

Chung Hung Steel Corporation

**Financial Statements for the
Years Ended December 31, 2008 and 2007 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, 2008 and 2007, 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. 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, 2008 and 2007, 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 Republic of China.

February 3, 2009

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, 2008 AND 2007

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

ASSETS	2008		2007		LIABILITIES AND STOCKHOLDERS' EQUITY	2008		2007	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash	\$ 160,930	1	\$ 40,927	-	Short-term loans (Notes 13 and 25)	\$ 14,443,509	39	\$ 4,390,860	14
Financial assets at fair value through profit or loss - current (Notes 2, 4 and 23)	80,668	-	17,004	-	Commercial paper payable (Note 14)	1,249,166	3	499,778	2
Notes receivable (Notes 2 and 5)	442,874	1	262,030	1	Financial liability at fair value through profit or loss - current (Notes 2, 4 and 23)	73	-	377	-
Accounts receivable (Notes 2 and 5)	155,602	-	862,624	3	Notes payable	110,709	-	-	-
Accounts receivable from related parties (Note 24)	30,264	-	149,181	-	Accounts payable	90,062	-	2,061,227	6
Income tax refund receivable	458,118	1	313,749	1	Accounts payable to related parties (Note 24)	57,145	-	116,735	-
Other receivables	300,904	1	2,702	-	Income tax payable	-	-	802,195	3
Inventories (Notes 2 and 6)	13,219,132	36	7,861,890	24	Accrued expenses (Note 16)	171,263	1	444,244	1
Prepayments for purchases	5,773	-	525,762	2	Payable on purchase contract loss (Notes 2 and 26)	2,239,770	6	199,662	1
Restricted assets - current (Note 25)	300,000	1	300,000	1	Other payables (Notes 10 and 17)	557,907	2	260,101	1
Others (Note 24)	1,220,584	3	80,477	-	Current portion of long-term loans (Notes 15 and 25)	5,857,143	16	2,287,143	7
					Others (Note 24)	38,879	-	127,584	-
Total current assets	16,374,849	44	10,416,346	32	Total current liabilities	24,815,626	67	11,189,906	35
LONG-TERM INVESTMENTS (Notes 2, 7, 8, 9 and 10)					LONG-TERM LOANS, NET OF CURRENT PORTION (Notes 15 and 25)				
Available-for-sale financial assets - noncurrent	1,048,266	3	1,916,511	6		3,412,421	10	4,266,164	13
Financial assets carried at cost - noncurrent	291,850	1	291,850	1	ACCRUED PENSION COST (Notes 2 and 18)				
Investments accounted for by the equity method	1,157,210	3	2,369,016	7		421,207	1	443,935	1
Other financial assets - noncurrent	2,774,968	7	2,222,627	7	Total liabilities	28,649,254	78	15,900,005	49
Total long-term investments	5,272,294	14	6,800,004	21	COMMON STOCK - NT\$10.00 par value, authorized 2,043,160 thousand shares; issued and outstanding - 1,284,571 thousand shares				
						12,845,706	35	12,845,706	40
PROPERTIES (Notes 2, 11, 25 and 26)					CAPITAL SURPLUS - LONG TERM INVESTMENT				
Land	2,183,230	6	4,963,577	15		344,341	1	-	-
Buildings and improvements	2,670,943	7	2,669,018	8	RETAINED EARNINGS (ACCUMULATED DEFICIT) (Note 19)				
Machinery and equipment	14,012,488	38	13,128,249	40	Legal reserve	307,816	1	39,324	-
Miscellaneous equipment	2,700,799	7	2,454,863	8	Unappropriated earnings (accumulated deficit)	(3,760,483)	(11)	2,694,377	8
Total costs	21,567,460	58	23,215,707	71	Total retained earnings (accumulated deficit)	(3,452,667)	(10)	2,733,701	8
Less: Accumulated depreciation	9,783,535	26	8,862,101	27	OTHER EQUITY (Notes 2 and 19)				
Accumulated impairment loss - land	-	-	1,724,863	5	Unrealized gain (loss) on financial instruments	(1,452,425)	(4)	1,002,699	3
	11,783,925	32	12,628,743	39	Net loss not recognized as pension cost	-	-	(1)	-
Construction-in-progress	195,863	1	491,648	2	Total other equity	(1,452,425)	(4)	1,002,698	3
Prepayments for equipment	549,858	1	450,453	1	Total stockholders' equity	8,284,955	22	16,582,105	51
Net properties	12,529,646	34	13,570,844	42					
OTHER ASSETS (Notes 2 and 12)					TOTAL	\$ 36,934,209	100	\$ 32,482,110	100
Assets leased to others	49,097	-	49,641	-					
Nonoperating assets, net	2,629,563	7	1,571,930	5					
Deferred charges	22,361	-	16,946	-					
Others	56,399	1	56,399	-					
Total other assets	2,757,420	8	1,694,916	5					

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

CHUNG HUNG STEEL CORPORATION

STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2008 AND 2007

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

	2008		2007	
	Amount	%	Amount	%
SALES (Notes 2, 24 and 28)	\$ 49,532,016	101	\$ 47,878,070	100
LESS: SALES RETURNS	5,642	-	7,353	-
SALES ALLOWANCES	<u>865,685</u>	<u>2</u>	<u>544,002</u>	<u>1</u>
NET SALES	48,660,689	99	47,326,715	99
SERVICE REVENUE	<u>504,725</u>	<u>1</u>	<u>261,937</u>	<u>1</u>
TOTAL OPERATING REVENUE	49,165,414	100	47,588,652	100
COST OF REVENUES (Notes 2, 21 and 24)	<u>51,980,731</u>	<u>106</u>	<u>42,788,561</u>	<u>90</u>
GROSS PROFIT (LOSS)	<u>(2,815,317)</u>	<u>(6)</u>	<u>4,800,091</u>	<u>10</u>
OPERATING EXPENSES (Note 21)				
Selling expenses	731,203	2	740,492	2
General and administrative expenses	<u>233,850</u>	<u>-</u>	<u>263,299</u>	<u>-</u>
Total operating expenses	<u>965,053</u>	<u>2</u>	<u>1,003,791</u>	<u>2</u>
OPERATING INCOME (LOSS)	<u>(3,780,370)</u>	<u>(8)</u>	<u>3,796,300</u>	<u>8</u>
NONOPERATING INCOME AND GAINS				
Interest income (Note 23)	6,244	-	18,586	-
Investment income recognized under the equity method, net (Note 9)	30,503	-	108,019	-
Dividend income (Note 2)	171,357	1	147,271	1
Gain on sale of investments (Note 8)	7,413	-	-	-
Valuation gain on financial assets (Notes 2 and 4)	79,573	-	17,199	-
Others (Note 21)	<u>50,635</u>	<u>-</u>	<u>57,295</u>	<u>-</u>
Total nonoperating income and gains	<u>345,725</u>	<u>1</u>	<u>348,370</u>	<u>1</u>
NONOPERATING EXPENSES AND LOSSES				
Interest expense (Notes 11)	326,879	1	250,458	-
Impairment loss on assets (Notes 2 and 11)	-	-	280,596	1
Valuation loss on financial liabilities (Notes 2 and 4)	19,472	-	377	-
Others (Note 21)	<u>10,495</u>	<u>-</u>	<u>6,367</u>	<u>-</u>
Total nonoperating expenses and losses	<u>356,846</u>	<u>1</u>	<u>537,798</u>	<u>1</u>

