Chung Hung Steel Corporation

Financial Statements for the
Years Ended December 31, 2010 and 2009 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, 2010 and 2009, 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, 2010 and 2009, 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.

As stated in Note 3 to the accompanying financial statements, on January 1, 2009, the Corporation adopted the newly revised Statement of Financial Accounting Standards No. 10 - "Inventories."

January 24, 2011

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, 2010 AND 2009
(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	2010 Amount	2010 %	2009 Amount	2009 %
CURRENT ASSETS				
Cash	$ 68,559	-	$ 17,026	-
Financial assets at fair value through profit or loss (Notes 2 and 4)	2,886	-	25,580	-
Notes receivable	162,161	1	276,916	1
Accounts receivable (Notes 2 and 5)	704,013	2	338,240	1
Accounts receivable from related parties (Note 24)	47,051	-	38,743	-
Income tax refund receivable	182	-	458,243	1
Other receivables	57,549	-	46,466	-
Inventories (Notes 2, 3 and 6)	6,114,510	18	5,585,622	17
Office supplies (Note 2)	1,068,547	3	870,319	3
Overpaid value-added tax	560,571	2	582,322	2
Restricted assets (Note 25)	300,000	1	300,000	1
Others (Note 24)	715,459	2	79,924	-
Total current assets	9,801,488	29	8,619,401	26
INVESTMENTS (Notes 2, 4, 7, 8, 9 and 10)				
Available-for-sale financial assets	1,335,199	4	1,561,916	5
Financial assets carried at cost	290,635	1	290,635	1
Investments accounted for by the equity method	5,252,441	16	5,348,042	16
Financial asset at fair value through profit or loss	9,863	-	-	-
Other financial assets	4,218	-	2,948	-
Total investments	6,892,356	21	7,203,541	22
PROPERTIES (Notes 2, 11, 24, 25 and 26)				
Land	2,193,134	7	2,188,469	7
Buildings and improvements	2,500,427	7	2,499,148	8
Machinery and equipment	16,075,749	48	14,168,487	43
Miscellaneous equipment	3,369,695	10	2,988,387	9
Total costs	24,139,005	72	21,844,491	67
Less: Accumulated depreciation	11,590,902	35	10,452,380	32
	12,548,103	37	11,392,111	35
Construction in progress	191,182	1	332,589	1
Prepayments for equipment	51,397	-	987,448	3
Net properties	12,790,682	38	12,712,148	39
OTHER ASSETS (Notes 2 and 12)				
Assets leased to others	2,545,340	8	48,553	-
Nonoperating assets, net	1,277,098	4	3,774,429	12
Deferred charges	172,143	-	299,189	1
Others	66,823	-	56,399	-
Total other assets	4,061,404	12	4,178,570	13
TOTAL	$ 33,545,930	100	$ 32,713,660	100

LIABILITIES AND STOCKHOLDERS' EQUITY	2010 Amount	2010 %	2009 Amount	2009 %
CURRENT LIABILITIES				
Short-term loans (Notes 13 and 25)	$ 9,736,654	29	$ 7,324,558	22
Commercial paper payable (Note 14)	129,987	-	849,800	3
Financial liability at fair value through profit or loss (Notes 2 and 4)	723	-	903	-
Accounts payable	896,587	3	697,709	2
Accounts payable to related parties (Note 24)	91,058	-	157,013	1
Accrued expenses (Note 16)	540,874	2	308,049	1
Other payables (Notes 17 and 24)	680,801	2	289,768	1
Current portion of long-term loans (Notes 15 and 25)	857,143	3	1,057,143	3
Others (Note 24)	56,376	-	727,537	2
Total current liabilities	12,990,203	39	11,412,480	35
LONG-TERM LOANS, NET OF CURRENT PORTION (Notes 15 and 25)	3,354,936	10	5,558,678	17
OTHER LIABILITIES				
Accrued pension cost (Note 18)	150,261	1	287,694	1
Guarantee deposits received	-	-	1	-
Deferred credits (Notes 2 and 24)	1,150,987	3	1,213,448	3
Total other liabilities	1,301,248	4	1,501,143	4
Total liabilities	17,646,387	53	18,472,301	56
STOCKHOLDERS' EQUITY				
Common stock - NT$10.00 par value; authorized - 2,043,160 thousand shares; issued and outstanding - 1,380,331 thousand shares and 1,684,571 thousand shares as of December 31, 2010 and 2009, respectively (Note 19)	13,803,312	41	16,845,706	52
CAPITAL SURPLUS (Note 19)	344,201	1	345,084	1
RETAINED EARNINGS (ACCUMULATED DEFICIT) (Note 19)				
Unappropriated earnings (Accumulated deficit)	1,544,867	4	(3,042,394)	(9)
OTHER EQUITY (Note 19)				
Unrealized gain on financial instruments	207,163	1	92,963	-
Total stockholders' equity	15,899,543	47	14,241,359	44
TOTAL	$ 33,545,930	100	$ 32,713,660	100

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

(With Deloitte & Touche audit report dated January 24, 2011)

CHUNG HUNG STEEL CORPORATION

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars, Except Basic Earnings Per Share)

	2010		2009	
	Amount	%	Amount	%
SALES (Notes 2 and 24)	$ 42,685,216	102	$ 37,405,817	101
LESS: SALES RETURNS AND ALLOWANCES	651,678	2	541,892	1
NET SALES	42,033,538	100	36,863,925	100
SERVICE REVENUE	220,287	1	49,679	-
TOTAL OPERATING REVENUE	42,253,825	101	36,913,604	100
OPERATING COSTS (Notes 3, 6, 21 and 24)	39,794,235	95	37,019,198	101
GROSS PROFIT (LOSS)	2,459,590	6	(105,594)	(1)
OPERATING EXPENSES (Notes 21 and 24)				
Selling	712,047	2	939,578	2
General and administrative	266,730	-	248,046	1
Total operating expenses	978,777	2	1,187,624	3
OPERATING INCOME (LOSS)	1,480,813	4	(1,293,218)	(4)
NONOPERATING INCOME AND GAINS				
Interest income (Note 23)	478	-	2,686	-
Investment income recognized under the equity method, net (Note 9)	-	-	160,094	1
Dividend income	69,979	-	59,893	-
Gain on sale of investments (Note 19)	104,307	-	-	-
Exchange gain, net	108,934	-	2,020	-
Reversal of impairment loss, net (Notes 8 and 12)	-	-	1,143,651	3
Others (Notes 4,5,6,12, 21 and 24)	139,234	1	771,085	2
Total nonoperating income and gains	422,932	1	2,139,429	6
NONOPERATING EXPENSES AND LOSSES				
Interest expense (Notes 11 and 23)	103,257	-	287,610	1
Investment loss recognized under the equity method (Note 9)	245,165	1	-	-
Others (Notes 4 and 12)	10,464	-	17,260	-
Total nonoperating expenses and losses	358,886	1	304,870	1
INCOME BEFORE INCOME TAX	1,544,859	4	541,341	1

