As of December 31, 2011 and 2010, the Corporation was in compliance with the syndicated credit facility agreement.

In December 2010, the Corporation entered into a medium-term loan agreement with Mega International Commercial Bank and five other banks, as follows:

- a. The credit line is NT\$6.6 billion; the first drawdown of the Corporation was on December 30, 2010.
- b. The debt instrument is an unsecured revolving credit loan, and the minimum rate of the commitment to use is 25% of the loan amount and the loan term is 90 days. When the committed minimum amount to use is exceeded, the selection of a 60-, 90- or 180- day loan term must be made before every use. On making an application for loan use, the principal plus interest should be paid in full by the due date. As of December 31, 2011 and 2010, the interest rates were 1.5155% and 1.2949%.
- c. From January 2011, the net tangible assets of the Corporation should not be less than half of the capital, and the ratio of financial liabilities to net tangible assets should not exceed 350%.
- d. The amounts referred to in the above restrictions should be based on audited annual financial statements. If the Corporation breaches the agreement, it should take remedial measures within six months from the day after the issue date of the financial statements or adjust the interest rate and the rate for the guarantee fee in accordance with the agreement.
- e. As of December 31, 2011, the Corporation was in compliance with the medium-term loan agreement.

In December 2011, the Corporation entered into a syndicated credit facility agreement with Bank of Taiwan (BOT) and 11 other banks. The credit line is NT\$16 billion, which consists of Type A NT\$ 7billion and Type B NT\$9 billion. As of December 31 2011, the Corporation did not use loan. Under the agreement, the Corporation should repay the previous loan before using Type A. In addition, the balance of Type A is repayable in 13 installments from the date of the first drawdown. The first payment should be made in one year after the date of the first drawdown, and the others should be made semiannually in the following 12 periods. The Corporation reclassified current portion of long-term loans to long-term loans.

15. ACCRUED EXPENSES

	December 31	
	2011	2010
Salary and bonus	\$ 108,946	\$ 156,031
Employ's bonus and director bonus (Note 18)	-	125,140
Utilities	55,565	63,578
Processing charge (Note 23)	43,755	23,590
Export fee	42,463	52,989
Delivery pay	38,305	44,440
Others	<u>99,297</u>	<u>75,106</u>
	<u>\$ 388,331</u>	<u>\$ 540,874</u>

16. OTHER PAYABLES

	December 31	
	2011	2010
Properties purchased	\$ 124,157	\$ 172,435
Sales discount (Note 2)	121,801	220,157
Sale on consignment (Note 23)	63,342	40,659
Others	<u>11,981</u>	<u>1,133</u>
	<u>\$ 321,281</u>	<u>\$ 434,384</u>

17. PENSION PLAN

The pension plan under the Labor Pension Act (LPA) is a defined contribution plan. Based on the LPA, the rate of the Corporation's monthly contributions to employees' individual pension accounts is at 6% of monthly salaries and wages. Related pension costs were NT\$10,494 thousand for 2011 and NT\$7,583 thousand for 2010.

The Corporation has a retirement plan in accordance with the Labor Standards Law. Retirement benefits are based on employee's length of service and his/her average salaries and wages of the last six months before retirement.

The Corporation contributes amounts equal to 12.9% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. The pension fund is deposited in the Bank of Taiwan in the committee's name.

Other information on the defined benefit plan is as follows:

a. Components of net pension cost

	Years Ended December 31	
	2011	2010
Service cost	\$ 26,526	\$ 31,930
Interest cost	16,884	16,108
Projected return on plan assets	(13,565)	(11,291)
Amortization	<u>11,435</u>	<u>11,435</u>
Net pension cost	<u>\$ 41,280</u>	<u>\$ 48,182</u>

b. Reconciliation of the fund status of the plan and accrued pension cost

	December 31	
	2011	2010
Benefit obligations		
Vested	\$ 545,652	\$ 494,221
Non-vested	<u>190,408</u>	<u>188,187</u>
Accumulated	736,060	682,408
Additional benefits based on future salaries	<u>160,029</u>	<u>161,777</u>
Projected benefit obligations	896,089	844,185
Fair value of plan assets	<u>(716,319)</u>	<u>(655,390)</u>
Fund status	179,770	188,795

(Continued)

	December 31	
	2011	2010
Unrecognized prior service cost	\$ (47,315)	\$ (52,573)
Unrecognized net transition obligation	(12,355)	(18,532)
Unrecognized net actuarial gain	<u>13,927</u>	<u>32,571</u>
Accrued pension cost	<u>\$ 134,027</u>	<u>\$ 150,261</u>
Vested benefits	<u>\$ 761,863</u>	<u>\$ 709,366</u> (Concluded)
	Years Ended December 31	
	2011	2010
c. Actuarial assumptions		
Discount rate used in determining present value	2.00%	2.00%
Future salary increase rate	2.00%	1.75%
Expected rate of return on plan assets	2.00%	2.00%
d. Contributions to the fund during the year	<u>\$ 57,514</u>	<u>\$ 185,615</u>
e. Payments from the fund during the year	<u>\$ 4,616</u>	<u>\$ 8,865</u>