(Continued)

CHUNG HUNG STEEL CORPORATION

STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2008 AND 2007

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

	2008		2007	
	Amount	%	Amount	%
INCOME (LOSS) BEFORE INCOME TAX	\$ (3,791,491)	(8)	\$ 3,606,872	8
INCOME TAX EXPENSE (BENEFIT) (Notes 2 and 20)	<u>(23,942)</u>	<u>-</u>	<u>921,949</u>	<u>2</u>
NET INCOME (LOSS)	<u>\$ (3,767,549)</u>	<u>(8)</u>	<u>\$ 2,684,923</u>	<u>6</u>
	2008		2007	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
BASIC EARNINGS (LOSS) PER SHARE (Note 22)	<u>\$ (2.95)</u>	<u>\$ (2.93)</u>	<u>\$ 2.81</u>	<u>\$ 2.09</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, 2008 AND 2007 (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)	Total	Unrealized Gain (Loss) on Financial Instruments	Net Loss not Recognized as Pension Cost	
BALANCE, JANUARY 1, 2007	\$ 12,845,706	\$ -	\$ -	\$ 390,419	\$ 390,419	\$ 499,099	\$ -	\$ 13,735,224
Appropriation of the 2006 earnings (Note 19)								
Legal reserve	-	-	39,324	(39,324)	-	-	-	-
Cash dividends - 2.5%	-	-	-	(321,143)	(321,143)	-	-	(321,143)
Bonuses to employees - cash	-	-	-	(17,082)	(17,082)	-	-	(17,082)
Remuneration to directors and supervisors	-	-	-	(3,416)	(3,416)	-	-	(3,416)
Change in unrealized gain on available-for-sale financial assets (Note 19)	-	-	-	-	-	436,513	-	436,513
Adjustment from changes in equity recognized under the equity method (Note 19)	-	-	-	-	-	67,087	-	67,087
Change in net loss not recognized as pension cost (Note 2)	-	-	-	-	-	-	(1)	(1)
Net income in 2007	-	-	-	2,684,923	2,684,923	-	-	2,684,923
BALANCE, DECEMBER 31, 2007	12,845,706	-	39,324	2,694,377	2,733,701	1,002,699	(1)	16,582,105
Appropriation of the 2007 earnings (Note 19)								
Legal reserve	-	-	268,492	(268,492)	-	-	-	-
Cash dividends - 17.7%	-	-	-	(2,273,690)	(2,273,690)	-	-	(2,273,690)
Bonuses to employees - cash	-	-	-	(120,941)	(120,941)	-	-	(120,941)
Remuneration to directors and supervisors	-	-	-	(24,188)	(24,188)	-	-	(24,188)
Change in unrealized loss on available-for-sale financial assets (Note 19)	-	-	-	-	-	(868,245)	-	(868,245)
Adjustment from changes in equity recognized under the equity method (Note 19)	-	344,341	-	-	-	(1,586,879)	-	(1,242,538)
Change in net loss not recognized as pension cost (Note 2)	-	-	-	-	-	-	1	1
Net loss in 2008	-	-	-	(3,767,549)	(3,767,549)	-	-	(3,767,549)
BALANCE, DECEMBER 31, 2008	\$ 12,845,706	\$ 344,341	\$ 307,816	\$ (3,760,483)	\$ (3,452,667)	\$ (1,452,425)	\$ -	\$ 8,284,955

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

CHUNG HUNG STEEL CORPORATION

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2008 AND 2007 (In Thousands of New Taiwan Dollars)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ (3,767,549)	\$ 2,684,923
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Depreciation	983,428	1,016,712
Amortization	4,885	4,850
Reversal of allowance for doubtful accounts	(17,079)	-
Provision (reversal of provision) for loss on inventories	7,131,879	(16,875)
Impairment loss on assets, net	-	280,596
Cash dividends received from equity method investments	1,924	-
Gain on sale of investments	(7,413)	-
Investment income recognized under the equity method	(30,503)	(108,019)
Valuation gain on financial instruments	(60,101)	(16,627)
Loss (gain) on disposal of assets	34	(4,596)
Purchase contract loss	2,239,770	199,662
Provision for pension cost	(22,728)	(10,649)
Net changes in operating assets and liabilities		
Financial assets designated as at fair value through profit or loss	(3,867)	-
Notes and accounts receivable	543,257	(407,519)
Accounts receivable from related parties	118,917	(105,956)
Income tax refund receivable	(144,369)	(4,795)
Others receivables	(298,202)	6,835
Inventories	(12,489,121)	(589,893)
Prepayments for purchases	519,989	(457,867)
Other current assets	(1,140,107)	20,190
Notes and accounts payable	(1,860,456)	133,570
Accounts payable to related parties	(59,590)	(189,823)
Income tax payable	(802,195)	572,630
Accrued expenses	(272,981)	54,674
Payable on purchase contract loss	(199,662)	-
Other payables	201,497	(133,124)
Other current liabilities	(88,706)	100,653
Net cash provided by (used in) operating activities	<u>(9,519,049)</u>	<u>3,029,552</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in other financial assets - noncurrent	(529,738)	(2,219,000)
Proceeds of the disposal of financial assets carried at cost	7,413	-
Acquisition of properties	(925,424)	(917,874)
Proceeds of the disposal of assets	-	7,320
Decrease (increase) in refundable deposits	(223)	12
Increase in long-term stock investments under the equity method	(2,152)	-
Increase in deferred charges	(6,900)	(16,100)
Acquisition of other assets	-	(24,797)
Net cash used in investing activities	<u>(1,457,024)</u>	<u>(3,170,439)</u>

(Continued)

CHUNG HUNG STEEL CORPORATION

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2008 AND 2007 (In Thousands of New Taiwan Dollars)

	2008	2007
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term loans	\$ 10,052,649	\$ 157,704
Decrease (increase) in commercial paper payable	749,388	(80,128)
Increase in guarantee deposits received	1	-
Repayments of long-term loans	(2,287,143)	(947,143)
Proceeds from long-term loans	5,000,000	1,100,000
Cash dividends	(2,273,690)	(321,143)
Bonuses to employees	(120,941)	(17,082)
Remuneration to directors and supervisors	<u>(24,188)</u>	<u>(3,416)</u>
Net cash provided by (used in) financing activities	<u>11,096,076</u>	<u>(111,208)</u>
NET INCREASE (DECREASE) IN CASH	120,003	(252,095)
CASH, BEGINNING OF YEAR	<u>40,927</u>	<u>293,022</u>
CASH, END OF YEAR	<u>\$ 160,930</u>	<u>\$ 40,927</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid (excluding capitalized interest)	\$ 315,156	\$ 248,847
Income tax paid	778,253	349,319
INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS		
Acquisition of properties	\$ 999,353	\$ 915,273
Increase (decrease) in payable on properties purchased	<u>(73,929)</u>	<u>2,601</u>
Cash paid	<u>\$ 925,424</u>	<u>\$ 917,874</u>
Increase in other financial assets - noncurrent	\$ 552,118	\$ 2,219,000
Increase in other payables	<u>(22,380)</u>	<u>-</u>
	<u>\$ 529,738</u>	<u>\$ 2,219,000</u>
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Current portion of long-term loans	\$ 5,857,143	\$ 2,287,143
Properties reclassified into nonoperating assets	1,057,633	-

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

(Concluded)

CHUNG HUNG STEEL CORPORATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2008 AND 2007

(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 Corporation and major stockholder (39%), 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, 2008 and 2007, the Corporation had 912 and 922 employees, respectively.

