China Steel Corporation and Subsidiaries

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

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
China Steel Corporation

We have audited the accompanying consolidated balance sheets of China Steel Corporation (the "Corporation") and its subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the consolidated financial position of the Corporation and its subsidiaries as of December 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

March 21, 2012

Notice to Readers

The accompanying consolidated 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 consolidated financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and consolidated financial statements shall prevail. As stated in Note 2 to the consolidated financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.

CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2011 AND 2010
(In Thousands of New Taiwan Dollars, Except Par Value)

	2011		2010	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 17,480,092	3	$ 16,838,082	3
Financial assets at fair value through profit or loss - current (Notes 2, 5 and 32)	3,124,636	-	5,298,188	1
Available-for-sale financial assets - current (Notes 2, 6 and 32)	5,375,249	1	5,930,834	1
Held-to-maturity financial assets - current (Notes 2, 10 and 32)	60,550	-	-	-
Hedging derivative assets - current (Notes 2, 7 and 32)	115,768	-	103,738	-
Notes receivable, net (Notes 8, 27 and 33)	1,901,604	-	1,895,951	-
Accounts receivable, net (Notes 2, 8, 27 and 33)	10,213,979	2	7,819,370	2
Other receivables (Note 29)	2,346,521	-	1,793,575	-
Other financial assets - current (Notes 14 and 32)	3,710,158	1	3,876,091	1
Inventories (Notes 2, 9 and 27)	115,961,466	19	89,662,425	17
Deferred income tax assets - current (Notes 2 and 29)	3,623,367	1	2,374,428	-
Restricted assets - current (Notes 4 and 34)	6,906,442	1	5,933,335	1
Others (Note 26)	5,776,246	1	6,351,891	1
Total current assets	176,596,078	29	147,877,908	27
INVESTMENTS				
Financial assets at fair value through profit or loss - noncurrent (Notes 2, 5 and 32)	23,979	-	9,863	-
Available-for-sale financial assets - noncurrent (Notes 2, 6, 32 and 34)	3,369,657	1	3,502,080	1
Held-to-maturity financial assets - noncurrent (Notes 2, 10 and 32)	109,171	-	179,323	-
Hedging derivative assets - noncurrent (Notes 2, 7 and 32)	124,920	-	63,233	-
Financial assets carried at cost - noncurrent (Notes 2, 11 and 32)	10,603,195	2	6,197,088	1
Bond investments with no active market - noncurrent (Notes 2, 12 and 32)	4,050,222	1	3,822,245	1
Investments accounted for by the equity method (Notes 2 and 13)	2,618,993	-	2,963,293	-
Investments in real estate (Note 2)	381,905	-	381,905	-
Prepaid long-term stock investments (Note 13)	10,000	-	10,191	-
Other financial assets - noncurrent (Notes 14 and 32)	2,119,688	-	753,328	-
Total investments	23,411,730	4	17,882,549	3
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 7, 14, 15, 28 and 34)				
Land	19,469,760	3	17,568,640	3
Land improvements	4,385,107	1	4,294,601	1
Buildings	76,278,334	12	74,378,040	14
Machinery and equipment	427,093,330	70	423,828,979	78
Transportation equipment	19,648,382	3	19,568,915	3
Other equipment	17,722,397	3	18,291,273	3
Spare parts	9,516,929	2	8,706,668	2
Total cost	574,114,239	94	566,637,116	104
Revaluation increment	49,437,838	8	43,444,814	8
Cost and revaluation increment	623,552,077	102	610,081,930	112
Less: Accumulated depreciation	317,415,604	52	299,359,238	55
Accumulated impairment	443,719	-	1,025,750	-
	305,692,754	50	309,696,942	57
Construction in progress and prepayments for equipment	96,851,192	16	58,464,371	11
Net property, plant and equipment	402,543,946	66	368,161,313	68
INTANGIBLE ASSETS (Notes 2 and 16)	2,246,170	-	2,109,113	-
OTHER ASSETS				
Assets leased to others, net (Notes 2, 17 and 34)	3,065,847	1	2,965,153	1
Idle assets, net (Notes 2, 18 and 34)	2,111,960	-	1,987,762	1
Refundable deposits (Note 32)	428,431	-	220,026	-
Deferred income tax assets - noncurrent (Notes 2 and 29)	-	-	1,151,193	-
Restricted assets - noncurrent (Notes 4 and 34)	335,660	-	258,786	-
Deferred charge and others (Note 2)	945,793	-	1,194,690	-
Total other assets	6,887,691	1	7,777,610	2
TOTAL	$ 611,685,615	100	$ 543,808,493	100

	2011		2010	
LIABILITIES AND STOCKHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Short-term loans and overdraft (Notes 19 and 34)	$ 59,918,010	10	$ 47,103,144	9
Commercial paper payable (Notes 20 and 34)	22,357,900	4	16,861,987	3
Financial liabilities at fair value through profit or loss - current (Notes 2, 5 and 32)	90	-	9,533	-
Hedging derivative liabilities - current (Notes 2, 7 and 32)	53,331	-	581,015	-
Notes payable (Notes 27 and 33)	1,066,418	-	476,270	-
Accounts payable (Notes 27 and 33)	10,131,244	2	10,127,337	2
Income tax payable (Notes 2 and 29)	3,376,691	-	6,272,105	1
Accrued expenses (Notes 21 and 26)	13,912,683	2	15,770,795	3
Other payables (Note 2)	8,456,717	1	11,239,101	2
Bonds payable - current portion (Notes 22 and 32)	11,270,086	2	13,697,919	3
Long-term debt - current portion (Notes 23, 32 and 34)	11,715,737	2	1,617,419	-
Restructured loans payable - current portion (Notes 25 and 32)	-	-	400,000	-
Others (Notes 2 and 27)	6,546,124	1	7,179,031	1
Total current liabilities	148,805,031	24	131,335,656	24
LONG-TERM LIABILITIES				
Hedging derivative liabilities - noncurrent (Notes 2, 7 and 32)	42,475	-	158,016	-
Bonds payable (Notes 22 and 32)	37,944,340	6	29,530,147	5
Long-term debt (Notes 23, 32 and 34)	75,533,461	13	74,411,562	14
Long-term notes payable (Notes 24 and 32)	24,813,719	4	5,396,659	1
Restructured loans payable (Notes 25 and 32)	-	-	4,169,398	1
Total long-term liabilities	138,333,995	23	113,665,782	21
RESERVE FOR LAND VALUE INCREMENT TAX (Note 15)	10,194,138	2	8,673,466	2
OTHER LIABILITIES				
Accrued pension cost (Note 26)	754,105	-	625,773	-
Deferred income tax liabilities - noncurrent (Notes 2 and 29)	543,499	-	-	-
Others	946,910	-	905,284	-
Total other liabilities	2,244,514	-	1,531,057	-
Total liabilities	299,577,678	49	255,205,961	47
STOCKHOLDERS' EQUITY OF PARENT COMPANY (Notes 2, 7, 14, 15, 28 and 34)				
Capital stock - NT$10 par value, authorized 17,000,000 thousand shares				
Common shares - issued 15,046,209 thousand shares and 13,527,901 thousand shares as of December 31, 2011 and 2010, respectively	150,462,093	25	135,279,009	25
Preferred shares - issued 38,268 thousand shares	382,680	-	382,680	-
Total capital stock	150,844,773	25	135,661,689	25
Capital surplus	36,247,705	6	20,072,476	4
Retained earnings	80,051,881	13	94,337,962	17
Other equity adjustments				
Unrealized revaluation increment	26,757,590	4	21,873,940	4
Unrealized gain on financial instruments	3,020,919	-	2,374,377	-
Cumulative translation adjustments	17,192	-	(101,443)	-
Net loss not recognized as pension cost	(230,590)	-	(117,015)	-
Treasury stock - 295,065 thousand shares and 284,762 thousand shares as of December 31, 2011 and 2010, respectively	(8,122,461)	(1)	(8,151,621)	(1)
Total other equity adjustments	21,442,650	3	15,878,238	3
Total stockholders' equity of parent company	288,587,009	47	265,950,365	49
MINORITY INTEREST	23,520,928	4	22,652,167	4
Total stockholders' equity	312,107,937	51	288,602,532	53
TOTAL	$ 611,685,615	100	$ 543,808,493	100

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

CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2011 AND 2010
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2011		2010	
	Amount	%	Amount	%
OPERATING REVENUES, NET (Notes 2, 5, 33 and 37)	$ 401,026,616	100	$ 350,205,424	100
OPERATING COSTS (Notes 2, 5, 9, 13, 30 and 33)	364,429,151	91	286,848,963	82
GROSS PROFIT	36,597,465	9	63,356,461	18
REALIZED GAIN FROM AFFILIATES	33,390	-	30,452	-
REALIZED GROSS PROFIT	36,630,855	9	63,386,913	18
OPERATING EXPENSES (Note 30)				
Research and development	1,746,706	-	1,600,345	-
Selling	4,666,332	1	4,660,578	1
General and administrative	6,026,874	2	5,351,268	2
Total operating expenses	12,439,912	3	11,612,191	3
OPERATING INCOME	24,190,943	6	51,774,722	15
NONOPERATING INCOME AND GAINS				
Interest income (Note 32)	333,668	-	291,888	-
Dividend income	319,067	-	240,001	-
Exchange gain, net	610,982	-	511,804	-
Reversal of impairment loss, net (Notes 2, 11 17 and 18)	264,656	-	11,041	-
Others (Notes 2, 5, 7, 15, 17 and 33)	1,276,132	1	755,079	1
Total nonoperating income and gains	2,804,505	1	1,809,813	1
NONOPERATING EXPENSES AND LOSSES				
Interest expense (Notes 15 and 32)	2,059,062	1	1,434,674	1
Investment loss recognized under equity method, net (Note 13)	434,947	-	379,944	-
Others (Notes 2, 5, 12 and 30)	1,136,456	-	1,055,096	-
Total nonoperating expenses and losses	3,630,465	1	2,869,714	1
INCOME BEFORE INCOME TAX	23,364,983	6	50,714,821	15
INCOME TAX (Notes 2 and 29)	2,534,793	1	9,055,298	3
NET INCOME	$ 20,830,190	5	$ 41,659,523	12

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CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2011 AND 2010
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2011		2010	
	Amount	%	Amount	%
ATTRIBUTABLE TO				
Stockholders of parent company	$ 19,493,679	5	$ 37,586,826	11
Minority interest	1,336,511	-	4,072,697	1
	$ 20,830,190	5	$ 41,659,523	12

	2011		2010	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 31)				
Basic	$ 1.42	$ 1.36	$ 3.17	$ 2.70
Diluted	$ 1.41	$ 1.35	$ 3.14	$ 2.67

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

CHINA STEEL CORPORATION AND SUBSIDIARIES

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

	Issued			Retained Earnings				Other Equity						
	Common Shares	Preferred Shares	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Total	Unrealized Revaluation Increment	Unrealized Gain on Financial Instruments	Cumulative Translation Adjustments	Net Loss not Recognized as Pension Cost	Treasury Stock	Minority Interest	Total Stockholders' Equity
BALANCE, JANUARY 1, 2010	$ 130,945,189	$ 382,680	$ 19,598,511	$ 47,117,709	$ 7,615,701	$ 19,617,957	$ 74,351,367	$ 21,913,148	$ 4,216,431	$ 183,001	$ (42,133)	$ (8,189,031)	$ 20,430,721	$ 263,789,884
Appropriation of 2009 earnings (Note 28)														
Legal reserve	-	-	-	1,952,817	-	(1,952,817)	-	-	-	-	-	-	-	-
Cash dividends to preferred stockholders - NT$1.07 per share	-	-	-	-	-	(40,947)	(40,947)	-	-	-	-	-	-	(40,947)
Cash dividends to common stockholders - NT$1.01 per share	-	-	-	-	-	(13,225,464)	(13,225,464)	-	-	-	-	-	-	(13,225,464)
Stock dividends to preferred stockholders - NT$0.33 per share	12,628	-	-	-	-	(12,628)	(12,628)	-	-	-	-	-	-	-
Stock dividends to common stockholders - NT$0.33 per share	4,321,192	-	-	-	-	(4,321,192)	(4,321,192)	-	-	-	-	-	-	-
Net income in 2010	-	-	-	-	-	37,586,826	37,586,826	-	-	-	-	-	4,072,697	41,659,523
Change in unrealized gain on available-for-sale financial assets	-	-	-	-	-	-	-	-	(185,756)	-	-	-	-	(185,756)
Change in unrealized revaluation increment (Note 15)	-	-	-	-	-	-	-	(41,393)	-	-	-	-	-	(41,393)
Adjustment from changes in equity recognized under equity method	-	-	83,123	-	-	-	-	2,185	(1,055,295)	-	(74,882)	(46,313)	-	(1,091,182)
Foreign exchange loss on translation of foreign-currency financial statements	-	-	-	-	-	-	-	-	-	(364,769)	-	-	-	(364,769)
Foreign exchange gain on hedge of a net investment in a foreign operation	-	-	-	-	-	-	-	-	-	80,325	-	-	-	80,325
Change in unrealized gain on financial instruments for cash flow hedging	-	-	-	-	-	-	-	-	(601,003)	-	-	-	-	(601,003)
Disposal of the Corporation's shares held by subsidiaries (Note 28)	-	-	102,280	-	-	-	-	-	-	-	-	298,725	403,176	804,181
Cash dividends paid by the Corporation to its subsidiaries	-	-	288,562	-	-	-	-	-	-	-	-	-	184,075	472,637
Purchase of the Corporation's shares by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(215,002)	(177,062)	(392,064)
Adjustment of minority interest	-	-	-	-	-	-	-	-	-	-	-	-	(2,261,440)	(2,261,440)
BALANCE, DECEMBER 31, 2010	135,279,009	382,680	20,072,476	49,070,526	7,615,701	37,651,735	94,337,962	21,873,940	2,374,377	(101,443)	(117,015)	(8,151,621)	22,652,167	288,602,532
Appropriation of 2010 earnings (Note 28)														
Legal reserve	-	-	-	3,758,683	-	(3,758,683)	-	-	-	-	-	-	-	-
Cash dividends to preferred stockholders - NT$1.99 per share	-	-	-	-	-	(76,153)	(76,153)	-	-	-	-	-	-	(76,153)
Cash dividends to common stockholders - NT$1.99 per share	-	-	-	-	-	(26,920,523)	(26,920,523)	-	-	-	-	-	-	(26,920,523)
Stock dividends to preferred stockholders - NT$0.5 per share	19,134	-	-	-	-	(19,134)	(19,134)	-	-	-	-	-	-	-
Stock dividends to common stockholders - NT$0.5 per share	6,763,950	-	-	-	-	(6,763,950)	(6,763,950)	-	-	-	-	-	-	-
Issuance of common stock for cash (Note 28)	8,400,000	-	15,338,755	-	-	-	-	-	-	-	-	-	-	23,738,755
Compensation cost of share-based payment	-	-	98,826	-	-	-	-	-	-	-	-	-	-	98,826
Net income in 2011	-	-	-	-	-	19,493,679	19,493,679	-	-	-	-	-	1,336,511	20,830,190
Change in unrealized gain on available-for-sale financial assets	-	-	-	-	-	-	-	-	141,223	-	-	-	-	141,223
Change in unrealized revaluation increment (Note 15)	-	-	-	-	-	-	-	4,739,111	-	-	-	-	-	4,739,111
Adjustment from changes in equity recognized under equity method	-	-	78,147	-	-	-	-	144,539	251,529	-	(113,575)	83	-	360,723
Foreign exchange gain on translation of foreign-currency financial statements	-	-	-	-	-	-	-	-	-	180,788	-	-	-	180,788
Foreign exchange loss on hedge of a net investment in a foreign operation	-	-	-	-	-	-	-	-	-	(62,153)	-	-	-	(62,153)
Change in unrealized gain on financial instruments for cash flow hedging	-	-	-	-	-	-	-	-	253,790	-	-	-	-	253,790
Disposal of the Corporation's shares held by subsidiaries (Note 28)	-	-	106,638	-	-	-	-	-	-	-	-	404,810	404,642	916,090
Cash dividends paid by the Corporation to its subsidiaries	-	-	552,863	-	-	-	-	-	-	-	-	-	334,670	887,533
Purchase of the Corporation's shares by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(375,733)	(304,548)	(680,281)
Adjustment of minority interest	-	-	-	-	-	-	-	-	-	-	-	-	(902,514)	(902,514)
BALANCE, DECEMBER 31, 2011	$ 150,462,093	$ 382,680	$ 36,247,705	$ 52,829,209	$ 7,615,701	$ 19,606,971	$ 80,051,881	$ 26,757,590	$ 3,020,919	$ 17,192	$ (230,590)	$ (8,122,461)	$ 23,520,928	$ 312,107,937

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

CHINA STEEL CORPORATION AND SUBSIDIARIES

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

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 20,830,190	$ 41,659,523
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	26,138,374	23,549,687
Amortization	342,382	387,857
Deferred income tax	(884,969)	2,192,839
Realized gain from affiliates	(33,390)	(30,452)
Provision for loss on inventories	5,109,070	1,057,831
Investment loss recognized under equity method, net	435,181	386,495
Cash dividends received from equity method investees	49,712	52,480
Impairment loss on financial assets	133,459	81,536
Impairment loss on non-financial assets	14,853	-
Reversal of impairment loss on non-financial assets	(353,305)	(11,041)
Compensation cost of share-based payment	101,522	-
Loss on purchase commitments	642,388	249,225
Others	241,273	(383,012)
Net changes in operating assets and liabilities		
Financial instruments held for trading	524,897	693,158
Notes receivable	(5,653)	(482,540)
Accounts receivable	(2,390,864)	(571,118)
Other receivables	(352,065)	(181,003)
Inventories	(31,410,614)	(34,863,170)
Other current assets	579,218	(1,406,276)
Notes payable	590,148	(99,867)
Accounts payable	2,478	3,508,841
Income tax payable	(1,894,141)	5,333,749
Accrued expenses	(1,859,921)	4,176,597
Other payables	604,801	511,647
Other current liabilities	(632,907)	1,308,966
Net cash provided by operating activities	16,522,117	47,121,952
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets designated as at fair value through profit or loss	(15,264,074)	(21,941,744)
Proceeds from disposal of financial assets designated as at fair value through profit or loss	16,554,121	25,966,946
Acquisition of available-for-sale financial assets	(5,759,289)	(11,446,871)
Proceeds from disposal of available-for-sale financial assets	6,390,619	11,168,817
Acquisition of held-to-maturity financial assets	(8,828)	(78,944)
Proceeds from disposal of held-to-maturity financial assets	39,351	266,188
Acquisition of financial assets carried at cost	(4,581,248)	(1,738,314)
Proceeds from disposal of financial assets carried at cost	217,707	142,575
Proceeds from the capital reduction on financial assets carried at cost	22,566	49,086
Acquisition of bond investments with no active market	(14,221)	(125,470)
Proceeds from disposal of bond investments with no active market	1,439	101,269

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CHINA STEEL CORPORATION AND SUBSIDIARIES

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

	2011	2010
Acquisition of investments accounted for by equity method	$ (152,669)	$ (96,994)
Proceeds from disposal of investments accounted for by equity method	13,460	15,931
Proceeds from the capital reduction on investments accounted for by equity method	-	51,780
Increase in prepaid long-term stock investments	(10,000)	(10,191)
Net cash outflow for acquisition of subsidiaries	(426,558)	-
Increase in investments in real estate	-	(162,700)
Increase in other financial assets	(915,013)	(111,513)
Acquisition of property, plant and equipment	(57,197,713)	(66,178,073)
Proceeds from disposal of property, plant and equipment	61,384	15,746
Decrease (increase) in refundable deposits	(208,405)	52,676
Increase in restricted assets	(1,049,981)	(867,404)
Increase in intangible assets	(80,551)	(356,553)
Decrease (increase) in other assets	106,061	(270,009)
Net cash used in investing activities	(62,261,842)	(65,553,766)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term loans and overdraft	12,814,866	(3,018,699)
Increase (decrease) in commercial paper payable	5,495,913	(1,759,538)
Issuance of bonds payable	19,700,000	-
Repayments of bonds payable	(13,700,000)	-
Proceeds from long-term debt	15,774,514	42,143,375
Repayments of long-term debt and restructured loans payable	(9,629,482)	(8,429,197)
Increase (decrease) in long-term notes payable	19,417,060	(1,397,648)
Increase in other liabilities	75,016	100,382
Cash dividends paid by parent company	(26,103,400)	(12,813,075)
Issuance of common stock for cash	23,738,755	-
Purchase of parent company's shares by subsidiaries	(680,281)	(392,064)
Disposal of parent company's shares held by subsidiaries	916,090	804,181
Decrease in minority interest	(1,437,316)	(2,296,130)
Others	-	(56,000)
Net cash provided by financing activities	46,381,735	12,885,587
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	642,010	(5,546,227)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	16,838,082	22,384,309
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 17,480,092	$ 16,838,082
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	$ 2,867,376	$ 2,217,725
Capitalized interest	(786,209)	(817,188)
Interest paid (excluding capitalized interest)	$ 2,081,167	$ 1,400,537
Income tax paid	$ 5,313,903	$ 1,528,710

(Continued)

CHINA STEEL CORPORATION AND SUBSIDIARIES

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

	2011	2010
INVESTING AND FINANCING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS		
Cash paid for acquisition of property, plant and equipment		
Acquisition of property, plant and equipment	$ 53,159,934	$ 72,224,207
Decrease (increase) in payable for equipment purchased	4,037,779	(6,046,134)
	$ 57,197,713	$ 66,178,073
Cash dividends paid to stockholders		
Total cash dividends payable to stockholders	$ 26,996,676	$ 13,266,411
Cash dividends paid by parent company to its subsidiaries	(887,533)	(472,637)
Decrease (increase) in dividends payable	(5,743)	19,301
	$ 26,103,400	$ 12,813,075
NON-CASH FINANCING ACTIVITIES		
Current portion of long-term liabilities	$ 22,985,823	$ 15,715,338

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

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

1. ORGANIZATION AND OPERATIONS

China Steel Corporation (the "Corporation") was incorporated on December 3, 1971. It manufactures and sells steel products and engages in mechanical, communications, and electrical engineering.