18. STOCKHOLDERS' EQUITY

a. Common stock

In June 2009, the Corporation revised the number of its authorized shares to 3,000,000 shares upon obtaining the approval in the stockholders' meeting. However, because the Company Law prohibits the Corporation from revising the number of authorized shares before the full issuance of the original authorized shares, the number of authorized shares remained unchanged.

To improve the Corporation's financial structure and enhance the development of future operations, the stockholders, in their June 2010 meeting, approved a capital reduction of NT\$3,042,394 thousand to offset a deficit. The rate of the capital reduction was 18.06%.

In June 2011, the stockholders approved a capital increase through issuance of stock dividends in the amount of NT\$552,132 thousand. The Corporation had completed the registration requirements for this capital increase. As of December 31, 2011, the Corporation's issued and outstanding shares amounted to NT\$14,355,444 thousand.

The Corporation issued shares at a discount; related information was as follows:

Date	Number of Shares Issued (In Thousand)	Par Value
March 31, 2009	400,000	\$9.5

b. Capital surplus

Under the Company Law, capital surplus can only be used to offset a deficit. However, the capital surplus from shares issued in excess of par (additional paid-in capital from issuance of common shares, conversion of bonds and treasury stock transactions) and donations may be capitalized, which however is limited to a certain percentage of the company's paid-in capital. Under the revised Company Law promulgated on January 4, 2012, the aforementioned capital surplus also may be distributed in cash when the company incurs no loss. The capital surplus from long-term investments accounted for under the equity method may not be used for any purpose.

	Years Ended December 31	
	2011	2010
Long-term investments	\$ 342,052	\$ 343,458
Additional paid in capital	<u>903</u>	<u>743</u>
	<u>\$ 342,955</u>	<u>\$ 344,201</u>

In October, 2008, TGIC exchanged its common stock and preferred stock of Dragon Steel Corporation for CSC's common stock. The Corporation recognized the disposal gain on long-term investment at its percentage of ownership in TGIC.

In 2009, CSC had transferred its treasury stocks to its employees and subsidiaries. The Corporation recognized a salary expense of NT\$743 thousand.

In July 2011, CSC issued common shares for cash capital. Under the Company Law, CSC should reserve 10% of the stock options for its employees and subsidiaries. The Corporation recognized NT\$160 thousand of compensation cost.

c. Appropriation of retained earnings and dividend policy

The Corporation's Articles of Incorporation provide that from annual net income less any prior years' deficit, 10% should be set aside as legal reserve and a certain percentage as special reserve based on relevant laws or regulations or as requested by the authorities in charge. The remaining earnings should be appropriated in accordance with the resolution passed at a stockholders' meeting if the dividend per share is not lower than NT\$0.02. The appropriation should include (a) at least 0.3% as bonus to employees and (b) 1% as remuneration to directors and supervisors.

The Corporation is in a mature steel industry. Thus, dividends will be appropriated in cash or in stock at an appropriate ratio, with cash dividends to be at least 50% of total dividends.

The Corporation had an accumulated deficit in 2011; thus, the Corporation did not estimate any bonuses to employees and remuneration to directors and supervisors. For 2010, the proposed bonus to employees was NT\$111,236 thousand and the proposed remuneration to directors and supervisors was NT\$13,904 thousand. The bonus to employees and remuneration to directors and supervisors were 8% and 1%, respectively, of net income (net of the bonus, remuneration and estimated legal reserve). If the actual amounts subsequently resolved by the stockholders differ from the proposed amounts, the differences are recorded in the year of stockholders' resolution as a change in accounting estimate. If a share bonus is resolved to be distributed to employees, the number of shares is determined by dividing the amount of the share bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day immediately preceding the stockholders' meeting.

Based on a directive issued by the Securities and Futures Bureau, an amount equal to the net debit balance of certain stockholders' equity accounts (including unrealized gain or loss on financial instruments and net loss not recognized as pension cost) shall be transferred from unappropriated earnings to a special reserve. Any special reserve appropriated may be reversed to the extent of the decrease in the net debit balance.

Under the Company Law, legal reserve should be appropriated from retained earnings until its balance equals the Corporation's paid-in capital. Legal reserve may be used to offset a deficit. Under the revised Company Law issued on January 4, 2012, when the Corporation incurs no loss and the legal reserve has exceeded 25% of the Corporation's paid-in capital, the excess may be transferred to capital or distributed in cash.