In 2008 the Corporation had an operating deficit on December 31, 2008, the current liabilities was in excess of the current assets to NT\$8,440,777 thousand and the debt ratio was 78%. On December 3, 2008, the board of directors had approved the issuance of 400,000 thousand shares for cash to enhance the Corporation's financial structure. This issuance had been reported to the Financial Supervisory Commission, Executive Yuan. In addition, the board of directors of the Corporation's parent, China Steel Corporation, resolved to subscribe for up to 360,000 thousand common shares of the Corporation. Further, the Corporation's operating funds were deemed sufficient to meet cash flow demand. Thus, the accompanying financial statements have been prepared assuming that the Corporation will continue as a going concern.

2. SUMMARY OF 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. 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 provisions for doubtful accounts and inventory losses, purchase contract loss, allowance for sales discounts, depreciation of property, impairment loss on assets, pension cost, income tax, bonuses to employees, directors and supervisors, etc.. Actual results could differ from these estimates.

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 (SFB, formerly "Securities and Futures Commission" before July 1, 2004) for their oversight purposes.

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

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 subsequently measured at fair value, the changes in fair value are excluded from earnings and reported as a separate component of stockholders' equity. The accumulated gains or losses are recognized under 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 and derecognized bases of available-for-sale financial assets are similar to those of financial instruments 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; for debt securities, the amount of the decrease is recognized under earnings if the decrease is clearly attributable to an event that occurred after impairment loss recognition.

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

Revenue Recognition, Sales Returns and Allowances and Allowance for Doubtful Accounts

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 applied when sales volume reaches a certain level and are recorded as sales allowances payable.

An allowance for doubtful accounts is provided on the basis of a review of the collectibility of receivables. This review includes an aging analysis of receivables and economic situation. However, aging analysis of receivables had exceeded certain period and was reclassified into overdue receivables.

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 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 expenses.

Inventories

Inventories (including lending raw materials) are stated at the lower of aggregate weighted-average cost or market value. The book value of inventory is reduced to market value when its cost is lower than market value. Market value represents the net realizable values of finished goods, work-in-process and scraps and the replacement costs of raw materials and supplies.

Financial Assets Carried at Cost

Investments with no quoted market prices, such as non-publicly traded stocks and mutual funds, and with fair values that cannot be reliably measured are carried at 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.

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. 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 unrealized gains or losses as an adjustment to stockholders' equity.

Other Financial Assets - Noncurrent (Nonperforming Loans)

Other financial assets - noncurrent are mainly nonperforming loans (NPLs), which are recorded at cost at the time of acquisition. The costs of acquired NPLs include the purchase price and necessary handling charges on acquisition. All expenditures related to bid participation - government fees, outsourcing costs, appraisal fees, etc. - are expensed when incurred. For any default on loans, costs related to the application to a court for a provisional seizure of assets or provisional disposition - fees for adjudication request, foreclosure ruling, and appraisal field review, etc. - are recorded as expenses.

The cost recovery method is used to recognize revenues from the recovery or disposal of acquired NPLs. After the cost of an acquired loan is recovered, revenue is recognized for the amounts recovered in excess of the acquisition cost of the loan. The acquired NPLs are de-recognized from the balance sheet on the disposal of the collaterals for the acquired loans or on the recovery of assets upon loan settlement. If there is NPL impairment, an impairment loss should be recognized.

Properties

Lands are stated at cost, 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 is 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. The residual values of properties that have reached the end of their original service lives but are still in use are further depreciated over their estimated remaining service lives.

Upon retirement or disposal of properties, the related cost and accumulated depreciation 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.

Nonoperating Assets

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

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.

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. An impairment loss is charged to earnings unless the asset is carried at a revalued amount, in which case the impairment loss is treated as a deduction to the unrealized revaluation increment.

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 treated as an increase in the unrealized revaluation increment.

For long term equity investments on 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.

Deferred Charges

Deferred charges pertain to computer software expense and etc., are amortized from estimated beneficial years.

Purchase Contract Losses

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

Pension

The Corporation has two types of pension plans: defined contribution and defined benefit.

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 provision less the funded amounts is recorded in the accrued pension cost account. Payment of retirement benefits is made initially from the pension fund or is 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.

Tax credits for purchases of machinery, equipment and technology, research and development expenditures, and personnel training expenditures are recognized using the flow-through method.

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.

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.

At the balance sheet date, foreign-currency nonmonetary assets (such as equity instruments) and liabilities that are measured at fair value are revalued using prevailing exchange rates, with the exchange differences treated as follows:

- a. Recognized in stockholders' equity if the changes in fair value are recognized in stockholders' equity;
- b. Recognized in profit or loss if the changes in fair value is recognized in profit or loss.

Foreign-currency nonmonetary assets and liabilities that are carried at cost continue to be stated at exchange rates at trade dates.

Reclassifications

Certain accounts in the financial statements as of and for the year ended December 31, 2007 have been reclassified to conform to the presentation of the financial statements as of and for the year ended December 31, 2008.

3. EFFECTS OF CHANGE IN ACCOUNTING PRINCIPLES

In March 2007, the Accounting Research and Development Foundation issued Interpretation 2007-052, which requires companies to recognize bonuses paid to employees, directors and supervisors as compensation expenses beginning January 1, 2008. These bonuses were previously recorded as appropriations from earnings. This accounting change had no significant influence on the financial statements as of and for the year ended December 31, 2008.

4. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Corporation entered into derivative contracts during the years ended December 31, 2008 and 2007 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.

As of December 31, 2008 and 2007, forward exchange contracts recognized in financial assets designated as at FVTPL amounted to NT\$80,668 thousand and NT\$17,004 thousand, respectively, forward exchange contracts recognized in financial liabilities designated as at FVTPL amounted to NT\$73 thousand and NT\$377 thousand, respectively. Outstanding forward exchange contracts as of December 31, 2008 and 2007 were as follows:

	Currency	Maturity Date	Amount (in Thousands)
<u>December 31, 2008</u>			
Buy	NT/USD	2009.03.31-2010.03.31	NT\$658,444/USD21,000
Buy	NT/EUR	2009.01.28-2010.06.30	NT\$45,461/EUR1,074
Buy	NT/YEN	2010.12.30	NT\$338,048/YEN1,110,000
<u>December 31, 2007</u>			
Buy	NT/USD	2008.01.25-2009.01.28	NT\$376,383/USD12,000
Buy	NT/EUR	2008.01.21-2009.09.30	NT\$318,425/EUR7,150

Net gains on financial assets designated as at FVTPL for the years ended December 31, 2008 and 2007 were NT\$79,573 thousand and NT\$17,199 thousand, respectively; net losses on financial liabilities designated as at FVTPL for the years ended December 31, 2008 and 2007 were NT\$19,472 thousand and NT\$377 thousand, respectively.

