

# **China Steel Corporation and Subsidiaries**

**Consolidated Financial Statements for the  
Three Months Ended March 31, 2012 and 2011 and  
Independent Accountants' Review Report**

## INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Stockholders  
China Steel Corporation

We have reviewed the accompanying consolidated balance sheets of China Steel Corporation (the "Corporation") and its subsidiaries as of March 31, 2012 and 2011, and the related consolidated statements of income and cash flows for the three months then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to issue a report on these consolidated financial statements based on our reviews.

Except for the matters described in the third paragraph, we conducted our reviews in accordance with Statement of Auditing Standards No. 36 - "Engagements to Review Financial Statements" issued by the Accounting Research and Development Foundation of the Republic of China. A review consists principally of applying analytical procedures to financial data and of making inquiries of officers responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of China, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

As discussed in Note 1 to the accompanying consolidated financial statements, certain subsidiaries (all unlisted companies) included in the consolidated financial statements were unreviewed. As of March 31, 2012 and 2011, these subsidiaries' total assets amounted to NT\$74,507,051 thousand and NT\$64,666,187 thousand, respectively, or both 12% of consolidated total assets, and their total liabilities amounted to NT\$22,556,920 thousand and NT\$20,992,940 thousand, or 7% and 8%, respectively, of consolidated total liabilities. For the three months ended March 31, 2012 and 2011, their net operating revenues amounted to NT\$10,482,556 thousand and NT\$12,423,012 thousand, or 11% and 13%, respectively, of consolidated net operating revenues, and their net income amounted to NT\$1,349,805 thousand and NT\$1,519,776 thousand, or (418%) and 20%, respectively, of consolidated net income (loss). As discussed in Note 13 to the accompanying consolidated financial statements, the aggregate carrying value of the Corporation's investments accounted for by the equity method amounted to NT\$2,476,500 thousand and NT\$2,765,442 thousand as of March 31, 2012 and 2011, respectively, and the net investment loss amounted to NT\$156,729 thousand and NT\$173,913 thousand for the three months ended March 31, 2012 and 2011, respectively. These amounts and the additional disclosures shown in Note 35 to the accompanying consolidated financial statements were based on the investees' unreviewed financial statements for the same reporting periods as those of the Corporation.

Based on our reviews, except for the effects of any adjustments that might have been determined to be necessary had the financial statements of the subsidiaries and equity-method investees referred to in the preceding paragraph been reviewed, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements of the Corporation and its subsidiaries for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Order No.VI-0960064020 promulgated on November 15, 2007 by the Financial Supervisory Commission under the Executive Yuan, and accounting principles generally accepted in the Republic of China.

April 26, 2012

(Except for Note 35, as to which the date is May 14, 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 review such consolidated financial statements are those generally accepted and applied in the Republic of China.*

*For the convenience of readers, the accountants' review 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 accountants' review 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

MARCH 31, 2012 AND 2011

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

(Reviewed, Not Audited)