The appropriation of 2010 earnings proposed by the board of directors in March 2011 and approved in the stockholders' meeting in June 2011 was as follows:

	For Year 2010	
	Appropriation of Earnings	Dividends Per Share (NT\$)
Legal reserve	\$ 154,487	\$ 0.6
Cash dividends	828,199	0.4
Stock dividends	<u>552,132</u>	
	<u>\$ 1,534,818</u>	

The use of the Corporation's income to offset the 2009 deficit was proposed by the board of directors in March 2010 and approved in the stockholders' meeting in June 2010.

The bonus to employees and remuneration to directors and supervisors for 2010 approved in the stockholders' meeting in June 2011 and the accrual amounts reflected in the financial statements for the year ended December 31, 2010 were as follows:

	Year Ended December 31, 2010	
	Bonus to Employee	Remuneration to Directors and Supervisors
Amounts approved in shareholders' meetings	\$ 73,422	\$ 14,684
Amounts recognized respective financial statements	<u>(111,236)</u>	<u>(13,904)</u>
	<u>\$ (37,814)</u>	<u>\$ 780</u>

The differences between the approved amounts of the bonus to employees and the remuneration to directors and supervisors and the accrual amounts reflected in financial statements for the year ended December 31, 2010 which were primarily due to changes in estimates had been adjusted in profit and loss for the year ended December 31, 2011.

The use of the Corporation's income to offset the 2011 deficit had been proposed by the board of directors on March 13, 2012.

Information on earnings appropriation, bonus to employees, directors and supervisors, and offsetting of deficit is available on the Market Observation Post System on the Web site of the Taiwan Stock Exchange Corporation.

d. Unrealized revaluation increment

In 2011, movement of unrealized revaluation increment was as follows:

	The Corporation	Equity-method Investments	Total
Balance, beginning of year	\$ -	\$ -	\$ -
Recognized in stockholders' equity	<u>187,386</u>	<u>169,511</u>	<u>356,897</u>
Balance, end of year	<u>\$ 187,386</u>	<u>\$ 169,511</u>	<u>\$ 356,897</u>

e. Unrealized gain or loss on financial instruments

In 2011 and 2010, movements of unrealized gain (loss) on financial instruments were as follows:

	Available-for- sale Financial Assets	Equity-method Investments	Total
<u>Year ended December 31, 2011</u>			
Balance, beginning of year	\$ 495,083	\$ (287,920)	\$ 207,163
Recognized in stockholders' equity	<u>(129,933)</u>	<u>(322,043)</u>	<u>(451,976)</u>
Balance, end of year	<u>\$ 365,150</u>	<u>\$ (609,963)</u>	<u>\$ (244,813)</u>
<u>Year ended December 31, 2010</u>			
Balance, beginning of year	\$ 531,330	\$ (438,367)	\$ 92,963
Recognized in stockholders' equity	68,060	150,447	218,507
Translation gain or loss	<u>(104,307)</u>	<u>-</u>	<u>(104,307)</u>
Balance, end of year	<u>\$ 495,083</u>	<u>\$ (287,920)</u>	<u>\$ 207,163</u>

19. INCOME TAX

- a. A reconciliation of income tax expense (benefit) based on income before income tax at the 17% statutory rate and income tax expense (benefit) was as follows:

	Years Ended December 31	
	2011	2010
Tax on pretax income at statutory rate	\$ (414,747)	\$ 262,626
Tax effect of adjusting items:		
Permanent differences		
Investment loss (income) under the equity method	(20,724)	41,678
Gain on sale of investments	-	(17,732)
Dividend income	(18,470)	(11,896)
Reversal of impairment loss	(58,985)	-
Others	(2,372)	4,108
		(Continued)

	Years Ended December 31	
	2011	2010
Temporary differences		
Unrealized loss on purchase contract	\$ 55,825	\$ 41,891
Realized discounts on sales	(16,721)	(84)
Unrealized loss on inventories	107,058	84,893
Realized deferred Gain on disposal of nonperforming loans	(13,965)	(10,618)
Pension difference	(2,759)	(23,364)
Others	<u>(2,510)</u>	<u>(195)</u>
Income tax expense (benefit) before tax credits	(388,370)	371,307
Loss carryforwards used	-	(371,307)
Allowance for loss carryforwards	<u>388,370</u>	<u>-</u>
	<u>-</u>	<u>-</u>
Current income tax expense		
Deferred income tax expense		
Temporary differences	(126,928)	(92,523)
Loss carryforwards	(387,898)	435,250
Effect of tax law changes on deferred income tax	-	159,171
Adjustment to valuation allowance due to changes in tax laws	-	(159,171)
Adjustment to valuation allowance	<u>514,826</u>	<u>(342,727)</u>
	<u>-</u>	<u>-</u>
Adjustments to prior years' tax	<u>8,230</u>	<u>(8)</u>
Income tax expense (benefit)	<u>\$ 8,230</u>	<u>\$ (8)</u>

(Concluded)

In May 2010, the Legislative Yuan passed another amendment of Article 5 of the Income Tax Law, which reduced a profit-seeking enterprise's income tax rate from 20% to 17% effective January 1, 2010.