5. NOTES AND ACCOUNTS RECEIVABLE

	<u>December 31</u>	
	<u>2008</u>	<u>2007</u>
Notes receivable	\$ 442,874	\$ 262,030
Accounts receivable	174,802	879,703
Less: Allowance for doubtful accounts (Note 2)	<u>19,200</u>	<u>17,079</u>
	<u>155,602</u>	<u>862,624</u>
	<u>\$ 598,476</u>	<u>\$ 1,124,654</u>

Movements of allowances for doubtful accounts were as follows:

	<u>Years Ended December 31</u>					
	<u>2008</u>			<u>2007</u>		
	<u>Other financial assets -</u>			<u>Other financial assets -</u>		
	<u>Accounts Receivable</u>	<u>Noncurrent (Note 10)</u>	<u>Total</u>	<u>Accounts Receivable</u>	<u>Noncurrent (Note 10)</u>	<u>Total</u>
Balance, beginning of year	\$ 17,079	\$ 36,986	\$ 54,065	\$ -	\$ 54,065	\$ 54,065
Reversal of provision	(17,079)	-	(17,079)	-	-	-
Reclassification	<u>19,200</u>	<u>(19,200)</u>	<u>-</u>	<u>17,079</u>	<u>(17,079)</u>	<u>-</u>
Balance, end of year	<u>\$ 19,200</u>	<u>\$ 17,786</u>	<u>\$ 36,986</u>	<u>\$ 17,079</u>	<u>\$ 36,986</u>	<u>\$ 54,065</u>

The Corporation entered into a factoring accounts receivable contract (without recourse) with Mega International Commercial Bank. Under the contract, the Corporation is authorized to sell accounts receivable to Mega 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:

<u>Counter-parties</u>	<u>Receivables Sold</u>	<u>Amounts Collected</u>	<u>Advances Received at Year-end</u>	<u>Interest Rates on Advances Received (%)</u>	<u>Credit Line</u>
<u>Year ended December 31, 2008</u>					
Mega Bank	<u>\$ 4,827,042</u>	<u>\$ 5,483,445</u>	<u>\$ 1,100,937</u>	2.78	\$ 3 billion
<u>Year ended December 31, 2007</u>					
Mega Bank	<u>\$ 4,586,087</u>	<u>\$ 2,828,747</u>	<u>\$ 1,757,340</u>	2.40	\$2.422 billion

6. INVENTORIES

	<u>December 31</u>	
	<u>2008</u>	<u>2007</u>
Finished goods	\$ 2,762,601	\$ 2,158,987
Work-in-process	790,359	1,041,143
Raw materials	8,028,997	1,958,838
Supplies	1,559,396	982,148
Scraps	77,779	13,184
Materials and supplies in transit	-	1,707,590
	<u>\$ 13,219,132</u>	<u>\$ 7,861,890</u>

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS - NONCURRENT

	<u>December 31</u>	
	<u>2008</u>	<u>2007</u>
Domestic quoted stocks		
China Steel Corporation	\$ 1,030,586	\$ 1,030,586
Adjustments for appraisal (Note 19)	<u>17,680</u>	<u>885,925</u>
	<u>\$ 1,048,266</u>	<u>\$ 1,916,511</u>

8. FINANCIAL ASSETS CARRIED AT COST

	<u>December 31</u>	
	<u>2008</u>	<u>2007</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>1,500</u>	<u>1,500</u>
	<u>\$ 291,850</u>	<u>\$ 291,850</u>

The Corporation had investments in Sol Hwang Enterprise, Chateav Bridgetop Inc., Taiwan Vespa, Sol Hwang Enterprise and Far Glory Life Insurance. The carrying amounts of these investments were reduced to zero because of impairment losses on these investments. In February 2008, the Corporation sold all its shares in Far Glory Life for NT\$7,413 thousand, and the gain on this sale was NT\$ 7,413 thousand, included in nonoperating gains.

Stocks with no quoted prices and their fair values could not be measured reliably were classified as financial assets carried at cost.

9. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	December 31			
	<u>2008</u>		<u>2007</u>	
	Amount	% of Owner- ship	Amount	% of Owner- ship
Trans Glory Investment Corp. (TGIC)	\$ 1,108,550	41	\$ 2,304,871	41
Hong Kao Investment Corp. (HKIC)	25,423	100	40,665	100
Taiwan Steel Corp.(TSC)	23,033	100	23,480	100
Hong Li Steel Corp. (HLC)	<u>204</u>	100	<u>-</u>	-
	<u>\$ 1,157,210</u>		<u>\$ 2,369,016</u>	

Significant movements were as follows :

TGIC was incorporated in May 2005. The Corporation made a payment of NT\$ 1,152 thousand to acquire 104 thousand shares from related party in March 2008. The investment in TGIC amounted to NT\$ 2,001,152 thousand as of December 31, 2008.

HLC was incorporated in July 2008 and has not started operation yet. The Corporation's investment in HLC amounted to NT\$1,000 thousand as of December 31, 2008.

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

	Years Ended December 31	
	<u>2008</u>	<u>2007</u>
TGIC	\$ 28,825	\$ 105,629
HKIC	2,921	2,220
TSC	(447)	170
HLC	<u>(796)</u>	<u>-</u>
	<u>\$ 30,503</u>	<u>\$ 108,019</u>

The Corporation's consolidated financial statements included the above subsidiaries.

10. OTHER FINANCIAL ASSETS - NONCURRENT

	December 31	
	<u>2008</u>	<u>2007</u>
Nonperforming loans (Note 2)	<u>\$ 2,771,118</u>	<u>\$ 2,219,000</u>
Long-term accounts receivable	17,786	36,986
Less: Allowance for doubtful accounts (Notes 2 and 5)	<u>17,786</u>	<u>36,986</u>
	<u>-</u>	<u>-</u>
Refundable deposits	<u>3,850</u>	<u>3,627</u>
	<u>\$ 2,774,968</u>	<u>\$ 2,222,627</u>

To expand the value chain of the Corporation's product, the Board of Directors approved the acquisition of the obligatory rights on from the collateralized syndicated bank loans of NT\$6.887 billion of Jenn An Steel Co., Ltd (JAS), and the processing of this acquisition was delegated to Far Eastern Asset Management Co., Ltd. The Corporation used NT\$2.219 billion to acquire these rights. JAS's syndicated bank loan of NT\$6.887 billion consisted of (a) NT\$6.287 billion (89.32% of JAS's total syndicated loan of NT\$7.039 billion), which were collateralized with land, buildings and equipment for cold-rolled and zinc-galvanized coils, etc. and (b) NT\$0.6 billion collateralized with stock shares of An Feng Steel Co., Ltd. The Corporation completed the rights acquisition and payment on November 2007.

In order to integrate JAS's debts, the Corporation paid NT\$0.5 billion of the NT\$1.09 billion in creditor's right of Yung Chi Paint on JAS, and this transaction was completed in January, 2008. In addition, in November 2008, the Corporation signed a legal mortgage contract with Knight Commander Holding(KCH). Under this contract, the Corporation should pay KCH NT\$52,380 thousand for KCH's placing under legal mortgage NT\$52,109 thousand in JAS's debts and should also pay related interests. On the contract signing date, the Corporation paid KCH NT\$30,000 thousand, with the balance, included in other payable, to be paid in three months.

The collaterals for JAS's syndicated loan and its obligations to Yung Chi Paint and KCH include land, factory buildings, cold-rolled, equipment, miscellaneous equipment, etc. As of December 31, 2008, the Corporation was requesting the court to auction JAS's collaterals.

11. PROPERTIES

Accumulated depreciation consisted of:

	December 31	
	2008	2007
Buildings and improvements	\$ 871,209	\$ 796,107
Machinery and equipment	7,472,070	6,793,215
Miscellaneous equipment	<u>1,440,256</u>	<u>1,272,779</u>
	<u>\$ 9,783,535</u>	<u>\$ 8,862,101</u>
Accumulated impairment loss on land - Kuo An Section (Note 12)	<u>\$ -</u>	<u>\$ 1,724,863</u>

The Corporation had an impairment loss of NT\$280,596 thousand on its land in the Kuo An Section in Kaohsiung in 2007 because of the decline in its market value, as determined by appraisers. As of December 31, 2007, the accumulated impairment loss on the land was NT\$1,724,863 thousand.