The shares of the Corporation and its subsidiaries, including China Steel Structure Co., Ltd., China Steel Chemical Corporation, China Hi-Ment Corporation, China Ecotech Corporation and Chung Hung Steel Corporation Ltd., have been listed on the Taiwan Stock Exchange. Other subsidiaries, Dragon Steel Corporation and Thintech Materials Technology Co., Ltd., have issued shares to the public.

As of December 31, 2011 and 2010, the Ministry of Economic Affairs, Republic of China owned 20.05% and 21.24% of the Corporation's issued common stock, respectively.

As of December 31, 2011 and 2010, the Corporation and its subsidiaries had about 22,200 and 22,000 employees, respectively.

For the years ended December 31, 2011 and 2010, all the subsidiaries that comprised the consolidated financial statements and their changes are listed as follows:

			Percentage of Ownership (%) December 31		
Name of Investor	Name of Investee	Main Business	2011	2010	Additional Descriptions
China Steel Corporation	China Steel Express Corporation (CSE)	Ocean freight forwarding	100	100	
	C. S. Aluminium Corporation (CAC)	Production and sale of aluminum and other non-ferrous metal	100	100	
	Gains Investment Corporation (GIC)	General investment	100	100	
	China Prosperity Development Corporation	Real estate sale, rental and development service	100	100	
	China Steel Asia Pacific Holdings Pte Ltd. (CSAPH)	Investment holding company	100	100	
	China Steel Global Trading Corporation (CSGT)	Steel product agency and trading service	100	100	
	China Steel Machinery Corporation (CSMC)	Manufacture of machinery and equipment	74	74	Direct and indirect ownerships amounted to 100%
	China Steel Security Corporation (CSS)	Guard security and system security	100	100	
	Info-Champ Systems Corporation	Design and sale of IT hardware and software	100	100	
	CSC Steel Australia Holdings Pty Ltd. (CSCAU)	Investment holding company	100	100	
	Horng Yih Investment Corporation	General investment	100	100	
	Long Yuan Fa Investment Corporation	General investment	100	100	
	Goang Yaw Investment Corporation	General investment	100	100	
	Himag Magnetic Corporation	Manufacture and trading of magnetic powder	50	50	Direct and indirect ownerships amounted to 85%

(Continued)

Name of Investor	Name of Investee	Main Business	Percentage of Ownership (%) December 31 2011	2010	Additional Descriptions
	Dragon Steel Corporation (DSC)	Manufacture and sale of steel product	100	100	
	China Steel Management Consulting Corporation	Business management consultant	100	100	
	China Ecotek Corporation (CEC)	Electrical engineering and co-generation	49	49	Refer to a. below
	China Steel Chemical Corporation (CSCC)	Production and sale of coal chemistry and specialty chemicals	29	29	Refer to a. below
	Chung Hung Steel Corporation Ltd. (CHSC)	Manufacture and sale of steel product	29	29	Direct and indirect ownerships amounted to 41%, and refer to a. below
	China Hi-Ment Corporation (CHC)	Manufacture and sale of slag powder and blast furnace cement, and waste disposal	20	20	Direct and indirect ownerships amounted to 35%, and refer to b. below
	China Steel Structure Co., Ltd. (CSSC)	Design, manufacture and sale of steel structure	33	33	Direct and indirect ownerships amounted to 37% and 33% as of December 31, 2011 and 2010, respectively. Refer to b. below
	China Steel Sumikin Vietnam Joint Stock Company (CSVC)	Manufacture of steel product	51	51	
	Winning Investment Corporation (WIC)	General investment	-	-	Indirect ownership was 58%
	Eminent Venture Capital Corporation (EVCC)	General investment	-	-	Indirect ownership was 55%
China Steel Express Corporation	CSE Transport Corporation (Panama)	Ocean freight forwarding	100	100	
	CSEI Transport Corporation (Panama)	Ocean freight forwarding	100	100	
	Transyang Shipping Pte Ltd.	Ocean freight forwarding	51	51	
	Transglory Investment Corporation (TIC)	General investment	50	50	Direct and indirect ownerships amounted to 100%
C.S. Aluminium Corporation	ALU Investment Offshore Corporation	Industry investment	100	100	
ALU Investment Offshore Corporation	United Steel International Development Corp.	Industry investment	65	65	Direct and indirect ownerships amounted to 79%
United Steel International Development Corp.	Ningbo Huayang Aluminium-Tech Co., Ltd.	Manufacture and sale of aluminum alloy material	100	100	
Gains Investment Corporation	Eminence Investment Corporation	General investment	100	100	
	Gainsplus Asset Management Inc.	General investment	100	100	
	Mentor Consulting Corporation	General investment consulting service	100	100	
	AmbiCom Technology, Inc.	Wholesale of office machinery and equipment	80	80	
	Betacera Inc. (BETA)	Manufacture, processing and trading of electronic ceramics	48	48	Refer to a. below
	Universal Exchange Inc.	Software programming	57	57	

(Continued)

Name of Investor	Name of Investee	Main Business	Percentage of Ownership (%) December 31 2011	2010	Additional Descriptions
	Thintech Materials Technology Co., Ltd. (TMTC)	Target material and bimetal material tube sale	36	44	Direct and indirect ownerships amounted to 46% and 56% as of December 31, 2011 and 2010, respectively. Refer to b. below
Eminence Investment Corporation	Shin-Mau Investment Corporation	General investment	30	30	Direct and indirect ownerships amounted to 100%
	Gau Ruel Investment Corporation	General investment	25	25	Direct and indirect ownerships amounted to 100%
	Ding Da Investment Corporation	General investment	30	30	Direct and indirect ownerships amounted to 100%
	Chiun Yu Investment Corporation	General investment	25	25	Direct and indirect ownerships amounted to 100%
Shin-Mau Investment Corporation	Horng Chyuan Investment Corporation	General investment	5	5	Direct and indirect ownerships amounted to 100%
	Chi Yih Investment Corporation	General investment	5	5	Direct and indirect ownerships amounted to 100%
Gau Ruel Investment Corporation	Lih Ching Loong Investment Corporation	General investment	5	5	Direct and indirect ownerships amounted to 100%
	Sheng Lih Dar Investment Corporation	General investment	4	4	Direct and indirect ownerships amounted to 100%
Ding Da Investment Corporation	Jiing Cherng Fa Investment Corporation	General investment	4	4	Direct and indirect ownerships amounted to 100%
Betacera Inc.	Lefkara Ltd.	Electronic ceramics trading	100	100	
Lefkara Ltd.	Shang Hai Xike Ceramic Electronic Co., Ltd.	Manufacture and sale of electronic ceramics	100	100	
	Betacera (Su Zhou) Co., Ltd.	Manufacture and sale of electronic ceramics	100	100	
	Suzhou Betacera Technology Co., Ltd.	Manufacture and sale of life-saving equipment for aviation and shipping	100	100	
Thintech Materials Technology Co., Ltd.	Thintech International Limited (TTIL)	International trading and investment service	100	100	
	Thintech Global Limited	International trading and investment service	100	-	Investment in September 2011
Thintech Global Limited	Taicang Thintech Materials Co., Ltd.	Manufacture, processing and trading of target material, solar conductive paste and glass polishing supplies	100	-	Investment in September 2011
Thintech International Limited	Nantong Zhongxing Materials Technology Co., Ltd. (NZMTCL)	International trading and investment service	47	39	Increased investment and included in the consolidated entities in December 2011. Refer to a. below
China Steel Asia Pacific Holdings Pte Ltd.	CSC Steel Holdings Berhad (CSHB)	Investment holding company	46	46	Refer to a. below
	Changzhou China Steel Precision Materials Corporation (CCSPMC)	Manufacture and sale of titanium-nickel alloy and non-ferrous metal	70	-	Investment in January 2011
CSC Steel Holdings Berhad	CSC Steel Sdn. Bhd.	Manufacture and sale of steel product	100	100	
	Group Steel Corp. (M) Sdn. Bhd.	Manufacture and sale of steel product	100	100	

(Continued)

Name of Investor	Name of Investee	Main Business	Percentage of Ownership (%) December 31 2011	2010	Additional Descriptions
	CSC Bio-Coal Sdn. Bhd. (formerly Ornaconstruction Corp. Sdn. Bhd.)	Manufacture biomass coal	100	-	Group restructured in November 2011
CSC Steel Sdn. Bhd.	CSC Bio-Coal Sdn. Bhd. (formerly Ornaconstruction Corp. Sdn. Bhd.)	Construction	-	100	Group restructured in November 2011
	Constant Mode Sdn. Bhd.	General investment	100	-	Investment in August 2011
China Steel Global Trading Corporation	Chung Mao Trading (Samoa) Co., Ltd.	Steel product agency and trading service	100	100	
	CSGT (Singapore) Pte. Ltd.	Steel product agency and trading service	100	100	
	Chung Mao Trading (BVI) Co., Ltd.	Steel product agency and trading service	53	53	
	Wabo Global Trading Corporation	Steel product agency and trading service	44	44	Direct and indirect ownerships amounted to 50%
	CSGT International Corporation (CIC)	Steel product agency and trading service	100	100	
Chung Mao Trading (Samoa) Co., Ltd.	CSGT (Shanghai) Co., Ltd.	Steel product agency and trading service	100	100	
Chung Mao Trading (BVI) Co., Ltd.	CSGT Hong Kong Limited	Steel product agency and trading service	100	100	
CSGT International Corporation	CSGT Metals Vietnam Joint Stock Company	Steel cutting and processing	45	45	Direct and indirect ownerships amounted to 50%
Wabo Global Trading Corporation	CSGT Japan Co., Ltd.	Steel product agency and trading service	100	100	
China Steel Security Corporation	Steel Castle Technology Corporation	Firefighting equipment wholesaling	100	100	
Info-Champ Systems Corporation	Info-Champ System (B.V.I.)	Information service	100	100	
Info-Champ System (B.V.I.)	Wuham InfoChamp I.T. Co., Ltd.	Software programming	100	100	
CSC Steel Australia Holdings Pty Ltd.	CSC Sonoma Pty Ltd.	General investment	100	100	
Himag Magnetic Corporation	Himag Magnetic (Belize) Corporation	Magnetic powder trading	100	100	
China Ecotek Corporation	CEC International Corp.	General investment	100	100	
	CEC Development Co.	General investment	100	100	
CEC Development Co.	China Ecotek Vietnam Company Ltd.	Engineering design and construction	100	100	
	Xiamen Ecotek PRC Co., Ltd.	Metal materials agency and trading service	100	-	Established in November 2011
China Steel Chemical Corporation	Ever Glory International Co., Ltd. (EGI)	International trading	100	100	
	Ever Wealthy Investment Corporation (EWIC)	General investment	100	100	
Ever Wealthy Investment Corporation	Ever Earning Investment Company	General investment	51	-	Established in June 2011; direct and indirect ownerships amounted to 100%
Chung Hung Steel Corporation Ltd.	Taiwan Steel Corporation	Manufacture of steel product	100	100	
	Hung Kao Investment Corporation	General investment	100	100	
	Hung Li Steel Corporation Ltd. (HLSC)	Steel product processing	100	100	
China Hi-Ment Corporation	Union Steel Development Corp.	Manufacture and trading of metal powder and ore powder, and gift trading	93	93	
	Pao Good Industrial Co., Ltd.	Slag powder processing and trading	51	51	
China Steel Structure Co., Ltd.	United Steel Constructure Corporation	Contract project of civil engineering and construction engineering, and steel structure installation	100	100	
	China Steel Structure Investment Pte Ltd.	General investment	100	100	

(Continued)

Name of Investor	Name of Investee	Main Business	Percentage of Ownership (%) December 31 2011	2010	Additional Descriptions
United Steel Constructure Corporation	United Steel Investment Holding Co., Ltd.	General investment	100	100	
	United Steel Investment Pte Ltd.	General investment	100	100	
	Lian Chuan Construction Consultation (Shanghai) Co., Ltd.	Engineering technology consulting	100	100	
	United Steel Construction Vietnam Co., Ltd.	Civil engineering construction and other business contract and management	100	100	
	United Steel Development Co., Ltd.	Construction development and rental business	100	100	
United Steel Investment Holding Co., Ltd.	United Steel International Co., Ltd.	General investment	100	100	
United Steel International Co., Ltd.	United Steel Engineering and Construction Co., Ltd.	Civil engineering construction and other business contract and management	100	100	
China Steel Structure Investment Pte Ltd.	China Steel Structure Holding Co., Ltd.	General investment	63	63	Direct and indirect ownerships amounted to 100%
China Steel Structure Holding Co., Ltd.	China Steel Structure Investment Co., Ltd.	General investment	100	100	
China Steel Structure Investment Co., Ltd.	Chung-Kang Steel Structure (Kunshan) Co., Ltd.	Steel structure installation, consulting and steel plate cutting	100	100	

(Concluded)

Explanations for subsidiaries which are less than 50% owned but included in the consolidated entities are as follows:

a. The actual operations of CEC, CSCC, CHSC and BETA are controlled by the respective board of directors. The Corporation and its subsidiaries jointly had more than half of the seats in the board of directors of CEC, CSCC, CHSC and BETA. The actual operations of CSHB and NZMTCL are also controlled by the board of directors. The Corporation's subsidiaries had control of more than half of the voting rights in the board of directors. Therefore, the Corporation had control-in-substance over the aforementioned entities and included them in the consolidated entities.

b. The chairmen and general managers of CHC, CSSC and TMTC are designated by the Corporation and its subsidiaries in order to control their finance, operation, and human resources. Therefore, the Corporation had control-in-substance over CHC, CSSC and TMTC and included them in the consolidated entities.

In August 2010, the subsidiary CSSC's board of directors approved issuing 39,096 thousand new shares with par value of $10 per share in private placement at $18.93 per share, and the record date of capital increase was on August 27, 2010. The Corporation subscribed 37,695 thousand shares for NT$713,569 thousand. The Corporation's direct ownership rose from 18% to 33% after the capital increase. In June 2011, the subsidiaries DSC, CEC, EWIC, etc. further invested NT$228,678 thousand in CSSC, acquiring 8,100 thousand shares, which increased the Corporation's total equity in CSSC to 37%.

CSAPH acquired equity of CCSPMC in January 2011 and TTIL acquired equity of NZMTCL in December 2011. The fair value of the assets and liabilities acquired on the acquisition date are listed as follows:

Items	Amount
Assets	
Cash	$ 505,043
Accounts receivable	3,745

(Continued)

Items	Amount
Other receivables	$ 8,819
Inventories	14,776
Other current assets	3,573
Net property, plant and equipment	705,463
Intangible assets	128,490
Liabilities	
Accounts payable	(1,429)
Accrued expenses	(1,809)
Other payables	(2,463)
Minority interest	(409,790)
Fair value of net assets of subsidiaries acquired	954,418
Less: Equity acquired in prior years	22,817
Less: Cash balance of subsidiaries	505,043
Net cash outflow for acquisition of subsidiaries	$ 426,558

(Concluded)

The acquisitions of CCSPMC by CSAPH and NZMTCL by TTIL were accounted for as a purchase as prescribed by ROC Statement of Financial Accounting Standards (SFAS) No. 25, "Business Combination - Accounting Treatment under Purchase Method." Assuming the shareholdings were acquired on January 1, 2010, pro forma consolidated operating result would not have significant impact on the consolidated statements of income.

The Corporation's shares are acquired and held by subsidiaries for investment purpose.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China ("ROC GAAP").

For readers' convenience, the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the ROC. If inconsistencies arise between the English version and the Chinese version or if differences arise in the interpretations between the two versions, the Chinese version of the consolidated financial statements shall prevail. However, the accompanying consolidated financial statements do not include English translation of the additional footnote disclosures that are not required under generally accepted accounting principles but are required by the Securities and Futures Bureau ("SFB") for their oversight purposes.

Significant accounting policies are summarized as follows:

Basis of Consolidation

As stated in Note 1, the Corporation included in the consolidated financial statements all investees in which it has control-in-substance. All significant intercompany transactions (including sidestream transactions) and balances are eliminated upon consolidation.

Foreign-currency Transactions and Translation of Foreign-currency Financial Statements

The Corporation and its subsidiaries use their functional currency as their reporting currency.

Non-derivative foreign-currency transactions are recorded in functional currency 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 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 and loss if the changes in fair value are recognized in profit or loss.

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

The financial statements of foreign subsidiaries are translated into New Taiwan dollars at the following exchange rates: Assets and liabilities - at exchange rates prevailing on balance sheet date; stockholders' equity - at historical exchange rates; dividends - at the exchange rate prevailing on the dividend declaration date; income and expenses - at average exchange rates for the year. The resulting translation adjustments are recorded as a separate component of stockholders' equity.

If the functional currency of an equity-method investee is a foreign currency, translation adjustments will result from the translation of the investee's financial statements into the reporting currency of the Corporation. Such adjustments are accumulated and reported as a separate component of stockholders' equity.

Accounting Estimates

Under above guidelines and principles, certain estimates and assumptions have been used for the allowance for doubtful accounts, provision for loss on inventories, depreciation, impairment loss on assets, reserve for construction guaranties, loss on commitments, pension, loss on pending litigations, income tax, bonuses to employees and remuneration to directors and supervisors, etc. Actual results may differ from these estimates.

Current and Noncurrent Assets and Liabilities

Current assets include cash and cash equivalents 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 property, plant and equipment and intangible assets 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.

For the Corporation and its subsidiaries' construction related business, which has an operating cycle of over one year, the length of the operating cycle is the basis for classifying the Corporation and its subsidiaries' construction assets and liabilities as current or noncurrent.

Cash Equivalents

Cash equivalents are highly liquid instruments with maturities of three months or less when acquired and subject to insignificant risk of changes in value resulting from interest rate fluctuations.

Financial Assets and Liabilities at Fair Value Through Profit or Loss

Financial instruments classified as financial assets or financial liabilities at fair value through profit or loss ("FVTPL") include financial assets or financial liabilities held for trading and those designated as at FVTPL on initial recognition. The Corporation and its subsidiaries recognize financial assets or financial liabilities on the balance sheet when the Corporation and its subsidiaries become parties to the contractual provisions of the financial instrument. A financial asset is derecognized when the Corporation and its subsidiaries have lost control of their contractual rights over the financial asset. A financial liability is derecognized when the obligation specified in the relevant contract is discharged, cancelled or expired.