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CHUNG HUNG STEEL CORPORATION

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars, Except Basic Earnings Per Share)

	2010		2009	
	Amount	**%**	**Amount**	**%**
INCOME TAX BENEFIT (Notes 2 and 20)	$ (8)	-	$ (1,732)	-
NET INCOME	$ 1,544,867	4	$ 543,073	1

	2010		2009	
	Before Income Tax	**After Income Tax**	**Before Income Tax**	**After Income Tax**
EARNINGS PER SHARE(New Taiwan dollars; Note 22)				
Basic earnings per share	$ 1.12	$ 1.12	$ 0.42	$ 0.42
Diluted EPS	$ 1.11	$ 1.11	$ 0.42	$ 0.42

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

(With Deloitte & Touche audit report dated January 24, 2011) (Concluded)

CHUNG HUNG STEEL CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2010 AND 2009
(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 Gain (Loss) on Financial Instruments	
BALANCE, JANUARY 1, 2009	$ 12,845,706	$ 344,341	$ 307,816	$ (3,760,483)	$ (3,452,667)	$ (1,452,425)	$ 8,284,955
Compensation cost recognized for employee stock options (Note 19)	-	67,200	-	-	-	-	67,200
Issuance of common stock for cash (Note 19)	4,000,000	(67,200)	-	(132,800)	(132,800)	-	3,800,000
Offset of deficit (Note 19)	-	-	(307,816)	307,816	-	-	-
Compensation cost recognized by the Corporation on its treasury stock (Note 19)	-	743	-	-	-	-	743
Change in unrealized gain on available-for-sale financial assets (Note 19)	-	-	-	-	-	513,650	513,650
Adjustment from changes in equity recognized under the equity method (Note 19)	-	-	-	-	-	1,031,738	1,031,738
Net income in 2009	-	-	-	543,073	543,073	-	543,073
BALANCE, DECEMBER 31, 2009	16,845,706	345,084	-	(3,042,394)	(3,042,394)	92,963	14,241,359
Capital reduction to offset the deficit (Note 19)	(3,042,394)	-	-	3,042,394	3,042,394	-	-
Change in unrealized loss on available-for-sale financial assets (Note 19)	-	-	-	-	-	(36,247)	(36,247)
Adjustment from changes in equity recognized under the equity method (Note 19)	-	(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

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

(With Deloitte & Touche audit report dated January 24, 2011)

CHUNG HUNG STEEL CORPORATION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,544,867	$ 543,073
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	1,153,037	1,071,921
Amortization	28,628	29,744
Reversal of allowance for doubtful accounts	(17,786)	(19,200)
Compensation cost recognized for employee stock options	-	67,200
Compensation cost recognized on the Corporation's treasury stock	-	743
Allowance for loss on inventories	499,371	-
Investment loss (income) recognized under the equity method, net	245,165	(160,094)
Loss (gain) on disposal of properties	1,375	(11,443)
Gain on sale of investments	(104,307)	-
Valuation loss (gain) on financial instruments	(6,730)	2,047
Reversal of impairment loss on properties and equity-method investments, net	-	(1,143,651)
Amortization on disposal of nonperforming loans	(62,461)	(43,586)
Purchase contract loss	634,615	1,036,875
Others	3,400	3,400
Net changes in operating assets and liabilities		
Financial assets at fair value through profit or loss	19,381	53,871
Notes receivable	114,755	165,958
Accounts receivable	(347,987)	(163,438)
Accounts receivable - related parties	(8,308)	(8,479)
Income tax refund receivable	458,061	(125)
Others receivables	(11,083)	254,438
Inventories	(978,908)	6,200,094
Office supplies	(99,810)	219,172
Overpaid value-added tax	21,751	(83,182)
Other current assets	(684,886)	647,293
Notes payable	-	(110,709)
Accounts payable	198,878	621,207
Accounts payable - related parties	(65,955)	86,308
Accrued expenses	232,825	136,786
Other payables	(386,445)	(3,436,176)
Other current liabilities	(671,161)	688,659
Provision for pension cost	(137,433)	(133,513)
Net cash provided by operating activities	1,572,849	6,515,193
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds of the disposal of available-for-sale financial assets	294,777	-
Increase in long-term stock investments under the equity method	-	(2,999,000)
Acquisition of properties	(1,095,527)	(1,357,655)
Proceeds of the disposal of assets	6,304	28,991

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CHUNG HUNG STEEL CORPORATION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars)

	2010	2009
Decrease (increase) in refundable deposits	$ (1,270)	$ 902
Decrease in deferred charges	-	37,353
Proceeds of the disposal of other financial assets-noncurrent	-	4,005,772
Increase in other assets	(10,740)	-
Net cash used in investing activities	(806,456)	(283,637)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term loans	2,412,096	(7,118,951)
Decrease in commercial paper payable	(719,813)	(399,366)
Proceeds of long-term loans	1,650,000	2,750,000
Repayments of long-term loans	(4,057,142)	(5,407,143)
Decrease in guarantee deposits received	(1)	-
Issuance of common stock for cash	-	3,800,000
Net cash used in financing activities	(714,860)	(6,375,460)
NET INCREASE (DECREASE) IN CASH	51,533	(143,904)
CASH, BEGINNING OF YEAR	17,026	160,930
CASH, END OF YEAR	$ 68,559	$ 17,026
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	$ 112,477	$ 318,362
Capitalized interest	(12,773)	(13,423)
Interest paid nonexcluding capitalized interest	$ 99,704	$ 304,939
Income tax paid	$ -	$ -
INVESTING ACTIVITIES AFFECTING BOTH CASH AND NONCASH ITEMS		
Acquisition of properties	$ 1,238,390	$ 1,271,427
Decrease (increase) in payable on properties purchased	(142,863)	86,228
Cash paid	$ 1,095,527	$ 1,357,655
NONCASH INVESTING AND FINANCING ACTIVITIES		
Current portion of long-term loans	$ 857,143	$ 1,057,143

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

(With Deloitte & Touche audit report dated January 24, 2011) (Concluded)

CHUNG HUNG STEEL CORPORATION

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009
(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, 2010 and 2009, the Corporation had 918 and 913 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. 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.