In the fourth quarter of 2008, the Tainan City Government rezoned some land. Thus, the Corporation relocated its storehouse. The related land costs of NT\$2,782,496 thousand and accumulated impairment loss of NT\$1,724,863 thousand were reclassified to other assets – nonoperating assets, net (Note 12).

Interest expenses capitalized were as follows:

	Years Ended December 31	
	2008	2007
Total interest expenses	\$ 353,948	\$ 265,723
Interest capitalized	<u>(27,069)</u>	<u>(15,265)</u>
Interest expenses reflected in the income statement	<u>\$ 326,879</u>	<u>\$ 250,458</u>
Capitalized interest rate	2.55%-2.90%	2.15%-2.72%

12. OTHER ASSETS

a. Rental assets

	<u>December 31</u>	
	<u>2008</u>	<u>2007</u>
Land - Taipei office	\$ 64,026	\$ 64,026
Buildings and improvements	<u>30,289</u>	<u>30,289</u>
	94,315	94,315
Less: Accumulated depreciation	6,718	6,174
Accumulated impairment loss	<u>38,500</u>	<u>38,500</u>
	<u>\$ 49,097</u>	<u>\$ 49,641</u>

The Corporation leased the Taipei office to a third party under a renewable operating lease contract. The lease runs between July 2008 and June 2009. As of December 31, 2008, the rental income was NT\$320 thousand monthly.

b. Nonoperating assets - net

	<u>December 31</u>	
	<u>2008</u>	<u>2007</u>
Land		
Kaohsiung Long Hua Section	\$ 2,867,515	\$ 2,867,515
Tainan Kuo An Section (Note 11)	2,782,496	-
Shin Bin Industrial District	<u>122,502</u>	<u>122,502</u>
	<u>5,772,513</u>	<u>2,990,017</u>
Less: Accumulated impairment loss - Kaohsiung Long Hua Section	1,391,337	1,391,337
Accumulated impairment loss - Tainan Kuo An Section (Note 11)	1,724,863	-
Accumulated impairment loss - Shin Bin Industrial District	<u>26,750</u>	<u>26,750</u>
	<u>3,142,950</u>	<u>1,418,087</u>
	<u>\$ 2,629,563</u>	<u>\$ 1,571,930</u>

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. As of December 31, 2008 and 2007, the farmlands both amounted to NT\$56,399 thousand, included in others of other assets. However, because certain regulations prohibit the Corporation from registering the title of this farmland in the Corporation's name, the registration was made in the name of Mr. Liu Ji Gang, the Corporation's president. Mr. Liu Ji Gang consented to fully cooperate with the Corporation in changing the land title in the future and pledged the land to the Corporation as collateral.

13. SHORT-TERM LOANS

	<u>December 31</u>	
	<u>2008</u>	<u>2007</u>
Revolving loans - interest of 1.4%-2.81% in 2008 and 2.32%-2.5% in 2007	\$ 6,961,250	\$ 2,154,700
Letters of credit loans - interest of 2.11%-2.65% in 2008 and 2.32%-2.378% in 2007	7,005,257	1,952,681
Bank overdraft - interest of 0.686%-2.46% in 2008 and 1.655% in 2007	<u>477,002</u>	<u>283,479</u>
	<u>\$ 14,443,509</u>	<u>\$ 4,390,860</u>

14. COMMERCIAL PAPER PAYABLE

	<u>December 31</u>	
	<u>2008</u>	<u>2007</u>
Commercial paper - interest of 1.762%-2.250% in 2008 and 2.082% in 2007	\$ 1,250,000	\$ 500,000
Unamortized discounts	<u>(834)</u>	<u>(222)</u>
	<u>\$ 1,249,166</u>	<u>\$ 499,778</u>

15. LONG-TERM LOANS

	<u>December 31</u>	
	<u>2008</u>	<u>2007</u>
Syndicated bank loans		
Mega International Commercial Bank, etc.		
Type A	\$ 4,285,714	\$ 5,142,857
Type B	5,000,000	1,100,000
Bank loans		
China Development Industrial Bank, Repayable in August 2008, Interest of 2.6895% in 2007	-	300,000
Industrial Bank of Taiwan, Repayable in May 2008, interest of 2.9491% in 2007	<u>-</u>	<u>30,000</u>
	9,285,714	6,572,857
Less: Current portion	5,857,143	2,287,143
Syndicated loan fee	<u>16,150</u>	<u>19,550</u>
	<u>\$ 3,412,421</u>	<u>\$ 4,266,164</u>

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

- a. The credit line is \$14 billion, which consists of Type A of \$6 billion, Type B of \$5 billion and Type C of \$3 billion.
- 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, 2008 and 2007, the interest rates were 2.8362% and 2.9133%, respectively.

- c. Type B is an unsecured loan (revolving credit). The selection of a 30-, 60-, 90- or 180- day's loan period must be made before every loan use, but the period must not exceed 180 days. On making an application for loan use, the principal should be paid in full on the due date. However, by giving the lending bank a five days' notice ahead of loan maturity, the loan may be partly or fully rolled over even if full repayment is not yet completed. As of December 31, 2008 and 2007, the interest rates were 2.5127% to 2.8393% and 2.6723%, respectively.
- d. Type C is commercial papers (revolving credit), and the financing period is available for 30, 60, 90 or 180 days. Every issuance may cover up to two periods, but an issuance date cannot exceed type C's creditable period, and the amount of every issued commercial paper must be over NT\$200,000 thousand and a multiple of NT\$10,000 thousand. The payment of the principal and interest should be made in full on commercial paper maturity.
- e. Under the agreement, China Steel Corporation and its related parties should collectively hold at least 30% of the Corporation's issued shares, have over half of the seats in the board of directors and control the Corporation's operation. Starting 2007, the Corporation's net tangible assets 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 referring to the above restrictions should be based on audited financial statements. If the Corporation breaches the agreement, the Corporation should take remedial measures within six months from the next day of the financial statements' declaration date or adjust the interest rate and the rate of the guarantee fee in accordance with the agreement.
- f. As of December 31, 2008, the Corporation was in compliance with the syndicated credit facility agreement.

16. ACCRUED EXPENSES

	December 31	
	2008	2007
Salary and bonus	\$ 16,488	\$ 252,168
Utilities	33,449	52,116
Interest	21,183	9,460
Delivery pay	16,855	44,112
Export fee	40,517	43,511
Processing charge	13,307	23,797
Others	<u>29,464</u>	<u>19,080</u>
	<u>\$ 171,263</u>	<u>\$ 444,244</u>

17. OTHER PAYABLES

	December 31	
	2008	2007
Sales discount	\$ 418,455	\$ 216,604
Equipment purchased	115,800	41,871
Nonperforming loans	22,380	-
Others	<u>1,272</u>	<u>1,626</u>
	<u>\$ 557,907</u>	<u>\$ 260,101</u>

18. PENSION PLAN

The pension plan under the Labor Pension Act (the "LPA") is a defined contribution plan. Based on the LPA, the Corporation makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages. Such pension costs were NT\$5,037 thousand and NT\$4,740 thousand for the years ended December 31, 2008 and 2007, respectively.