- b. Deferred income tax assets (liabilities) were as follows:

	December 31	
	2011	2010
Current		
Deferred income tax assets		
Sales discount payable	\$ 20,706	\$ 37,427
Purchase contract loss	97,716	41,891
Allowance for inventory loss	191,951	84,893
Others	<u>6,265</u>	<u>6,088</u>
	316,638	170,299
Less: Valuation allowance	<u>310,538</u>	<u>166,886</u>
	<u>6,100</u>	<u>3,413</u>
Deferred income tax liabilities		
Unrealized valuation gains on financial instruments	(4,856)	(2,044)
Others	<u>(1,244)</u>	<u>(1,369)</u>
	<u>(6,100)</u>	<u>(3,413)</u>

(Continued)

	December 31	
	2011	2010
Noncurrent		
Deferred income tax assets		
Loss carryforwards	\$ 622,981	\$ 235,083
Gain on disposal of nonperforming loans	181,703	195,668
Unfunded pension cost	<u>22,785</u>	<u>25,544</u>
	827,469	456,295
Less: Valuation allowance	<u>827,469</u>	<u>456,295</u>
Total deferred income tax assets	<u>\$ -</u>	<u>\$ -</u>

(Concluded)

Valuation allowance is fully provided for deferred tax assets because the steel industry constantly changes.

Loss carryforwards as of December 31, 2011 comprised of:

<u>Unused Amount</u>	<u>Expiry Year</u>
\$ 1,380,064	2019
<u>2,284,530</u>	2021
<u>\$ 3,664,594</u>	

- c. The tax returns through 2009 had been examined and cleared by the tax authorities.
- d. Information on integrated income tax is as follows:

For distribution of earnings generated on or after January 1, 1998, the ratio for the imputation credits allocated to stockholders of the Corporation is based on the balance of the imputation credit account (ICA) as of the date of dividend distribution. As of December 31, 2011 and 2010, the balances of the imputation credits which can be allocated to the stockholders amounted to NT\$898,438 thousand and NT\$1,170,276 thousand, respectively.

The creditable ratio for the distribution of the 2010 earnings was 20.48%.

20. PERSONNEL, DEPRECIATION AND AMORTIZATION

	Years Ended December 31							
	2011				2010			
	Operating Costs	Operating Expenses	Others	Total	Operating Costs	Operating Expenses	Others	Total
Personnel								
Salary (including annual bonus)	\$ 503,323	\$ 104,286	\$ -	\$ 607,609	\$ 717,570	\$ 176,489	\$ -	\$ 894,059
Insurance	46,320	8,594	-	54,914	42,650	7,858	-	50,508
Pension cost	43,870	7,904	-	51,774	47,393	8,372	-	55,765
Welfare benefits	192,509	32,070	-	224,579	171,961	27,782	-	199,743
Other	<u>3,057</u>	<u>3,160</u>	<u>-</u>	<u>6,217</u>	<u>1,553</u>	<u>7,410</u>	<u>-</u>	<u>8,963</u>
	<u>\$ 789,079</u>	<u>\$ 156,014</u>	<u>\$ -</u>	<u>\$ 945,093</u>	<u>\$ 981,127</u>	<u>\$ 227,911</u>	<u>\$ -</u>	<u>\$ 1,209,038</u>
Depreciation	\$ 1,554,077	\$ 4,433	\$ 543	\$ 1,559,053	\$ 1,146,195	\$ 6,298	\$ 544	\$ 1,153,037
Amortization	-	7,030	-	7,030	-	7,665	-	7,665

Depreciation referred to properties and rental assets; depreciation of rental assets was recognized as a reduction of rental revenue.

21. EARNINGS PER SHARE

The numerators and denominators used in the computation of EPS were as follows:

- a. Numerator, net income (loss)

	Years Ended December 31			
	2011		2010	
	Before Tax	After Tax	Before Tax	After Tax
Net income (loss)	<u>\$ (2,439,686)</u>	<u>\$ (2,447,916)</u>	<u>\$ 1,544,859</u>	<u>\$ 1,544,867</u>

- b. Denominator - shares (thousands)

	Years Ended December 31	
	2011	2010
Weighted average of outstanding common shares	1,380,331	1,684,571
Deduct: Capital reduction to offset deficit	-	(304,240)
Add: Capitalization of retained earnings	<u>55,213</u>	<u>55,213</u>
	1,435,544	1,435,544
Add: Effect of dilutive potential common stock - bonus to employees	<u>-</u>	<u>6,896</u>
	<u>1,435,544</u>	<u>1,442,440</u>

The Corporation had a deficit in 2011; thus the Corporation did not calculate diluted EPS.