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 these assets are 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 derecognition 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 collectability 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 expense.

Inventories

Inventories consist of raw materials, supplies, finished goods, work-in-process and scraps. 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.

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.

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.

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.

Office Supplies and Deferred Charges

Office supplies and deferred charges pertain to standby and service equipment. Standby equipment are amortized over their estimated lives. The costs of service equipment are transferred to expense as these equipment are used. Those items expected to be used in twelve months are recognized under office supplies and others are recognized under deferred charges.

Stock-based Compensation

Employee stock options granted on or after January 1, 2008 are accounted for under Statement of Financial

Accounting Standards No. 39 - "Share-based Payment." Under the statement, the value of the stock options granted, which is equal to the best available estimate of the number of stock options expected to vest multiplied by the grant-date fair value, is expensed on a straight-line basis over the vesting period, with a corresponding adjustment to capital surplus - employee stock options. The estimate is revised if subsequent information indicates that the number of stock options expected to vest differs from previous estimates.

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.

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 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

Nonderivative 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.

Reclassifications

Certain accounts in the financial statements as of and for the year ended December 31, 2009 have been reclassified to conform to the presentation of the financial statements as of and for the year ended December 31, 2010.

3. CHANGE IN ACCOUNTING PRINCIPLES

Accounting for Inventories

On January 1, 2009, the Corporation adopted the newly revised Statement of Financial Standards No. 10 - "Inventories." The main revisions are (1) inventories are stated at the lower of cost or net realizable value, and inventories are written down to net realizable value by item, except when the grouping of similar or related items is appropriate; (2) unallocated overheads are recognized as expenses in the period in which they are incurred; and (3) abnormal costs, write-downs of inventories and any reversal of write-downs are recorded as cost of goods sold for the period. This accounting change had no significant influence on the financial statements as of and for the year ended December 31, 2009.

4. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Corporation entered into derivative contracts during the years ended December 31, 2010 and 2009 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, 2010 and 2009 were as follows:

	Currency	Maturity Date	Amount (In Thousands)
December 31, 2010			
Buy	NT/YEN	2011.03.15-2013.02.27	NT$378,838/YEN1,056,684
December 31, 2009			
Buy	NT/USD	2010.01.13-2010.03.31	NT$277,974/US$8,705
Buy	NT/EUR	2010.06.30	NT$41,464/EUR989
Buy	NT/YEN	2010.12.30	NT$150,245/YEN493,416

	Year Ended December 31	
	2010	2009
Financial assets at fair value through profit or loss	$ 12,749	$ 25,580
Loss: Classified as noncurrent assets	9,863	-
	$ 2,886	$ 25,580
Financial liabilities at fair value through profit or loss	$ 723	$ 903

On financial instruments designated as at fair value through profit or loss, in 2010 and 2009, net gains on financial assets were NT$8,020 thousand and NT$1,247 thousand, respectively, and net losses on financial liabilities were NT$1,290 thousand and NT$3,294 thousand, respectively.

5. ACCOUNTS RECEIVABLE

	December 31	
	2010	2009
Accounts receivable	$ 704,013	$ 356,026
Less: Allowance for doubtful accounts (Note 2)	-	17,786
	$ 704,013	$ 338,240

Movements of allowances for doubtful accounts were as follows:

	Years Ended December 31					
	2010			2009		
	Accounts Receivable	Other Noncurrent Financial Assets (Note 10)	Total	Accounts Receivable	Other Noncurrent Financial Assets (Note 10)	Total
Balance, beginning of year	$ 17,786	$ -	$ 17,786	$ 19,200	$ 17,786	$ 36,986
Reversal of allowance	(17,786)	-	(17,786)	(19,200)	-	(19,200)
Reclassification	-	-	-	17,786	(17,786)	-
Balance, end of year	$ -	$ -	$ -	$ 17,786	$ -	$ 17,786

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:

Counter-parties	Advances Received at Beginning of Year	Receivables Sold	Amounts Collected	Advances Received at Year-end	Interest Rates on Advances Received (%)	Credit Line
Year ended December 31, 2010						
Mega Bank	$ 1,032,740	$ 3,206,860	$ 3,317,280	$ 922,320	1.08	$3 billion
Year ended December 31, 2009						
Mega Bank	$ 1,100,937	$ 3,194,656	$ 3,262,853	$ 1,032,740	1.24	$3 billion

6. INVENTORIES

	December 31	
	2010	2009
Raw materials	$ 2,123,612	$ 2,717,783
Supplies	62,813	50,488
Work-in-process	1,023,296	705,982
Finished goods	2,226,323	1,267,500
Scraps	34,483	19,559
Raw materials and supplies in transit	643,983	824,310
	$ 6,114,510	$ 5,585,622

As of December 31, 2010, the allowance for inventory devaluation was NT$450,020 thousand.

The costs of inventories recognized as operating costs were NT$39,674,515 thousand in 2010 and NT$37,012,983 thousand in 2009. The items recorded as operating costs were as follows:

	December 31	
	2010	**2009**
Allowance for loss on inventories	$ 499,371	$ -
Allowance for purchase contract loss	634,615	1,036,875
Reduction of purchase contract loss payable	(388,198)	(3,276,645)
Income from supplies and scraps	(1,023,476)	(772,548)

As described in Note 24, the Corporation signed a contract with China Steel Corporation (CSC) for CSC to transfer to the Corporation certain slab purchasing rights from EAUS. In March 2008, CSC repaired blast furnaces and reduced the number of slabs to which the Corporation has purchasing rights; thus, the Corporation had an operating loss. For this loss, the Corporation obtained NT$650,000 thousand (included in nonoperating income and gain) as insurance compensation from Chung Kuo Insurance Company and nine other insurance companies in December 2009.