Financial instruments at FVTPL are initially measured at fair value. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss. At each balance sheet date subsequent to initial recognition, financial assets or financial liabilities at FVTPL are remeasured at fair value, with changes in fair value recognized directly in profit or loss in the year in which they arise. Cash dividends received subsequently (including those received in the year of investment) are recognized as income for the year. On derecognition of a financial asset or a financial liability, the difference between its carrying amount and the sum of the consideration received and receivable or consideration paid and payable is recognized in profit or loss. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

A derivative that does not meet the criteria for hedge accounting is classified as a financial asset or a financial liability held for trading. If the fair value of the derivative is positive, the derivative is recognized as a financial asset; otherwise, the derivative is recognized as a financial liability.

Fair values of financial assets and financial liabilities at the balance sheet date are determined as follows: Mutual funds - at net asset values; publicly traded stocks and depositary receipts - at closing prices; bonds - at prices quoted by the Taiwan GreTai Securities Market; and financial assets and financial liabilities without quoted prices in an active market and those acquired through private placement and not transferred freely in public market - at values determined using valuation techniques.

Available-for-sale Financial Assets

Available-for-sale financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are remeasured at fair value, with changes in fair value recognized in equity until the financial assets are disposed of, at which time, the cumulative gain or loss previously recognized in equity is included in profit or loss for the year. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

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

Cash dividends are recognized as investment income on the ex-dividend date, except for dividends distributed from the pre-acquisition profit, which are treated as a reduction of investment cost. Stock dividends are not recognized as investment income but are recorded as an increase in the number of shares. The total number of shares subsequent to the increase is used for recalculation of cost per share. The difference between the initial cost of a debt instrument and its maturity amount is amortized using the straight - line method, with the amortized interest recognized in profit or loss.

An impairment loss is recognized when there is objective evidence that the financial asset is impaired. Any subsequent decrease in impairment loss for an equity instrument classified as available-for-sale is recognized directly in equity. If the fair value of a debt instrument classified as available-for-sale subsequently increases as a result of an event which occurred after the impairment loss was recognized, the decrease in impairment loss is reversed to profit.

Held-to-maturity Financial Assets

Held-to-maturity financial assets are carried at amortized cost using the effective interest method (Straight-line method can be used if there is no significant difference). Held-to-maturity financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition. Profit or loss is recognized when the financial assets are derecognized, impaired, or amortized. All regular way purchases or sales of financial assets are accounted for using a trade date basis.

An impairment loss is recognized when there is objective evidence that the investment is impaired. The impairment loss is reversed if an increase in the investment's recoverable amount is due to an event which occurred after the impairment loss was recognized; however, the adjusted carrying amount of the investment may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the investment in prior years.

Hedge Accounting

Derivatives and other financial assets that are designated and effective as hedging instruments are measured at fair value, with subsequent changes in fair value recognized either in profit or loss, or in shareholders' equity, depending on the nature of the hedging relationship.

Hedge accounting recognizes the offsetting effects on profit or loss arising from the changes in the fair values of the hedging instrument and the hedged item as follows:

a. Fair value hedge

   The Corporation and its subsidiaries use derivative and non-derivative financial instruments to hedge exchange rate fluctuations of investments. The gain or loss from remeasuring the hedging instrument at fair value and the gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss.

b. Cash flow hedge

   The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in stockholders' equity. If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the amount recognized in stockholders' equity will be included in the initial cost of the asset or liability. However, if all or a portion of a loss recognized in stockholders' equity is not expected to be recovered in the future, the amount that is not expected to be recovered is reclassified into current profit or loss.

c. Hedge of a net investment in a foreign operation

   The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in stockholders' equity. The amount recognized in stockholders' equity is recognized in profit or loss upon the disposal of the foreign operation.

The Corporation and its subsidiaries use the hedge activities to control the risk of the exchange rate fluctuations.

Financial Assets Carried at Cost

Investments in non-publicly traded stocks, stocks traded in the Emerging Stock Market and certificates of entitlement are measured at their original cost. The accounting treatment for dividends on financial assets carried at cost is the same with that for dividends on available-for-sale financial assets. An impairment loss is recognized when there is objective evidence that the asset is impaired. A reversal of this impairment loss is disallowed.

Bond Investments with No Active Market

Bond investments with fixed or determinable payments and with no quoted prices in active market are carried at amortized cost. These financial assets are initially recognized at fair value plus transaction cost that are directly attributable to the acquisition. Profit or loss is recognized when the financial assets are derecognized, impaired or amortized.

An impairment loss is recognized when there is objective evidence that the investment is impaired. The impairment loss is reversed if an increase in the investment's recoverable amount is due to an event which occurred after the impairment loss was recognized; however, the adjusted carrying amount of the investment may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the investment in prior years.

Impairment and Factoring of Accounts Receivable

a. Impairment of Accounts Receivable

Prior to January 1, 2011, an allowance for doubtful accounts is provided on the basis of a review of the collectability of accounts receivable. The Corporation and its subsidiaries do not provide allowance for doubtful accounts on receivables from sales covered by bank acceptances in transit under letters of credit. On accounts receivable from sales on credit and services, the Corporation and its subsidiaries assess the collectability of accounts receivable by examining the aging analysis of the outstanding receivables, credit ratings, economic conditions, etc.

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

1) Significant financial difficulty of the debtor;

2) Occurrence of overdue accounts receivable;

3) High probability of bankruptcy or financial re-organization of the debtor.

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

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

The carrying amount of accounts receivable is reduced through the use of an allowance account. When accounts receivable are considered uncollectible, they are written off against the allowance account. Recoveries of amounts previously written off are credited to the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

b. Factoring of Accounts Receivable

Factoring of accounts receivable would be accounted for as a sale of receivables if the following three conditions are met:

1) The accounts receivable have been isolated from the Corporation and its subsidiaries - put presumptively beyond the control of the Corporation and its subsidiaries.

2) The transferees have obtained the right to pledge or exchange the accounts receivable, and there is no condition which constrains the transferees from taking advantage of its right to pledge or exchange and provides more than a trivial benefit to the Corporation and its subsidiaries.

3) The transferor does not maintain effective control over the transferred assets through either of the following: (i) an agreement that both entitles and obligates the transferor to repurchase or redeem them before their maturity and (ii) the ability to unilaterally cause the holder to return specific assets.

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

Impairment of Assets

If the recoverable amount of an asset (mainly property, plant and equipment, intangible assets, other assets and investments accounted for by the equity method) 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 first treated as a deduction to the unrealized revaluation increment and any remaining loss is charged to earnings.

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

For the purpose of impairment testing, goodwill is allocated to each of the relevant cash-generating units ("CGUs") that are expected to benefit from the synergies of the acquisition. A CGU to which goodwill has been allocated is tested for impairment annually or whenever there is an indication that the CGU may be impaired. If the recoverable amount of the CGU becomes less than its carrying amount, the impairment should first reduce the carrying amount of the goodwill allocated to the CGU and then reduce the other assets of the CGU pro rata on the basis of the carrying amount of each asset in the CGU. A reversal of an impairment loss on goodwill is disallowed.

For equity method investments on which the Corporation and its subsidiaries have significant influence but with no control, the carrying amount (including goodwill) of each investment is compared with its own recoverable amount to determine impairment loss.

Allowance for Sales Discount

An allowance for sales discount is recognized on the basis of management's judgment and relevant factors.

Inventories

Inventories consist of raw materials, supplies, fuel, finished products, work in process, raw materials and supplies in transit, construction in process, etc. Inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made on item by item basis. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and expenses necessary to make the sale. Inventories, except for construction in process recorded in accordance with the accounting for long-term construction contracts, are recorded at moving average cost or weighted-average cost. Unallocated fixed overheads on idle capacity are currently recognized as operating costs when actual production is significantly lower than normal production or the equipment is idle.

Investments Accounted for by the Equity Method

Investments in which the Corporation and its subsidiaries hold 20 percent or more of the investees' voting rights or exercise significant influence over the investees' operating and financial decisions are accounted for by the equity method.

The cost of an investment shall be analyzed and the cost of investment in excess of the fair value of identifiable net assets acquired, representing goodwill, shall not be amortized. The fair value of the net identifiable assets of the investee in excess of the investment cost is used to reduce the fair value of each of the noncurrent assets of the investee (except for financial assets other than investments accounted for by the equity method, deferred income tax assets, prepaid pension or other postretirement benefit) in proportion to the respective fair values of the noncurrent assets, with any excess recognized as an extraordinary gain.

Profits from downstream and upstream transactions with an equity-method investee are eliminated in proportion to the Corporation's percentage of ownership in the investee.

When the Corporation and its subsidiaries subscribe for its investee's newly issued shares at a percentage different from its current percentage of ownership in the investee, the Corporation and its subsidiaries record the change in its equity in the investee's net assets as an adjustment to investments, with a corresponding amount credited or debited to capital surplus. When the adjustment should be debited to capital surplus, but the capital surplus from long-term investments is insufficient, the shortage is debited to retained earnings.

When the Corporation's share in losses of an investee over which the Corporation has significant influence equals its investment in that investee plus any advances made to the investee, the Corporation discontinues applying the equity method. The Corporation continues to recognize its share in losses of the investee if (a) the Corporation commits to provide further financial support to the investee or (b) the losses of the investee are considered to be temporary and sufficient evidence shows forthcoming return to profitability.

The Corporation's shares held by subsidiaries are recorded as treasury stock. The Corporation's dividends distributed to subsidiaries are debited to investment income and adjusted to capital surplus - treasury stock transaction.

Investments in Real Estate

Investments in real estate are stated at the lower of cost or market value. Cost of investment in real estate includes the purchase price and direct expenses in acquiring the real estate.

Property, Plant and Equipment

Property, plant and equipment, except for land, are stated at cost or cost plus revaluation increment less accumulated depreciation and accumulated impairment loss. Borrowing costs directly attributable to the acquisition or construction of property, plant and equipment are capitalized as part of the cost of those assets. Major additions, renewals and improvements are capitalized (where the cost of ship and dock repair is recognized as deferred charge), while costs of maintenance and repairs are expensed currently.

Spare parts are intended for use in the repairs of machinery and equipment. Depreciation of major spare parts is calculated by the straight-line method over the shorter of useful lives of supported equipment or their own useful lives, whereas depreciation of rollers is calculated based on their level of wear.

Prior to January 1, 2011, depreciation of the shipping equipment that belongs to the subsidiary CSE is calculated by the fixed percentage of diminishing value method over 15 to 25 years; from January 1, 2011, depreciation of the shipping equipment is calculated by the straight-line method over service lives from 18 to 25 years. Depreciation of the machineries in the recycling plant of the subsidiary CHC is calculated by the working-hour method. Others are calculated by the straight-line method over service lives estimated as follows: land improvements, 5 to 40 years; buildings, 2 to 60 years; machinery and equipment, 2 to 25 years; transportation equipment, 2 to 25 years; and other equipment, 2 to 50 years. Depreciation of revalued assets is provided on a straight-line basis over their remaining estimated useful lives determined at the time of revaluation. Property, plant and equipment still in use beyond their original estimated useful lives are further depreciated over their new estimated useful lives.

Upon disposal of property, plant and equipment, the related cost (including revaluation increment), accumulated depreciation and accumulated impairment loss are derecognized. Any gain or loss on disposal of the asset is included in nonoperating gains or losses in the year of disposal. The related unrealized revaluation increment is transferred to nonoperating income and gains.

Intangible Assets

Identifiable intangible assets (mainly computer software, carbon dioxide emission permit, nitrogen oxide emission reduction, and land use right) acquired are initially recorded at cost. Amortization is calculated by the straight-line method over estimated useful lives ranging from 5 to 50 years.

Assets Leased to Others and Idle Assets

Assets leased to others and idle assets are stated at the lower of cost less accumulated depreciation and accumulated impairment loss or recoverable value. Depreciation is calculated by the straight-line method over 12 to 60 years.

Deferred Charge

Deferred charge consists of compensation cost of land use and dockage expenses. Amortization is calculated by the straight-line method over 2 to 44 years.

Loss on Purchase Commitments

The Corporation and its subsidiaries recognize accrued losses on purchase commitments under noncancelable purchasing contracts for raw materials when the unavoidable costs of meeting the obligations under the contract is in excess of its expected profit from the contracts. The accrued losses on purchase commitments are recorded as other payables under current liabilities. The estimated loss is recognized as operating costs in the income statement.

Reserve for Construction Guarantee

Reserve for construction guarantee is recognized based on expected maintenance expenditures and warranty expenses occurring during the construction period and the warranty period. Actual maintenance expenditures and warranty expenses are debited to the reserve for construction guarantee and the excess are recognized as expenses when incurred.

Pension Cost

Pension cost under defined benefit plan is determined by actuarial valuations and recorded as expenses.

Contributions made under a defined contribution plan are recognized as pension cost during the year in which employees render services.

Income Tax

The Corporation and its subsidiaries apply the intra-year and inter-year allocation methods to their income tax, whereby (1) a portion of income tax expense is charged or credited directly to shareholders' equity; and (2) deferred income tax assets and liabilities are recognized for the tax effects of temporary differences, unused loss carryforward and unused tax credits. Valuation allowance is provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. 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.

If the Corporation and its subsidiaries can control the timing of the reversal of a temporary difference arising from the difference between the book value and the tax basis of a long-term equity investment in a foreign subsidiary or joint venture and if the temporary difference is not expected to reverse in the foreseeable future and will, in effect, exist indefinitely, then a deferred tax liability or asset is not recognized.

Any tax credit arising from purchases of machinery, equipment and technology, and expenditures of research and development and employee training is 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 shareholders approve to retain the earnings.

Foreign subsidiaries calculate income tax according to the local income tax law.

Stock-based Compensation

Employee stock options granted on or after January 1, 2008 are accounted for under SFAS No. 39, "Accounting for 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 year, 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.

Treasury Stock

Reacquired issued shares of the Corporation are recorded as treasury stock at cost and shown as a deduction in stockholders' equity.

The Corporation accounts for its stock held by subsidiaries as treasury stock. The recorded cost of the stock is based on its carrying amount as of January 1, 2002 and reclassified to treasury stock. Shares of the Corporation that were acquired and held by less than 50%-owned subsidiaries of the Corporation after January 1, 2002 are reclassified to treasury stock at the acquisition cost.

Revenue Recognition

Revenues from sales of goods are recognized when the significant risks and rewards of ownership of the goods are transferred to customers as follows: domestic sales - when products are delivered out of the Corporation and its subsidiaries' premises to customers; exports - when products are loaded onto vessels. Freight revenues are recognized according to the proportion of the voyage days used to contracted voyage of each ship. Revenues from steel structure contracts and construction contracts are recognized in accordance with the accounting standards for long-term construction contracts, which provide completed-contract method and percentage-of-completion method. Advance collections based on construction progress are recorded as advance construction receipts. The excess of construction in process over advance construction receipts is recorded as current assets while the excess of advance construction receipts over construction in process is recorded as current liabilities.

Revenues are measured at fair value, which is the discounted present value of the price (net of commercial discounts and quantity discounts) agreed to by the Corporation and its subsidiaries with customers. But if the related receivable is due within one year, the difference between its present value and undiscounted amount is immaterial, and sales transactions are frequent, the fair value of receivables is equivalent to the nominal amount of cash to be received.

Service revenues are recognized according to the contract and the percentage of completion of the service. If a service contract is estimated to bear a loss prior to completion, the Corporation and its subsidiaries recognize the full amount of the loss immediately. However, if the loss is estimated to be smaller in future years, the difference is reversed and recognized as a gain in the year of determination.

Reclassifications

Certain accounts in the consolidated financial statements as of and for the year ended December 31, 2010 have been reclassified to conform to the presentation of the consolidated financial statements as of and for the year ended December 31, 2011 and are listed as follows:

	Before Reclassification	After Reclassification
Consolidated balance sheets		
Financial assets carried at cost - noncurrent	$ 3,582,500	$ -
Bond investments with no active market - noncurrent	-	3,582,500
Spare parts - current	9,437,816	-
Spare parts - noncurrent	1,711,203	-
Inventories - supplies	-	4,853,777
Cost of property, plant and equipment - spare parts	-	8,706,668
Accumulated depreciation of property, plant and equipment - spare parts	-	2,411,426

3. EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES

Financial Instruments

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

Operating Segments

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

4. CASH AND CASH EQUIVALENTS

	December 31	
	2011	2010
Cash on hand	$ 30,091	$ 33,752
Checking accounts and demand deposits	4,102,723	4,366,708
Time deposits	10,576,729	9,242,678
Cash equivalents - Commercial paper and bonds	2,770,549	3,194,944
	$ 17,480,092	$ 16,838,082

Foreign bank deposits of the Corporation were as follows:

	December 31	
	2011	2010
Japan - IYO Bank and Mega International Commercial Bank (in thousands)	￥ 1,877	￥ 8,828
Singapore - Daiwa Securities SMBC (in thousands)	37,221	27,927
	￥39,098	￥36,755
Represented by NT dollars (in thousands)	$ 15,272	$ 13,169

As of December 31, 2011 and 2010, time deposits with maturities of over one year were NT$2,900 thousand and zero, respectively.

The Corporation and the subsidiary BETA cooperated with the Ministry of Economic Affairs on "Development of Amorphous Ribbon Manufacturing Technology" and other projects. Deposits for these projects were NT$53,748 thousand (NT$28,750 thousand recorded as restricted assets - current and NT$24,998 thousand recorded as restricted assets - noncurrent) and NT$25,905 thousand (NT$1,000 thousand recorded as restricted assets - current and NT$24,905 thousand recorded as restricted assets - noncurrent) as of December 31, 2011 and 2010, respectively.

5. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

a. Financial instruments at fair value through profit or loss included:

	December 31	
	2011	2010
Financial assets held for trading		
Mutual funds	$ 1,091,136	$ 1,202,361
Quoted stocks and depositary receipts	349,448	1,099,059
Structured notes	60,592	77,209
Forward exchange contracts	28,967	12,843
	1,530,143	2,391,472

(Continued)

	December 31	
	2011	2010
Financial assets designated as at FVTPL		
Mutual funds	$ 1,309,001	$ 2,242,836
Structured notes	245,334	607,148
Quoted stocks	54,032	55,020
Convertible bonds	10,105	11,575
	1,618,472	2,916,579
	3,148,615	5,308,051
Less: Noncurrent portion	23,979	9,863
	$ 3,124,636	$ 5,298,188
Financial liabilities held for trading		
Forward exchange contracts	$ 90	$ 9,059
Precious metals futures contracts	-	474
	$ 90	$ 9,533

(Concluded)

b. The purpose of the financial assets designated as at FVTPL is to reduce the accounting inconsistency between investment income and interest expense. Those assets are managed as a group and the performance is evaluated on fair value basis, in accordance with the Corporation and its subsidiaries' documented risk management and investment strategy.

c. The Corporation and its subsidiaries entered into forward exchange contracts to manage exposures due to exchange rate fluctuations. However, the forward exchange contract does not meet the criteria for hedge accounting; thus, it is classified as a financial asset or a financial liability held for trading.

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

	Currency	Maturity Date	Contract Amount (In Thousands)
December 31, 2011			
Buy	NTD/USD	June 2012	NTD30,165/USD1,000
Buy	NTD/JPY	October 2012 - December 2014	NTD296,821/JPY832,860
Sell	USD/NTD	January 2012	USD2,127/NTD64,762
Sell	HKD/NTD	January 2012	HKD19,998/NTD77,897
December 31, 2010			
Buy	NTD/JPY	March 2011 - February 2013	NTD378,838/JPY1,056,684
Sell	USD/NTD	January 2011 - February 2011	USD19,942/NTD597,908
Sell	HKD/NTD	January 2011 - February 2011	HKD22,400/NTD86,582

d. The Corporation and its subsidiaries entered into precious metals futures contracts to manage risks due to price fluctuations on precious metals.

There was no outstanding precious metals futures contract as of December 31, 2011. As of December 31, 2010, outstanding precious metals futures contracts were listed below and the unused letters of credit to acquire the futures contracts amounted to NT$3,644 thousand (USD120 thousand).