| ASSETS  | 2012                  |            | 2011                  |            | LIABILITIES AND STOCKHOLDERS' EQUITY   | 2012                  |            | 2011                  |            |
|---|-----------------------|------------|-----------------------|------------|--|-----------------------|------------|-----------------------|------------|
|   | Amount                | %          | Amount                | %          |  | Amount                | %          | Amount                | %          |
| <b>CURRENT ASSETS</b>   |                       |            |                       |            | <b>CURRENT LIABILITIES</b>   |                       |            |                       |            |
| Cash and cash equivalents (Note 4)  | \$ 20,650,852         | 3          | \$ 16,787,950         | 3          | Short-term loans and overdraft (Notes 19 and 31)   | \$ 40,804,089         | 7          | \$ 50,044,759         | 9          |
| Financial assets at fair value through profit or loss - current (Notes 5 and 29)    | 3,571,361             | 1          | 5,277,653             | 1          | Commercial paper payable (Notes 20 and 31)   | 32,515,562            | 5          | 18,982,305            | 3          |
| Available-for-sale financial assets - current (Notes 6 and 29)                      | 5,871,553             | 1          | 6,085,824             | 1          | Financial liabilities at fair value through profit or loss - current (Notes 5 and 29)  | 4,302                 | -          | 4,862                 | -          |
| Held-to-maturity financial assets - current (Notes 10 and 29)                       | 59,020                | -          | -                     | -          | Hedging derivative liabilities - current (Notes 7 and 29)  | 106,751               | -          | 631,568               | -          |
| Hedging derivative assets - current (Notes 7 and 29)                                | 61,974                | -          | 16,883                | -          | Notes payable (Notes 26 and 30)  | 681,686               | -          | 493,330               | -          |
| Notes receivable, net (Notes 8, 26 and 30)  | 1,887,712             | -          | 2,156,949             | -          | Accounts payable (Notes 26 and 30)   | 11,320,617            | 2          | 11,401,948            | 2          |
| Accounts receivable, net (Notes 3, 8, 26 and 30)                                    | 11,263,069            | 2          | 9,015,435             | 2          | Income tax payable   | 3,871,388             | 1          | 7,631,956             | 1          |
| Other receivables   | 2,951,396             | -          | 4,169,710             | 1          | Accrued expenses (Note 21)   | 11,536,259            | 2          | 12,477,828            | 2          |
| Other financial assets - current (Notes 14 and 29)                                  | 5,059,581             | 1          | 5,255,340             | 1          | Other payables   | 6,470,683             | 1          | 10,451,104            | 2          |
| Inventories (Notes 9 and 26)  | 108,416,487           | 18         | 95,251,024            | 17         | Bonds payable - current portion (Notes 22 and 29)  | 11,271,314            | 2          | 13,698,709            | 3          |
| Deferred income tax assets - current  | 4,030,840             | 1          | 2,388,835             | -          | Long-term debt - current portion (Notes 23, 29 and 31)   | 20,393,498            | 3          | 1,488,883             | -          |
| Restricted assets - current (Notes 4 and 31)  | 6,813,297             | 1          | 5,978,197             | -          | Deferred income tax liabilities - current  | 5,471                 | -          | -                     | -          |
| Others  | 6,445,394             | 1          | 5,726,139             | 1          | Others (Note 26)   | 7,982,868             | 1          | 8,483,716             | 2          |
| <b>Total current assets</b>   | <b>177,082,536</b>    | <b>29</b>  | <b>158,109,939</b>    | <b>28</b>  | <b>Total current liabilities</b>   | <b>146,964,488</b>    | <b>24</b>  | <b>135,790,968</b>    | <b>24</b>  |
| <b>INVESTMENTS</b>  |                       |            |                       |            | <b>LONG-TERM LIABILITIES</b>   |                       |            |                       |            |
| Financial assets at fair value through profit or loss - noncurrent (Notes 5 and 29) | 115                   | -          | 1,345                 | -          | Financial liabilities at fair value through profit or loss - noncurrent (Notes 5 and 29)                                     | 168                   | -          | 2,362                 | -          |
| Available-for-sale financial assets - noncurrent (Notes 6, 29 and 31)               | 3,623,598             | 1          | 3,552,193             | 1          | Hedging derivative liabilities - noncurrent (Notes 7 and 29)   | 133,547               | -          | 123,074               | -          |
| Held-to-maturity financial assets - noncurrent (Notes 10 and 29)                    | 121,167               | -          | 182,456               | -          | Bonds payable (Notes 22 and 29)  | 38,511,639            | 6          | 29,531,631            | 5          |
| Hedging derivative assets - noncurrent (Notes 7 and 29)                             | 48,155                | -          | 17,157                | -          | Long-term debt (Notes 23, 29 and 31)   | 86,182,793            | 14         | 76,095,408            | 14         |
| Financial assets carried at cost - noncurrent (Notes 11 and 29)                     | 10,695,578            | 2          | 6,297,409             | 1          | Long-term notes payable (Notes 24 and 29)  | 19,865,337            | 3          | 10,700,471            | 2          |
| Bond investments with no active market - noncurrent (Notes 12 and 29)               | 3,736,580             | 1          | 3,790,428             | 1          | <b>Total long-term liabilities</b>   | <b>144,693,484</b>    | <b>23</b>  | <b>116,452,946</b>    | <b>21</b>  |
| Investments accounted for by the equity method (Note 13)                            | 2,476,500             | -          | 2,765,442             | -          | <b>RESERVE FOR LAND VALUE INCREMENT TAX (Note 15)</b>  | <b>10,240,123</b>     | <b>2</b>   | <b>8,673,466</b>      | <b>2</b>   |
| Investments in real estate  | 381,905               | -          | 381,905               | -          | <b>OTHER LIABILITIES</b>   |                       |            |                       |            |
| Prepaid long-term stock investments   | -                     | -          | 10,662                | -          | Accrued pension cost   | 719,762               | -          | 568,836               | -          |
| Other financial assets - noncurrent (Notes 14 and 29)                               | 511,646               | -          | 363,326               | -          | Deferred income tax liabilities - noncurrent   | 1,472,000             | -          | -                     | -          |
| <b>Total investments</b>  | <b>21,595,244</b>     | <b>4</b>   | <b>17,362,323</b>     | <b>3</b>   | Others   | 938,851               | -          | 918,665               | -          |
| <b>PROPERTY, PLANT AND EQUIPMENT (Notes 7, 14, 15 and 31)</b>                       |                       |            |                       |            | <b>Total other liabilities</b>   | <b>3,130,613</b>      | <b>-</b>   | <b>1,487,501</b>      | <b>-</b>   |
| Land  | 20,052,145            | 3          | 17,568,100            | 3          | <b>Total liabilities</b>   | <b>305,028,708</b>    | <b>49</b>  | <b>262,404,881</b>    | <b>47</b>  |
| Land improvements   | 4,386,455             | 1          | 4,382,537             | 1          | <b>STOCKHOLDERS' EQUITY OF PARENT COMPANY (Notes 7, 14, 15, 27 and 31)</b>   |                       |            |                       |            |
| Buildings   | 76,103,873            | 12         | 75,309,480            | 13         | Capital stock - NT\$10 par value; authorized 17,000,000 thousand shares  |                       |            |                       |            |
| Machinery and equipment   | 425,541,011           | 69         | 423,028,777           | 76         | Common shares - issued 15,046,209 thousand shares and 13,527,901 thousand shares as of March 31, 2012 and 2011, respectively | 150,462,093           | 24         | 135,279,009           | 24         |
| Transportation equipment  | 21,043,265            | 3          | 19,277,315            | 3          | Preferred shares - issued 38,268 thousand shares   | 382,680               | -          | 382,680               | -          |
| Other equipment   | 17,868,153            | 3          | 18,374,756            | 3          | Total capital stock  | 150,844,773           | 24         | 135,661,689           | 24         |
| Spare parts   | 9,785,176             | 2          | 8,948,319             | 2          | Capital surplus  | 36,264,390            | 6          | 20,112,661            | 4          |
| <b>Total cost</b>   | <b>574,780,078</b>    | <b>93</b>  | <b>566,889,284</b>    | <b>101</b> | Retained earnings  |                       |            |                       |            |
| Revaluation increment   | 49,436,865            | 8          | 42,999,519            | 8          | Legal reserve  | 52,829,209            | 9          | 49,070,526            | 9          |
| Cost and revaluation increment  | 624,216,943           | 101        | 609,888,803           | 109        | Special reserve  | 7,615,701             | 1          | 7,615,701             | 1          |
| Less: Accumulated depreciation  | 321,839,303           | 52         | 301,564,035           | 54         | Unappropriated earnings  | 19,606,971            | 3          | 37,651,735            | 7          |
| Accumulated impairment  | 447,120               | -          | 430,648               | -          | Net income (loss) of parent company for the three months ended March 31  | (712,179)             | -          | 6,676,102             | 1          |
|   | 301,930,520           | 49         | 307,894,120           | 55         | Total retained earnings  | 79,339,702            | 13         | 101,014,064           | 18         |
| Construction in progress and prepayments for equipment                              | 107,251,969           | 17         | 66,037,870            | 12         | Other equity adjustments   |                       |            |                       |            |
| <b>Net property, plant and equipment</b>  | <b>409,182,489</b>    | <b>66</b>  | <b>373,931,990</b>    | <b>67</b>  | Unrealized revaluation increment   | 26,757,490            | 4          | 21,866,410            | 4          |
| <b>INTANGIBLE ASSETS (Note 16)</b>  | <b>2,208,131</b>      | <b>-</b>   | <b>2,222,234</b>      | <b>1</b>   | Unrealized gain on financial instruments   | 3,336,422             | 1          | 2,442,201             | -          |
| Assets leased to others, net (Notes 17 and 31)                                      | 2,954,775             | -          | 2,963,829             | 1          | Cumulative translation adjustments   | (164,538)             | -          | (230,196)             | -          |
| Idle assets, net (Notes 18 and 31)  | 3,099,216             | 1          | 1,981,133             | -          | Net loss not recognized as pension cost  | (230,766)             | -          | (79,210)              | -          |
| Refundable deposits (Note 29)   | 286,754               | -          | 259,780               | -          | Treasury stock - 295,163 thousand shares and 280,140 thousand shares as of March 31, 2012 and 2011, respectively             | (8,125,498)           | (1)        | (8,034,850)           | (1)        |
| Deferred income tax assets - noncurrent   | 1,012,532             | -          | 1,164,926             | -          | Total other equity adjustments   | 21,573,110            | 4          | 15,964,355            | 3          |
| Restricted assets - noncurrent (Notes 4 and 31)                                     | 310,567               | -          | 198,818               | -          | <b>Total stockholders' equity of parent company</b>  | <b>288,021,975</b>    | <b>47</b>  | <b>272,752,769</b>    | <b>49</b>  |
| Deferred charges and others   | 859,063               | -          | 972,708               | -          | <b>MINORITY INTEREST (Notes 7 and 14)</b>  | <b>25,540,624</b>     | <b>4</b>   | <b>24,010,030</b>     | <b>4</b>   |
| <b>Total other assets</b>   | <b>8,522,907</b>      | <b>1</b>   | <b>7,541,194</b>      | <b>1</b>   | <b>Total stockholders' equity</b>  | <b>313,562,599</b>    | <b>51</b>  | <b>296,762,799</b>    | <b>53</b>  |
| <b>TOTAL</b>  | <b>\$ 618,591,307</b> | <b>100</b> | <b>\$ 559,167,680</b> | <b>100</b> | <b>TOTAL</b>   | <b>\$ 618,591,307</b> | <b>100</b> | <b>\$ 559,167,680</b> | <b>100</b> |

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

(With Deloitte & Touche review report dated April 26, 2012)

## CHINA STEEL CORPORATION AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF INCOME

THREE MONTHS ENDED MARCH 31, 2012 AND 2011

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

(Reviewed, Not Audited)

|  | 2012                |           | 2011                |           |
|--|---------------------|-----------|---------------------|-----------|
|  | Amount              | %         | Amount              | %         |
| OPERATING REVENUES (Notes 5, 13 and 30)                          | \$ 93,926,017       | 100       | \$ 97,574,993       | 100       |
| OPERATING COSTS (Notes 5, 9, 13 and 30)                          | <u>91,050,203</u>   | <u>97</u> | <u>85,264,946</u>   | <u>87</u> |
| GROSS PROFIT   | 2,875,814           | 3         | 12,310,047          | 13        |
| REALIZED GAIN FROM AFFILIATES                                    | <u>7,809</u>        | <u>-</u>  | <u>9,963</u>        | <u>-</u>  |
| REALIZED GROSS PROFIT  | <u>2,883,623</u>    | <u>3</u>  | <u>12,320,010</u>   | <u>13</u> |
| OPERATING EXPENSES   |                     |           |                     |           |
| Research and development   | 402,801             | 1         | 390,206             | 1         |
| Selling  | 1,101,107           | 1         | 1,316,694           | 1         |
| General and administrative                                       | <u>1,258,615</u>    | <u>1</u>  | <u>1,334,686</u>    | <u>1</u>  |
| Total operating expenses   | <u>2,762,523</u>    | <u>3</u>  | <u>3,041,586</u>    | <u>3</u>  |
| OPERATING INCOME   | <u>121,100</u>      | <u>-</u>  | <u>9,278,424</u>    | <u>10</u> |
| NONOPERATING INCOME AND GAINS                                    |                     |           |                     |           |
| Interest income (Note 29)  | 90,565              | -         | 67,618              | -         |
| Exchange gain, net   | 121,449             | -         | 201,701             | -         |
| Others (Notes 17 and 30)   | <u>261,065</u>      | <u>1</u>  | <u>171,640</u>      | <u>-</u>  |
| Total nonoperating income and gains                              | <u>473,079</u>      | <u>1</u>  | <u>440,959</u>      | <u>-</u>  |
| NONOPERATING EXPENSES AND LOSSES                                 |                     |           |                     |           |
| Interest expense (Notes 15 and 29)                               | 584,923             | 1         | 468,013             | 1         |
| Investment loss recognized under equity method,<br>net (Note 13) | 157,360             | -         | 173,876             | -         |
| Others (Note 5)  | <u>234,403</u>      | <u>-</u>  | <u>144,529</u>      | <u>-</u>  |
| Total nonoperating expenses and losses                           | <u>976,686</u>      | <u>1</u>  | <u>786,418</u>      | <u>1</u>  |
| INCOME (LOSS) BEFORE INCOME TAX                                  | (382,507)           | -         | 8,932,965           | 9         |
| INCOME TAX EXPENSE (BENEFIT)                                     | <u>(59,385)</u>     | <u>-</u>  | <u>1,162,948</u>    | <u>1</u>  |
| NET INCOME (LOSS)  | <u>\$ (323,122)</u> | <u>-</u>  | <u>\$ 7,770,017</u> | <u>8</u>  |
| ATTRIBUTABLE TO  |                     |           |                     |           |
| Stockholders of parent company                                   | (712,179)           | (1)       | 6,676,102           | 7         |