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS - NONCURRENT

	December 31	
	2010	**2009**
Domestic quoted stocks		
China Steel Corporation	$ 840,116	$ 1,030,586
Adjustments for appraisal (Note 19)	495,083	531,330
	$ 1,335,199	$ 1,561,916

8. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

	December 31	
	2010	**2009**
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.	285	285
	$ 290,635	$ 290,635

In 2009, the Corporation recognized an impairment loss of NT$1,215 thousand on its investment in Cheng Shin House Management Consulting Corp. and later included this amount in the reversal of impairment loss. 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 with no quoted prices and with fair values that could not be measured reliably were classified as financial assets carried at cost.

9. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	December 31			
	2010		2009	
	Amount	% of Owner-ship	Amount	% of Owner-ship
Hung Li Steel Corp. (HLC)	$ 2,747,668	100	$ 3,045,442	100
Trans Glory Investment Corp. (TGIC)	2,431,268	41	2,242,209	41
Hong Kao Investment Corp. (HKIC)	40,884	100	37,274	100
Taiwan Steel Corp.(TSC)	32,621	100	23,117	100
	$ 5,252,441		$ 5,348,042	

Significant movements were as follows:

HLC was incorporated in July 2008. The Corporation invested NT$1,000 thousand in HLC in July 2008 and NT$2,999,000 thousand in July 2009. As of December 31, 2010, the Corporation had invested NT$3,000,000 thousand in HLC, representing 100% ownership.

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	
	2010	2009
HLC	$ (297,774)	$ 46,238
TGIC	40,916	111,527
TSC	9,504	84
HKIC	2,189	2,245
	$ (245,165)	$ 160,094

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

10. OTHER FINANCIAL ASSETS - NONCURRENT

	December 31	
	2010	2009
Refundable deposits	$ 4,218	$ 2,948
Long-term accounts receivable	-	-
Less: Allowance for doubtful accounts (Notes 2 and 5)	-	-
	-	-
	$ 4,218	$ 2,948

11. PROPERTIES

Accumulated depreciation consisted of:

	December 31	
	2010	2009
Buildings and improvements	$ 892,094	$ 826,241
Machinery and equipment	8,754,142	7,871,959
Miscellaneous equipment	1,944,666	1,754,180
	$ 11,590,902	$ 10,452,380

Interest expenses capitalized were as follows:

	Years Ended December 31	
	2010	2009
Total interest expenses	$ 116,030	$ 301,033
Capitalized interest	(12,773)	(13,423)
Interest expenses reflected in the income statement	$ 103,257	$ 287,610
Capitalization rate	0.89%-0.94%	0.94%-2.16%

12. OTHER ASSETS

a. Rental assets

	December 31	
	2010	2009
Land - Kaohsiung Long Dong Section	$ 2,640,958	$ -
Land - Taipei office	64,026	64,026
Buildings and improvements – Taipei office	30,289	30,289
	2,735,273	94,315
Less: Accumulated depreciation	7,806	7,262
Accumulated impairment loss	182,127	38,500
	$ 2,545,340	$ 48,553

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.

The contract stipulated that the start of the rental collection will be on the earliest of (a) the 60th day after the lessee's obtaining a building license, (b) the construction starting date, or (c) 15 months after the contract effective date.

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 reclassified the Long Don Section from nonoperating assets to rental assets and started to collect the construction period rental of NT$2,941 thousand per month. The rental revenue of NT$1,518 thousand for 2010 was

included in nonoperating income and gains.

As of December 31 2010, the total amount of future rental payables and their present value were as follows:

Year	Future Rental Payables	Present Value of Future Rental Payables
2011	$ 35,296	$ 35,296
2012	70,591	70,591
2013	70,591	70,591
2014	70,591	70,591
2015	74,121	74,121
2016-2020	386,422	351,514
2021-2025	429,804	368,653
2026-2030	474,538	383,741
2031	100,677	78,613
	$ 1,712,631	$ 1,503,711

The present value of the above future rental payables over five years was discounted at the interest rate (1.185%) quoted by the Bank of Taiwan for a one-year time deposit.

The Corporation leased the Taipei office to a third party under a renewable operating lease contract. Until June 2010, the rental income was NT$285 thousand monthly, which was raised to NT$299 thousand monthly in July 2010.

b. Nonoperating assets, net

	December 31	
	2010	2009
Land		
Kaohsiung Long Dong Section	$ -	$ 2,640,958
Kaohsiung Long Hua Section	226,557	226,557
Tainan Kuo An Section	2,782,496	2,782,496
Shin Bin Industrial District	122,502	122,502
	3,131,555	5,772,513
Less:		
Accumulated impairment loss - Kaohsiung Long Dong Section	-	143,627
Accumulated impairment loss - Kaohsiung Long Hua Section	102,844	102,844
Accumulated impairment loss - Tainan Kuo An Section	1,724,863	1,724,863
Accumulated impairment loss - Shin Bin Industrial District	26,750	26,750
	1,854,457	1,998,084
	$ 1,277,098	$ 3,774,429

In February 2009, parts of Kaohsiung Long Hua Section were reclassified from industrial land to commercial land and renamed the Kaohsiung Long Dong section after urban land rezoning. The Corporation became the owner of the reclassified land and reclassified the cost of NT$2,640,958 thousand and accumulated impairment loss of NT$1,281,410 thousand from Long Hua Section to Long Dong section. On the basis of the related land appraisal reports, the Corporation recognized a gain on the impairment loss reversal amounting to NT$1,144,866 thousand (NT$7,083 thousand for Long Hua Section and NT$1,137,783 thousand for Long Dong Section). 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, the registration was made in the name of the 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.

As of December 31, 2010, the carrying amounts of all the lands described above was NT$66,823 thousand.