	Duration	Quantity	Amount (In Thousands)
Precious metals futures contracts	December 6, 2010 - April 8, 2011	12,860 Ounces	USD378

e. The net valuation gains (losses) on financial instruments at FVTPL for the years ended December 31, 2011 and 2010 were as follows:

	Years Ended December 31	
	2011	2010
Financial assets held for trading	$ (269,279)	$ 58,896
Financial assets designated as at FVTPL	16,187	47,232
Financial liabilities held for trading	(3,784)	(8,153)
	$ (256,876)	$ 97,975

The above valuation gains (losses) on financial instruments were recorded as follows:

	Years Ended December 31	
	2011	2010
Operating revenues	$ 376	$ 53,612
Operating costs	(302,474)	(4,169)
Nonoperating income and gains	49,382	52,516
Nonoperating expenses and losses	(4,160)	(3,984)
	$ (256,876)	$ 97,975

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31			
	2011		2010	
	Current	Noncurrent	Current	Noncurrent
Mutual funds	$ 2,350,840	$ -	$ 3,088,650	$ -
Quoted stocks				
Taiwan Semiconductor Manufacturing Company	2,228,110	-	2,087,017	-
Maruichi Steel Tube Ltd.	-	1,341,320	-	1,235,963
Tang Eng Iron Works Corporation	111,331	865,960	-	871,932
CSBC Corporation Taiwan	251	414,776	298	491,653
Yodogawa Steel Works, Ltd.	-	260,921	-	270,837
Others	638,711	109,251	708,570	322,123
Private-placement shares				
Reichi Precision Co., Ltd. (RPC)	-	377,429	-	265,272
Government bonds	-	-	-	44,300

(Continued)

	December 31			
	2011		2010	
	Current	Noncurrent	Current	Noncurrent
Structured notes	$ 46,006	$ -	$ 46,299	$ -
	$ 5,375,249	$ 3,369,657	$ 5,930,834	$ 3,502,080

(Concluded)

In September 2010, the Corporation invested NT$251,988 thousand to acquire 5% shareholding of RPC through its private placement. RPC mainly manufactures compressors. According to the Securities Exchange Act, the securities which the Corporation acquired by private placement could be transferred freely in public market only after holding those shares for three years starting from the delivery date.

The Corporation borrowed foreign-currency bank loans to hedge exchange rate fluctuation risks on the investments in Maruichi Steel Tube Ltd. and Yodogawa Steel Works, Ltd. (Notes 23 and 32). Adjustments for change in valuation arising from exchange difference were recognized in profit or loss.

7. HEDGING DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation and its subsidiaries entered into forward exchange contracts to manage cash flow exposures arising from exchange rate fluctuations on foreign-currency capital expenditure contracts and sales and purchases contracts.

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

	Currency	Period for Generating Cash Flows and Maturity Date	Contract Amount (In Thousands)
December 31, 2011			
Buy	NTD/USD	January 2012 - September 2015	NTD7,326,416/USD248,477
Buy	NTD/EUR	March 2012 - December 2013	NTD749,840/EUR17,867
Buy	NTD/JPY	January 2012 - June 2015	NTD2,095,837/JPY5,609,882
Buy	NTD/GBP	January 2012 - January 2015	NTD449,199/GBP9,584
Sell	USD/NTD	January 2012 - April 2012	USD1,171/NTD35,415
December 31, 2010			
Buy	NTD/USD	January 2011 - June 2015	NTD10,470,579/USD337,778
Buy	NTD/EUR	February 2011 - December 2013	NTD2,258,033/EUR49,006
Buy	NTD/JPY	January 2011 - February 2014	NTD3,444,898/JPY9,665,692
Sell	USD/NTD	January 2011 - April 2011	USD1,041/NTD31,387

Movements of hedging derivative financial instruments for the years ended December 31, 2011 and 2010 were as follows:

	Years Ended December 31	
	2011	2010
Balance, beginning of year	$ (572,060)	$ 322,922
Valuation gain (loss)	125,172	(708,962)
Transferred to profit and loss	(1,041)	-
Transferred to construction in progress and prepayments for equipment	592,811	(186,020)
Balance, end of year	$ 144,882	$ (572,060)

As of December 31, 2011 and 2010, the balances of hedging derivative assets (liabilities) were as follows:

	December 31	
	2011	2010
Hedging derivative assets - current	$ 115,768	$ 103,738
Hedging derivative assets - noncurrent	124,920	63,233
Hedging derivative liabilities - current	(53,331)	(581,015)
Hedging derivative liabilities - noncurrent	(42,475)	(158,016)
	$ 144,882	$ (572,060)

The valuation gain (loss) was recognized as unrealized gain on financial instruments in stockholders' equity.

8. NOTES AND ACCOUNTS RECEIVABLE, NET

	December 31	
	2011	2010
Notes receivable	$ 1,901,604	$ 1,897,834
Less: Allowance for doubtful accounts	-	1,883
	$ 1,901,604	$ 1,895,951
Accounts receivable	$ 10,383,382	$ 8,190,695
Less: Allowance for doubtful accounts	168,880	371,113
Less: Allowance for sales discounts	523	212
	$ 10,213,979	$ 7,819,370

Movements of the allowance for doubtful accounts were as follows:

	Years Ended December 31			
	2011		2010	
	Notes Receivable	Accounts Receivable	Notes Receivable	Accounts Receivable
Balance, beginning of year	$ 1,883	$371,113	$ 1,791	$ 341,062
Provision (reversal)	(1,883)	(202,036)	92	38,166
Written off	-	197	-	8,115
Balance, end of year	$ -	$168,880	$ 1,883	$ 371,113

The Corporation and the subsidiaries CHSC and CSCC entered into accounts receivable factoring agreements (without recourse) with Mega International Commercial Bank, Bank of Taiwan and Taipei Fubon Bank. Under the agreements, the Corporation and the subsidiaries CHSC and CSCC are empowered to sell accounts receivable to the banks upon the delivery of products to customers and are required to complete related formalities at the next banking day.

The related information for the Corporation, CHSC and CSCC's sale of accounts receivable for the years ended December 31, 2011 and 2010 was as follows:

Transaction Counter-party	Advances Received at Year - Beginning	Receivables Sold	Amounts Collected by Bank	Advances Received at Year-end	Interest Rate on Advances Received (%)	Credit Line (In Billions of NTD)
Year ended December 31, 2011						
Mega International Commercial Bank	$ 5,222,519	$ 13,514,755	$ 13,950,356	$ 4,786,918	1.06-1.51	$ 12.0
Bank of Taiwan	923,545	3,417,866	2,831,655	1,509,756	1.14-1.51	3.0
Taipei Fubon Bank	63,716	-	63,716	-	-	0.4
	$ 6,209,780	$ 16,932,621	$ 16,845,727	$ 6,296,674		
Year ended December 31, 2010						
Mega International Commercial Bank	$ 3,756,412	$ 13,041,474	$ 11,575,367	$ 5,222,519	0.90-1.26	12.0
Bank of Taiwan	484,607	1,883,711	1,444,773	923,545	0.90-1.20	3.0
Taipei Fubon Bank	124,901	434,667	495,852	63,716	1.15-1.20	0.4
	$ 4,365,920	$ 15,359,852	$ 13,515,992	$ 6,209,780		

9. INVENTORIES

	December 31 2011	December 31 2010
Finished products	$ 20,507,155	$ 17,674,235
Work in process	42,420,528	31,154,192
Raw materials	33,003,894	25,966,566
Supplies	7,368,245	6,964,432
Fuel	429,227	346,641
Raw materials and supplies in transit	3,426,273	3,349,736
Construction in progress (net of billing on contracts NT$35,923,955 thousand and NT$30,946,983 thousand as of December 31, 2011 and 2010, respectively)	8,145,013	4,027,574
Others	661,131	179,049
	$115,961,466	$ 89,662,425

As of December 31, 2011 and 2010, the allowance for inventory devaluation was NT$6,433,511 thousand and NT$2,115,910 thousand, respectively, and recorded as reduction in inventories. The cost of inventories recognized as operating costs for the years ended December 31, 2011 and 2010 was NT$364,063,646 thousand and NT$286,756,707 thousand, respectively, (the difference between this cost and the operating costs in consolidated statements of income is due to costs not related to inventories, which include investment loss recognized under equity method, impairment loss, and valuation loss on financial instruments), which included the items as follows:

	Years Ended December 31 2011	Years Ended December 31 2010
Provision for loss on inventories	$ 5,131,558	$ 1,064,220
Loss on purchase commitments	642,388	249,225
Loss on idle capacity	8,354	18,366
Income from scrap sales	(919,847)	(950,039)
Gain on physical inventory	(30,253)	(37,877)
Recovery of loss on inventories	(22,488)	(6,389)
	$ 4,809,712	$ 337,506

Significant construction contracts as of December 31, 2011 and 2010 were as follows:

Expected Year to Complete	Construction in Progress	Advance Construction Receipts	Contract Price	Estimated Total Cost	Percentage of Completion (%)	Accumulated Construction Gain (Loss)
December 31, 2011						
Year 2012	$ 17,986,992	$ 15,861,636	$ 21,805,909	$ 21,548,503	17-99	$ 241,988
Year 2014	1,401,538	67,690,807	237,223,809	236,653,479	0-16	(7)
Year 2015	237,044	569,773	1,540,348	1,522,300	15	2,775
December 31, 2010						
Year 2011	14,257,270	14,378,815	16,901,772	16,001,028	22-99	697,538
Year 2012	691,876	503,269	7,480,036	7,867,140	0-13	(387,104)
Year 2014	206,342	692,961	2,573,681	2,555,633	5-10	1,815

10. HELD-TO-MATURITY FINANCIAL ASSETS

	December 31	
	2011	2010
Guarantee debt certificates	$ 177,341	$ 177,570
Structured notes	122,035	131,408
	299,376	308,978
Less: Accumulated impairment	129,655	129,655
	169,721	179,323
Less: Noncurrent portion	109,171	179,323
	$ 60,550	$ -

a. As for the guarantee debt certificates, the maturity dates are from June 2014 to May 2021, interest is charged by the agreed formula, and actual interest rate was both zero as of December 31, 2011 and 2010.

b. As of December 31, 2011 and 2010, the maturity dates of the structured notes are from April 2012 to February 2018 and from April 2012 to June 2022, respectively. Interest is charged by the agreed formula, and actual interest rate as of December 31, 2011 and 2010, was 0-2.29% and 0-4.3%, respectively.

11. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

	December 31	
	2011	2010
Unquoted common stocks		
Nacional Minerios S.A.	$ 3,268,550	$ -
Dongbu Metal Co., Ltd.	1,276,092	1,276,092
Industrial Bank of Taiwan	1,000,000	1,000,000
CDIB & Partners Investment Holding Corporation	553,630	553,630
Brighton-Best International (Taiwan) Inc.	272,563	272,563
Adimmune Corporation	265,762	268,822
Yieh United Steel Corp.	257,600	257,600
Taiwan Rolling Stock Co., Ltd.	202,048	202,048

(Continued)

	December 31	
	2011	2010
Qingdao TECO Precision Mechatronics Co., Ltd. (Qingdao TECO)	$ 170,109	$ 243,511
Riselink Venture Capital Corp.	150,000	150,000
TaiGen Biopharmaceuticals Holdings Limited (Note 12)	108,549	-
Hanoi Steel Center Co., Ltd.	108,097	-
Savior Lifetec Corporation	96,005	96,005
Enterex International Limited	94,140	94,140
Maruichi Metal Product (Foshan) Co., Ltd.	81,742	81,980
PCMI Metal Products (Chongqing) Co., Ltd.	81,391	81,627
Taiwan High Speed Rail Corporation (THSRC)	-	-
Others	1,396,307	1,183,583
	9,382,585	5,761,601
Unquoted preferred stocks	393,331	389,057
Certificate of entitlement		
Formosa Ha Tinh Steel Corporation	817,353	-
Shanghai Bao Shan Lian Steel Products Co., Ltd.	9,926	9,926
	827,279	9,926
Others	-	36,504
	$ 10,603,195	$ 6,197,088

(Concluded)

The above equity investments, which have no quoted prices in active market and of which verifiable fair value cannot be determined at a reasonable cost, are carried at cost.

In November 2011, the Corporation acquired 4,751 thousand common shares (1% shareholding) of Nacional Minerios S.A. by investing NT$3,268,550 thousand (JPY8.5 billion). Nacional Minerios S.A. mainly engages in iron ore mining.

In December 2010, the Corporation acquired 1,500 thousand shares (5% shareholding) of Dongbu Metal Co., Ltd. by investing NT$1,276,092 thousand (USD41,867 thousand). Dongbu Metal Co., Ltd. mainly manufactures and sells ferromanganese and ferro silico-manganese.

In September 2011, the subsidiary CSAPH recognized an impairment loss of NT$70,662 thousand (USD2,401 thousand) on the investment in Qingdao TECO, recorded as a reduction of reversal of impairment loss.

In July 2011, the subsidiary CIC invested NT$108,829 thousand (USD3,571 thousand) in Hanoi Steel Center Co., Ltd., acquiring 19% shareholding of common shares. Hanoi Steel Center Co., Ltd. mainly engages in steel cutting and processing.

In April 2010, the subsidiary GIC invested NT$94,140 thousand (USD3,000 thousand) in Enterex International Limited, acquiring 2% shareholding of common shares.

In September 2003, the Corporation acquired 100,000 thousand Preferred B shares (representing 4% of ownership) of THSRC for NT$1,000,000 thousand. Dividend on these shares is at 5%, payable on a nonparticipating and cumulative basis. These shares with six years duration could be extended for 13 months prior to 3 months from the due date. In April 2005 and August 2004, the Corporation acquired additional 505,370 thousand Preferred C shares of THSRC for NT$3,199,944 thousand and NT$1,499,997 thousand, respectively. These shares, representing 19% of ownership, which may be converted to common shares within four years from the acquisition date, have a 9.5% dividend in the first two years and zero percent in the next two years. At the end of four years, if the Corporation does not convert the Preferred C shares into common shares and THSRC cannot redeem the shares, the unredeemed shares would be entitled to receive 4.71% dividend. In the second half of 2008, the Corporation evaluated and recognized an impairment loss of NT$4,738,926 thousand on the investments in preferred shares of THSRC. In order to use tax credits under the Act for Promotion of Private Participation in Infrastructure Projects, the Corporation converted THSRC's preferred shares to 605,370 thousand common shares in August 2009. THSRC mainly builds and operates public transportation systems.

In June and December 2011, the Corporation invested NT$817,353 thousand (USD27,720 thousand) in Formosa Ha Tinh Steel Corporation and acquired 5% ownership. The main business of Formosa Ha Tinh Steel Corporation is manufacture and trading of steel products.

Other financial assets carried at cost include Wuxi TECO Electric Machinery Co., Ltd., C.T.I. Traffic Industries Co., Ltd., Overseas Investment & Development Corp. and etc.

12. BOND INVESTMENTS WITH NO ACTIVE MARKET - NONCURRENT

	December 31	
	2011	2010
Unquoted preferred stocks - overseas		
East Asia United Steel Corporation (EAUS) - Preferred A	$ 3,906,000	$ 3,582,500
TaiGen Biopharmaceuticals Holdings Limited (TGB)	-	110,081
Others	14,817	9,664
Subordinated financial bonds	120,000	120,000
Bonds	9,405	-
	$ 4,050,222	$ 3,822,245

In May 2003, the Corporation signed a slab production joint-venture contract with Sumitomo Metal Industries, Ltd. and Sumitomo Corporation. In July 2003, the joint venture company EAUS was established. The Corporation invested in EAUS JPY10 billion (Notes 23 and 32). The Corporation thus has a stable supply of slab from this joint venture. The Corporation also signed a contract with the subsidiary CHSC to transfer the purchasing right of slabs from EAUS, and the Corporation receives royalty on this contract based on the volume purchased by CHSC.

The Corporation and the subsidiary EVCC acquired 21,465 thousand preferred shares of TGB for NT$318,313 thousand. TGB mainly researches and develops drugs. The Corporation and EVCC transferred their preferred shares to 30,419 thousand common shares in June 2011. Therefore, the aforementioned investment was reclassified from bond investments with no active market - noncurrent to financial assets carried at cost - noncurrent (Note 11). The Corporation and EVCC evaluated the investment in TGB and recognized an impairment loss of NT$207,712 thousand.

In October 2009, the subsidiaries CSCC and EWIC acquired perpetual subordinated financial bonds from Taiwan Business Bank at cost of NT$100,000 thousand. The perpetual subordinated financial bonds could be redeemed by Taiwan Business Bank after 7 years from the issuance date. Interest rate was at 2.66% p.a. and 2.4% p.a. as of December 31, 2011 and 2010, respectively.

In April 2010, the subsidiary EWIC acquired NT$20,000 thousand of subordinated financial bonds from Sunny Bank with maturity date of April 2017, and interest rate at 3.25% p.a.

In June 2011, the subsidiary EGI acquired NT$9,469 thousand of bonds issued by Ping An Insurance Company of China, Ltd. with maturity date of June 2014 and interest rate at 2.25% p.a.

13. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD AND PREPAID LONG-TERM STOCK INVESTMENTS

	December 31			
	2011		2010	
	Amount	% of Ownership	Amount	% of Ownership
Unquoted companies				
Kaohsiung Rapid Transit Corporation (KRTC)	$ 845,244	32	$ 1,327,758	32
Kaohsiung Arena Development Corporation (KADC)	770,611	29	761,717	29
Hsin Hsin Cement Enterprise Corp. (HHCEC)	354,798	39	215,680	26
Chateau International Development Co., Ltd. (CIDC)	224,599	23	202,403	23
Ascentek Venture Capital Corp.	165,871	39	178,520	39
Others	257,870		277,215	
	$ 2,618,993		$ 2,963,293	

In December 2011, the Corporation invested additional NT$155,919 thousand in HHCEC. Consequently, the Corporation's total equity in HHCEC is 39%, including 31% directly owned and 8% indirectly owned through CHC.

Other investments accounted for by the equity method included Qun Sin Properties Corporation, CSCD Limited, Omnitek Venture Capital Corp. and etc.

Investment gains (losses) under the equity method for the years ended December 31, 2011 and 2010 were as follows:

	Years Ended December 31	
	2011	2010
KADC	$ 37,894	$ 29,357
CIDC	32,553	27,943
KRTC	(482,514)	(432,336)
Others	(23,114)	(11,459)
	$ (435,181)	$ (386,495)

Net investment losses of NT$434,947 thousand and NT$379,944 thousand were recorded as nonoperating expenses and losses, and NT$234 thousand and NT$6,551 thousand were recorded as operating cost for the years ended December 31, 2011 and 2010, respectively.

In December 2011, the subsidiary CSS invested in China Steel Management and Maintenance for Buildings Corporation NT$10,000 thousand; in November 2010, the subsidiary CSGT (Singapore) Pte Ltd. invested in CSCD Limited NT$10,191 thousand, which were recorded as prepaid long-term stock investments.

14. OTHER FINANCIAL ASSETS

	December 31 2011	December 31 2010
Hedging foreign-currency deposits	$ 5,829,846	$ 4,629,419
Less: Current portion	3,710,158	3,876,091
	$ 2,119,688	$ 753,328

For the purpose of constructing the third cold-rolled plant, the Corporation signed contracts to purchase imported equipment in total of JPY16.15 billion. For the purposes of managing cash flow exposures arising from exchange rate fluctuations, the Corporation purchased foreign-currency deposits of JPY16 billion (NT$4,878,900 thousand) in January 2008. As of December 31, 2011 and 2010, the balance of the JPY deposits designated as hedging instrument was NT$626,226 thousand (JPY1.6 billion) and NT$656,933 thousand (JPY1.8 billion), respectively.

For the purpose of purchasing imported equipment as well as managing cash flows risk arising from exchange rate fluctuations, the Corporation and the subsidiary CEC purchased foreign-currency deposits. As of December 31, 2011 and 2010, the balance of the foreign-currency deposits designated as hedging instruments was NT$3,239,649 thousand (USD106,540 thousand, EUR340 thousand and GBP18 thousand) and NT$697,829 thousand (USD19,264 thousand, EUR1,317 thousand, GBP176 thousand and JPY0.15 billion), respectively.