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 (the Central Trust of China merged with the Bank of Taiwan in 2007, with the Bank of Taiwan as the survivor entity) in the committee's name. The Corporation recognized pension costs of NT\$66,311 thousand and NT\$67,748 thousand for the years ended December 31, 2008 and 2007, respectively.

Information about the defined benefit plan was as follows:

a. Components of net pension cost

	Years Ended December 31	
	2008	2007
Service cost	\$ 33,872	\$ 34,966
Interest cost	26,449	25,238
Projected return on plan assets	(5,445)	(3,890)
Amortization	<u>11,435</u>	<u>11,434</u>
Net pension cost	<u>\$ 66,311</u>	<u>\$ 67,748</u>

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

	December 31	
	2008	2007
Benefit obligations		
Vested	\$ 409,225	\$ 351,497
Non-vested	<u>192,418</u>	<u>252,479</u>
Accumulated	601,643	603,976
Additional benefits based on future salaries	<u>180,565</u>	<u>164,512</u>
Projected benefit obligations	782,208	768,488
Fair value of plan assets	<u>(292,407)</u>	<u>(202,471)</u>
Funded status	489,801	566,017
Unrecognized prior service cost	(63,087)	(68,345)
Unrecognized net transition obligation	(30,887)	(37,064)
Unrecognized net actuarial gain (loss)	<u>25,380</u>	<u>(16,673)</u>
Accrued pension cost	<u>\$ 421,207</u>	<u>\$ 443,935</u>
Vested benefits	<u>\$ 534,941</u>	<u>\$ 482,385</u>

	Years Ended December 31	
	2008	2007
c. Actuarial assumptions		
Discount rate used in determining present value	2.5%	3.5%
Future salary increase rate	2.0%	2.0%
Expected rate of return on plan assets	2.5%	2.5%
d. Contributions to the fund during the year	<u>\$ 88,369</u>	<u>\$ 77,845</u>
e. Payments from the fund during the year	<u>\$ 6,427</u>	<u>\$ 10,907</u>

19. STOCKHOLDERS' EQUITY

Capital Surplus

A Corporation investee, Transglory investment, exchanged all its holding of common and preferred stocks of Dragon Steel Corporation for China Steel Corporation's common stocks, and the gain on this exchange was recorded as capital surplus. The Corporation recognized NT\$344,341 thousand as its equity in this gain based on its percentage of ownership.

The capital surplus from long-term investments may not be used for any purpose.

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 as well as 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.

In 2008, the Corporation had a deficit and thus did not estimate any bonuses to employees and remunerations to directors and supervisors.

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 Corporation 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. When the reserve exceeds 50% of the Corporation's paid-in capital, (a) the excess may be distributed as dividends and bonuses if the Corporation has no unappropriated earnings or (b) the excess portion that is over 25% of the Corporation's paid-in capital may be transferred to capital if the Corporation has no deficit.

The appropriations of earning for 2007 and 2006 had been proposed by the board of directors and approved in the stockholders' meetings in June 2008 and 2007, respectively. The appropriations and dividends per share were as follows:

	<u>Appropriation of Earnings</u>		<u>Dividends Per Share (NT\$)</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Legal reserve	\$ 268,492	\$ 39,324		
Cash dividends	2,273,690	321,143	<u>\$ 1.77</u>	<u>\$ 0.25</u>
Bonus to employees - cash	120,941	17,082		
Remuneration to directors and supervisors - cash	<u>24,188</u>	<u>3,416</u>		
	<u>\$ 2,687,311</u>	<u>\$ 380,965</u>		

Information on earnings appropriation may be accessed online through the Market Observation Post System on the Web site of the Taiwan Stock Exchange Corporation.

Unrealized Gain or Loss on Financial Instruments

For the years ended December 31, 2008 and 2007, 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, 2008</u>			
Balance, beginning of year	\$ 885,925	\$ 116,774	\$ 1,002,699
Recognized in stockholders' equity	<u>(868,245)</u>	<u>(1,586,879)</u>	<u>(2,455,124)</u>
Balance, end of year	<u>\$ 17,680</u>	<u>\$ (1,470,105)</u>	<u>\$ (1,452,425)</u>
<u>Year ended December 31, 2007</u>			
Balance, beginning of year	\$ 449,412	\$ 49,687	\$ 499,099
Recognized in stockholders' equity	<u>436,513</u>	<u>67,087</u>	<u>503,600</u>
Balance, end of year	<u>\$ 885,925</u>	<u>\$ 116,774</u>	<u>\$ 1,002,699</u>

20. INCOME TAX

- a. A reconciliation of income tax expense (benefit) based on income before income tax at the 25% statutory rate and income tax expense (benefit) was as follows:

	<u>Years Ended December 31</u>	
	<u>2008</u>	<u>2007</u>
Tax on pretax income at statutory rate (25%)	\$ (947,873)	\$ 901,718
Tax effect of adjusting items:		
Permanent differences		
Loss on land impairment	-	70,149
Dividend income	(42,839)	(36,818)
Investment income under the equity method - domestic	(7,626)	(27,005)
Deferred interest expenses for nonoperating assets - land	11,131	11,488
Others	(1,840)	(2,446)

(Continued)

	Years Ended December 31	
	2008	2007
Temporary differences		
Provision of purchase contract loss	\$ 510,027	\$ 49,916
Difference between financial reporting and tax reporting of		
Loss on inventories	409,351	-
Provision (reversal of provision) for sales discounts	50,463	(33,461)
Unrealized gain on financial instruments	(15,992)	(4,157)
Reversal of provision for loss on inventories	(9,937)	(4,219)
Pension difference	(5,682)	(2,662)
Others	(3,385)	(1,094)
Additional 10% income tax on unappropriated earnings	-	1,227
Current income tax expense	(54,202)	922,636
Gain on loss carryforwards	54,202	-
Adjustments for prior years' tax	(23,942)	(687)
	<u> </u>	<u> </u>
Income tax expense (benefit)	<u>\$ (23,942)</u>	<u>\$ 921,949</u>

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

	December 31	
	2008	2007
Current		
Sales discount payable	\$ 104,614	\$ 54,151
Purchase contract loss	559,943	49,916
Allowance for inventory loss	409,351	9,937
Others	(13,085)	(3,903)
	<u>1,060,823</u>	<u>110,101</u>
Less: Valuation allowance	<u>1,060,823</u>	<u>110,101</u>
	<u> </u>	<u> </u>
Noncurrent		
Unfunded pension cost	105,302	110,984
Loss carryforwards	54,202	-
	<u>159,504</u>	<u>110,984</u>
Less: Valuation allowance	<u>159,504</u>	<u>110,984</u>
	<u> </u>	<u> </u>
Total deferred income tax assets	<u>\$ -</u>	<u>\$ -</u>

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

Loss carryforwards as of December 31, 2008 comprised of:

<u>Unused Amount</u>	<u>Expiry Year</u>
<u>\$ 216,808</u>	2018

c. The tax returns through 2006 had been assessed by the tax authorities.

d. Information on integrated income tax is as follows:

For distribution of earnings generated after January 1, 1998, the ratio for the imputation credits allocated to stockholders of the Corporation is based on the balance of the ICA as of the date of dividend distribution. The expected creditable ratio for the 2007 earnings may be adjusted, depending on the ICA balance on the date of dividend distribution. As of December 31, 2008 and 2007, the balances of the imputation credits which can be allocated to the stockholders amounted to NT\$1,028,808 thousand and NT\$1,079,970 thousand, respectively.