13. SHORT-TERM LOANS

	December 31	
	2010	**2009**
Revolving loans - interest of 0.72%-0.92% in 2010 and 0.78%-1.00% in 2009	$ 7,652,270	$ 5,690,000
Letter of credit loans - interest of 0.72%-0.91% in 2010 and 0.788%-1.00% in 2009	1,792,843	1,382,275
Bank overdraft - interest of 0.45% in 2010 and 0.37% in 2009	291,541	252,283
	$ 9,736,654	$ 7,324,558

14. COMMERCIAL PAPER PAYABLE

	December 31	
	2010	**2009**
Commercial paper - interest of 0.362% in 2010 and 0.212%-0.362% in 2009	$ 130,000	$ 850,000
Less: Unamortized discounts	13	200
	$ 129,987	$ 849,800

15. LONG-TERM LOANS

	December 31	
	2010	2009
Syndicated bank loans		
Mega International Commercial Bank, etc.		
Type A	$ 2,571,429	$ 3,428,571
Type B	-	3,000,000
Revolving credit loan		
Mega Bank	375,000	-
TCB Bank	375,000	-
Land Bank	250,000	-
Taiwan Business Bank	250,000	-
Taipei Fubon Bank	250,000	-
Taishin Bank	150,000	-
Bank loans		
China Development Industrial Bank - repayable until June 2010, interest of 0.8975% in 2009	-	200,000
	4,221,429	6,628,571
Less: Current portion	857,143	1,057,143
Syndicated loan fee	9,350	12,750
	$ 3,354,936	$ 5,558,678

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 of NT$6 billion, Type B of NT$5 billion and Type C of NT$3 billion. The first drawdown of Corporation was on October 23, 1996. In September 2010, the Corporation requested Mega Bank (lead bank of the banking syndicate) to cancel the Type C credit line and the cancellation was made on October 21, 2010.

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, 2010 and 2009, the interest rates were 1.2061% and 1.0719%, respectively.

c. Type B is an unsecured loan (revolving credit). The selection of a 30-, 60-, 90- or 180-day 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 repaid 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 without full repayment. As of December 31, 2009, the interest rates were 1.1258% to 1.1279%.

d. 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. 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 referring 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 of the financial statements' declaration date or adjust the interest rate and the rate of the guarantee fee in accordance with the agreement.

e. As of December 31, 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, 2010, the interest rate was 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.

16. ACCRUED EXPENSES

	December 31	
	2010	**2009**
Salary and bonus	$ 156,031	$ 87,115
Employ's bonus and director bonus (Note 19)	125,140	-
Utilities	63,578	59,930
Export fee	52,989	44,319
Delivery pay	44,440	39,245
Processing charge (Note 24)	23,590	22,901
Welfare benefits	16,706	16,031
Others	58,400	38,508
	$ 540,874	$ 308,049

17. OTHER PAYABLES

	December 31	
	2010	**2009**
Purchase contract losses (Notes 2 and 26)	$ 246,417	$ -
Sales discount (Note 2)	220,157	220,652
Properties purchased	172,435	29,572
Sale on consignment (Note 24)	40,659	-
Others	1,133	39,544
	$ 680,801	$ 289,768

18. 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$7,583 thousand for 2010 and NT$4,822 thousand for 2009.

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	
	2010	**2009**
Service cost	$ 31,930	$ 32,869
Interest cost	16,108	19,555
Projected return on plan assets	(11,291)	(8,122)
Amortization	11,435	11,435
Net pension cost	$ 48,182	$ 55,737

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

	December 31	
	2010	**2009**
Benefit obligations		
Vested	$ 494,221	$ 449,329
Non-vested	188,187	192,316
Accumulated	682,408	641,645
Additional benefits based on future salaries	161,777	163,763
Projected benefit obligations	844,185	805,408
Fair value of plan assets	(655,390)	(471,158)
Fund status	188,795	334,250
Unrecognized prior service cost	(52,573)	(57,830)
Unrecognized net transition obligation	(18,532)	(24,709)
Unrecognized net actuarial gain	32,571	35,983
Accrued pension cost	$ 150,261	$ 287,694
Vested benefits	$ 709,366	$ 656,321

	Years Ended December 31	
	2010	2009
c. Actuarial assumptions		
Discount rate used in determining present value	2.00%	2.00%
Future salary increase rate	1.75%	1.75%
Expected rate of return on plan assets	2.00%	2.00%
d. Contributions to the fund during the year	$ 185,615	$ 186,579
e. Payments from the fund during the year	$ 8,865	$ 10,167

19. STOCKHOLDERS' EQUITY

a. Common stock

On March 31, 2009, the Corporation issued 400,000 thousand common shares for cash at an NT$9.5 par value. As of December 31, 2009, the Corporation's issued and outstanding shares amounted to NT$16,845,706 thousand.

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 approved a capital reduction of NT$3,042,394 thousand to offset a deficit in their June 2010 meeting. The rate of the capital reduction was 18.06%, and the capital reduction took effect in September 2010. The Corporation had completed the registration requirements for this capital reduction.

As of December 31, 2010, the Corporation's issued and outstanding shares amounted to NT$13,803,312 thousand.

b. Employee Stock Option Plans

In February 2009, the board of directors approved the issuance of common stock. Under the Company Law, the Corporation should reserve 10% of the stock for employee stock options. In addition, under Statement of Financial Accounting Standards No. 39 -"Share-based Payment," the stock options are recognized at fair value and transferred to salary expenses on granted date.