For the purpose of managing cash flow exposures on foreign-currency capital expenditure contracts, the Corporation and the subsidiaries DSC and CAC entered into forward exchange contracts (Note 7). As of December 31, 2011 and 2010, the balance of foreign-currency deposits purchased for expired forward exchange contracts was NT$1,963,971 thousand (USD52,423 thousand, EUR2,807 thousand and JPY0.7 billion) and NT$3,274,657 thousand (USD59,459 thousand, EUR2,931 thousand and JPY3.8 billion), respectively.

The unrealized gain of NT$246,242 thousand and unrealized loss of NT$112,418 thousand arising from the above deposits designated as hedging instruments were recognized as unrealized gain on financial instruments in stockholders' equity for the years ended December 31, 2011 and 2010, respectively. The unrealized gain on financial instruments of NT$39,172 thousand and $572,485 thousand in stockholders' equity was transferred to construction in progress and prepayments for equipment for the years ended December 31, 2011 and 2010, respectively.

As of December 31, 2011 and 2010, cash outflows would be expected from aforementioned contracts during the periods from 2012 to 2015 and from 2011 to 2013, respectively.

15. PROPERTY, PLANT AND EQUIPMENT

	Cost	Revaluation Increment	Total
December 31, 2011			
Cost and revaluation increment			
Land	$ 19,469,760	$ 39,381,304	$ 58,851,064
Land improvements	4,385,107	492,990	4,878,097
Buildings	76,278,334	2,415,863	78,694,197
Machinery and equipment	427,093,330	7,107,072	434,200,402
Transportation equipment	19,648,382	8,991	19,657,373

(Continued)

	Cost	Revaluation Increment	Total
Other equipment	$ 17,722,397	$ 31,618	$ 17,754,015
Spare parts	9,516,929	-	9,516,929
	574,114,239	49,437,838	623,552,077
Accumulated depreciation			
Land improvements	3,738,790	472,304	4,211,094
Buildings	26,725,930	1,947,219	28,673,149
Machinery and equipment	254,800,001	7,106,796	261,906,797
Transportation equipment	11,834,213	8,987	11,843,200
Other equipment	7,829,587	31,608	7,861,195
Spare parts	2,920,169	-	2,920,169
	307,848,690	9,566,914	317,415,604
Accumulated impairment			
Land	11,826	-	11,826
Buildings	4,999	-	4,999
Machinery and equipment	127,304	-	127,304
Other equipment	299,590	-	299,590
	443,719	-	443,719
Construction in progress and prepayments for equipment	96,851,192	-	96,851,192
	$ 362,673,022	$ 39,870,924	$ 402,543,946
December 31, 2010			
Cost and revaluation increment			
Land	$ 17,568,640	$ 32,754,016	$ 50,322,656
Land improvements	4,294,601	492,990	4,787,591
Buildings	74,378,040	2,418,117	76,796,157
Machinery and equipment	423,828,979	7,729,939	431,558,918
Transportation equipment	19,568,915	18,108	19,587,023
Other equipment	18,291,273	31,644	18,322,917
Spare parts	8,706,668	-	8,706,668
	566,637,116	43,444,814	610,081,930
Accumulated depreciation			
Land improvements	3,660,151	468,013	4,128,164
Buildings	24,615,564	1,891,849	26,507,413
Machinery and equipment	240,639,723	7,729,603	248,369,326
Transportation equipment	11,092,304	18,103	11,110,407
Other equipment	6,800,869	31,633	6,832,502
Spare parts	2,411,426	-	2,411,426
	289,220,037	10,139,201	299,359,238
Accumulated impairment			
Land	11,826	-	11,826
Machinery and equipment	725,995	-	725,995
Other equipment	287,929	-	287,929
	1,025,750	-	1,025,750
Construction in progress and prepayments for equipment	58,464,371	-	58,464,371
	$ 334,855,700	$ 33,305,613	$ 368,161,313

(Concluded)

Information about capitalized interest on the purchase of property, plant and equipment for the years ended December 31, 2011 and 2010 was disclosed as follows:

	Years Ended December 31	
	2011	**2010**
Interest expense before capitalization	$ 2,837,096	$ 2,271,912
Less: Capitalized interest - construction in progress and prepayments for equipment	778,034	837,238
Interest expense through income statement	$ 2,059,062	$ 1,434,674
Capitalization annual rates	0.88%-1.89%	0.51%-2.15%

In 1981 and 1994, the Corporation revalued its property, plant and equipment and patents in accordance with government regulations, resulting in increment of NT$17,662,343 thousand. After the deduction of the reserve for land value increment tax of NT$3,370,813 thousand, a net increment of NT$14,291,530 thousand was credited to unrealized revaluation increment. Unrealized revaluation increment of NT$13,952,356 thousand had been capitalized as capital stock, reducing its balance to NT$339,174 thousand. In January 2005, the government revised the land value increment tax law to reduce the tax rate. Thus, the reserve for land value increment tax decreased and the unrealized revaluation increment increased each by NT$1,196,189 thousand. Accordingly, the balance of unrealized revaluation increment increased to NT$1,535,363 thousand. In February 2005, the Corporation disposed part of its land, which resulted in a decrease of NT$3,500 thousand in reserve for land value increment tax. In 2011 and 2008, the Corporation revalued its land in accordance with the current assessed land value. Therefore, the total increments on land revaluation were NT$6,088,169 thousand and NT$26,913,284 thousand, after the deduction of the reserve for land value increment tax of NT$1,338,450 thousand and NT$6,502,342 thousand, and net increment of NT$4,749,719 thousand and NT$20,410,942 thousand was credited to unrealized revaluation increment in 2011 and 2008, respectively. For the years ended December 31, 2011 and 2010, upon retirement or sale of revalued properties, the unrealized revaluation increment decreased by NT$12,781 thousand and NT$4,817 thousand, respectively, and recorded as nonoperating income and gains. As of December 31, 2011 and 2010, the balance of reserve for land value increment tax remained NT$10,011,916 thousand and NT$8,673,466 thousand, and the balance of the unrealized revaluation increment was NT$26,610,866 thousand and NT$21,871,755 thousand, respectively.

The subsidiary CSSC revalued its buildings with the base date of December 31, 2009. In September 2010, the revaluation increments approved by the tax authorities were NT$12,862 thousand, of which NT$2,020 thousand was credited to equity as unrealized revaluation increment in proportion to the ownership percentage of the Corporation.

Subsidiaries CHSC and HLSC revalued their land in September 2011, increasing the total increment on land revaluation by NT$539,119 thousand. After the deduction of the reserve for land value increment tax of NT$182,222 thousand, the net increment of NT$356,897 thousand was credited to unrealized revaluation increment. The Corporation credited NT$102,643 thousand to equity as unrealized revaluation increment in proportion to the ownership percentage.

Starting from January 1, 2011, the management of the subsidiary CSE assessed and changed the expected usage and future economic benefits of the shipping equipment; therefore, CSE changed the depreciation method from the fixed percentage of diminishing value method to the straight-line method to reflect the expected usage and future economic benefits of the shipping equipment. This change in accounting estimate had no significant impact on consolidated net income.

16. INTANGIBLE ASSETS

	Identifiable Intangible Assets	Goodwill	Total
Year ended December 31, 2011			
Balance, beginning of year	$ 1,705,839	$ 403,274	$ 2,109,113
Addition	211,445	241	211,686
Reclassification	(10,660)	-	(10,660)
Reduction	(63,969)	-	(63,969)
Balance, end of year	$ 1,842,655	$ 403,515	$ 2,246,170
Year ended December 31, 2010			
Balance, beginning of year	$ 1,542,831	$ 403,274	$ 1,946,105
Addition	363,409	-	363,409
Reduction	(200,401)	-	(200,401)
Balance, end of year	$ 1,705,839	$ 403,274	$ 2,109,113

Identifiable intangible assets (including carbon dioxide emission permit, nitrogen oxide emission reduction, developed technology and customer relationship, etc.) and goodwill were mainly arising from acquisition of DSC by the Corporation in October 2008.

17. ASSETS LEASED TO OTHERS, NET

	December 31	
	2011	2010
Cost		
Land	$ 2,920,878	$ 2,990,974
Buildings	210,572	224,443
	3,131,450	3,215,417
Accumulated depreciation		
Buildings	56,778	53,021
Accumulated impairment		
Land	8,825	197,243
	$ 3,065,847	$ 2,965,153

On June 30, 2010, the subsidiary CHSC signed a land lease contract with a third party on the Kaohsiung Long Dong Section (book value NT$2,640,958 thousand). The lease term provided that the construction period cannot exceed 14 months and the operating period is 20 years (starting date of the operation was August 2011). The rent is calculated monthly in accordance with the contract during the construction period and the operating period. For the year ended December 31, 2011, the rental income was NT$47,794 thousand and recorded as nonoperating income and gains.

In August 2011, considering the changes in economic environment and land replotting, the subsidiary CHSC re-appraised the Kaohsiung Long Dong Section and Taipei office, and reversed NT$182,127 thousand of impairment loss, recorded as nonoperating income and gains.

18. IDLE ASSETS, NET

	December 31	
	2011	2010
Land	$ 3,131,555	$ 3,131,555
Machinery and equipment	753,227	823,534
Less: Accumulated depreciation	77,881	77,057
Accumulated impairment	1,694,941	1,890,270
	$ 2,111,960	$ 1,987,762

Idle assets were land and equipment not used in operation.

In August 2011, considering the changes in economic environment and land replotting, the subsidiary CHSC authorized real estate appraisers to re-appraise the Kaohsiung Long Hua Section, Tainan Kuo An Section and Shin Bin Industrial District and reversed NT$164,844 thousand of impairment loss, recorded as nonoperating income and gains. The subsidiary HLSC acquired the collaterals of Jenn An Steel Co., Ltd. Parts of the machinery and equipment in the collaterals were reclassified from property, plant and equipment to idle assets due to their not-in-operation status.

19. SHORT-TERM LOANS AND OVERDRAFT

	December 31	
	2011	2010
Unsecured loans - interest at 0.78%-4.8% p.a. and 0.6%-5.1% p.a. as of December 31, 2011 and 2010, respectively	$ 50,615,146	$ 43,378,450
Letters of credit - interest at 0.7357%-1.499% p.a. and 0.5513%-1.475% p.a. as of December 31, 2011 and 2010, respectively	6,076,920	2,125,790
Bank overdraft - interest at 0.5%-7.32% p.a. and 0.26%-7.05% p.a. as of December 31, 2011 and 2010, respectively	3,225,944	1,598,904
	$ 59,918,010	$ 47,103,144

20. COMMERCIAL PAPER PAYABLE

	December 31	
	2011	2010
Commercial paper - interest at 0.45%-1.158% p.a. and 0.362%-0.988% p.a. as of December 31, 2011 and 2010, respectively	$ 22,368,800	$ 16,866,800
Less: Unamortized discounts	10,900	4,813
	$ 22,357,900	$ 16,861,987

The above commercial paper was secured by Mega Bills Finance Corporation, China Bills Finance Corporation, International Bills Finance Corporation, Taching Bill Finance Ltd., Grand Bills Finance Corp., Dah Chung Bills Finance Corp., Taiwan Cooperative Bank, The Shanghai Commercial & Savings Bank, Ltd., Taiwan Finance Corporation, Chinatrust Commercial Bank, Bank of Taiwan, Taipei Fubon Bank, E. Sun Bank and Taishin Bank.

21. ACCRUED EXPENSES

	December 31	
	2011	2010
Accrued salaries and incentive bonus	$ 6,348,237	$ 7,670,169
Bonus to employees, and remuneration to directors and supervisors	1,918,073	3,318,966
Reserve for construction guarantee	868,015	895,613
Repair and construction	829,554	400,791
Others	3,948,804	3,485,256
	$ 13,912,683	$ 15,770,795

22. BONDS PAYABLE

	December 31	
	2011	2010
5-year unsecured bonds - issued at par in:		
June 2006; repaid in June 2011; 2.32% interest p.a.	$ -	$ 8,100,000
November 2006; repaid in November 2011; 2.07% interest p.a.	-	5,600,000
December 2008; repayable in December 2012 and December 2013; 2.08% interest p.a., payable annually	12,950,000	12,950,000
December 2008; repayable in December 2012 and December 2013; 2.42% interest p.a., payable annually	9,600,000	9,600,000
October 2011; repayable in October 2015 and October 2016; 1.36% interest p.a., payable annually	9,300,000	-
7-year unsecured bonds - issued at par in:		
December 2008; repayable in December 2014 and December 2015; 2.30% interest p.a., payable annually	7,000,000	7,000,000
October 2011; repayable in October 2017 and October 2018; 1.57% interest p.a., payable annually	10,400,000	-
	49,250,000	43,250,000
Less: Issuance cost of bonds payable	35,574	21,934
Current portion	11,270,086	13,697,919
	$ 37,944,340	$ 29,530,147

23. LONG-TERM DEBT

	December 31	
	2011	2010
Syndicated bank loans		
Mega International Commercial Bank and other banks loan to CHSC		
Repayable in 14 equal semiannual installments from April 2007 to October 2013; interest at 1.4535% p.a. and 1.2061% p.a. as of December 31, 2011 and 2010, respectively	$ 1,714,286	$ 2,571,429

(Continued)

	December 31	
	2011	2010
Bank of Taiwan and other banks loan to DSC		
Repayable in 14 equal semiannual installments from January 2012 to July 2018; interest at 1.2786%-1.3189% p.a. and 1.0388%-1.7089% p.a. as of December 31, 2011 and 2010, respectively	$ 51,700,000	$ 42,200,000
Repayable in 10 equal semiannual installments from August 2012 to February 2017; interest at 1.4908%-1.5379% p.a. and 1.5% p.a. as of December 31, 2011 and 2010, respectively	500,000	500,000
Taiwan Cooperative Bank and other banks loan to HLSC		
Repayable in June 2015 with a revolving credit, interest at 1.5021%-1.5455% p.a. and 1.259% p.a. as of December 31, 2011 and 2010, respectively	2,400,000	2,400,000
Mortgage loans		
Due on various dates through January 2015, floating rate at 0.5625%-1.71% p.a. and 0.54%-1.51% p.a. as of December 31, 2011 and 2010, respectively	17,914,900	19,146,152
Bank loans		
Due on various dates through July 2015, interest at 0.535%-5.65328% p.a. and 0.59625%-5.68895% p.a. as of December 31, 2011 and 2010, respectively	13,144,397	9,359,762
	87,373,583	76,177,343
Less: Syndicated loan fee	124,385	148,362
Current portion	11,715,737	1,617,419
	$ 75,533,461	$ 74,411,562

(Concluded)

a. In December 2011, the subsidiary CHSC entered into a syndicated credit facility agreement with Bank of Taiwan and 11 other banks for a NT$16 billion credit line, which consists of NT$7 billion secured loans with a non-revolving credit line and NT$9 billion unsecured loans with a revolving credit. No secured or unsecured loans were used as of December 31, 2011. Under the agreement, the Corporation and its related parties should collectively hold at least 30% of the CHSC's issued shares and control CHSC's operation.

   In September 2006, the subsidiary CHSC entered into a syndicated credit facility agreement with Mega International Commercial Bank and 20 other banks for a NT$14 billion credit line, which consists of NT$6 billion secured loans with a non-revolving credit line and NT$8 billion unsecured loans with a revolving credit. As of December 31, 2011, CHSC has revoked the credit line of NT$8 billion. Under the agreement, the Corporation and its related parties should collectively hold at least 30% of the CHSC's issued shares and have over half of the seats in the board of directors and control CHSC's operation. Starting 2007, CHSC'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%.

   In May 2010, the subsidiary HLSC entered into a syndicated credit facility agreement with Taiwan Cooperative Bank and 13 other banks for a NT$6 billion credit line, which consists of NT$3.5 billion secured loan with a revolving credit line and NT$2.5 billion unsecured loan with a revolving credit. No unsecured loan was used as of December 31, 2011. Under the agreement, CHSC and its related parties should hold at least 51% of the HLSC's issued shares and have over half of the seats in the board of directors and supervisors. Starting 2010, HLSC'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 300%.

The amounts referring to the above restrictions should be based on audited annual financial statements. If CHSC and HLSC breach the agreements, they should take remedial measures within six months from the next day of the financial statements' declaration date; otherwise, they need to adjust the interest rate and the rate of the guarantee fee in accordance with the agreement. As of December 31, 2011, CHSC and HLSC were in compliance with the syndicated credit facility agreement. As of December 31, 2011, the Corporation held directly and indirectly 41% equity of CHSC and had all of the seats in the board of directors and controlled its operation; CHSC held 100% equity of HLSC and had all of the seats in the board of directors and supervisors.

b. In February 2008, the subsidiary DSC entered into a syndicated credit facility agreement with Bank of Taiwan and 13 other banks for a NT$51.7 billion credit line. Under the agreement, the Corporation should hold at least 40% of DSC's issued shares and have over half of the seats in the board of directors. In December 2009, DSC entered into another syndicated credit facility agreement with Bank of Taiwan and 12 other banks for a NT$20 billion credit line. Under the agreement, the Corporation should hold at least 80% of DSC's issued shares and have over half of the seats in the board of directors. As of December 31, 2011, the Corporation held 100% equity of DSC and had all of the seats in the board of directors.

c. The above bank loans include those obtained by the Corporation in Japanese yen, Australian dollar and U.S. dollar to hedge the exchange rate fluctuations on investments in EAUS, CSCAU and CSVC (Note 32); and on the available-for-sale financial assets in Maruichi Steel Tube Ltd. and Yodogawa Steel Works, Ltd. (Notes 6 and 32).

24. LONG-TERM NOTES PAYABLE

	December 31	
	2011	2010
Long-term notes - interest at 0.77%-1.212% p.a. and 0.51%-0.885% p.a. as of December 31, 2011 and 2010, respectively	$ 24,830,000	$ 5,400,000
Less: Unamortized discounts	16,281	3,341
	$ 24,813,719	$ 5,396,659

The Corporation and its subsidiaries entered into commercial paper contracts with Mega Bills Finance Corporation, China Bills Finance Corporation, International Bills Finance Corporation and etc. The duration of the contracts is three to five years and the cycle of issuance is fifteen to sixty days, during which the Corporation and its subsidiaries only have to pay service fees and interests. Therefore, the Corporation and its subsidiaries recorded those commercial papers issued as long-term notes payable.

The above long-term notes were secured by Bank of Kaohsiung, Australia and New Zealand Bank, Mega International Commercial Bank and etc.

25. RESTRUCTURED LOANS PAYABLE

The subsidiary DSC has confirmed its repayment plan according to its reorganization plan. Restructured loans payable are classified by payment scheme and by loan term, recorded as current liabilities or long-term liabilities.

Restructured loans payable for the years ended December 31, 2011 and 2010 were as follows:

	Secured Loans	Unsecured Loans	DSC Recorded as Restructured Loans Payable	Adjustments on Allocation of Acquisition Cost for DSC	Total Restructured Loans Payable After Allocation of Acquisition Cost
Year ended December 31, 2011					
Balance, beginning of year	$ 3,349,544	$ 1,232,989	$ 4,582,533	$ (13,135)	$ 4,569,398
Repayment during the year	(3,349,544)	(1,232,989)	(4,582,533)	-	(4,582,533)
Adjustments on allocation of acquisition cost for DSC	-	-	-	13,135	13,135
Balance, end of year	$ -	$ -	$ -	$ -	$ -
Year ended December 31, 2010					
Balance, beginning of year	$ 3,672,201	$ 1,310,332	$ 4,982,533	$ (17,911)	$ 4,964,622
Repayment during the year	(322,657)	(77,343)	(400,000)	-	(400,000)
Adjustments on allocation of acquisition cost for DSC	-	-	-	4,776	4,776
Balance, end of year	3,349,544	1,232,989	4,582,533	(13,135)	4,569,398
Less: Current portion	320,651	79,349	400,000	-	400,000
	$ 3,028,893	$ 1,153,640	$ 4,182,533	$ (13,135)	$ 4,169,398

According to the reorganization plan, interest rates of the secured loans and the unsecured loans were 2.15% and 2% respectively.