The creditable ratio for the distribution of the 2007 earnings was 33.38%.

As of December 31, 2007, the unappropriated earnings were all generated on and after January 1, 1998.

21. PERSONNEL, DEPRECIATION AND AMORTIZATION

	Years Ended December 31							
	2008				2007			
	Cost of Revenues	Operating Expenses	Others	Total	Cost of Revenues	Operating Expenses	Others	Total
Personnel								
Salary (including annual bonus)	\$ 518,311	\$ 116,122	\$ -	\$ 634,433	\$ 701,630	\$ 148,366	\$ -	\$ 849,996
Insurance	38,976	6,779	-	45,755	39,172	6,660	-	45,832
Pension cost	60,214	11,134	-	71,348	62,144	10,344	-	72,488
Welfare benefits	190,148	29,855	-	220,003	164,894	25,492	-	190,386
Other	2,249	9,137	-	11,386	1,658	10,248	-	11,906
	<u>\$ 809,898</u>	<u>\$ 173,027</u>	<u>\$ -</u>	<u>\$ 982,925</u>	<u>\$ 969,498</u>	<u>\$ 201,110</u>	<u>\$ -</u>	<u>\$ 1,170,608</u>
Depreciation	\$ 975,292	\$ 7,592	\$ 544	\$ 983,428	\$ 1,010,455	\$ 5,713	\$ 544	\$ 1,016,712
Amortization	-	639	4,246	4,885	-	-	4,850	4,850

22. BASIC EARNINGS PER SHARE

The Corporation has a simple capital structure; thus, basic earnings per share (EPS) are presented. The numerators and denominators used in the computation of basic EPS were as follows:

a. Basic EPS

	Years Ended December 31			
	2008		2007	
	Before Tax	After Tax	Before Tax	After Tax
Net income (loss) per share	<u>\$ (2.95)</u>	<u>\$ (2.93)</u>	<u>\$ 2.81</u>	<u>\$ 2.09</u>

b. Numerator, net income (loss)

	Years Ended December 31			
	2008		2007	
	Before Tax	After Tax	Before Tax	After Tax
Net income (loss)	<u>\$ (3,791,491)</u>	<u>\$ (3,767,549)</u>	<u>\$ 3,606,872</u>	<u>\$ 2,684,923</u>

c. Denominator - shares (thousands)

	<u>Years Ended December 31</u>	
	<u>2008</u>	<u>2007</u>
Weighted average of outstanding common shares	<u>1,284,571</u>	<u>1,284,571</u>

23. FINANCIAL INSTRUMENTS

a. As of December 31, 2008 and 2007, the fair values of financial instruments were as follows:

	<u>December 31</u>			
	<u>2008</u>		<u>2007</u>	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
<u>Nonderivative financial instruments</u>				
Assets				
Available-for-sale financial assets - noncurrent	\$ 1,048,266	\$ 1,048,266	\$ 1,916,511	\$ 1,916,511
Financial assets carried at cost - noncurrent	291,850		291,850	
Nonperforming loans (included in other financial assets - noncurrent)	2,771,118		2,219,000	
Refundable deposits (included in other financial assets)- noncurrent)	3,850	3,850	3,627	3,627
Liabilities				
Long-term debts (including current portion)	9,285,714	9,285,714	6,572,857	6,572,816
Guarantee deposits received (included in other current liabilities)	1	1	-	-
<u>Derivative financial instruments</u>				
Forward contracts				
Financial assets at fair value through profit and loss - current	80,668	80,668	17,004	17,004
Financial liabilities at fair value through profit and loss - current	73	73	377	377

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, restricted assets - current, short-term loans, commercial paper payable, notes and accounts payable, accounts payable to related parties, accrued expenses, payable on purchase contract loss 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, 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) Nonperforming loans was included in other financial assets-noncurrent, and due to its high uncertainty in recovery period and amount, no fair value is presented.

- 5) The fair values of refundable deposits and guarantee deposits are their carrying values.
 - 6) Fair values of long-term loans are determined at the present values of future cash flows discounted by the interest rates of similar long-term debts available for the Corporation.
- c. Valuation gains arising from changes in fair value of financial instruments determined using valuation techniques were NT\$60,101 thousand for 2008 and NT\$16,822 thousand for 2007.
- d. As of December 31, 2007, financial liabilities exposed to fair value interest rate risk amounted to NT\$30,000 thousand. As of December 31, 2008 and 2007, financial assets exposed to cash flow interest rate risk amounted to NT\$336,510 thousand and NT\$334,006 thousand, respectively; and financial liabilities exposed to cash flow interest rate risk amounted to NT\$23,729,223 thousand and NT\$11,433,495 thousand, respectively.
- e. As of December 31, 2008 and 2007, the interest income (expense) associated with financial assets (liabilities) other than those at fair value through profit or loss was as follows:

	<u>Years Ended December 31</u>	
	2008	2007
Total interest income	\$ 6,244	\$ 18,586
Total interest expense (including capitalized interest)	353,948	265,723

g. Financial risk information

1) Market risk

This includes fair value risk on interest and exchange rate changes and on 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\$45,379 thousand.

In the second half of 2008, steel prices dropped sharply because of a recession in the steel industry. As stated in Note 26-c., a contract signed by the Corporation to make certain purchases is exposed to market risk. Thus, the Corporation recognized a reasonable loss on this purchase contract.

2) Credit risk

Credit risk represents the potential loss that would be incurred by the Corporation if the counter-parties 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, 2008, the Corporation's credit risks amounted to NT\$896,279 thousand (including notes and accounts receivable, receivables from related parties, other receivables and refundable deposits), and the maximum credit risk on the instruments and the carrying value of these instruments are the same. The credit risks on the Corporation's cash and bank deposits (including pledged time deposits) were considered insignificant. In addition, for the nonperforming loans, since there are sufficient properties to cover the risks involved, the Corporation does not expect the exposure due to default to be material.

3) Liquidity risk

As stated in Note 1, the Corporation's operating funds are deemed sufficient to meet future cash flow demand. Thus, liquidity risk is 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 market values.

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\$237,292 thousand a year.

24. RELATED-PARTY TRANSACTIONS

a. Related parties

<u>Related Party</u>	<u>Relationship with the Corporation</u>
China Steel Corporation (CSC)	Major stockholder (39%)
Long-Yuan-Fa Investment Corporation	Supervisor
Hong-Yih Investment Corporation	Director
Goang Yaw Investment Corporation	Director
China Steel Global Trading Corporation (CSGC)	Affiliate
Infor-Champ Systems Corporation (ICSC)	Affiliate
China Ecotdk Corporation (CEC)	Affiliate
China Steel Machinery Corporation (CSMC)	Affiliate
China Steel Structure Corporation	Affiliate
China Hi-ment Corporation	Affiliate
Universal Exchange Inc.	Affiliate
Union Steel Development Corporation (USDC)	Affiliate
Hi-mag Magnetic Corporation	Affiliate
Dragon Steel Corporation	Affiliate
Steel Castle Technology Corporation (SCT)	Affiliate
China Steel Management Consulting Corporation	Affiliate
China Steel Security Corporation (CSS)	Affiliate
Shin-Mau Investment Corporation (SMIC)	Affiliate
CSC Steel SDN. BHD. (CSSB)	Affiliate
Group Steel Corp. (M) SDN BHD (GSC)	Affiliate
CSC Educational Foundation	Foundation establish with the CSC's donation
Taiwan Steel Corporation	Subsidiary with no significant transaction
Hong Kao Investment Corporation	Subsidiary with no significant transaction
Hong Li Steel Corporation	Subsidiary with no significant transaction
Trans Glory Investment Corporation (TGIC)	Equity method investee

b. Significant related-party transactions were as follows:

	Years Ended December 31			
	2008		2007	
	Amount	% to Total	Amount	% to Total
1) Sale of steel products				
CSSB	\$ 586,910	1	\$ 646,386	2
GSC	-	-	85,834	-
Others	<u>23,031</u>	<u>-</u>	<u>3,612</u>	<u>-</u>
	<u>\$ 609,941</u>	<u>1</u>	<u>\$ 735,832</u>	<u>2</u>

The selling prices of steel products were similar to those for third parties. However, CSSB and GSC had to pay by telegraphic transfers (T/T) in seven days from product shipment, and this payment arrangement was dissimilar with those for third parties, from whom payments were collected in advance.