Other information on employee stock options is as follows:

	Number of Options (In Thousands)	Weighted -average Exercise Price (NT$)
Balance, beginning of year	$ -	$ -
Granted	40,000	9.5
Exercised	(20,870)	-
Disclaimed	(19,130)	-
Balance, end of year	-	

(Continued)

	Number of Options (In Thousands)	Weighted -average Exercise Price (NT$)
Options exercisable, end of year	-	
Weighted-average fair value of options granted (NT$)	1.68	

(Concluded)

Options granted during the year ended December 31, 2008 were priced using the Black-Scholes model, and the inputs to the model were as follows:

Grant-date share price (NT$)	11.2
Exercise price (NT$)	9.5
Expected volatility	45.5%
Expected life (years)	1 month
Expected dividend yield	-
Risk-free interest rate	1.01%

In 2009, the Corporation recognized NT$67,200 thousand as compensation cost, and the same amount was recognized as capital surplus - employee stock options. The Corporation transferred exercised employee stock options amounting to (a) NT$35,062 thousand from capital surplus - employee stock options to capital surplus - additional paid in capital and (b) NT$32,138 thousand from capital surplus - employee stock options to capital surplus - abandonment of stock option. The NT$200,000 thousand difference between the share issue price of NT$9.5 and par value of NT$10.00 was deducted from the capital surplus of NT$67,200 thousand and from NT$132,800 thousand of retained earnings.

c. Capital surplus

	Years Ended December 31	
	2010	2009
Long-term investments	$ 343,458	$ 344,341
Additional paid in capital	743	743
	$ 344,201	$ 345,084

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 as long-term investment at its percentage of ownership of TGIC.

CSC plans to transfer its treasury stocks to its employees and subsidiaries. Options for 97,612 shares were granted to employees of the Corporation. The Corporation recognized a salary expense of NT$743 thousand for 2009. When all treasury stock options were exercised, the Corporation reclassified capital surplus-employee stock options to capital surplus-additional paid-in capital.

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

d. 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.

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). The Corporation had an accumulated deficit in 2009; thus, the Corporation did not estimate any bonus and remuneration to directors and supervisors. 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. 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 use of the legal reserve to offset the 2008 deficit was proposed by the board of directors in March 2009 and approved in the stockholders' meeting in June 2009.

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.

Information on earnings appropriation, bonus to employees and remuneration to directors and supervisors may be accessed online through the Market Observation Post System on the Web site of the Taiwan Stock Exchange Corporation.

e. Unrealized gain or loss on financial instruments

In 2010 and 2009, movements of unrealized gain (loss) on financial instruments were as follows:

	Available-for-sale Financial Assets	**Equity-method Investments**	**Total**
Year ended December 31, 2010			
Balance, beginning of year	$ 531,330	$ (438,367)	$ 92,963
Recognized in stockholders' equity	68,060	150,447	218,507
Translate for gain or loss	(104,307)	-	(104,307)
Balance, end of year	$ 495,083	$ (287,920)	$ 207,163

(Continued)

	Available-for-sale Financial Assets	Equity-method Investments	Total
Year ended December 31, 2009			
Balance, beginning of year	$ 17,680	$ (1,470,105)	$ (1,452,425)
Recognized in stockholders' equity	513,650	1,031,738	1,545,388
Balance, end of year	$ 531,330	$ (438,367)	$ 92,963

(Concluded)

20. INCOME TAX

a. A reconciliation of income tax benefit based on income before income tax at the statutory rate (2010 and 2009 was 17% and 25%) and income tax benefit was as follows:

	Years Ended December 31	
	2010	2009
Tax on pretax income at statutory rate	$ 262,626	$ 135,335
Tax effect of adjusting items:		
Permanent differences		
Investment loss (income) under the equity method	41,678	(40,024)
Gain on sale of investments	(17,732)	-
Dividend income	(11,896)	(14,973)
Reversal of impairment loss	-	(285,913)
Deferred interest expenses for nonoperating assets - land	3,878	13,881
Others	230	4,967
Temporary differences		
Unrealized (realized) loss on purchase contract	41,891	(559,943)
Realized discounts on sales	(84)	(49,451)
Unrealized (realized) loss on inventories	84,893	(409,351)
Unrealized (realized) deferred Gain on disposal of nonperforming loans	(10,618)	303,362
Pension difference	(23,364)	(33,378)
Others	(195)	17,350
Income tax expense (benefit) before tax credits	371,307	(918,138)
Loss carryforwards used	(371,307)	-
Gain on loss carryforwards	-	918,138
	-	-
Current income tax expense		
Deferred income tax expense		
Temporary differences	(92,523)	732,116
Loss carryforwards	435,250	(918,138)
Effect of tax law changes on deferred income tax	159,171	281,270
Adjustment in valuation allowance due to changes in tax laws	(159,171)	(281,270)
Other adjustment in valuation allowance	(342,727)	186,022
	-	-
Adjustments for prior years' tax	(8)	(1,732)
Income tax benefit	$ (8)	$ (1,732)

In January 2009, the Legislative Yuan passed the amendment of Article 39 of the Income Tax Law, which extends the operating losses carryforward period from 5 to 10 years.

In May 2009, the Legislative Yuan passed the amendment of Article 5 of the Income Tax Law, which reduced a profit-seeking enterprise's income tax rate from 25% to 20%. Then 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	
	2010	**2009**
Current		
Deferred income tax assets		
Sales discount payable	$ 37,427	$ 44,130
Purchase contract loss	41,891	-
Allowance for inventory loss	84,893	-
Others	6,088	8,312
	170,299	52,442
Less: Valuation allowance	166,886	47,507
	3,413	4,935
Deferred income tax liabilities		
Unrealized valuation gains on financial instruments	(2,044)	(4,935)
Others	(1,369)	-
	(3,413)	(4,935)
Noncurrent		
Deferred income tax assets		
Unfunded pension cost	25,544	57,539
Loss carryforwards	235,083	777,343
Gain on disposal of nonperforming loans	195,668	242,690
	456,295	1,077,572
Less: Valuation allowance	456,295	1,077,572
Total deferred income tax assets	$ -	$ -

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

Loss carryforwards as of December 31, 2010 comprised of:

Unused Amount	**Expiry Year**
$ 1,382,843	2019

c. The tax returns through 2008 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. The expected creditable ratio for the 2010 earnings may be adjusted, depending on the ICA balance on the date of dividend distribution. As of December 31, 2010 and 2009, the balances of the imputation credits which can be allocated to the stockholders amounted to NT$1,170,276 thousand and NT$1,081,921 thousand, respectively.