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## CHINA STEEL CORPORATION AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF INCOME

THREE MONTHS ENDED MARCH 31, 2012 AND 2011

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

(Reviewed, Not Audited)

|                                     | 2012                    |                        | 2011                    |                        |
|-------------------------------------|-------------------------|------------------------|-------------------------|------------------------|
|                                     | Amount                  | %                      | Amount                  | %                      |
| Minority interest                   | \$ 389,057              | 1                      | \$ 1,093,915            | 1                      |
|                                     | \$ (323,122)            | -                      | \$ 7,770,017            | 8                      |
|                                     | 2012                    |                        | 2011                    |                        |
|                                     | Before<br>Income<br>Tax | After<br>Income<br>Tax | Before<br>Income<br>Tax | After<br>Income<br>Tax |
| EARNINGS (LOSS) PER SHARE (Note 28) |                         |                        |                         |                        |
| Basic                               | \$ (0.07)               | \$ (0.05)              | \$ 0.52                 | \$ 0.48                |
| Diluted                             | \$ (0.07)               | \$ (0.05)              | \$ 0.52                 | \$ 0.48                |

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

(With Deloitte & Touche review report dated April 26, 2012)

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# CHINA STEEL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS THREE MONTHS ENDED MARCH 31, 2012 AND 2011 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

|   | 2012             | 2011             |
|---|------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES  |                  |                  |
| Net income (loss)   | \$ (323,122)     | \$ 7,770,017     |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities       |                  |                  |
| Depreciation  | 6,650,666        | 6,600,577        |
| Amortization  | 41,929           | 65,605           |
| Deferred income tax   | (485,602)        | (28,140)         |
| Realized gain from affiliates   | (7,809)          | (9,963)          |
| Provision for (recovery of) loss on inventories, net  | 296,309          | (55,142)         |
| Loss on purchase commitments, net   | 79,190           | 205,326          |
| Investment loss recognized under equity method, net   | 156,729          | 173,913          |
| Others  | (70,229)         | (64,554)         |
| Net changes in operating assets and liabilities   |                  |                  |
| Financial instruments held for trading  | (86,218)         | (77,982)         |
| Notes receivable  | 13,892           | (260,998)        |
| Accounts receivable   | (1,049,090)      | (1,196,065)      |
| Other receivables   | (632,619)        | (2,372,199)      |
| Inventories   | 7,252,940        | (5,421,227)      |
| Other current assets  | (669,148)        | 625,752          |
| Notes payable   | (384,732)        | 17,060           |
| Accounts payable  | 1,189,373        | 1,274,611        |
| Income tax payable  | 494,697          | 1,359,851        |
| Accrued expenses  | (2,380,151)      | (3,292,967)      |
| Other payables  | (1,701,848)      | 239,657          |
| Other current liabilities   | <u>1,435,443</u> | <u>1,304,685</u> |
| Net cash provided by operating activities   | <u>9,820,600</u> | <u>6,857,817</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES  |                  |                  |
| Acquisition of financial assets designated as at fair value through profit or loss            | (977,700)        | (2,163,071)      |
| Proceeds from disposal of financial assets designated as at fair value through profit or loss | 724,861          | 2,208,517        |
| Acquisition of available-for-sale financial assets  | (1,443,666)      | (1,588,320)      |
| Proceeds from disposal of available-for-sale financial assets                                 | 1,026,856        | 1,571,488        |
| Acquisition of held-to-maturity financial assets  | (14,852)         | (8,820)          |
| Proceeds from disposal of held-to-maturity financial assets                                   | -                | 464              |
| Acquisition of financial assets carried at cost   | (112,017)        | (133,470)        |
| Proceeds from disposal of financial assets carried at cost                                    | 32,002           | 24,968           |
| Proceeds from the capital reduction on financial assets carried at cost                       | -                | 2,500            |
| Acquisition of bond investments with no active market   | (908)            | -                |
| Decrease (increase) in other financial assets   | 434,233          | (1,022,330)      |
| Increase in prepaid long-term stock investments   | -                | (471)            |
| Acquisition of investments accounted for by the equity method                                 | -                | (51,737)         |

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# CHINA STEEL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS THREE MONTHS ENDED MARCH 31, 2012 AND 2011 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

|  | 2012                 | 2011                 |
|--|----------------------|----------------------|
| Proceeds from disposal of investments accounted for by equity method | \$ 5,658             | \$ 45,875            |
| Net cash outflow for acquisition of subsidiaries                     | (125,724)            | -                    |
| Acquisition of property, plant and equipment                         | (15,658,249)         | (13,708,761)         |
| Proceeds from disposal of property, plant and equipment              | 996,685              | 4,748                |
| Decrease (increase) in refundable deposits                           | 141,678              | (39,754)             |
| Decrease in restricted assets  | 118,238              | 15,106               |
| Increase in intangible assets  | (7,092)              | (136,358)            |
| Decrease (increase) in other assets                                  | <u>(19,908)</u>      | <u>184,657</u>       |
| Net cash used in investing activities                                | <u>(14,879,905)</u>  | <u>(14,794,769)</u>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                          |                      |                      |
| Increase (decrease) in short-term loans and overdraft                | (19,084,062)         | 2,894,601            |
| Increase in commercial paper payable                                 | 10,157,662           | 2,120,318            |
| Issuance of bonds payable  | 595,100              | -                    |
| Proceeds from long-term debt   | 31,738,164           | 2,321,018            |
| Repayments of long-term debt and reorganized loans payable           | (11,848,839)         | (5,194,113)          |
| Increase (decrease) in long-term notes payable                       | (4,948,382)          | 5,303,812            |
| Increase (decrease) in other liabilities                             | (2,444)              | 23,344               |
| Cash dividends paid by parent company                                | (2,350)              | (2,826)              |
| Purchase of parent company's shares by subsidiaries                  | (16,293)             | -                    |
| Disposal of parent company's shares held by subsidiaries             | 28,498               | 287,786              |
| Increase in minority interest  | <u>1,613,011</u>     | <u>132,880</u>       |
| Net cash provided by financing activities                            | <u>8,230,065</u>     | <u>7,886,820</u>     |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS                 | 3,170,760            | (50,132)             |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD                       | <u>17,480,092</u>    | <u>16,838,082</u>    |
| CASH AND CASH EQUIVALENTS, END OF PERIOD                             | <u>\$ 20,650,852</u> | <u>\$ 16,787,950</u> |
| <b>SUPPLEMENTAL CASH FLOW INFORMATION</b>                            |                      |                      |
| Interest paid  | \$ 595,576           | \$ 123,244           |
| Capitalized interest   | <u>(176,202)</u>     | <u>(62,056)</u>      |
| Interest paid (excluding capitalized interest)                       | <u>\$ 419,374</u>    | <u>\$ 61,188</u>     |
| Income tax paid  | <u>\$ 50,669</u>     | <u>\$ 90,838</u>     |
| <b>INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS</b>   |                      |                      |
| Cash paid for acquisition of property, plant and equipment           |                      |                      |
| Acquisition of property, plant and equipment                         | \$ 15,297,174        | \$ 12,478,607        |
| Decrease in payable for equipment purchased                          | <u>361,075</u>       | <u>1,230,154</u>     |

(Continued)

# CHINA STEEL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS THREE MONTHS ENDED MARCH 31, 2012 AND 2011 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

---

|  | 2012                 | 2011                 |
|--|----------------------|----------------------|
|  | <u>\$ 15,658,249</u> | <u>\$ 13,708,761</u> |
| NON-CASH FINANCIAL ACTIVITIES            |                      |                      |
| Current portion of long-term liabilities | <u>\$ 31,664,812</u> | <u>\$ 15,187,592</u> |

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

(With Deloitte & Touche review report dated April 26, 2012)

(Concluded)

# CHINA STEEL CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS ENDED MARCH 31, 2012 AND 2011

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

(Reviewed, Not Audited)

### 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 March 31, 2012 and 2011, the Ministry of Economic Affairs, Republic of China owned 20.05% and 21.24% of the Corporation's issued common stock, respectively.