If the Corporation may settle the bonus to employees by cash or shares, the Corporation should presume that the entire amount of the bonus will be settled in shares and the resulting potential shares should be included in the weighted average number of shares outstanding used in the calculation of diluted EPS, if the shares have a dilutive effect. The number of shares is estimated by dividing the entire amount of the bonus by the closing price of the shares at the balance sheet date. Such dilutive effect of the potential shares should be included in the calculation of diluted EPS until the stockholders resolve the number of shares to be distributed to employees at their meeting in the following year.

The weighted average number of shares outstanding for EPS calculation has been retroactively adjusted for the stock dividends. This adjustment caused the basic after income tax EPS and diluted EPS for 2010 to decrease from NT\$1.12 and NT\$1.11 to NT\$1.08 and NT\$1.07.

22. FINANCIAL INSTRUMENTS

- a. As of December 31, 2011 and 2010, the fair values of financial instruments were as follows:

	December 31			
	2011		2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<u>Nonderivative financial instruments</u>				
Assets				
Available-for-sale financial assets - noncurrent	\$ 1,205,266	\$ 1,205,266	\$ 1,335,199	\$ 1,335,199
Financial assets carried at cost - noncurrent	290,635		290,635	
Refundable deposits	21,894	21,894	4,218	4,218

(Continued)

	December 31			
	2011		2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Liabilities				
Long-term loans (including current portion)	\$ 5,338,336	\$ 5,338,336	\$ 4,212,079	\$ 4,212,079
Guarantee deposits received	35,000	35,000	-	-
<u>Derivative financial instruments</u>				
Forward contracts				
Financial assets at fair value through profit and loss - current	4,586	4,586	2,886	2,886
Financial assets at fair value through profit and loss - noncurrent	23,979	23,979	9,863	9,863
Financial liabilities at fair value through profit and loss - current	-	-	723	723
				(Concluded)

b. The assumptions and methods used to estimate the fair values of financial instruments are as follows:

1) The carrying values of cash, notes and accounts receivable, accounts receivable from related parties, other receivables, other receivables from related parties, restricted assets - current, short-term loans, commercial paper payable, notes and accounts payable, accounts payable to related parties, accrued expenses and other payables, approximate fair value because of the short maturities of these instruments.

2) The fair values of available-for-sale financial assets are determined at their market value.

If derivative financial instruments have no market values, the fair values are determined using valuation methods incorporating assumptions consistent with those used in the market. The fair values of forward contracts are calculated at exchange rates quoted by financial institutions on the maturity dates.

3) Financial assets carried at cost are investments in unquoted shares and stocks traded in the Emerging Stock Market, which have no quoted prices in an active market and entail an unreasonably high cost to obtain verifiable fair value. Therefore, no fair value is presented.

4) The fair values of refundable deposits and guarantee deposits are their carrying values.

5) The fair values of long-term loans equal their carrying values because the interest rate for long-term loans is floating.

c. Fair values of financial assets and liabilities based on quoted market prices or valuation techniques were as follows:

	Quoted Market Prices		Valuation Techniques	
	December 31		December 31	
	2011	2010	2011	2010
Assets				
Available-for-sale financial assets - noncurrent	\$ 1,205,266	\$ 1,335,199	\$ -	\$ -
Financial assets at FVTPL - current	-	-	4,586	2,886
Financial assets at FVTPL - noncurrent	-	-	23,979	9,863
Liabilities				
Financial liabilities at FVTPL - current	-	-	-	723

d. As of December 31, 2011 and 2010, the valuation of financial instruments with fair values determined using valuation techniques resulted in a gain of NT\$28,284 thousand and NT\$6,730 thousand, respectively.

- e. As of December 31, 2011 and 2010, financial instruments exposed to cash flow interest rate risk were, financial assets in the amounts of NT\$374,239 thousand and NT\$367,308 thousand, respectively, and financial liabilities in the amounts of NT\$18,174,896 thousand and NT\$13,948,733 thousand, respectively.
- f. As of December 31, 2011 and 2010, the interest income (expense) associated with financial assets (liabilities) other than those at fair value through profit or loss was as follows:

	Years Ended December 31	
	2011	2010
Total interest income	\$ 1,377	\$ 478
Total interest expense (including capitalized interest)	163,671	116,030

g. Financial risk

1) Market risk

This includes fair value risk on interest rate, exchange rate and market prices. The Corporation's investment in the shares of China Steel Corporation (CSC) involves market risk, i.e., if CSC's share price increases or decreases by NT\$1.00, fair value will increase or decrease by NT\$41,850 thousand.