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

21. PERSONNEL, DEPRECIATION AND AMORTIZATION

	Years Ended December 31							
	2010				2009			
	Operating Costs	Operating Expenses	Others	Total	Operating Costs	Operating Expenses	Others	Total
Personnel								
Salary (including annual bonus)	$ 717,570	$ 176,489	$ -	$ 894,059	$ 535,032	$ 120,602	$ -	$ 655,634
Insurance	42,650	7,858	-	50,508	39,765	7,325	-	47,090
Pension cost	47,393	8,372	-	55,765	50,693	9,866	-	60,559
Welfare benefits	171,961	27,782	-	199,743	123,087	19,399	-	142,486
Other	1,553	7,410	-	8,963	2,348	3,383	-	5,731
	$ 981,127	$ 227,911	$ -	$ 1,209,038	$ 750,925	$ 160,575	$ -	$ 911,500
Depreciation	$ 1,146,195	$ 6,298	$ 544	$ 1,153,037	$ 1,063,941	$ 7,436	$ 544	$ 1,071,921
Amortization	20,961	7,667	-	28,628	22,077	7,667	-	29,744

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

22. BASIC EARNINGS PER SHARE

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

a. Numerator, net income

	Years Ended December 31			
	2010		2009	
	Before Tax	After Tax	Before Tax	After Tax
Net income	$ 1,544,859	$ 1,544,867	$ 541,341	$ 543,073

b. Denominator - shares (thousands)

	Years Ended December 31	
	2010	2009
Weighted average of outstanding common shares	1,684,571	1,284,571
Add: Issuance of common stock for cash	-	302,466
Deduct: Capital reduction to offset deficit	304,240	286,619
	1,380,331	1,300,418
Add: Effect of dilutive potential common stock - bonus to employees	6,896	-
	1,387,227	1,300,418

If the Company may settle the bonus to employees by cash or shares, the Company 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 capital reduction of NT$3,042,394 thousand (18.06%) to offset the 2010 deficit. This adjustment caused the basic after income tax EPS for 2009 to increase from NT$0.34 to NT$0.42.

23. FINANCIAL INSTRUMENTS

a. As of December 31, 2010 and 2009, the fair values of financial instruments were as follows:

	December 31			
	2010		2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Nonderivative financial instruments				
Assets				
Available-for-sale financial assets - noncurrent	$ 1,335,199	$ 1,335,199	$ 1,561,916	$ 1,561,916
Financial assets carried at cost - noncurrent	290,635		290,635	
Refundable deposits (included in other financial assets - noncurrent)	4,218	4,218	2,948	2,948
Liabilities				
Long-term loans (including current portion)	4,212,079	4,212,079	6,615,821	6,615,821
Guarantee deposits received	-	-	1	1
Derivative financial instruments				
Forward contracts				
Financial assets at fair value through profit and loss - current	2,886	2,886	25,580	25,580
Financial assets at fair value through profit and loss - noncurrent	9,863	9,863	-	-
Financial liabilities at fair value through profit and loss - current	723	723	903	903

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

5) Fair values of long-term loans are determined at the present values of future cash flows discounted at the interest rates for similar long-term debts available for the Corporation.

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	
	2010	2009	2010	2009
Assets				
Available-for-sale financial assets - noncurrent	$ 1,335,199	$ 1,561,916	$ -	$ -
Financial assets at FVTPL - current	-	-	2,886	25,580
Financial assets at FVTPL - noncurrent	-	-	9,863	-
Liabilities				
Financial liabilities at FVTPL - current	-	-	723	903

d. Valuation of financial instruments with fair values determined using valuation techniques resulted in a gain of NT$6,730 thousand for 2010 and a loss of NT$2,047 thousand for 2009.

e. As of December 31, 2010 and 2009, on instruments exposed to cash flow interest rate risk, financial assets amounted to NT$367,308 thousand and NT$315,758 thousand, respectively, and financial liabilities amounted to NT$13,948,733 thousand and NT$13,940,379 thousand, respectively.

f. As of December 31, 2010 and 2009, 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	
	2010	2009
Total interest income	$ 478	$ 2,686
Total interest expense (including capitalized interest)	116,030	301,033

g. Financial risk

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$39,857 thousand.

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, 2010, the Corporation's credit risks amounted to NT$974,992 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 risk on the Corporation's cash and bank deposits (including pledged time deposits) were considered insignificant.

3) Liquidity risk

The Corporation had profit and got net cash provided by operating activities in 2010. Although the Corporation's current liabilities was in excess of current assets as the December 31, 2010, 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 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$139,487 thousand a year.

24. 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
Horng-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 (Singapore) Pte. Ltd. (CSGT)	Affiliate

b. Significant related-party transactions were as follows:

	Years Ended December 31			
	2010		2009	
	Amount	% to Total	Amount	% to Total
1) Sale of steel products				
HLC	$ 1,880,631	4	$ 62,424	-
DSC	1,473,116	4	-	-
CSSB	612,641	1	506,558	1
Others	4,411	-	3,831	-
	$ 3,970,799	9	$ 572,813	1

The selling prices of steel products for related parties were similar to those for third parties. However, CSSB 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			
	2010		2009	
	Amount	% to Total	Amount	% to Total
2) Service revenue				
CSC	$ 212,156	96	$ 43,911	88
Others	2,351	1	132	1
	$ 214,507	97	$ 44,043	89

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, 2010, the receivables from third parties of NT$32,416 thousand were recognized as other receivables and the payables to HLC of NT$40,659 thousands were recognized as other payables.

	Years Ended December 31			
	2010		2009	
	Amount	% to Total	Amount	% to Total
3) Purchase of materials				
CSC	$ 4,117,350	11	$ 2,290,239	9
DSC	2,741,862	8	-	-
Others	977	-	-	-
	$ 6,860,189	19	$ 2,290,239	9

Payment terms for purchases of materials were similar to those for normal purchases from third parties. In addition, the amount of purchase from DSC referred to purchases made from CSC through DSC when CSC became DSC's sales agent in 2010.

4) Deferred credits

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 in 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.

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. In July, 2009, Taiwan Kaohsiung District Court (TKDC) auctioned off JAS's collaterals, and HLC bid NT$4,591,194 thousand for them. In November, 2009, TKDC allocated the proceeds of the auction of JAS's collaterals, with the Corporation getting the largest allocation. In addition, the Corporation earned NT$77,710 thousand on JAS's fire insurance and recognized this amount as a reduction of nonperforming loans.