The repayment scheme for the above restructured loans payable is to pay NT$200 million for loan principals on June 30 and December 30 each until 2014. DSC should pay creditors of secured loans and unsecured loans proportionally. Interests are calculated monthly and paid quarterly. According to the reorganization plan, DSC can pay off the loans payable in advance. Thus, DSC has paid off all restructured loans by the end of March 2011.

26. PENSION PLANS

The pension plan under the Labor Pension Act (the "LPA") is a defined contribution plan. Based on the LPA, the Corporation and its domestic subsidiaries make monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages. The pension plan under local regulations for foreign subsidiaries is also a defined contribution plan. Such pension costs of the Corporation and its domestic subsidiaries were NT$359,459 thousand and NT$265,414 thousand for the years ended December 31, 2011 and 2010, respectively.

The Corporation and its domestic subsidiaries have retirement plan in accordance with the Labor Standards Law of the ROC. 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 and its subsidiaries make contributions, equal to a certain percentage of salaries, to a pension fund, which are deposited in the Bank of Taiwan in the name of, and administered by the employees' pension fund administration committee. The Corporation and the subsidiaries, such as CSGT, ICSC, CHC and etc, also make contributions, equal to a certain percentage of salaries of management personnel, to another pension fund, which are deposited and administered by the officers' pension fund management committee. Such pension costs of the Corporation and its domestic subsidiaries for the years ended December 31, 2011 and 2010 were NT$1,298,431 thousand and NT$1,015,099 thousand, respectively.

In order to encourage employees to retire and transfer to affiliates, the Corporation recognized preferential severance pay in accordance with the related preferential severance measures of NT$427,702 thousand for the year ended December 31, 2010.

Under SFAS No. 18, pension information of the Corporation and its domestic subsidiaries based on actuarial calculation was as follows:

a. Components of net pension cost

	Years Ended December 31	
	2011	2010
Service cost	$ 868,231	$ 872,583
Interest cost	608,418	531,191
Projected return on plan assets	(451,523)	(430,820)
Amortization	221,814	42,145
Settlement loss	51,491	-
Net pension cost	$ 1,298,431	$ 1,015,099

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

	December 31	
	2011	2010
Benefit obligation		
Vested benefit obligation	$ 19,516,929	$ 17,824,635
Non-vested benefit obligation	3,281,618	3,683,672
Accumulated benefit obligation	22,798,547	21,508,307
Additional benefits based on future salaries	4,115,786	5,987,999
Projected benefit obligation	26,914,333	27,496,306
Fair value of plan assets	(22,563,466)	(22,154,325)
Funded status	4,350,867	5,341,981
Unamortized prior service cost	(83,920)	(96,399)
Unrecognized net asset at transition	35,125	28,098
Unrecognized net transition obligation	(18,369)	(8,722)
Unamortized net loss	(3,875,613)	(4,916,825)
Additional pension liability	436,013	277,040
Accrued pension cost (included in accrued expenses or prepaid pension cost)	(89,998)	600
Accrued pension cost	$ 754,105	$ 625,773
Vested benefits	$ 22,351,277	$ 21,023,703

c. Actuarial assumptions

	December 31	
	2011	2010
Discount rate used in determining present values	2.00%-2.75%	2.00%-2.75%
Future salary increase rate	1.00%-3.00%	1.00%-3.00%
Expected rate of return on plan assets	2.00%-2.75%	2.00%-3.00%

27. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The subsidiaries CSMC, CEC, CSSC and their subsidiaries classified their assets and liabilities of the construction operations as well as machinery and equipment of the manufacturing operations as current and noncurrent according to the length of the operating cycle. Maturity analysis of the related assets and liabilities was as follows:

	Due Within One Year	Due After One Year	Total
December 31, 2011			
Assets			
Notes and accounts receivable, net	$ 12,102,876	$ 12,707	$ 12,115,583
Inventories	114,469,512	1,491,954	115,961,466
	$ 126,572,388	$ 1,504,661	$ 128,077,049
Liabilities			
Notes and accounts payable	$ 11,160,370	$ 37,292	$ 11,197,662
Advance construction receipts in excess of construction in progress (included in other current liabilities)	1,107,454	1,176,376	2,283,830
	$ 12,267,824	$ 1,213,668	$ 13,481,492
December 31, 2010			
Assets			
Notes and accounts receivable, net	$ 9,715,321	$ -	$ 9,715,321
Inventories	88,392,417	1,270,008	89,662,425
	$ 98,107,738	$ 1,270,008	$ 99,377,746
Liabilities			
Notes and accounts payable	$ 10,504,609	$ 98,998	$ 10,603,607
Advance construction receipts in excess of construction in progress (included in other current liabilities)	1,642,659	1,575,095	3,217,754
	$ 12,147,268	$ 1,674,093	$ 13,821,361

28. STOCKHOLDERS' EQUITY OF PARENT COMPANY

a. Capital stock

In July 2011 and August 2010, the Corporation issued 678,308 thousand and 433,382 thousand common shares through capital increase out of retained earnings of NT$6,783,084 thousand and NT$4,333,820 thousand, respectively, and have been registered with the government.

The Corporation's Board of Directors approved an issuance of 840,000 thousand new shares with NT$10 par value at issuance price of NT$28.3248 per share, and the record date of capital increase was on August 1, 2011. The capital increase has been registered with the government. Total proceeds, net of issuance cost, exceeded par value by NT$15,338,755 thousand, recorded as additional paid-in capital under capital surplus. The 763,668 thousand shares of the new shares were through issuance of

38,183,400 units of global depository receipts (GDR). Each unit represents 20 shares of the Corporation's common stock. The remaining 76,332 thousand shares were allocated for employee stock option; for employees of the Corporation, 74,305 thousand shares, and for employees of the subsidiaries, 2,027 thousand shares. These options were vested immediately. For the year ended December 31, 2011, all the above options were exercised.

For the year ended December 31, 2011, options granted to employees were priced by the Black-Scholes model, and the inputs to the model were as follows:

Grant-date share price (NT$)	29.65
Transferred price (NT$)	28.3248
Expected volatility	7.19%
Expected duration life (day)	2
Risk-free interest rate	0.67%

For the year ended December 31, 2011, the Corporation recognized compensation expense of NT$98,826 thousand and recognized a capital surplus of NT$2,437 thousand from granting stock option to employees of subsidiaries.

b. Treasury stock

	Thousand Shares			December 31	
Purpose of Treasury Stock	**Beginning of Year**	**Addition**	**Reduction**	**Thousand Shares**	**Book Value**
Year ended December 31, 2011					
Shares acquired and held by subsidiaries	284,762	26,679	16,376	295,065	$ 8,122,461
Year ended December 31, 2010					
Shares acquired and held by subsidiaries	279,375	15,938	10,551	284,762	$ 8,151,621

The Corporation's shares acquired and held by subsidiaries are accounted for as treasury stock (subsidiaries recorded those shares as available-for-sale financial assets - current and available-for-sale financial assets - noncurrent). The Corporation's shares held by more than 50%-owned subsidiaries are not allowed to participate in the Corporation's capital increase in cash and have no voting rights; other rights are the same as other common stockholders. The increase of treasury stock was due to acquisition of the Corporation's shares by subsidiaries in which the Corporation has less than 50% shareholdings and capital increase transferred from retained earnings. The decrease of treasury stock was mainly due to subsidiaries' sale of the Corporation's shares and change in percentage of ownership.

For the years ended December 31, 2011 and 2010, the subsidiaries sold 29,274 thousand shares and 24,950 thousand shares of the Corporation for proceeds of NT$916,090 thousand and NT$804,181 thousand, respectively.

For the years ended December 31, 2011 and 2010, the proceeds of treasury stock sold, calculated by shareholding percentage, amounted to NT$511,448 thousand and NT$401,005 thousand, respectively, and after deducting book values, resulted in the amounts of NT$106,638 thousand and NT$102,280 thousand recorded as capital surplus, respectively. As of December 31, 2011 and 2010, the market values of the treasury shares calculated by combined holding percentage were NT$8,497,875 thousand and NT$9,539,536 thousand, respectively.

c. Overseas depositary receipts

In May 1992, February 1997, October 2003 and August 2011, for the purpose of working capital expansion and in accordance with the instruction of the ROC's Ministry of Economic Affairs ("MOEA"), the largest shareholder of the Corporation, MOEA, sold its holding shares in the Corporation through issuance of 126,512,550 units of GDR while the Corporation issued new shares. The depositary receipts then increased by 6,802,951 units resulting from the capital increase out of retained earnings. Each unit represents 20 shares of the Corporation's common stock and the issued GDRs account for the Corporation's common shares totaling 2,666,310,271 shares (including 251 fractional shares). Under relevant regulations, the GDR holders may also request the conversion to the shares represented by the GDR. The foreign investors may also request the reissuance of such depositary receipts within the originally approved units. As of December 31, 2011 and 2010, the outstanding depositary receipts were 3,396,550 units and 4,648,214 units, equivalent to 67,931,271 common shares (including 271 fractional shares) and 92,964,521 common shares (including 241 fractional shares), which represented 0.45% and 0.69% of the outstanding common shares, respectively.

d. Preferred stock

Preferred stockholders have the following entitlements or rights:

1) 14% annual dividends, with dividend payments ahead of those to common stockholders;

2) Preference over common stock in future payment of dividends in arrears;

3) The sequence and percentage of appropriation of residual property are the same with common stocks.

4) The same rights as common stockholders, except the right to vote for directors and supervisors; and

5) Redemption of preferred shares through the proceeds from issuance of new shares or retained earnings; conversion of preferred shares into common stock at the ratio of 1:1.

e. Capital surplus

Capital surplus comprised the following:

	December 31	
	2011	**2010**
Additional paid-in capital	$ 31,154,766	$ 15,717,185
Treasury stock transactions	4,635,553	3,976,052
Long-term stock investments	449,287	371,140
Others	8,099	8,099
	$ 36,247,705	$ 20,072,476

Under relevant regulations, capital surplus from issuance of shares and treasury stock transaction may be used to offset deficit or capitalized, which however is limited to a certain percentage of the Corporation's paid-in capital and once a year. Under the revised Company Law promulgated on January 4, 2012, the aforementioned capital surplus may also be distributed in cash when the Corporation incurs no loss. The capital surplus from long-term stock investments accounted for under the equity method may not be used for any purpose.

f. Appropriation of retained earnings and dividend policy

The Corporation's Articles of Incorporation provide that the annual net income, less any deficit, should be appropriated in the following order:

1) 10% as legal reserve;

2) Preferred stock dividends at 14% of par value;

3) Of the remainder, 0.15% as remuneration to directors and supervisors and 8% as bonus to employees.

4) Common stock dividends at 14% of par value; and

5) The remainder, if any, as additional dividends divided equally between the holders of preferred and common stocks.

The Board of Directors should propose the appropriation of earnings. If necessary, it may, after appropriating for preferred stock dividends, propose to appropriate a special reserve or to retain certain earnings. These proposals should be submitted to the stockholders' meeting for approval.

The Corporation is required to appropriate for a special reserve from annual earnings for any net debit balance resulting from adjustments to the stockholders' equity (including unrealized revaluation increment, unrealized gain (loss) on financial instruments, unrecognized net loss on pension cost and cumulative translation adjustments, excluding treasury stock held by the Corporation). Besides, if the market price of the Corporation's common share is lower than the carrying value of the Corporation's shares held by subsidiaries, the Corporation should appropriate a special reserve based on the difference between market price and carrying value multiplied by the percentage of ownership in the equity. The Corporation may release a portion of this special reserve when such debit balances are partially or fully reversed. As of December 31, 2011, the Corporation had fully reversed the special reserve for net debit balance of certain items in stockholders' equity, and the remaining unreversed special reserve was held for the capital demand of certain expansion projects.

The Corporation's steel business is in a phase of stable growth; thus, 75% or more of the appropriation for dividends should be in cash and 25% or less in stock.

Estimated bonus to employees and remunerations to directors and supervisors were as follows:

	Years Ended December 31	
	2011	**2010**
Bonus to employees	$ 1,399,259	$ 2,701,965
Remuneration to directors and supervisors	26,236	50,662
	$ 1,425,495	$ 2,752,627

The bonus to employees and remuneration to directors and supervisors were calculated based on the percentages provided in the Corporation's Articles of Incorporation and accrued based on past experiences. 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 bonus shares are resolved to be distributed to employees, the number of shares is determined by dividing the amount of bonus by the closing price (after considering the effect of cash and stock dividends) of the shares at the date preceding the stockholders' meeting.

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

The Corporation's stockholders in their June 2011 and 2010 meetings approved the following appropriations of the 2010 and 2009 earnings, respectively.

	Appropriation of Earnings		Dividend Per Share (NT Dollars)	
	2010	2009	2010	2009
Legal reserve	$ 3,758,683	$ 1,952,817		
Preferred stocks				
Cash dividends	76,153	40,947	$ 1.99	$ 1.07
Stock dividends	19,134	12,628	0.50	0.33
			$ 2.49	$ 1.40
Common stocks				
Cash dividends	26,920,523	13,225,464	$ 1.99	$ 1.01
Stock dividends	6,763,950	4,321,192	0.50	0.33
	$ 37,538,443	$ 19,553,048	$ 2.49	$ 1.34

The bonus to employees and the remuneration to directors and supervisors for 2010 and 2009 approved in the aforementioned stockholders' meetings were as follows (settled by cash):

	Years Ended December 31			
	2010		2009	
	Bonus to Employees	Remuneration to Directors and Supervisors	Bonus to Employees	Remuneration to Directors and Supervisors
Amounts approved in stockholders' meetings	$ 2,701,965	$ 50,662	$ 1,528,288	$ 28,655
Amounts recognized in respective financial statements	2,701,965	50,662	1,528,288	28,655
Difference	$ -	$ -	$ -	$ -

The appropriations of earnings for 2011 had been proposed in the board of directors' meeting on March 21, 2012. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividend Per Share (NT Dollars)
Legal reserve	$ 1,949,368	
Preferred stocks		
Cash dividends	47,835	$ 1.25
Stock dividends	5,740	0.15
		$ 1.40

(Continued)

	Appropriation of Earnings	Dividends Per Share (NT Dollars)
Common stocks		
Cash dividends	$ 15,196,671	$ 1.01
Stock dividends	2,256,932	0.15
	$ 19,456,546	$ 1.16

(Concluded)

On March 21, 2012, the board of directors proposed the bonus to employees of NT$1,399,259 thousand and the remuneration to directors and supervisors of NT$26,236 thousand for 2011. The amounts proposed were the same as the amounts recognized in the financial statements for the year ended December 31, 2011.

The 2011 appropriations of earnings, bonus to employees and remuneration to directors and supervisors will be resolved by the stockholders in their meeting scheduled for June 15, 2012.

Information about the bonus to employees and remuneration to directors and supervisors is available on the Market Observation Post System website of the Taiwan Stock Exchange.

g. Unrealized revaluation increment

Unrealized revaluation increment comprised the following:

	December 31 2011	December 31 2010
Revaluation increment of property, plant and equipment (Note 15)	$ 26,610,866	$ 21,871,755
Recognized in proportion to the ownership percentage in long-term stock investments (Note 15)	146,724	2,185
	$ 26,757,590	$ 21,873,940

h. Unrealized gain on financial instruments

For the years ended December 31, 2011 and 2010, movements of unrealized gain on financial instruments were as follows:

	Available-for-sale Financial Assets	Equity-method Investments	Unrealized Gain or Loss on Cash Flow Hedging	Total
Year ended December 31, 2011				
Balance, beginning of year	$ 2,938,550	$ (593,445)	$ 29,272	$ 2,374,377
Recognized in stockholders' equity	141,223	251,529	231,896	624,648
Transferred to construction in progress and prepayments for equipment	-	-	21,894	21,894
Balance, end of year	$ 3,079,773	$ (341,916)	$ 283,062	$ 3,020,919

(Continued)

	Available-for-sale Financial Assets	Equity-method Investments	Unrealized Gain or Loss on Cash Flow Hedging	Total
Year ended December 31, 2010				
Balance, beginning of year	$ 3,124,306	$ 461,850	$ 630,275	$ 4,216,431
Recognized in stockholders' equity	(185,756)	(1,055,295)	(59,104)	(1,300,155)
Transferred to construction in progress and prepayments for equipment	-	-	(541,899)	(541,899)
Balance, end of year	$ 2,938,550	$ (593,445)	$ 29,272	$ 2,374,377

(Concluded)

i. Cumulative translation adjustments

Changes in composition of cumulative translation adjustments for the years ended December 31, 2011 and 2010 were as follows:

	Years Ended December 31	
	2011	2010
Balance, beginning of year	$ (101,443)	$ 183,001
Recognized in stockholders' equity	118,635	(284,444)
Balance, end of year	$ 17,192	$ (101,443)

29. INCOME TAX

a. A reconciliation of income tax expense based on consolidated income before income tax and income tax for the years ended December 31, 2011 and 2010, respectively, was as follows:

	Years Ended December 31	
	2011	2010
Income tax expense at the statutory rate	$ 4,137,580	$ 8,718,222
Tax effect of adjusting items		
Permanent differences		
Investment loss recognized under equity method - domestic	78,858	67,271
Loss (gain) on valuation of financial instruments and on disposal of investments	4,800	(53,755)
Dividend income allotted by domestic investee	(217,622)	(132,976)
Tax-exempt income	(68,034)	(79,731)
Reversal of impairment loss on assets	(60,055)	-
Others	48,222	42,087
Temporary differences		
Unrealized provision for loss on inventories	712,531	100,826
Difference between tax reporting and financial reporting – depreciation methods	116,864	117,650
Unrealized loss on purchase commitments	66,838	37,280
Unrealized (realized) loss on construction and service commitments	(137,631)	288,496
Realized impairment loss on financial assets	(47,350)	(33,266)

(Continued)

	Years Ended December 31	
	2011	2010
Unrealized (realized) preferential severance pay	$ (40,892)	$ 13,853
Realized gain from affiliates	(12,272)	(7,165)
Others	(101,336)	29,228
Investment tax credits used	(1,657,127)	(1,634,970)
Loss carryforwards used	(38,964)	(661,326)
Tax benefit from loss carryforwards	449,288	55,875
Additional income tax under the Alternative Minimum Tax Act	8,173	1,924
Additional 10% income tax on unappropriated earnings	51,685	62,422
Income tax currently payable	3,293,556	6,931,945
Tax separately levied on interest from short-term bills	2	17
Adjustments for prior years' tax	126,204	(69,503)
Current income tax expense	3,419,762	6,862,459
Deferred tax - temporary differences, investment tax credits, and loss carryforwards included	(884,969)	1,981,790
Effect of tax law changes on deferred assets	-	211,049
	$ 2,534,793	$ 9,055,298

(Concluded)

b. Changes in income tax payable

	Years Ended December 31	
	2011	2010
Balance, beginning of year	$ 6,272,105	$ 938,356
Current income tax expense	3,419,762	6,862,459
Payment in the current year	(5,313,903)	(1,528,710)
Deferred income tax assets used for linked tax filing	(1,165,973)	-
Transferred to other receivables	164,700	-
Balance, end of year	$ 3,376,691	$ 6,272,105

The Corporation adopted the linked tax system for tax filing with subsidiary - DSC since 2009. Deferred income tax assets on investment tax credits and loss carryforwards of DSC were used by the Corporation when the linked tax was filed.

Under Article 10 of the Statute for Industrial Innovation (SII) passed by the Legislative Yuan in April 2010, a profit-seeking enterprise may deduct up to 15% of its research and development expenditures from its income tax payable for the fiscal year in which these expenditures are incurred, but this deduction should not exceed 30% of the income tax payable for that fiscal year. This incentive took effect from January 1, 2010 and is effective till December 31, 2019, and the investment tax credits under earlier regulations can be used in the current and next four years. The investment tax credits used every year shall not exceed 50% of the total tax payable, but the full remaining creditable amount can be used at the expiration year.