As of March 31, 2012 and 2011, the Corporation and its subsidiaries had about 22,400 and 22,100 employees, respectively.

For the three months ended March 31, 2012 and 2011, all the subsidiaries that comprised the consolidated financial statements and their changes are listed as follows:

| Name of Investor        | Name of Investee                               | Main Business   | Percentage of Ownership (%) |               | Additional Descriptions                         |
|-------------------------|--|---|-----------------------------|---------------|---|
|                         |  |   | March 31 2012               | March 31 2011 |   |
| China Steel Corporation | China Steel Express Corporation (CSE)          | Ocean freight forwarding                                    | 100                         | 100           |   |
|                         | C. S. Aluminium Corporation                    | Production and sale of aluminum and other non-ferrous metal | 100                         | 100           |   |
|                         | Gains Investment Corporation (GIC)             | General investment  | 100                         | 100           |   |
|                         | China Prosperity Development Corporation (CPD) | Real estate sale, rental and development service            | 100                         | 100           |   |
|                         | China Steel Asia Pacific Holdings Pte Ltd.     | 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               | 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           |   |
|                         | Hong 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 (%) |      | Additional Descriptions   |
|--|--|--|-----------------------------|------|---|
|  |  |  | March 31                    |      |   |
|  |  |  | 2012                        | 2011 |   |
|  | 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 March 31, 2012 and 2011, respectively. Refer to b. below |
|  | China Steel Sumikin Vietnam Joint Stock Company (CSVC) | Manufacture of steel product   | 51                          | 51   |   |
|  | China Steel Corporation India Pvt. Ltd.                | Manufacture and sale of steel product (electromagnetic steel coil)               | 100                         | -    | Investment in January 2012  |
|  | Winning Investment Corporation                         | General investment   | -                           | -    | Indirect ownership was 58%  |
|  | Eminent Venture Capital Corporation                    | 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 (%) |      | Additional Descriptions   |
|--|---|---|-----------------------------|------|---|
|  |   |   | March 31                    |      |   |
|  |   |   | 2012                        | 2011 |   |
|  | Thintech Materials Technology Co., Ltd. (TMTC)            | Target material and bimetal material tube sale  | 36                          | 42   | Direct and indirect ownerships amounted to 46% and 53% as of March 31, 2012 and 2011, respectively. |
| Eminence Investment Corporation            | Shin-Mau Investment Corporation                           | General investment  | 30                          | 30   | Refer to b. below   |
|  | 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            | Hornng 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.                    |
| China Prosperity Development Corporation   | CK Japan Co., Ltd.  | Real estate sale and rental   | 80                          | -    | Refer to a. below   |
| China Steel Asia Pacific Holdings Pte Ltd. | CSC Steel Holdings Berhad (CSHB)                          | Investment holding company  | 46                          | 46   | Established in January 2012; direct and indirect ownerships amounted to 100%                        |
|  | Changzhou China Steel Precision Materials Corporation     | Manufacture and sale of titanium-nickel alloy and non-ferrous metal   | 70                          | 70   | Refer to a. below   |
|  |   |   |                             |      | Investment in January 2011  |

(Continued)

| Name of Investor                       | Name of Investee   | Main Business                              | Percentage of Ownership (%) |      | Additional Descriptions   |
|--|--|--|-----------------------------|------|---|
|  |  |  | March 31                    |      |   |
|  |  |  | 2012                        | 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  |   |
|  | 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  |   |
|  | CSGT (Shanghai) Co., Ltd.  | Steel product agency and trading service   | 100                         | 100  |   |
| Chung Mao Trading (Samoa) Co., Ltd.    | CSGT Hong Kong Limited   | 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  |   |
|  | China Steel Management and Maintenance for Buildings Corporation   | Building management                        | 100                         | -    | Established in January 2012   |
| 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. (CEVC)                           | 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  |   |

(Continued)

| Name of Investor                           | Name of Investee  | Main Business  | Percentage of Ownership (%) |      | Additional Descriptions                         |
|--|---|--|-----------------------------|------|---|
|  |   |  | 2012                        | 2011 |   |
| 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   |   |
|  | Yu Cheng Lime Corporation (YCC)                           | Manufacture of lime  | 90                          | -    | Investment in March 2012                        |
| 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  |   |
| 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 operation 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 the aforementioned entities and included them in the consolidated entities.

In June 2011, the subsidiaries DSC, CEC, EWIC, etc. further invested NT\$228,678 thousand in the subsidiary CSSC, acquiring 8,100 thousand shares, which increased the Corporation's total equity in CSSC to 37%.

The subsidiary CHC invested NT\$128,000 thousand to acquire 108 thousand shares (90% shareholding) of YCC from Chien Tai Cement Co., Ltd. through open competitive bidding on March 28, 2012. The fair value of the assets and liabilities of the investee at the date of investment were as follows:

| Items   | Amount            |
|---|-------------------|
| Current assets                                    |                   |
| Property, plant and equipment                     | \$ 5,459          |
| Other assets                                      | 189,587           |
| Current liabilities                               | 433               |
| Reserve for land value increment tax              | (5,078)           |
| Other liabilities                                 | (45,985)          |
|   | <u>(2,194)</u>    |
|   | 142,222           |
| Multiplied by percentage of shareholding acquired | <u>90%</u>        |
| Purchase price                                    | 128,000           |
| Less: Cash acquired on the acquisition date       | <u>2,276</u>      |
| Net cash outflow for acquisition of YCC           | <u>\$ 125,724</u> |

The acquisition of YCC by CHC was accounted for as a purchase as prescribed by Statement of Financial Accounting Standards (SFAS) No. 25, "Business Combination - Accounting Treatment under Purchase Method." Assuming the shareholding was acquired on January 1, 2011, pro forma consolidated operating result would not have significant impact on the consolidated statements of income.

Certain subsidiaries (all unlisted companies) included in the consolidated financial statements were unreviewed. As of March 31, 2012 and 2011, these subsidiaries' total assets amounted to NT\$74,507,051 thousand and NT\$64,666,187 thousand, respectively, or both of 12%, of consolidated total assets, and their total liabilities amounted to NT\$22,556,920 thousand and NT\$20,992,940 thousand, or 7% and 8%, respectively, of consolidated total liabilities. For the three months ended March 31, 2012 and 2011, their net operating revenues amounted to NT\$10,482,556 thousand and NT\$12,423,012 thousand, or 11% and 13%, respectively, of consolidated net operating revenues, and their net income amounted to NT\$1,349,805 thousand and NT\$1,519,776 thousand, or (418%) and 20%, respectively, of consolidated net income (loss). These amounts were based on the investees' unreviewed financial statements for the same reporting period as that of the Corporation.

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, the Order No. VI-0960064020 promulgated on November 15, 2007, by the Financial Supervisory Commission (FSC) under the Executive Yuan, and accounting principles generally accepted in the Republic of China (ROC GAAP). Except for the changes in accounting principles stated in Note 3, the accounting principles adopted by the Corporation and its subsidiaries in 2012 are the same as those adopted in the consolidated financial statements for the year ended December 31, 2011.

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 for their oversight purposes.

### Reclassifications

Certain accounts in the consolidated financial statements as of and for the three months ended March 31, 2011 have been reclassified to conform to the presentation of the consolidated financial statements as of and for the three months ended March 31, 2012 and are listed as follows:

|   | Before<br>Reclassification<br>n | After<br>Reclassification<br>n |
|---|---------------------------------|--------------------------------|
| Consolidated balance sheets                         |                                 |                                |
| Financial assets carried at cost - noncurrent       | \$ 3,550,000                    | \$ -                           |
| Bond investments with no active market - noncurrent | -                               | 3,550,000                      |

### 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 three months ended March 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" and the Corporation and its subsidiaries conformed to the disclosure requirement and provided the operating segments disclosure in the consolidated financial statements accordingly.