2) Credit risk

Credit risk represents the potential loss that would be incurred by the Corporation if the counterparties or third-parties breach the contracts. Factors affecting credit risk are credit risk concentration, instrument components, contract amounts and other receivables.

As of December 31, 2011, the Corporation's credit risks amounted to NT\$1,083,878 thousand (including accounts receivable, receivables from related parties, other receivables, other receivables from related parties and refundable deposits), and the maximum credit risk on the instruments and the carrying value of these instruments are the same. The credit risk on the Corporation's cash and bank deposits (including pledged time deposits) were considered insignificant.

3) Liquidity risk

The Corporation had a deficit and net cash used in operating activities in 2011. Although the Corporation's current liabilities exceeded current assets as of December 31, 2011, the Corporation's operating funds were deemed sufficient to meet cash flow demand. Thus, liquidity risk was not considered significant.

In addition, available-for-sale financial assets can be readily sold at prices approximating fair values.

There are liquidity risks, however, for financial assets carried at cost because they have no active market.

4) Cash flow risk on interest rate changes

The Corporation's short-term and long-term loans are floating-rate loans. When the market interest rate increases by 1%, the Corporation's cash outflow will increase by about NT\$181,749 thousand a year.

23. RELATED-PARTY TRANSACTIONS

a. Related parties

Related Party	Relationship with the Corporation
China Steel Corporation (CSC)	Major stockholder (41%)
Long-Yuan-Fa Investment Corporation (LYFIC)	Supervisor
Hong-Yih Investment Corporation (HYIC)	Director
Goang Yaw Investment Corporation (GYIC)	Director
Pacific Harbour Stevedoring Corp. (PHSC)	Serves as the director and supervisor
Cheng Shin House Management Consulting Corp. (CSHMCC)	Serves as the director
Hung Li Steel Corporation (HLC)	Subsidiary
Taiwan Steel Corporation (TSC)	Subsidiary with no significant transaction
Hong Kao Investment Corporation (HKIC)	Subsidiary with no significant transaction
Trans Glory Investment Corporation (TGIC)	Equity-method investee
China Steel Global Trading Corporation (CSGC)	Affiliate
Dragon Steel Corporation (DSC)	Affiliate
Infor-Champ Systems Corporation (ICSC)	Affiliate
China Ecotek Corporation (CEC)	Affiliate
China Steel Machinery Corporation (CSMC)	Affiliate
China Hi-ment Corporation (CHC)	Affiliate
Steel Castle Technology Corporation (SCT)	Affiliate
China Steel Security Corporation (CSS)	Affiliate
China Steel Structure Corporation (CSSC)	Affiliate
United Steel Engineering and Construction Corporation (USECC)	Affiliate
Universal Exchange Inc. (UEI)	Affiliate
Union Steel Development Corporation (USDC)	Affiliate
Hi-mag Magnetic Corporation (HMC)	Affiliate
China Steel Management Consulting Corporation (CSMCC)	Affiliate
China Steel Corporation Group Education Foundation (CSCGEF)	Corporation is the main donor
CSC Steel SDN. BHD. (CSSB)	Affiliate
CSGT Steel Vietnam Joint Stock Company (CSGT METALS)	Affiliate

b. Significant related-party transactions were as follows:

	Years Ended December 31			
	2011		2010	
	Amount	% to Total	Amount	% to Total
1) Sale of steel products				
HLC	\$ 3,323,224	7	\$ 1,880,631	4
CSSB	742,945	2	612,641	1
CSGT METALS	131,099	-	-	-
DSC	-	-	1,473,116	4
Others	<u>13,881</u>	<u>-</u>	<u>4,411</u>	<u>-</u>
	<u>\$ 4,211,149</u>	<u>9</u>	<u>\$ 3,970,799</u>	<u>9</u>

The selling prices of steel products for related parties were similar to those for third parties. However, CSSB and CSGT METALS paid by telegraphic transfers (T/T) within seven days from product shipment, and DSC paid by T/T after product check and acceptance, and these payment terms differed from those for third parties, from whom payments were collected in advance.

	Years Ended December 31			
	2011		2010	
	Amount	% to Total	Amount	% to Total
2) Service revenue				
CSC	\$ 113,566	91	\$ 212,156	96
Others	<u>2,250</u>	<u>2</u>	<u>2,351</u>	<u>1</u>
	<u>\$ 115,816</u>	<u>93</u>	<u>\$ 214,507</u>	<u>97</u>

The Corporation entered into an agreement with CSC for the Corporation to do certain processing work on CSC's steel products. The calculation of processing charges to CSC was based on the formula stated in the agreement. The Corporation bills CSC within one month after approval of delivery.