In October, 2009, the carrying value of the nonperforming loans was NT$2,693,408 thousand, and the Corporation obtained NT$3,976,096 thousand on the disposal of these loans in December 2009. But the Corporation needed to pay a 2% business tax of NT$25,654 thousand. As a result of this tax, the gain on disposal of nonperforming loans decreased to NT$1,257,034 thousand. In addition, because some of the collaterals were gotten by HLC, a subsidiary of the Corporation, 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 is as follows:

	2010	**2009**
Balance, beginning of year	$ 1,213,448	$ -
Unrealized gain	-	1,257,034
Realized gain	(62,461)	(43,586)
Balance, end of year	$ 1,150,987	$ 1,213,448

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

5) 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 $282,757 thousand in 2010 and $286,742 thousand in 2009. As of December 31, 2010 and 2009, authorization fees payable (included in payables to related parties) were $66,956 thousand and $72,932 thousand, respectively. The calculation of slab purchase prices was based on the formula stated in the agreement.

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 2010 and 2009 are summarized as follows:

	Years Ended December 31			
	2010		2009	
	Tons	Amount	Tons	Amount
Balance, beginning of year	(41,013)	$ (591,889)	24,712	$ 642,332
Lending for the year	120,527	2,155,168	144,789	2,083,603
Returns for the year	(43,472)	(898,638)	(211,904)	(3,355,019)
Allowance for inventory loss	1,003	28,292	1,390	37,195
Balance, end of year	37,045	$ 692,933	(41,013)	$ (591,889)

As of December 31, 2010 and 2009, the amount of the slabs to be returned or lent by CSC was included in other current liabilities and other current assets, respectively.

7) Processing charge

The Corporation authorized HLC to do some processing amounting to NT$139,929 thousand and NT$107,361 thousand in 2010 and 2009. As of December 31, 2010 and 2009, the processing payable was NT$9,350 thousand and NT$12,295 thousand, included in accrued expenses.

8) 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			
	2010		2009	
	Other Expenditures	Construction-in-progress	Other Expenditures	Construction-in-progress
PHSC	$ 144,350	$ -	$ 171,194	$ -
CSGC	87,911	-	121,658	-
CSC	34,656	17,416	20,451	5,000
CSMC	25,225	-	15,336	48
USECC	10,320	6,440	-	14,900
CEC	7,968	319,511	12,560	10,769
CSS	6,921	-	7,738	4,596
ICSC	3,023	19,063	6,170	15,474
Others	18,219	8,429	7,291	7,642
	$ 338,593	$ 370,859	$ 362,398	$ 58,429

9) Income from supplies and scrap

	December 31			
	2010		2009	
	Amount	% to Total	Amount	% to Total
CHC	$ 367,485	36	$ 242,341	31
Others	1,567	-	3,420	1
	$ 369,052	36	$ 245,761	32

10) Sales of office supplies

The Corporation sold HLC office supplies at their carrying values of NT$2,920 thousand in 2010 and NT$282,735 thousand in 2009. These sales and had no significant impact on the Corporation's income. All the receivables above had been collected.

11) Guarantee

As of December 31, 2009, the Corporation had provided HLC with guarantees amounting to NT$3,100,000 thousand. In June 2010, the Corporation terminated the guarantees.

c. Balances at year-end

	December 31			
	2010		2009	
	Amount	% to Total	Amount	% to Total
1) Accounts receivable				
CHC	$ 37,746	5	$ 25,469	7
CSC	9,302	1	13,274	4
Others	3	-	-	-
	$ 47,051	6	$ 38,743	11
2) Accounts payable				
CSC	$ 89,662	9	$ 113,848	13
CSGC	-	-	19,299	2
PHSC	-	-	18,283	2
Others	1,396	-	5,583	1
	$ 91,058	9	$ 157,013	18

d. Compensation of directors, supervisors and management personnel

	Years Ended December 31	
	2010	2009
Salaries	$ 26,957	$ 14,976
Special compensation	384	438
Incentives	11,648	4,706
	$ 38,989	$ 20,120

25. PLEDGED ASSETS

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

	December 31	
	2010	2009
Properties, net	$ 10,231,288	$ 9,126,383
Restricted assets - time deposits	300,000	300,000
	$ 10,531,288	$ 9,426,383

26. SIGNIFICANT COMMITMENTS AND CONTINGENCIES AS OF DECEMBER 31, 2010

a. Unused letters of credit for purchases of raw materials and machinery and equipment amounted to about NT$4,214,495 thousand.

b. The Corporation had signed agreements to buy equipment for NT$1,777,809 thousand, of which NT$794,133 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 400,191 tons of slabs as of December 31, 2010 were NT$6.7 billion. 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:

	Years Ended December 31	
	2010	2009
Balance, beginning of year	$ -	$ 2,239,770
Provision for the year (Note 6)	246,417	(2,239,770)
Balance, end of year	$ 246,417	$ -

d. Authorization fee please refer to Note 24.

e. The lease contract of Kaohsiung Long Dong Section please refer to Note 12.

27. OTHERS

Under the interpretation issued by the Accounting Research and Development Foundation on February 18, 2011, the Corporation disclosed its significant foreign-currency financial assets and liabilities, as follows:

	2010			2009		
	Foreign Currencies Amount (Thousands)	Exchange Rate	NTD Amount (Thousands)	Foreign Currencies Amount (Thousand)	Exchange Rate	NTD Amount (Thousands)
Monetary Financial Assets						
USD	$ 20,381	30.363	$ 618,821	$ 9,542	31.99	$ 305,258
Monetary Financial liabilities						
USD	36,118	30.363	1,101,825	22,779	31.99	727,994

28. 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

	Years Ended December 31			
	2010		2009	
Area	Amount	% to Total	Amount	% to Total
Asia	$ 11,195,634	27	$ 14,291,692	39
America	1,428,624	3	304,674	1
Others	289,409	1	262,726	-
	$ 12,913,667	31	$ 14,859,092	40

b. Major customers

	Years Ended December 31			
	2010		2009	
	Amount	% to Total	Amount	% to Total
Company A	$ 4,287,577	10	$ 3,792,134	10
Company B	2,952,697	7	3,816,535	10
	$ 7,240,274	17	$ 7,608,669	20

29. 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 accounting principles generally were not translated into English from the Chinese version.