### 4. CASH AND CASH EQUIVALENTS

|                                       | March 31  |           |
|---------------------------------------|-----------|-----------|
|                                       | 2012      | 2011      |
| Cash on hand                          | \$ 35,872 | \$ 34,907 |
| Checking accounts and demand deposits | 5,121,383 | 5,644,789 |

|                                     |                      |                      |
|-------------------------------------|----------------------|----------------------|
| Time deposits                       | 12,535,193           | 7,203,039            |
| Cash equivalents - Commercial paper | <u>2,958,404</u>     | <u>3,905,215</u>     |
|                                     | <u>\$ 20,650,852</u> | <u>\$ 16,787,950</u> |

Foreign bank deposits of the Corporation were as follows:

|  | <b>March 31</b>   |                   |
|--|-------------------|-------------------|
|  | <b>2012</b>       | <b>2011</b>       |
| Japan - IYO Bank and Mega International Commercial Bank (in thousands) | ¥ 6,467           | ¥ 6,602           |
| Singapore - Daiwa Securities SMBC (in thousands)                       | <u>21</u>         | <u>24</u>         |
|  | <u>¥ 6,488</u>    | <u>¥ 6,626</u>    |
| Represented by N.T. dollars (in thousands)                             | <u>NT\$ 2,331</u> | <u>NT\$ 2,352</u> |

As of March 31, 2012 and 2011, time deposits with maturities of over one year were NT\$2,900 thousand and zero, respectively.

The Corporation cooperated with the Ministry of Economic Affairs on “Development of Amorphous Ribbon Manufacturing Technology” and other projects. Deposits for these projects were NT\$28,385 thousand (NT\$17,381 thousand recorded as restricted assets - current and NT\$11,004 thousand recorded as restricted assets - noncurrent) and NT\$1,001 thousand (NT\$1,000 thousand recorded as restricted assets - current and NT\$1 thousand recorded as restricted assets - noncurrent) as of March 31, 2012 and 2011, respectively.

## 5. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

|  | <b>March 31</b>     |                     |
|--|---------------------|---------------------|
|  | <b>2012</b>         | <b>2011</b>         |
| <u>Financial assets held for trading</u>       |                     |                     |
| Mutual funds                                   | \$ 1,027,734        | \$ 1,100,323        |
| Quoted stocks and depositary receipts          | 623,039             | 1,245,893           |
| Structured notes                               | 25,365              | 65,543              |
| Forward exchange contracts                     | 4,988               | 5,026               |
| Convertible bonds                              | <u>-</u>            | <u>515</u>          |
|  | <u>1,681,126</u>    | <u>2,417,300</u>    |
| <u>Financial assets designated as at FVTPL</u> |                     |                     |
| Mutual funds                                   | 1,639,407           | 2,225,545           |
| Structured notes                               | 183,930             | 559,353             |
| Quoted stocks                                  | 56,683              | 65,560              |
| Convertible bonds                              | <u>10,330</u>       | <u>11,240</u>       |
|  | <u>1,890,350</u>    | <u>2,861,698</u>    |
|  | 3,571,476           | 5,278,998           |
| Less: Noncurrent portion                       | <u>115</u>          | <u>1,345</u>        |
|  | <u>\$ 3,571,361</u> | <u>\$ 5,277,653</u> |

(Continued)

|   | <b>March 31</b> |                 |
|---|-----------------|-----------------|
|   | <b>2012</b>     | <b>2011</b>     |
| <u>Financial liabilities held for trading</u> |                 |                 |
| Forward exchange contracts                    | \$ 2,868        | \$ 7,224        |
| Options (Note 22)                             | <u>1,602</u>    | <u>-</u>        |
|   | 4,470           | 7,224           |
| Less: Noncurrent portion                      | <u>168</u>      | <u>2,362</u>    |
|   | <u>\$ 4,302</u> | <u>\$ 4,862</u> |

(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 contract 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 March 31, 2012 and 2011 were as follows:

|                       | <b>Currency</b> | <b>Maturity Date</b>         | <b>Contract Amount<br/>(In Thousands)</b> |
|-----------------------|-----------------|------------------------------|---|
| <u>March 31, 2012</u> |                 |                              |   |
| Buy                   | NTD/USD         | June 2012 - April 2013       | NTD186,955/USD6,247                       |
| Buy                   | NTD/JPY         | October 2012 - December 2014 | NTD296,821/JPY832,860                     |
| Sell                  | USD/NTD         | April 2012                   | USD3,129/NTD93,764                        |
| Sell                  | HKD/NTD         | April 2012                   | HKD22,009/NTD84,402                       |
| <u>March 31, 2011</u> |                 |                              |   |
| Buy                   | NTD/JPY         | July 2011 - December 2014    | NTD408,005/JPY1,142,130                   |
| Sell                  | USD/NTD         | April 2011 - May 2011        | USD12,060/NTD356,113                      |
| Sell                  | HKD/NTD         | April 2011                   | HKD22,400/NTD83,500                       |

- d. The net valuation gains (losses) on financial instruments at FVTPL for the three months ended March 31, 2012 and 2011 were as follows:

|   | <b>Three Months Ended March 31</b> |                    |
|---|------------------------------------|--------------------|
|   | <b>2012</b>                        | <b>2011</b>        |
| Financial assets held for trading       | \$ 49,170                          | \$ (20,797)        |
| Financial assets designated as at FVTPL | 13,033                             | 2,812              |
| Financial liabilities held for trading  | <u>(3,623)</u>                     | <u>(5,047)</u>     |
|   | <u>\$ 58,580</u>                   | <u>\$ (23,032)</u> |

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

|                                  | <b>Three Months Ended March 31</b> |                    |
|----------------------------------|------------------------------------|--------------------|
|                                  | <b>2012</b>                        | <b>2011</b>        |
| Operating revenues               | \$ 77,549                          | \$ 97              |
| Operating costs                  | (404)                              | (11,618)           |
| Nonoperating expenses and losses | <u>(18,565)</u>                    | <u>(11,511)</u>    |
|                                  | <u>\$ 58,580</u>                   | <u>\$ (23,032)</u> |

## 6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

|   | <b>March 31</b>     |                     |                     |                     |
|---|---------------------|---------------------|---------------------|---------------------|
|   | <b>2012</b>         |                     | <b>2011</b>         |                     |
|   | <b>Current</b>      | <b>Noncurrent</b>   | <b>Current</b>      | <b>Noncurrent</b>   |
| Mutual funds                                  | \$ 2,509,500        | \$ -                | \$ 3,353,749        | \$ -                |
| Quoted stocks                                 |                     |                     |                     |                     |
| Maruichi Steel Tube Ltd.                      | -                   | 1,387,949           | -                   | 1,459,050           |
| Yodogawa Steel Works, Ltd.                    | -                   | 259,342             | -                   | 274,060             |
| Taiwan Semiconductor<br>Manufacturing Company | 2,495,602           | -                   | 2,075,257           | -                   |
| CSBC Corporation Taiwan                       | 261                 | 430,867             | 292                 | 481,820             |
| Tang Eng Iron Works<br>Corporation            | 128,537             | 877,904             | -                   | 874,918             |
| Others  | 692,837             | 192,224             | 611,668             | 189,364             |
| Private-placement shares                      |                     |                     |                     |                     |
| Reichi Precision Co., Ltd. (RPC)              | -                   | 475,312             | -                   | 260,981             |
| Government bonds                              | -                   | -                   | -                   | 12,000              |
| Structured notes                              | <u>44,816</u>       | <u>-</u>            | <u>44,858</u>       | <u>-</u>            |
|   | <u>\$ 5,871,553</u> | <u>\$ 3,623,598</u> | <u>\$ 6,085,824</u> | <u>\$ 3,552,193</u> |

In September 2010, the Corporation invested in RPC through its private placement. 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 29). 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 and interest rate swap contracts to manage cash flows exposures arising from exchange rate fluctuations on foreign-currency capital expenditures contracts and sales and purchases contracts as well as from interest rate fluctuations on bank loans.

Outstanding forward exchange contracts as of March 31, 2012 and 2011 were as follows:



|                       | <b>Currency</b> | <b>Period for Generating Cash Flows and Maturity Date</b> | <b>Contract Amount (In Thousands)</b> |
|-----------------------|-----------------|---|---------------------------------------|
| <u>March 31, 2012</u> |                 |   |                                       |
| Buy                   | NTD/USD         | April 2012 - September 2015                               | NTD8,182,384/USD278,852               |
| Buy                   | NTD/EUR         | April 2012 - January 2014                                 | NTD745,775/EUR17,887                  |
| Buy                   | NTD/JPY         | April 2012 - June 2015                                    | NTD2,065,982/JPY5,548,493             |
| Buy                   | NTD/GBP         | May 2012 - January 2015                                   | NTD425,309/GBP9,080                   |
| Sell                  | USD/NTD         | April 2012  | USD530/NTD15,890                      |
| Sell                  | EUR/NTD         | October 2012  | EUR4,363/NTD168,894                   |
| Sell                  | JPY/USD         | April 2012 - May 2012                                     | JPY3,200,000/USD38,641                |

March 31, 2011

|      |         |                             |                           |
|------|---------|-----------------------------|---------------------------|
| Buy  | NTD/USD | April 2011 - June 2015      | NTD8,071,746/USD260,911   |
| Buy  | NTD/EUR | May 2011 - December 2013    | NTD2,316,655/EUR50,645    |
| Buy  | NTD/JPY | April 2011 - February 2014  | NTD2,522,514/JPY7,072,902 |
| Sell | USD/NTD | April 2011 - September 2011 | USD1,793/NTD52,722        |

Outstanding interest rate swap contracts as of March 31, 2012 were as follows:

| <b>Contract Amount (In Thousands)</b> | <b>Maturity Date</b>      | <b>Range of Interest Rates Paid</b> | <b>Range of Interest Rates Received</b> |
|---------------------------------------|---------------------------|-------------------------------------|---|
| NTD5,084,000                          | February 2017 - July 2018 | 1.09% - 1.14%                       | 0.859% - 0.864%                         |

The Corporation and its subsidiaries did not enter into any interest rate swap contract during the three months ended March 31, 2011.