The Corporation entered into an agreement with HLC to be a sales agent for its products and received service compensation every month. As of December 31, 2011 and 2010, the receivables from third parties of NT\$66,768 thousand and NT\$32,416 thousand were recognized as other receivables and the payables to HLC of NT\$63,342 thousand and NT\$40,659 thousands were recognized as other payables.

3) Sale of supplies

The Corporation sold supplies to HLC in the amounts of NT\$5,549 thousand and NT\$2,679 thousand, for the years ended December 31, 2011 and 2010. These were recorded in other operating revenues and had no significant impact on the Corporation's income.

	Years Ended December 31			
	2011		2010	
	Amount	% to Total	Amount	% to Total
4) Purchase of materials				
DSC	\$ 5,263,809	12	\$ 2,741,862	8
CSC	2,001,953	5	4,117,350	11
Others	<u>-</u>	<u>-</u>	<u>977</u>	<u>-</u>
	<u>\$ 7,265,762</u>	<u>17</u>	<u>\$ 6,860,189</u>	<u>19</u>

Payment terms for purchases of materials were similar to those for normal purchases from third parties.

The amount of purchase from DSC which included purchases from CSC through DSC were NT\$4,357,229 thousand and NT\$2,741,862 thousand in 2011 and 2010.

5) Deferred credits

In July, 2009, Taiwan Kaohsiung District Court (TKDC) auctioned off JAS's collaterals, and HLC bid for them. In November, 2009, TKDC allocated the proceeds of the auction of JAS's collaterals, with the Corporation getting the largest allocation.

As a result of the transaction, the gain on disposal of nonperforming loans decreased to NT\$1,257,034 thousand in 2009. In addition, some of the collaterals went to HLC, a subsidiary of the Corporation; thus, the gain was reclassified to deferred credits and was recognized on the basis of its realization period (which is HLC's property depreciation period).

Related information on the deferred credits is as follows:

	2011	2010
Balance, beginning of year	\$ 1,150,987	\$ 1,213,448
Realized gain	<u>(82,143)</u>	<u>(62,461)</u>
Balance, end of year	<u>\$ 1,068,844</u>	<u>\$ 1,150,987</u>

The realized gain on nonperforming loans was included in "others" of nonoperating income and gains.

6) Authorization fees

In May 2003, CSC, Sumitomo Metal Industries, Ltd. (SMI) and Sumitomo Corporation (SC) entered into a joint venture agreement and established a holding company named East Asia United Steel Corporation (EAUS) in July 2003. CSC will have a stable supply of good quality slab through this joint venture. CSC then signed a contract with the Corporation, transferring to the Corporation the right to buy slab from EAUS. The Corporation should pay authorization fees of US\$6.00 per ton to CSC. These fees (included in the purchase of materials) were \$324,593 thousand in 2011 and \$282,757 thousand in 2010. As of December 31, 2011 and 2010, authorization fees payable (included in payables to related parties) were \$85,692 thousand and \$66,956 thousand, respectively. The calculation of slab purchase prices was based on the formula stated in the agreement.

7) Lending and returning of steel slabs

To maintain steel slabs for production, the Corporation entered into a contract with CSC, under which the Corporation can borrow slabs from CSC when the Corporation needs more production materials and then return the slabs to CSC when the Corporation has a surplus of materials. The borrowing and returning of steel slabs in 2011 and 2010 are summarized as follows (Unit: Ton):

	2011	2010
Balance, beginning of year	37,045	(41,013)
Lending for the year	190,372	120,527
Returns for the year	(215,033)	(43,472)
Allowance for inventory loss	<u>(3,132)</u>	<u>1,003</u>
Balance, end of year	<u>9,252</u>	<u>37,045</u>

To maintain steel slabs for production, the Corporation also entered into a contract with DSC. The Corporation borrowed 49,459 tons of steel slabs from DSC in 2011 and returned slabs in November 2011. The amount of the slabs to be returned was included in other current assets.

8) Processing charge

The Corporation authorized HLC to do some steel processing in the amounts of to NT\$370,051 thousand and NT\$139,929 thousand in 2011 and 2010. As of December 31, 2011 and 2010, the processing payable was NT\$30,952 thousand and NT\$9,350 thousand, included in accrued expenses.