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

c. Deferred income tax assets and liabilities were as follows:

	December 31	
	2011	2010
Current		
Deferred income tax assets		
Investment tax credits	$ 1,928,171	$ 999,947
Unrealized provision for loss on inventories	1,050,482	335,978
Unrealized loss on construction and service commitments	329,627	472,152
Unrealized reserve for construction guarantee	147,563	152,254
Unrealized loss on purchase commitments	106,310	42,368
Estimated preferential severance pay	84,905	120,182
Unrealized sales allowance	65,068	69,861
Loss carryforwards	42,867	56,259
Others	225,997	314,589
	3,980,990	2,563,590
Less: Valuation allowance	330,304	168,327
	3,650,686	2,395,263
Deferred income tax liabilities		
Difference between tax reporting and financial reporting - inventory	(21,236)	(17,651)
Others	(6,083)	(3,184)
	(27,319)	(20,835)
Total deferred income tax assets - current, net	3,623,367	2,374,428
Noncurrent		
Deferred income tax assets		
Investment tax credits	1,606,179	1,831,087
Impairment loss on financial assets	958,292	1,012,535
Loss carryforwards	733,091	796,958
Unrealized gain from affiliates	164,690	142,138
Impairment loss on assets	5,866	184,022
Gain on sale of nonperforming loans	-	195,668
Others	690,112	435,832
	4,158,230	4,598,240
Less: Valuation allowance	2,035,131	661,917
	2,123,099	3,936,323
Deferred income tax liabilities		
Difference between tax reporting and financial reporting – depreciation methods	(1,501,472)	(1,679,955)
Foreign investment income	(1,087,162)	(1,050,775)
Others	(77,964)	(54,400)
	(2,666,598)	(2,785,130)
Total deferred income tax assets (liabilities) - noncurrent, net	(543,499)	1,151,193
Total deferred income tax assets	$ 3,079,868	$ 3,525,621

Under the Statute for Upgrading Industries, the Corporation and its subsidiaries recognized investment tax credits from purchases of machinery and equipment, research and development, employee training expenditures and investments in important technology-based enterprises.

As of December 31, 2011, investment tax credits comprised:

Tax Credit Source	Total Creditable and Remaining Creditable Amount	Expiry Year
Purchase of machinery and equipment	$ 3,529,078	2015
Investments in important technology-based enterprises	5,272	2012
	$ 3,534,350	

The above investment tax credits were recorded as deferred income tax asset - current for NT$1,928,171 thousand and deferred income tax asset - noncurrent for NT$1,606,179 thousand.

As of December 31, 2011, the subsidiaries had unused loss carryforwards of NT$4,564,455 thousand (tax amounted to NT$775,958 thousand), with expiry years from 2013 to 2021.

The Corporation's income tax returns through 2007 and the subsidiaries' income tax returns through 2007 to 2010 have been examined by the tax authorities.

d. Information about integrated income tax was as follows:

	December 31	
	2011	2010
Imputation credit account (ICA)	$ 211,179	$ 678,175
Unappropriated earnings generated before January 1, 1998	15,440	15,440

The creditable ratio for distribution of 2011 and 2010 earnings was 14.01% (estimated) and 11.52%, respectively.

For distribution of earnings generated after January 1, 1998, the ratio for the imputation credits allocated to domestic shareholders of the Corporation is based on the balance of the ICA as of the date of dividend distribution. Nonresident stockholders, including holders of overseas depository receipts, are allowed only a tax credit from the 10% income tax on unappropriated earnings, which can be used to offset withholding income tax on dividends paid. The expected creditable ratio for the 2011 earnings may be adjusted, depending on the ICA balance on the date of dividend distribution.

30. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

	Years Ended December 31							
	2011				2010			
	Operating Cost	Operating Expense	Others	Total	Operating Cost	Operating Expense	Others	Total
Personnel								
Salary	$ 21,004,770	$ 4,693,623	$ 735,475	$ 26,433,868	$ 23,373,352	$ 5,215,795	$ 1,261,447	$ 29,850,594
Labor and health insurance	1,110,721	204,337	44,826	1,359,884	969,391	190,665	55,390	1,215,446
Pension and consolation costs	1,337,840	372,550	33,078	1,743,468	1,055,915	279,632	473,657	1,809,204
Others	1,251,807	405,557	63,453	1,720,817	1,053,139	371,433	37,838	1,462,410
	$ 24,705,138	$ 5,676,067	$ 876,832	$ 31,258,037	$ 26,451,797	$ 6,057,525	$ 1,828,332	$ 34,337,654
Depreciation	$ 25,497,430	$ 593,422	$ 47,522	$ 26,138,374	$ 22,973,826	$ 548,553	$ 27,308	$ 23,549,687
Amortization	293,511	45,004	3,867	342,382	316,998	67,126	3,733	387,857

31. EARNINGS PER SHARE

	Amount (Numerator)		Shares (Denominator)	Earnings Per Share (Dollars)	
	Before Tax	After Tax	(Thousand)	Before Tax	After Tax
Year ended December 31, 2011					
Consolidated net income attributable to the Corporation's stockholders	$ 20,284,693	$ 19,493,679			
Less: Dividends on preferred shares	(55,749)	(53,575)			
Basic EPS					
Consolidated net income attributable to the Corporation's common stockholders	20,228,944	19,440,104	14,261,144	$ 1.42	$ 1.36
Effect of dilutive potential common stock					
Add: Dividends on preferred shares	55,749	53,575	38,268		
Bonus to employees	-	-	92,101		
Diluted EPS					
Consolidated net income attributable to the Corporation's common stockholders plus effect of potential dilutive common stock	$ 20,284,693	$ 19,493,679	14,391,513	$ 1.41	$ 1.35
Year ended December 31, 2010					
Consolidated net income attributable to the Corporation's stockholders	$ 44,094,271	$ 37,586,826			
Less: Dividends on preferred shares	(62,850)	(53,575)			
Basic EPS					
Consolidated net income attributable to the Corporation's common stockholders	44,031,421	37,533,251	13,907,209	3.17	2.70
Effect of dilutive potential common stock					
Add: Dividends on preferred shares	62,850	53,575	38,268		
Bonus to employees	-	-	115,235		
Diluted EPS					
Consolidated net income attributable to the Corporation's common stockholders plus effect of potential dilutive common stock	$ 44,094,271	$ 37,586,826	14,060,712	3.14	2.67

The Accounting Research Development Foundation (ARDF) issued Interpretation 2007-052 that requires corporations 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. If the Corporation may settle the bonus to employees by cash or shares, the Corporation should presume that the entire amount of the bonus will be settled in shares and the resulting potential shares should be included in the weighted average number of shares outstanding used in the calculation of diluted EPS, if the shares have a dilutive effect. The number of shares is estimated by dividing the amount of bonus by the closing price of the shares at the balance sheet date. The dilutive effect of the shares should be considered until the stockholders resolve the number of shares to be distributed to employees in their meeting in the following year.

The weighted average number of shares outstanding for EPS calculation has been retroactively adjusted for the issuance of stock dividends distributed out of earnings for the year ended December 31, 2010. The adjustment caused the basic and diluted after income tax EPS for the year ended December 31, 2010 to decrease from NT$2.83 to NT$2.70 and from NT$2.81 to NT$2.67, respectively.

32. FINANCIAL INSTRUMENTS

a. As of December 31, 2011 and 2010, the information of fair values was as follows:

	December 31			
	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Non-derivative financial instruments				
Consolidated assets				
Financial assets at fair value through profit or loss (including noncurrent)	$ 3,119,648	$ 3,119,648	$ 5,295,208	$ 5,295,208
Available-for-sale financial assets (including noncurrent)	8,744,906	8,744,906	9,432,914	9,432,914
Held-to-maturity financial assets (including noncurrent)	169,721	169,721	179,323	179,323
Financial assets carried at cost	10,603,195		6,197,688	
Bond investments with no active market	4,050,222	4,050,222	3,822,245	3,822,245
Other financial assets (including noncurrent)	5,829,846	5,829,846	4,629,419	4,629,419
Refundable deposits	428,431	428,431	220,026	220,026
Consolidated liabilities				
Bonds payable (including current portion)	49,214,426	49,927,381	43,228,066	44,179,348
Long-term debt (including current portion)	87,249,198	87,249,198	76,028,981	76,028,981
Long-term notes payable	24,813,719	24,813,719	5,396,659	5,396,659
Restructured loans payable (including current portion)	-	-	4,569,398	4,745,725
Derivative financial instrument				
Consolidated assets				
Financial assets at fair value through profit or loss (including noncurrent)	28,967	28,967	12,843	12,843
Hedging derivative assets (including noncurrent)	240,688	240,688	166,971	166,971
Consolidated liabilities				
Financial liabilities at fair value through profit or loss	90	90	9,533	9,533
Hedging derivative liabilities (including noncurrent)	95,806	95,806	739,031	739,031

b. Methods and assumptions used to estimate the fair values of financial instruments were as follows:

1) The carrying values of cash and cash equivalents, notes and accounts receivable, other receivables (excluding tax refund receivable), restricted assets, short-term loans and overdraft, commercial paper payable, notes and accounts payable, accrued expenses and other payables, approximate fair value because of the short maturities of these instruments.

2) The fair values of financial instruments at fair value through profit or loss, available-for-sale financial assets and derivative financial instruments are determined at their market value. If there is no market value available for reference, the fair values are determined through valuation techniques. For stocks acquired through private placement and not transferred freely in public market, fair values are determined by using valuation techniques adopted by the Corporation based on information from the Market Observation Post System, the Taiwan Stock Exchange, etc. and calculated by using the Black-Scholes Model. For hedging derivative instruments, the information used by the Corporation and its subsidiaries for determining assumptions applied in valuation is consistent with that used by market participants and is obtained from financial institutions. For fair values of financial instruments denominated in foreign currencies and foreign exchange contracts, the translations to New Taiwan dollars use exchange rates based on the buying rates quoted by the Central Bank and on the rates quoted by Reuters. For precious metals futures contracts, the information is obtained by subsidiaries from the counter-parties to estimate the

amount that should be paid or earned if the subsidiaries terminate the contracts on the balance sheet date, including the current unrealized gain or loss on the contracts.

3) Financial assets carried at cost issued by non-public corporations have no active market price and their verifiable fair value cannot be determined at a reasonable cost. Therefore, no fair value is presented.

4) The fair values of held-to-maturity financial assets and bond investments with no active market are determined at their carrying values.

5) The fair values of refundable deposits are determined at their carrying values.

6) The fair values of foreign currency deposits, included in other financial assets, and long-term liabilities are determined by the present values of future cash flows. If there is market price available for reference, the fair values are determined based on the market price. If there is no market price available for reference, the values are discounted at the interest rates of similar long-term debt and the floating-rate of foreign currency deposits available to the Corporation and its subsidiaries. Discount rates as of December 31, 2011 and 2010 were from 0.35% to 5.65328% and from 0.51% to 5.68895%, respectively.

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

	Amount Determined by Quoted Market Price		Amount Determined by Using Valuation Technique	
	December 31		December 31	
	2011	2010	2011	2010
Consolidated assets				
Financial assets at fair value through profit or loss (including noncurrent)	$ 2,813,722	$ 4,610,851	$ 334,893	$ 697,200
Available-for-sale financial assets (including noncurrent)	8,321,471	9,121,343	423,435	311,571
Held-to-maturity financial assets (including noncurrent)	-	-	169,721	179,323
Bond investments with no active market	-	-	4,050,222	3,822,245
Other financial assets (including noncurrent)	-	-	5,829,846	4,629,419
Hedging derivative assets (including noncurrent)	-	-	240,688	166,971
Refundable deposits	-	-	428,431	220,026
Consolidated liabilities				
Financial liabilities at fair value through profit or loss	-	-	90	9,533
Hedging derivative liabilities (including noncurrent)	-	-	95,806	739,031
Bonds payables (including current portion)	49,927,381	44,179,348	-	-
Long-term debt (including current portion)	-	-	87,249,198	76,028,981
Long-term notes payable	-	-	24,813,719	5,396,659
Restructured loans payable (including current portion)	-	-	-	4,745,725

d. Valuation gains and losses arising from changes in fair value of financial instruments determined using valuation techniques were valuation gain NT$25,778 thousand and valuation loss NT$41,904 thousand for the years ended December 31, 2011 and 2010, respectively.

e. As of December 31, 2011 and 2010, financial liabilities exposed to cash flow interest rate risk amounted to NT$171,980,927 thousand and NT$128,528,784 thousand, respectively, and financial liabilities exposed to fair value interest rate risk amounted to NT$71,572,326 thousand and NT$64,659,451 thousand, respectively.

f. The Corporation and its subsidiaries' total interest income and expenses (inclusive of capitalized interest) which were incurred from other than financial assets and liabilities at fair value through profit or loss were NT$333,668 thousand and NT$2,837,096 thousand, respectively, for the year ended December 31, 2011 and NT$291,888 thousand and NT$2,271,912 thousand, respectively, for the year ended December 31, 2010.

g. Financial risks

1) Market risk

Market risk includes fair value risk of interest rate change, exchange rate risk, and market price risk. The Corporation had loans in foreign currencies to hedge the exchange rate fluctuations on its long term investment in foreign currencies, thus, the exchange rate risk can be hedged naturally. The Corporation issued bonds with fixed interest rate, but the fair value of the bonds payable may be influenced by market interest rate change. If market interest rate increases or decreases by 1%, the fair value of bonds payable will decrease or increase by about NT$1,592,801 thousand.

The Corporation and its subsidiaries hold mutual funds and publicly traded stocks which are subject to market price risk. The market price risk of mutual funds is considered insignificant because the fair value of mutual funds has little fluctuation. If the share price increases or decreases by 1%, the fair value of publicly traded stocks will increase or decrease by about NT$63,741 thousand.

2) Credit risk

Credit risk represents the potential loss that would be incurred by the Corporation and its subsidiaries if the counter-parties breach contracts. Financial instruments with positive fair values at the balance sheet date are evaluated for credit risk. The counter-parties to the foregoing financial instruments are reputable financial institutions and business organizations. Management does not expect the Corporation and its subsidiaries' exposure to default by those parties to be material.

Endorsements/guarantees provided to the consolidated entities as of December 31, 2011 were as follows:

Endorsement/Guarantee Provider	**Counter - Party**	**Ending Balance**
China Steel Corporation	Dragon Steel Corporation	USD 455,197 thousand
China Steel Structure Co., Ltd.	United Steel Constructure Corporation	NTD 1,345,000 thousand
	Chung-Kang Steel Structure (Kunshan) Co., Ltd.	NTD 333,025 thousand
	United Steel Construction Vietnam Co., Ltd.	NTD 333,025 thousand
United Steel Constructure Corporation	China Steel Structure Co., Ltd.	NTD 4,419,877 thousand
China Steel Global Trading Corporation	Chung Mao Trading (SAMOA) Co.	USD 3,000 thousand
	CSGT International Corporation	USD 3,200 thousand
China Steel Express Corporation	CSE Transport Corporation (Panama)	USD 56,250 thousand

3) Liquidity risk

The Corporation and its subsidiaries have sufficient operating capital to meet future cash needs. Therefore, the cash flow risk is low.

Financial assets at fair value through profit or loss and available-for-sale financial assets could be sold readily in the active market or secondary financial market at prices approximating fair value. There are liquidity risks for the stocks acquired through private placement and not transferred freely in public market, financial assets carried at cost, bond investments with no active market and held-to-maturity financial assets because no quoted active market prices are available.

4) Cash flow interest rate risk

Market interest rate change will influence the effective interest rate of the financial instruments which have cash flow risk of the interest rate change, and make future cash flow fluctuate. If the market interest rate increases by 1%, cash outflow of the Corporation and subsidiaries will increase by about NT$1,719,809 thousand.

h. Fair value, net investment in foreign operation and cash flow hedge

The Corporation and its subsidiaries including CSMC, DSC, CSGT, CAC and CEC have debts denominated in foreign currencies, purchased bank deposits - foreign-currency and forward contracts to effectively hedge the exchange rate fluctuations on the investments in EAUS, Maruichi Steel Tube Ltd., Yodogawa Steel Works Ltd., CSCAU, CSVC, capital expenditures and sales and purchases contracts.

		Designated Hedging Instrument		
			Changes in Fair Value	
			Years Ended December 31	
Hedge Type	**Hedged Item**	**Financial Instrument**	**2011**	**2010**
Fair value hedge	Investments in EAUS Corporation (recorded as bond investments with no active market - noncurrent)	Debt in JPY	$ (320,265)	$ (111,375)
Fair value hedge	Investments in Maruichi Steel Tube Ltd. (recorded as available-for-sale financial assets - noncurrent)	Debt in JPY	(84,110)	(29,250)
Fair value hedge	Investments in Yodogawa Steel Works, Ltd. (recorded as available-for-sale financial assets - noncurrent)	Debt in JPY	(39,273)	(13,658)
Hedge of a net investment in a foreign operation	Investment in CSCAU (one of consolidated entities and the amount was eliminated)	Debt in AUD	(17,466)	(14,932)
Hedge of a net investment in a foreign operation	Investment in CSVC (one of consolidated entities and the amount was eliminated)	Debt in USD	(44,687)	95,257
Cash flow hedge	Contracts for purchasing machinery and equipment	Bank deposit - foreign-currency	246,242	(112,418)
Cash flow hedge	Contracts for purchasing machinery and equipment and contracts for selling and purchasing goods	Forward contracts	125,172	(708,962)

The fair values of the above hedging instruments would approximate their carrying values. The exchange rate fluctuations of the above fair value hedged items and financial instruments were recorded as gain or loss in the current period. The exchange rate fluctuations of hedged items and financial instruments on hedge of a net investment in a foreign operation and cash flow were recorded as adjustments to stockholders' equity.

As of December 31, 2011 and 2010, the fair values of the above foreign currency deposits on cash flow hedge were NT$5,829,846 thousand and NT$4,629,419 thousand, respectively, recorded as other financial assets (including noncurrent) (Note 14).

33. RELATED PARTY TRANSACTIONS

a. Related parties

Related Parties	Relationship with the Corporation
Kaohsiung Rapid Transit Corporation (KRTC)	Equity method investee
Kaohsiung Arena Development Corp.	Equity method investee
TaiAn Technologies Corporation	Equity method investee
Hsin Hsin Cement Enterprise Co. (HHCEC)	Equity method investee
Kaohsiung Port Cargo Handling Services Corp.	Equity investee of the Corporation's affiliate
International Carbide Technology Co., Ltd.	Equity investee of the Corporation's affiliate
China Synthetic Rubber Corporation (CSRC)	Director of the Corporation's affiliate
Taiwan Cement Corp. (TCC)	Director of the Corporation's affiliate
Asia Cement Corp.	Director of the Corporation's affiliate
Universal Cement Corp.	Director of the Corporation's affiliate
Southeast Cement Co., Ltd.	Director of the Corporation's affiliate
RSEA Engineering Corp.	Director of the Corporation's affiliate, dismissed in June 2011
Great Grandeul Steel Co., Ltd.	Director of the Corporation's affiliate
Dai-Ichi High Frequency Co., Ltd.	Director of the Corporation's affiliate
Hua Eng Wire & Cable Co., Ltd.	Director of the Corporation's affiliate
CTCI Corporation	Supervisor of the Corporation's affiliate
Chun Yu Corporation	Supervisor of the Corporation's affiliate
Chia Hsin Cement Corporation	Supervisor of the Corporation's affiliate
Berlin Co., Ltd. (BC)	Supervisor of the Corporation's affiliate, elected in June 2011
CSBC Corporation Taiwan (CSBC)	CSBC's director
Tang Eng Iron Works Co., Ltd. (TEI)	TEI's director
Adimmune Corp.	Adimmune Corporation's supervisor
Shanghai Summit Metal Products Co., Ltd.	The Corporation's affiliate is its director
Pacific Harbour Stevedoring Corp.	The Corporation's affiliate is its director
CSC Educational Foundation	Foundation established mainly from the Corporation's donation
Others	Substantial control and significant influence over investees, but no material transactions

b. Significant related-party transactions were as follows:

Sales

Sales to related parties (including CSBC and CSRC, etc.) were NT$8,093,549 thousand (2% of net operating revenues) and NT$6,270,414 thousand (2% of net operating revenues), respectively, for the years ended December 31, 2011 and 2010.

Purchases

Purchases from related parties (including HHCEC and TCC, etc.) were NT$1,531,918 thousand and NT$629,208 thousand, respectively, for the years ended December 31, 2011 and 2010.

Sales to and purchases from related parties were made under normal terms applied to similar transactions in the market.