Movements of hedging derivative financial instruments for the three months ended March 31, 2012 and 2011 were as follows:

|   | <b>Three Months Ended March 31</b> |                     |
|---|------------------------------------|---------------------|
|   | <b>2012</b>                        | <b>2011</b>         |
| Balance, beginning of period  | \$ 144,882                         | \$ (572,060)        |
| Valuation loss  | (284,091)                          | (259,592)           |
| Transferred to construction in progress and prepayments for equipment | <u>9,040</u>                       | <u>111,050</u>      |
| Balance, end of period  | <u>\$ (130,169)</u>                | <u>\$ (720,602)</u> |

As of March 31, 2012 and 2011, the balances of hedging derivative assets (liabilities) were as follows:

|   | <b>March 31</b>  |                  |
|---|------------------|------------------|
|   | <b>2012</b>      | <b>2011</b>      |
| Hedging derivative assets - current         | \$ 61,974        | \$ 16,883        |
| Hedging derivative assets - noncurrent      | 48,155           | 17,157           |
| Hedging derivative liabilities - current    | (106,751)        | (631,568)        |
| Hedging derivative liabilities - noncurrent | <u>(133,547)</u> | <u>(123,074)</u> |

\$ (130,169)      \$ (720,602)

The valuation loss was recognized as unrealized gain on financial instruments in stockholders' equity and minority interest.

## 8. NOTES AND ACCOUNTS RECEIVABLE, NET

|                                       | March 31             |                     |
|---------------------------------------|----------------------|---------------------|
|                                       | 2012                 | 2011                |
| Notes receivable                      | \$ 1,887,712         | \$ 2,157,381        |
| Less: Allowance for doubtful accounts | -                    | 432                 |
|                                       | <u>\$ 1,887,712</u>  | <u>\$ 2,156,949</u> |
| Accounts receivable                   | \$ 11,369,959        | \$ 9,313,957        |
| Less: Allowance for doubtful accounts | 106,802              | 298,365             |
| Less: Allowance for sales discounts   | 88                   | 157                 |
|                                       | <u>\$ 11,263,069</u> | <u>\$ 9,015,435</u> |

Movements of the allowance for doubtful accounts were as follows:

|                              | Three Months Ended March 31 |                     |                        |
|------------------------------|-----------------------------|---------------------|------------------------|
|                              | 2012                        | 2011                |                        |
|                              | Accounts<br>Receivable      | Notes<br>Receivable | Accounts<br>Receivable |
| Balance, beginning of period | \$ 168,880                  | \$ 1,883            | \$ 371,113             |
| Deduct: Reversal             | 62,078                      | 1,451               | 72,748                 |
| Balance, end of period       | <u>\$ 106,802</u>           | <u>\$ 432</u>       | <u>\$ 298,365</u>      |

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 three months ended March 31, 2012 and 2011 was as follows:

| Transaction Counter-party             | Advances<br>Received at<br>Period -<br>Beginning | Receivables<br>Sold | Amounts<br>Collected<br>by Bank | Advances<br>Received at<br>Period-end | Interest Rate<br>on Advances<br>Received (%) | Credit Line<br>(In Billions<br>of NTD) |
|---------------------------------------|--|---------------------|---------------------------------|---------------------------------------|--|--|
| Three months ended                    |  |                     |                                 |                                       |  |  |
| <u>March 31, 2012</u>                 |  |                     |                                 |                                       |  |  |
| Mega International<br>Commercial Bank | \$ 4,786,918                                     | \$ 3,096,225        | \$ 3,375,933                    | \$ 4,507,210                          | 1.14-1.51                                    | \$12.0                                 |
| Bank of Taiwan                        | 1,509,756  | 3,537,233           | 3,651,832                       | 1,395,157                             | 1.23-1.51                                    | 3.0                                    |
|                                       | <u>\$ 6,296,674</u>                              | <u>\$ 6,633,458</u> | <u>\$ 7,027,765</u>             | <u>\$ 5,902,367</u>                   |  |  |

(Continued)

| Transaction Counter-party                   | Advances Received at Period - Beginning | Receivables Sold    | Amounts Collected by Bank | Advances Received at Period-end | Interest Rate on Advances Received (%) | Credit Line (In Billions of NTD) |
|---|---|---------------------|---------------------------|---------------------------------|--|----------------------------------|
| Three months ended<br><u>March 31, 2011</u> |   |                     |                           |                                 |  |                                  |
| Mega International Commercial Bank          | \$ 5,222,519                            | \$ 3,106,063        | \$ 3,197,008              | \$ 5,131,574                    | 0.90-1.32                              | \$12.0                           |
| Bank of Taiwan                              | 923,545                                 | 700,157             | 465,108                   | 1,158,594                       | 0.90-1.26                              | 3.0                              |
| Taipei Fubon Bank                           | <u>63,716</u>                           | <u>-</u>            | <u>63,716</u>             | <u>-</u>                        | -                                      | 0.4                              |
|   | <u>\$ 6,209,780</u>                     | <u>\$ 3,806,220</u> | <u>\$ 3,725,832</u>       | <u>\$ 6,290,168</u>             |  |                                  |

(Concluded)

## 9. INVENTORIES

|  | March 31              |                      |
|--|-----------------------|----------------------|
|  | 2012                  | 2011                 |
| Finished products  | \$ 26,963,419         | \$ 17,147,049        |
| Work in process  | 32,305,268            | 34,068,357           |
| Raw materials  | 27,351,710            | 23,794,425           |
| Supplies   | 5,428,633             | 6,023,638            |
| Fuel   | 395,068               | 307,690              |
| Raw materials and supplies in transit  | 6,837,719             | 8,539,620            |
| Construction in progress (net of billing on contracts<br>NT\$39,825,192 thousand and NT\$34,814,284 thousand as of<br>March 31, 2012 and 2011, respectively) | 8,412,080             | 5,179,289            |
| Others   | <u>722,590</u>        | <u>190,956</u>       |
|  | <u>\$ 108,416,487</u> | <u>\$ 95,251,024</u> |

As of March 31, 2012 and 2011, the allowance for inventory devaluation was NT\$4,780,049 thousand and NT\$1,430,331 thousand, respectively, and recorded as reduction in inventories. The cost of inventories recognized as operating costs for the three months ended March 31, 2012 and 2011 was NT\$91,049,503 thousand and NT\$85,253,260 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:

|  | Three Months Ended March 31 |                     |
|--|-----------------------------|---------------------|
|  | 2012                        | 2011                |
| Provision for loss on inventories        | \$ 778,446                  | \$ 206,991          |
| Loss on purchase commitments             | 80,747                      | 205,326             |
| Loss on idle capacity                    | 6,569                       | 3,033               |
| Recovery of loss on inventories          | (482,137)                   | (262,133)           |
| Income from scrap sales                  | (205,508)                   | (285,422)           |
| Recovery of loss on purchase commitments | (1,557)                     | -                   |
| Gain on physical inventory               | <u>(259)</u>                | <u>(543)</u>        |
|  | <u>\$ 176,301</u>           | <u>\$ (132,748)</u> |