9) Construction- in-progress and other expenditures

Other expenditures paid to related parties, which pertained to construction or maintenance, were as follows:

	Years Ended December 31			
	2011		2010	
	Other Expenditures	Construction-in-progress	Other Expenditures	Construction-in-progress
PHSC	\$ 187,606	\$ -	\$ 144,350	\$ -
CSGC	64,028	-	87,911	-
CSC	46,537	262	34,656	17,416
CSMC	20,111	-	25,225	-
USECC	2,139	-	10,320	6,440
CEC	-	35,045	7,968	319,511
ICSC	5,770	51,368	3,023	19,063
Others	<u>28,730</u>	<u>1,119</u>	<u>25,140</u>	<u>8,429</u>
	<u>\$ 354,921</u>	<u>\$ 87,794</u>	<u>\$ 338,593</u>	<u>\$ 370,859</u>

10) Income from supplies and scrap

	December 31			
	2011		2010	
	Amount	% to Total	Amount	% to Total
CHC	\$ 436,034	37	\$ 367,485	36
CSGC	56,581	5	-	-
Others	<u>4,254</u>	<u>-</u>	<u>1,567</u>	<u>-</u>
	<u>\$ 496,869</u>	<u>42</u>	<u>\$ 369,052</u>	<u>36</u>

c. Balances at year-end

	December 31			
	2011		2010	
	Amount	% to Total	Amount	% to Total
1) Accounts receivable				
HLC	\$ 140,038	15	\$ -	-
CSC	22,853	3	9,302	1
CSSB	20,768	2	-	-
Others	<u>2,858</u>	<u>-</u>	<u>3</u>	<u>-</u>
	<u>\$ 186,517</u>	<u>20</u>	<u>\$ 9,305</u>	<u>1</u>

(Continued)

	December 31			
	2011		2010	
	Amount	% to Total	Amount	% to Total
2) Accounts payable				
CSC	\$ 135,031	11	\$ 89,662	9
Others	<u>1,427</u>	<u>-</u>	<u>1,396</u>	<u>-</u>
	<u>\$ 136,458</u>	<u>11</u>	<u>\$ 91,058</u>	<u>9</u>

(Concluded)

d. Compensation of directors, supervisors and management personnel

	Years Ended December 31	
	2011	2010
Salaries	\$ 17,152	\$ 26,957
Special compensation	360	384
Incentives	<u>6,413</u>	<u>11,648</u>
	<u>\$ 23,925</u>	<u>\$ 38,989</u>

24. PLEDGED ASSETS

Assets pledged or mortgaged as collateral for bank loans were as follows:

	December 31	
	2011	2010
Properties, net	\$ 9,137,211	\$ 10,231,288
Restricted assets - time deposits	<u>300,000</u>	<u>300,000</u>
	<u>\$ 9,437,211</u>	<u>\$ 10,531,288</u>

25. SIGNIFICANT COMMITMENTS AND CONTINGENCIES AS OF DECEMBER 31, 2011

- a. Unused letters of credit for purchases of raw materials and machinery and equipment amounted to about NT\$4,505,319 thousand.
- b. The Corporation had signed agreements to buy equipment for NT\$1,172,215 thousand, of which NT\$396,148 thousand had been paid (included in construction-in-progress and prepayments for equipment).
- c. The Corporation had signed contracts with foreign suppliers to buy slabs to ensure sufficiency of production materials. Unpaid purchase amounts for 300,000 tons of slabs as of December 31, 2011 were NT\$5.7 billion. The purchase price plus processing costs of some contracts will be higher than the net realizable value; the variances in losses on purchase contracts payable were as follows:

	Years Ended December 31	
	2011	2010
Balance, beginning of year	\$ 246,417	\$ -
Recognized for the year	1,579,220	634,615
Deducted for the year	<u>(1,250,837)</u>	<u>(388,198)</u>
Balance, end of year	<u>\$ 574,800</u>	<u>\$ 246,417</u>

d. Authorization fee is described in Note 23.

e. The lease contract of Kaohsiung Long Dong Section is described in Note 11.

26. EXCHANGE RATE INFORMATION OF FOREIGN – CURRENCY FINANCIAL ASSETS AND LIABILITES

The significant foreign-currency financial assets and liabilities were as follows:

	2011			2010		
	Foreign Currency Amount (Thousands)	Exchange Rate	NTD Amount (Thousands)	Foreign Currency Amount (Thousand)	Exchange Rate	NTD Amount (Thousands)
Monetary Financial Assets						
USD	\$ 19,295	30.275	\$ 584,158	\$ 20,381	30.363	\$ 618,821
Monetary Financial liabilities						
USD	38,572	30.275	1,167,791	36,118	30.363	1,101,825

27. OPERATING SEGMENT FINANCIAL INFORMATIN

In accordance with Statement of Financial Accounting Standards No. 41, the Corporation disclosed its operating segment information in the consolidated financial statements as of and for the years ended December 31, 2011 and 2010.

28. ADDITIONAL FOOTNOTE DISCLOSURES

As stated in Note 2, additional footnote disclosures that are required by the Securities and Futures Bureau for their oversight purposes but are not required under generally accepted accounting principles were not translated into English from the Chinese version.