	Years Ended December 31			
	2008		2007	
	Amount	% to Total	Amount	% to Total
2) Service revenue				
CSC	<u>\$ 504,725</u>	<u>100</u>	<u>\$ 246,839</u>	<u>94</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.

	Years Ended December 31			
	2008		2007	
	Amount	% to Total	Amount	% to Total
3) Purchase of materials				
CSC	<u>\$ 2,317,642</u>	<u>5</u>	<u>\$ 1,369,249</u>	<u>4</u>

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

4) 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 \$212,337 thousand in 2008 and \$311,745 thousand in 2007. As of December 31, 2008 and 2007, authorization fees payable (included in payables to related parties) were \$30,952 thousand and \$92,116 thousand, respectively. The calculation of slab purchase prices was based on the formula stated in the agreement.

5) Acquisition of shares

The Corporation acquired 104 thousand shares of TGIC from SMIC for NT\$1,152 thousand, the purchase price referred to TGIC's proportionate share in the investee's equity.

6) 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 2008 and 2007 are summarized as follows:

	Years Ended December 31			
	2008		2007	
	Tons	Amount	Tons	Amount
Balance, beginning of year	(1,276)	\$ (27,296)	-	\$ -
Lending for the year	160,686	3,227,694	161,310	2,281,599
Returns for the year	(136,026)	(2,605,382)	(161,758)	(2,311,521)
Allowance for inventory loss	1,328	47,316	(828)	2,626
Balance, end of year	<u>24,712</u>	<u>\$ 642,332</u>	<u>(1,276)</u>	<u>\$ (27,296)</u>

As of December 31, 2008 and 2007, the amount of the slabs to be returned or lent by CSC were included in other current assets and other current liabilities, respectively.

7) 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			
	2008		2007	
	Other Expenditures	Construction- in-progress	Other Expenditures	Construction- in-progress
CEC	\$ 2,498	\$ 22,399	\$ 18,171	\$ 160,247
ICSC	4,943	24,664	5,503	31,370
SCT	2,097	17,025	2,735	14,885
CSMC	61,212	40,547	85,450	12,100
CSGC	103,829	-	61,415	-
CSS	9,677	-	8,625	-
CSC	20,917	-	24,654	-
USDC	5,620	-	7,015	-
Others	<u>3,615</u>	<u>-</u>	<u>5,732</u>	<u>819</u>
	<u>\$ 214,408</u>	<u>\$ 104,635</u>	<u>\$ 219,300</u>	<u>\$ 219,421</u>

c. Balances at year-end

	December 31			
	2008		2007	
	Amount	% to Total	Amount	% to Total
1) Accounts receivable				
CSC	\$ 26,290	14	\$ 149,166	15
Others	<u>3,974</u>	<u>2</u>	<u>15</u>	<u>-</u>
	<u>\$ 30,264</u>	<u>16</u>	<u>\$ 149,181</u>	<u>15</u>
2) Accounts payable				
CSC	\$ 38,264	26	\$ 101,100	5
CSGC	10,049	7	1,129	-
ICSC	2,916	2	-	-
CSMC	2,302	2	6,995	-
Others	<u>3,614</u>	<u>2</u>	<u>7,511</u>	<u>-</u>
	<u>\$ 57,145</u>	<u>39</u>	<u>\$ 116,735</u>	<u>5</u>

d. Compensation of directors, supervisors and management personnel

	Years Ended December 31	
	2008	2007
Salaries	\$ 19,806	\$ 17,874
Special compensation	432	432
Incentives	2,686	9,234
Bonus (Note 3)	<u>-</u>	<u>31,627</u>
	<u>\$ 22,924</u>	<u>\$ 59,167</u>

The compensation of directors, supervisors and management personnel for the year ended December 31, 2007 included the bonuses appropriated from earnings for 2007 which had been approved by stockholders in their annual meeting held in 2008.

25. PLEDGED ASSETS

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

	December 31	
	2008	2007
Properties - net	\$ 9,765,941	\$ 10,411,098
Restricted assets - Pledged time deposits	<u>300,000</u>	<u>300,000</u>
	<u>\$ 10,065,941</u>	<u>\$ 10,711,098</u>

26. SIGNIFICANT COMMITMENTS AND CONTINGENCIES AS OF DECEMBER 31, 2008

- a. Unused letters of credit for purchases of raw materials and machinery and equipment amounted to about NT\$5,174,669 thousand. Guarantee notes issued for debts and purchases of raw materials amounted to about NT\$50,305,303 thousand.
- b. The Corporation had signed agreements to buy equipment for NT\$2,148,965 thousand, of which NT\$676,016 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 395,000 tons of slabs as of December 31, 2008 were NT\$7.6 billion (included in the unused letters of credit for purchases of raw materials). Some of the contracts' purchase price plus processing costs will be higher than its net realizable value, the variance in losses of purchase contract payable were as follows :

	<u>Years Ended December 31</u>	
	<u>2008</u>	<u>2007</u>
Balance, beginning of year	\$ 199,662	\$ -
Provision for the year (Note 2)	<u>2,040,108</u>	<u>199,662</u>
Balance, end of year	<u>\$ 2,239,770</u>	<u>\$ 199,662</u>

- d. Authorization fee please refer to Note 24.

27. SEGMENT INFORMATION

The Corporation operates in a single industry: steel manufacturing. Under Statement of Financial Accounting Standards No. 20 – “Segment Reporting,” the Corporation discloses its export sales and significant customers, as follows:

- a. Export sales

Area	<u>Years Ended December 31</u>			
	<u>2008</u>		<u>2007</u>	
	Amount	% to Total	Amount	% to Total
Asia	\$ 10,898,931	22	\$ 11,630,040	24
America	1,326,711	3	886,390	2
Others	<u>1,005,594</u>	<u>2</u>	<u>483,831</u>	<u>1</u>
	<u>\$ 13,231,236</u>	<u>27</u>	<u>\$ 13,000,261</u>	<u>27</u>

- b. Major customers

	<u>Years Ended December 31</u>			
	<u>2008</u>		<u>2007</u>	
	Amount	% to Sale	Amount	% to Sale
Company A	\$ 4,783,561	10	\$ 4,382,670	9
Company B	4,755,666	10	5,278,321	11
Company C	<u>4,422,088</u>	<u>9</u>	<u>5,212,050</u>	<u>11</u>
	<u>\$ 13,961,315</u>	<u>29</u>	<u>\$ 14,873,041</u>	<u>31</u>