Significant construction contracts as of March 31, 2012 and 2011 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) |
|---------------------------|--------------------------|-------------------------------|----------------|----------------------|------------------------------|--------------------------------------|
| <u>March 31, 2012</u>     |                          |                               |                |                      |                              |                                      |
| Year 2012                 | \$ 18,318,852            | \$ 15,670,811                 | \$ 21,099,949  | \$ 20,551,341        | 10-99                        | \$ 314,609                           |
| Year 2013                 | 4,415                    | 343,400                       | 2,229,871      | 2,211,989            | 20                           | 17                                   |
| Year 2014                 | 266,907                  | 491,727                       | 1,269,523      | 1,263,810            | 0-23                         | 1,214                                |
| Year 2015                 | 266,327                  | 578,149                       | 1,623,450      | 1,604,428            | 16                           | 3,109                                |
| <u>March 31, 2011</u>     |                          |                               |                |                      |                              |                                      |
| Year 2011                 | 15,450,582               | 15,125,577                    | 17,148,282     | 16,114,849           | 30-99                        | 826,841                              |
| Year 2012                 | 1,443,021                | 853,322                       | 7,480,036      | 7,867,140            | 0-23                         | ( 387,104 )                          |
| Year 2014                 | 234,178                  | 707,478                       | 2,573,681      | 2,555,633            | 6-11                         | 2,003                                |

## 10. HELD-TO-MATURITY FINANCIAL ASSETS

|                              | <u>March 31</u>  |                |
|------------------------------|------------------|----------------|
|                              | 2012             | 2011           |
| Guarantee debt certificates  | \$ 175,347       | \$ 175,061     |
| Structured notes             | <u>134,495</u>   | <u>137,050</u> |
|                              | 309,842          | 312,111        |
| Less: Accumulated impairment | <u>129,655</u>   | <u>129,655</u> |
|                              | 180,187          | 182,456        |
| Less: Noncurrent portion     | <u>121,167</u>   | <u>182,456</u> |
|                              | <u>\$ 59,020</u> | <u>\$ -</u>    |

- 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 March 31, 2012 and 2011.
- b. As of March 31, 2012 and 2011, the maturity dates of the structured notes are from April 2012 to March 2022 and from April 2012 to March 2023, respectively. Interest is charged by the agreed formula, and actual interest rate as of March 31, 2012 and 2011, was 0%-6.75% and 0%-6.5%, respectively.

## 11. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

|  | <u>March 31</u> |           |
|--|-----------------|-----------|
|  | 2012            | 2011      |
| 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                           | 261,152         | 268,822   |
| Yieh United Steel Corp.                        | 257,600         | 257,600   |

(Continued)

|  | <b>March 31</b>      |                     |
|--|----------------------|---------------------|
|  | <b>2012</b>          | <b>2011</b>         |
| Taiwan Rolling Stock Co., Ltd.                               | \$ 202,048           | \$ 202,048          |
| Qingdao TECO Precision Mechatronics Co., Ltd. (Qingdao TECO) | 165,811              | 235,788             |
| Riselink Venture Capital Corp.                               | 150,000              | 150,000             |
| TaiGen Biopharmaceuticals Holdings Limited (Note 12)         | 106,928              | -                   |
| Hanoi Steel Center Co., Ltd.                                 | 105,383              | -                   |
| Savior Lifetec Corporation                                   | 96,005               | 96,005              |
| Enterex International Limited                                | 94,140               | 94,140              |
| Taiwan High Speed Rail Corporation (THSRC)                   | -                    | -                   |
| Others   | <u>1,626,225</u>     | <u>1,437,069</u>    |
|  | <u>9,436,127</u>     | <u>5,843,757</u>    |
| Unquoted preferred stocks                                    | <u>394,389</u>       | <u>418,131</u>      |
| Certificate of entitlement                                   |                      |                     |
| Formosa Ha Tinh Steel Corporation                            | 855,136              | -                   |
| Shanghai Bao Shan Lian Steel Products Co., Ltd.              | <u>9,926</u>         | -                   |
|  | <u>865,062</u>       | -                   |
| Others   | <u>-</u>             | <u>35,521</u>       |
|  | <u>\$ 10,695,578</u> | <u>\$ 6,297,409</u> |
|  |                      | (Concluded)         |

The above equity investments, which were in unquoted stocks and certificate of entitlement and over which the Corporation and its subsidiaries had no significant influence, were 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 September 2011, the subsidiary CSAPH recognized an impairment loss of NT\$70,662 thousand (USD2,401 thousand) on the investment in Qingdao TECO.

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 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 of 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% dividends. 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 2011, December 2011 and March 2012, the Corporation invested NT\$855,136 thousand (USD29,000 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

|   | <u>March 31</u>     |                     |
|---|---------------------|---------------------|
|   | <u>2012</u>         | <u>2011</u>         |
| Unquoted preferred stocks - overseas                    |                     |                     |
| East Asia United Steel Corporation (EAUS) - Preferred A | \$ 3,592,000        | \$ 3,550,000        |
| TaiGen Biopharmaceuticals Holdings Limited (TGB)        | -                   | 110,081             |
| Others  | 15,412              | 10,347              |
| Subordinated financial bonds                            | 120,000             | 120,000             |
| Bonds   | <u>9,168</u>        | <u>-</u>            |
|   | <u>\$ 3,736,580</u> | <u>\$ 3,790,428</u> |

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 29). 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 March 31, 2012 and 2011, 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\$8,924 thousand (USD311 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

|  | March 31            |                   |                     |                   |
|--|---------------------|-------------------|---------------------|-------------------|
|  | 2012                |                   | 2011                |                   |
|  | Amount              | % of<br>Ownership | Amount              | % of<br>Ownership |
| Unquoted companies                             |                     |                   |                     |                   |
| Kaohsiung Arena Development Corporation (KADC) | \$ 780,929          | 29                | \$ 772,003          | 29                |
| Kaohsiung Rapid Transit Corporation (KRTC)     | 659,758             | 32                | 1,141,404           | 32                |
| Hsin Hsin Cement Enterprise Corp. (HHCEC)      | 360,374             | 39                | 213,821             | 26                |
| Chateau International Development Co., Ltd.    | 221,850             | 20                | 205,626             | 23                |
| Ascentek Venture Capital Corp.                 | 185,449             | 39                | 176,452             | 39                |
| Others   | <u>268,140</u>      |                   | <u>256,136</u>      |                   |
|  | <u>\$ 2,476,500</u> |                   | <u>\$ 2,765,442</u> |                   |

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 three months ended March 31, 2012 and 2011 were as follows:

|        | Three Months Ended March 31 |                     |
|--------|-----------------------------|---------------------|
|        | 2012                        | 2011                |
| KADC   | \$ 10,319                   | \$ 10,286           |
| KRTC   | (185,486)                   | (186,354)           |
| Others | <u>18,438</u>               | <u>2,155</u>        |
|        | <u>\$ (156,729)</u>         | <u>\$ (173,913)</u> |

Net investment losses of NT\$157,360 thousand and NT\$173,876 thousand were recorded as nonoperating expenses and losses, and NT\$631 thousand and NT\$37 thousand were recorded as operating revenue and operating cost for the three months ended March 31, 2012 and 2011, respectively.

### 14. OTHER FINANCIAL ASSETS

|                                   | March 31         |                  |
|-----------------------------------|------------------|------------------|
|                                   | 2012             | 2011             |
| Hedging foreign-currency deposits | \$ 5,571,227     | \$ 5,618,666     |
| Less: Current portion             | <u>5,059,581</u> | <u>5,255,340</u> |

\$ 511,646      \$ 363,326

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 flows 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 March 31, 2012 and 2011, the balance of the JPY deposits designated as hedging instrument was NT\$575,884 thousand (JPY1.6 billion) and NT\$650,767 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 March 31, 2012 and 2011, the balance of the foreign-currency deposits designated as hedging instruments was NT\$3,054,344 thousand (USD103,091 thousand and EUR308 thousand) and NT\$1,197,230 thousand (USD35,750 thousand, EUR1,314 thousand, GBP18 thousand and JPY0.26 billion), respectively.

For the purpose of managing cash flow exposures on foreign-currency capital expenditure contracts, the Corporation and the subsidiary DSC and CAC entered into forward exchange contracts (Note 7). As of March 31, 2012 and 2011, the balance of foreign-currency deposits purchased for expired forward exchange contracts was NT\$1,940,999 thousand (USD54,907 thousand, EUR4,142 thousand and JPY0.4 billion) and NT\$3,770,669 thousand (USD61,516 thousand, EUR2,972 thousand and JPY5.2 billion), respectively.

The unrealized loss of NT\$189,314 thousand and NT\$98,954 thousand arising from the above deposits designated as hedging instruments was recognized as unrealized gain on financial instruments in stockholders' equity and minority interest for the three months ended March 31, 2012 and 2011, respectively. The unrealized gain on financial instruments of NT\$13,700 thousand and NT\$65,871 thousand in stockholders' equity and minority interest was transferred to construction in progress and prepayments for equipment for the three months ended March 31, 2012 and 2011, respectively.

As of March 31, 2012 and 2011, cash outflows would be expected from aforementioned contracts during the periods from 2012 to 2015 and from 2011 to 2014, respectively.