Other revenues

Other revenues that pertained to professional services, construction and other services to related parties (including TEI and etc.) were NT$786,626 thousand and NT$1,261,988 thousand, respectively, for the years ended December 31, 2011 and 2010. These were recorded in operating revenues and nonoperating income and gains.

Balances at year-end

1) Notes and accounts receivable

Notes and accounts receivable from related parties were NT$854,577 thousand (7% of account balance, including CSBC and TCC, etc.) and NT$925,355 thousand (10% of account balance, including CSBC and CSRC, etc.), respectively, as of December 31, 2011 and 2010.

2) Notes and accounts payable

Notes and accounts payable to related parties were NT$226,769 thousand (2% of account balance, including BC and HHCEC, etc.) and NT$71,084 thousand (1% of account balance, including HHCEC and TCC, etc.), respectively, as of December 31, 2011 and 2010.

c. Compensation of directors, supervisors and management personnel

	Years Ended December 31	
	2011	**2010**
Salaries	$ 280,977	$ 295,185
Incentives	119,921	127,438
Bonus	56,275	85,377
Others	4,312	3,084
	$ 461,485	$ 511,084

34. MORTGAGED OR PLEDGED ASSETS

As of December 31, 2011 and 2010, the Corporation and its subsidiaries' assets mortgaged or pledged as collateral for long-term and short-term bank loans, performance guarantees, etc. were as follows (listed according to their carrying amounts):

	December 31	
	2011	**2010**
Property, plant and equipment, net	$ 132,608,027	$ 119,563,184
Restricted assets - demand and time deposits	7,188,354	6,166,216
Stocks (Note)	6,672,960	8,230,950
Idle assets, net	823,086	896,249
Assets leased to others, net	162,881	124,958
Government bonds (recorded in available-for-sale financial assets - noncurrent)	-	44,300
	$ 147,455,308	$ 135,025,857

Note: Stocks of the Corporation were pledged by the subsidiaries WIC and TIC and were recorded as treasury stock in the consolidated financial statements.

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

In addition to those disclosed in Note 23, significant commitments and contingencies of the Corporation and its subsidiaries as of December 31, 2011 were as follows:

a. The Corporation and its subsidiaries provide letters of credits of NT$3.2 billion guaranteed by financial institutions for several construction and lease contracts, and guarantee notes of NT$77.4 billion to banks and owners for loans, purchase agreements and warranty.

b. Unused letters of credit to import materials and machinery amounted to NT$18.6 billion.

c. Property purchase and construction contracts of NT$43.2 billion were signed but not yet recorded.

d. Construction contracts of NT$28.5 billion were not yet completed.

e. The Corporation and its subsidiaries entered into raw material purchase contracts with suppliers in Australia, Brazil, Canada, United States, Bahrain, Japan and domestic companies with contract terms of 1 to 10 years. Contracted annual purchases of 9,330,000 metric tons of coal, 20,330,000 metric tons of iron ore, and 3,150,000 metric tons of limestone are at prices negotiable with the counter parties. Purchase commitments as of December 31, 2011 were USD18.5 billion (including 17,490,000 metric tons of coal; 102,270,000 metric tons of iron ore; and 1,140,000 metric tons of limestone).

f. Endorsements/guarantees provided to the consolidated entities as of December 31, 2011 were as follows:

Endorsement/Guarantee Provider	Counter-Party	Ending Balance
China Steel Corporation	Dragon Steel Corporation	USD 455,197 thousand
China Steel Structure Co., Ltd.	United Steel Constructure Corporation	NTD 1,345,000 thousand
	Chung-Kang Steel Structure (Kunshan) Co., Ltd.	NTD 333,025 thousand
	United Steel Construction Vietnam Co., Ltd.	NTD 333,025 thousand
United Steel Constructure Corporation	China Steel Structure Co., Ltd.	NTD 4,419,877 thousand
China Steel Global Trading Corporation	Chung Mao Trading (SAMOA) Co.	USD 3,000 thousand
	CSGT International Corporation	USD 3,200 thousand
China Steel Express Corporation	CSE Transport Corporation (Panama)	USD 56,250 thousand

36. SUBSEQUENT EVENTS

On December 28, 2011, the Corporation's board of directors approved investing NT$16,000,000 thousand in DSC through its private subscription. The investment was executed on January 4, 2012.

37. OPERATING SEGMENT INFORMATION

Starting from January 1, 2011, the Corporation and its subsidiaries adopted the newly issued SFAS No. 41, "Operating Segments." According to the internal reports that are regularly reviewed by the Corporation's chief operating decision maker in order to allocate resources to the segments and assess their performance, the reportable segments are identified as follows:

a. China Steel Corporation (CSC) - manufactures and sells steel products and engages in mechanical, communications and electrical engineering.

b. Dragon Steel Corporation (DSC) - processes, manufactures and sells H-beam, billet, slab and coil.

c. Chung Hung Steel Corporation Ltd. (CHSC) - processes, manufactures and sells coil, pipe, tube and other steel products.

1) Information about revenue, results from continuing operations, assets, liabilities and other information of the Corporation and its subsidiaries was as follows:

	CSC	DSC	CHSC	Other Segments	Adjustment and Elimination	Consolidated
Year ended December 31, 2011						
Revenues from other than consolidated entities	$225,001,120	$ 51,316,615	$ 41,425,412	$ 83,283,469	$ -	$401,026,616
Revenues among consolidated entities	15,374,899	22,535,788	4,209,317	46,578,452	(88,698,456)	-
Total revenues	$240,376,019	$ 73,852,403	$ 45,634,729	$129,861,921	$ (88,698,456)	$401,026,616
Segment profit (loss)	$ 14,598,981	$ 2,037,487	$ (3,226,512)	$ 11,505,269	$ (724,282)	$ 24,190,943
Interest income						333,668
Nonoperating income and gains						2,470,837
Interest expense						(2,059,062)
Investment loss recognized under equity method, net						(434,947)
Nonoperating expenses and losses						(1,136,456)
Income before income tax						23,364,983
Income tax						2,534,793
Net income						$ 20,830,190
Identifiable assets	$294,681,997	$192,892,905	$ 31,042,649	$120,314,279	$ (29,865,208)	$609,066,622
Investments accounted for by the equity method						2,618,993
Total assets						$611,685,615
Total liabilities	$133,347,831	$113,847,209	$ 23,725,435	$313,957,555	$(285,300,352)	$299,577,678
Depreciation	$ 16,064,667	$ 5,654,841	$ 1,559,053	$ 2,941,483	$ (81,670)	$ 26,138,374
Amortization	$ 42,364	$ 76,551	$ 7,030	$ 141,110	$ 75,327	$ 342,382
Addition to property, plant and equipment	$ 16,081,479	$ 30,263,957	$ 1,489,887	$ 5,324,611	$ -	$ 53,159,934
Year ended December 31, 2010						
Revenues from other than consolidated entities	$217,314,849	$ 23,152,518	$ 38,071,198	$ 71,666,859	$ -	$350,205,424
Revenues among consolidated entities	21,872,072	15,046,263	4,185,306	47,506,768	(88,610,409)	-
Total revenues	$239,186,921	$ 38,198,781	$ 42,256,504	$119,173,627	$ (88,610,409)	$350,205,424
Segment profit	$ 36,048,628	$ 2,131,558	$ 1,480,813	$ 11,888,763	$ 224,960	$ 51,774,722
Interest income						291,888
Nonoperating income and gains						1,517,925
Interest expense						(1,434,674)
Investment loss recognized under equity method, net						(379,944)
Nonoperating expenses and losses						(1,055,096)
Income before income tax						50,714,821
Income tax						9,055,298
Net income						$ 41,659,523
Identifiable assets	$259,258,023	$173,363,362	$ 28,293,489	$111,589,502	$ (31,659,176)	$540,845,200
Investments accounted for by the equity method						2,963,293
Total assets						$543,808,493
Total liabilities	$116,437,057	$ 95,871,183	$ 17,646,387	$269,793,819	$(244,542,485)	$255,205,961
Depreciation	$ 15,804,272	$ 3,835,494	$ 1,153,037	$ 2,819,345	$ (62,461)	$ 23,549,687
Amortization	$ 75,010	$ 20,614	$ 7,665	$ 209,241	$ 75,327	$ 387,857
Addition to property, plant and equipment	$ 31,765,694	$ 34,087,944	$ 1,380,506	$ 4,990,063	$ -	$ 72,224,207

Segment profit represents the profit earned by each segment. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

2) Revenues from major products and services of the Corporation and its subsidiaries were as follows:

	Years Ended December 31	
	2011	2010
Steel products	$ 328,662,216	$ 285,316,906
Freight revenue	2,861,435	3,789,720
Others	69,502,965	61,098,798
	$ 401,026,616	$ 350,205,424

3) Geographical information

The Corporation and its subsidiaries operate in three principal geographical areas – Taiwan, Malaysia and China. The Corporation and its subsidiaries' revenues from continuing operations from external customers and information about its non-current assets by geographical location are detailed below.

	Revenues from External Customers		Non-current Assets	
	December 31		December 31	
	2011	2010	2011	2010
Taiwan	$ 378,530,306	$ 330,140,628	$ 395,525,153	$ 363,249,245
Malaysia	11,155,876	10,133,270	2,585,382	2,868,611
China	5,521,987	3,803,438	3,903,538	2,639,610
Others	5,818,447	6,128,088	9,642,510	8,120,798
	$ 401,026,616	$ 350,205,424	$ 411,656,583	$ 376,878,264

Non-current assets excluded those classified financial instruments, deferred tax assets and post-employment benefit assets.

4) Information about major customers

No revenue from any individual customer exceeds 10% of the Corporation and its subsidiaries' total revenues for the years ended December 31, 2011 and 2010.

38. EXCHANGE RATE INFORMATION OF FOREIGN-CURRENCY FINANCIAL ASSETS AND LIABILITIES

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

	December 31					
	2011			2010		
	Foreign Currencies (Thousands)	Exchange Rate	New Taiwan Dollars (Thousands)	Foreign Currencies (Thousands)	Exchange Rate	New Taiwan Dollars (Thousands)
Monetary financial assets						
USD	$ 425,901	30.275	$ 12,894,138	$ 319,484	30.363	$ 9,696,185
MYR	323,285	9.148	2,957,413	383,849	9.4557	3,629,562

(Continued)

	December 31					
	2011			2010		
	Foreign Currencies (Thousands)	Exchange Rate	New Taiwan Dollars (Thousands)	Foreign Currencies (Thousands)	Exchange Rate	New Taiwan Dollars (Thousands)
CNY	$ 562,518	4.807	$ 2,704,024	$ 179,153	4.4241	$ 792,587
JPY	13,419,592	0.3906	5,241,692	17,070,167	0.3583	6,115,362
AUD	17,805	30.735	547,239	12,815	29.6791	380,339
VND	317,565,782	0.0014	441,416	216,380,239	0.0016	346,208
SGD	9,734	23.31	226,905	7,523	22.7413	171,074
EUR	4,862	39.18	190,507	12,976	38.92	505,056
HKD	22,318	3.897	86,973	35,614	3.7482	133,489
GBP	82	46.73	3,832	478	45.1764	21,547
Non-monetary financial assets						
JPY	4,102,120	0.3906	1,602,288	4,206,000	0.3583	1,506,800
USD	18,142	30.275	549,237	15,272	30.363	463,722
SGD	1,593	23.31	37,124	1,636	22.7413	37,203
Investments accounted for by the equity method						
CNY	15,090	4.807	72,537	14,106	4.4241	62,406
EUR	1,402	39.18	54,919	935	38.92	36,387
Monetary financial liabilities						
USD	442,663	30.275	13,401,608	391,931	30.363	11,907,354
JPY	14,041,070	0.3906	5,484,442	14,202,077	0.3583	5,083,905
CNY	799,027	4.807	3,840,924	173,497	4.4241	767,566
AUD	22,895	30.735	703,670	19,416	29.6791	576,247
VND	343,508,039	0.0014	477,476	258,494,310	0.0016	413,591
MYR	-	-	-	42,746	9.4557	404,191
SGD	2,760	23.31	64,388	2,366	22.7413	53,811
EUR	744	39.18	29,144	917	38.92	35,672

(Concluded)

Derivative Financial Instruments

	Currency	Contract Exchange Rate	Contract Amount (In Thousands)
December 31, 2011			
Forward exchange contracts - buy	NTD/USD	27.208-31.57	NTD7,356,581/USD249,477
Forward exchange contracts - buy	NTD/EUR	39.3-46.432	NTD749,840/EUR17,867
Forward exchange contracts - buy	NTD/JPY	0.3415-0.3913	NTD2,392,658/JPY6,442,742
Forward exchange contracts - buy	NTD/GBP	45.7-47.36	NTD449,199/ GBP9,584
Forward exchange contracts - sell	USD/NTD	29.334-30.45	USD3,298/NTD100,177
Forward exchange contracts - sell	HKD/NTD	3.889-3.92	HKD19,998/NTD77,897
December 31, 2010			
Forward exchange contracts - buy	NTD/USD	30.2123-31.0063	NTD10,470,579/USD337,778
Forward exchange contracts - buy	NTD/EUR	42.2192-46.273	NTD2,258,033/EUR49,006
Forward exchange contracts - buy	NTD/JPY	0.3564-0.3585	NTD3,823,736/JPY10,722,376
Forward exchange contracts - sell	USD/NTD	29.14-30.1628	USD20,983/NTD629,295
Forward exchange contracts - sell	HKD/NTD	3.8653	HKD22,400/NTD86,582

39. PRE-DISCLOSURE FOR ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

According to the Rule No. 0990004943 issued by the Financial Supervisory Commission (FSC) on February 2, 2010, the Corporation and its subsidiaries' pre-disclosure information on the adoption of International Financial Reporting Standards (IFRSs) was as follows:

a. On May 14, 2009, the FSC announced the "Framework for Adoption of International Financial Reporting Standards by Companies in the ROC." In this framework, starting 2013, companies with shares listed on the Taiwan Stock Exchange Corp., Taiwan GreTai Securities Market or Emerging Stock Market should prepare their financial statements in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, International Financial Reporting Standards, International Accounting Standards, Interpretations, and related guidance translated by the ARDF and issued by the FSC. To comply with this framework, the Corporation has set up a project team and made a plan to adopt IFRSs. Leading the implementation of this plan is Vice President of the Finance Division. The main contents of the plan, anticipated schedule and status of execution as of December 31, 2011 were as follows:

Contents of Plan	Responsible Department	Status of Execution
1) Planning and identification stage (2009.04.01-2010.12.31)		
• Establish the IFRSs task force	Accounting Department	Finished
• Set up a work plan for IFRSs adoption	Accounting Department	Finished
• Complete the identification of GAAP differences	Accounting Department	Finished
• Complete the identification of consolidated entities under IFRSs	Accounting Department	Finished
2) Evaluation and determination stage (2010.01.01-2011.12.31)		
• Complete the impact evaluation of optional exemptions in IFRS1"First-time Adoption of International Financial Reporting Standards"	Accounting Department	Finished
• Complete the impact evaluation of the IT systems	IT Department	Finished
• Determine IFRSs accounting policies	Accounting Department	Finished
• Determine the selection of optional exemptions in IFRS1 "First-time Adoption of International Financial Reporting Standards"	Accounting Department	Finished
3) Implementation and review stage (2011.01.01-2013.12.31)		
• Complete the impact evaluation of the modification to the relevant internal controls	Internal Audit Office	In progress
• Complete the preparation of opening date financial position under IFRSs	Accounting Department	In progress
• Prepare comparative financial information under IFRSs for 2012	Accounting Department	In progress
• Complete the modification of the relevant internal controls (including financial reporting process and related IT systems)	Internal Audit Office, Accounting Department and IT Department	In progress

b. As of December 31, 2011, the material differences between the existing accounting policies and the accounting policies to be adopted under IFRSs were as follows:

1) Recognition and measurement:

Accounting Issues	Description of Difference
Classification and measurement of financial assets	According to ROC GAAP and current Guidelines Governing the Preparation of Financial Reports by Securities Issuers, financial assets are classified as financial assets at FVTPL, held-to-maturity financial assets, loans and receivables, available-for-sale financial assets, financial assets carried at cost or bond investments with no active market. Financial assets carried at cost are measured at their original cost. According to the revised Guidelines Governing the Preparation of Financial Reports by Securities Issuers, financial assets would be classified as financial assets carried at cost if both of the following conditions are met: a) Equity instruments that do not have a quoted market price in an active market or derivatives that are linked to and must be settled by delivery of such unquoted equity instruments. b) Fair value cannot be reliably measured. Under IFRSs, financial assets originally classified as financial assets carried at cost can be reclassified as available-for-sale financial assets under IFRS 1 or financial assets or liabilities at FVTPL (designated as at FVTPL or held for trading) under IAS 39 based on their nature. The changes in fair value (difference between carrying value and fair value) of financial assets or liabilities should be recognized in retained earnings or other comprehensive income.
Employee benefit	a) Under ROC GAAP, it is not allowed to recognize actuarial gains and losses from defined benefit plans directly to equity; instead, actuarial gains and losses should be accounted for under the corridor approach which resulted in the deferral of gains and losses. Under IFRSs, the Corporation and its subsidiaries will recognize actuarial gains and losses immediately in full in the period in which they occur, as other comprehensive

(Continued)

Accounting Issues	Description of Difference
	income. The actuarial gains and losses recognized in other comprehensive income are recognized immediately in retained earnings. The subsequent reclassification to profit or loss is not permitted.
	b) Under ROC GAAP, there is no requirement for other long-term employee benefits (other than pensions). Under IFRSs, actuarial gains and losses should all be recognized immediately in profit or loss.
Treasury stock	Under IFRSs, the accounting treatment regarding shares of the parent company held by its subsidiaries is the same as the accounting treatment under ROC GAAP. However, the Corporation first adopted ROC SFAS No. 30, "Accounting for Treasury Stock," which required that the recorded cost of the stock should be based on its carrying amount as of January 1, 2002 and reclassified to treasury stock. The carrying amount of the stock may not be the same as its original acquisition cost. Therefore, the recorded cost of treasury stock should be retroactive under IFRSs.

(Concluded)

2) Presentation and disclosure

Accounting Issues	Description of Difference
Time deposits with deposit terms of over three months	According to Interpretation 80-013 issued by the ARDF, time deposits that can be withdrawn at any moment without detriment to the principal are classified as cash. Under IFRSs, time deposits with deposit terms of over three months generally are not recognized as cash and cash equivalents but as loans and receivables, considering whether the criteria for applying amortized cost for measurement under IAS 39 are met.
Classification of property, plant and equipment, assets leased to others and idle assets	Under ROC GAAP, assets leased to others are classified under property, plant and equipment or other assets, and idle assets are classified under other assets. Under IFRSs, the aforementioned items are classified as investment property or property, plant and equipment according to their nature.

(Continued)

Accounting Issues	Description of Difference
Classifications of deferred income tax asset/liability and valuation allowance	a) Under ROC GAAP, 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, it is classified as either current or noncurrent based on the expected length of time before it is realized or settled. Under IFRSs, a deferred tax asset or liability is classified as noncurrent asset or liability. b) Under ROC GAAP, valuation allowance is provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. Under IFRSs, deferred tax assets are only recognized to the extent that it is probable that there will be sufficient taxable profits and valuation allowance account is not used.
Land value increment tax	Revalued amount under ROC GAAP is used as deemed cost for particular land under IFRSs; thus, the related reserve for land value increment tax should be reclassified as deferred income tax liability.

(Concluded)

The material differences between ROC GAAP and IFRSs mentioned above may not have material impact at the date of transition to IFRSs since the Corporation and its subsidiaries may choose the optional exemptions in accordance with IFRS1 “First-time Adoption of International Financial Reporting Standards.”

c. The Corporation and its subsidiaries have made the above assessments in accordance with (a) the 2010 version of the IFRSs translated by the ARDF and issued by the FSC and (b) the Guidelines Governing the Preparation of Financial Reports by Securities Issuers amended and issued by the FSC on December 22, 2011. These assessments may be changed as the FSC may issue new rules governing the adoption of IFRSs, and as other laws and regulations may be amended to comply with the adoption of IFRSs. Therefore, actual results may differ from these assessments in the future.