## 15. PROPERTY, PLANT AND EQUIPMENT

|                                | Cost               | Revaluation<br>Increment | Total              |
|--------------------------------|--------------------|--------------------------|--------------------|
| <u>March 31, 2012</u>          |                    |                          |                    |
| Cost and revaluation increment |                    |                          |                    |
| Land                           | \$ 20,052,145      | \$ 39,381,304            | \$ 59,433,449      |
| Land improvements              | 4,386,455          | 492,990                  | 4,879,445          |
| Buildings                      | 76,103,873         | 2,415,863                | 78,519,736         |
| Machinery and equipment        | 425,541,011        | 7,107,072                | 432,648,083        |
| Transportation equipment       | 21,043,265         | 8,018                    | 21,051,283         |
| Other equipment                | 17,868,153         | 31,618                   | 17,899,771         |
| Spare parts                    | <u>9,785,176</u>   | <u>-</u>                 | <u>9,785,176</u>   |
|                                | <u>574,780,078</u> | <u>49,436,865</u>        | <u>624,216,943</u> |

(Continued)

|   | Cost                  | Revaluation<br>Increment | Total                 |
|---|-----------------------|--------------------------|-----------------------|
| Accumulated depreciation                                  |                       |                          |                       |
| Land improvements   | \$ 3,756,917          | \$ 473,225               | \$ 4,230,142          |
| Buildings   | 27,165,015            | 1,961,469                | 29,126,484            |
| Machinery and equipment                                   | 258,539,340           | 7,106,806                | 265,646,146           |
| Transportation equipment                                  | 11,682,702            | 8,015                    | 11,690,717            |
| Other equipment   | 8,134,161             | 31,608                   | 8,165,769             |
| Spare parts   | 2,980,045             | -                        | 2,980,045             |
|   | <u>312,258,180</u>    | <u>9,581,123</u>         | <u>321,839,303</u>    |
| Accumulated impairment                                    |                       |                          |                       |
| Land  | 11,826                | -                        | 11,826                |
| Building  | 7,337                 | -                        | 7,337                 |
| Machinery and equipment                                   | 128,366               | -                        | 128,366               |
| Other equipment   | 299,591               | -                        | 299,591               |
|   | <u>447,120</u>        | <u>-</u>                 | <u>447,120</u>        |
| Construction in progress and prepayments for<br>equipment | <u>107,251,969</u>    | <u>-</u>                 | <u>107,251,969</u>    |
|   | <u>\$ 369,326,747</u> | <u>\$ 39,855,742</u>     | <u>\$ 409,182,489</u> |
| <u>March 31, 2011</u>                                     |                       |                          |                       |
| Cost and revaluation increment                            |                       |                          |                       |
| Land  | \$ 17,568,100         | \$ 32,754,016            | \$ 50,322,116         |
| Land improvements   | 4,382,537             | 492,990                  | 4,875,527             |
| Buildings   | 75,309,480            | 2,418,117                | 77,727,597            |
| Machinery and equipment                                   | 423,028,777           | 7,293,780                | 430,322,557           |
| Transportation equipment                                  | 19,277,315            | 8,991                    | 19,286,306            |
| Other equipment   | 18,374,756            | 31,625                   | 18,406,381            |
| Spare parts   | 8,948,319             | -                        | 8,948,319             |
|   | <u>566,889,284</u>    | <u>42,999,519</u>        | <u>609,888,803</u>    |
| Accumulated depreciation                                  |                       |                          |                       |
| Land improvements   | 3,683,708             | 469,162                  | 4,152,870             |
| Buildings   | 25,167,228            | 1,906,112                | 27,073,340            |
| Machinery and equipment                                   | 242,176,464           | 7,293,444                | 249,469,908           |
| Transportation equipment                                  | 11,187,158            | 8,987                    | 11,196,145            |
| Other equipment   | 7,069,039             | 31,614                   | 7,100,653             |
| Spare parts   | 2,571,119             | -                        | 2,571,119             |
|   | <u>291,854,716</u>    | <u>9,709,319</u>         | <u>301,564,035</u>    |
| Accumulated impairment                                    |                       |                          |                       |
| Land  | 11,826                | -                        | 11,826                |
| Machinery and equipment                                   | 130,934               | -                        | 130,934               |
| Other equipment   | 287,888               | -                        | 287,888               |
|   | <u>430,648</u>        | <u>-</u>                 | <u>430,648</u>        |
| Construction in progress and prepayments for<br>equipment | <u>66,037,870</u>     | <u>-</u>                 | <u>66,037,870</u>     |
|   | <u>\$ 340,641,790</u> | <u>\$ 33,290,200</u>     | <u>\$ 373,931,990</u> |

(Concluded)

Information about capitalized interest on the purchase of property, plant and equipment for the three months ended March 31, 2012 and 2011 was disclosed as follows:

|   | <b>Three Months Ended March 31</b> |                   |
|---|------------------------------------|-------------------|
|   | <b>2012</b>                        | <b>2011</b>       |
| Interest expense before capitalization  | \$ 828,743                         | \$ 638,339        |
| Less: Capitalized interest - construction in progress and prepayments for equipment | <u>243,820</u>                     | <u>170,326</u>    |
| Interest expense through income statement   | <u>\$ 584,923</u>                  | <u>\$ 468,013</u> |
| Capitalization annual rates   | 0.8904%-1.51%                      | 0.88%-1.89%       |

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 three months ended March 31, 2012 and 2011, upon retirement or sale of revalued properties, the unrealized revaluation increment decreased by NT\$17 thousand and NT\$7,448 thousand, respectively, and recognized in profit or loss. As of March 31, 2012 and 2011, the balance of reserve for land value increment tax was NT\$10,011,916 thousand and NT\$8,673,466 thousand, and the balance of the unrealized revaluation increment was NT\$26,610,849 thousand and NT\$21,864,307 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.

## 16. INTANGIBLE ASSETS

|  | Identifiable<br>Intangible<br>Assets | Goodwill          | Total               |
|--|--------------------------------------|-------------------|---------------------|
| <u>Three months ended March 31, 2012</u> |                                      |                   |                     |
| Balance, beginning of period             | \$ 1,842,655                         | \$ 403,515        | \$ 2,246,170        |
| Addition                                 | 7,092                                | -                 | 7,092               |
| Reduction                                | <u>(45,131)</u>                      | <u>-</u>          | <u>(45,131)</u>     |
| Balance, end of period                   | <u>\$ 1,804,616</u>                  | <u>\$ 403,515</u> | <u>\$ 2,208,131</u> |
| <u>Three months ended March 31, 2011</u> |                                      |                   |                     |
| Balance, beginning of period             | \$ 1,705,839                         | \$ 403,274        | \$ 2,109,113        |
| Addition                                 | 136,358                              | -                 | 136,358             |
| Reduction                                | <u>(23,237)</u>                      | <u>-</u>          | <u>(23,237)</u>     |
| Balance, end of period                   | <u>\$ 1,818,960</u>                  | <u>\$ 403,274</u> | <u>\$ 2,222,234</u> |

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

|                          | <u>March 31</u>     |                     |
|--------------------------|---------------------|---------------------|
|                          | 2012                | 2011                |
| Cost                     |                     |                     |
| Land                     | \$ 2,779,755        | \$ 2,990,974        |
| Buildings                | 328,736             | 224,443             |
| Machinery and equipment  | <u>82,985</u>       | <u>-</u>            |
|                          | <u>3,191,476</u>    | <u>3,215,417</u>    |
| Accumulated depreciation |                     |                     |
| Buildings                | 149,318             | 54,345              |
| Machinery and equipment  | <u>78,558</u>       | <u>-</u>            |
|                          | <u>227,876</u>      | <u>54,345</u>       |
| Accumulated impairment   |                     |                     |
| Land                     | <u>8,825</u>        | <u>197,243</u>      |
|                          | <u>\$ 2,954,775</u> | <u>\$ 2,963,829</u> |

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 three months ended March 31, 2012 and 2011, the rental income was NT\$17,648 thousand and NT\$8,823 thousand, respectively, 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.

#### 18. IDLE ASSETS, NET

|                                | <u>March 31</u>     |                     |
|--------------------------------|---------------------|---------------------|
|                                | <u>2012</u>         | <u>2011</u>         |
| Land                           | \$ 3,131,555        | \$ 3,131,555        |
| Machinery and equipment        | 1,749,442           | 822,099             |
| Less: Accumulated depreciation | 87,401              | 82,690              |
| Accumulated impairment         | <u>1,694,380</u>    | <u>1,889,831</u>    |
|                                | <u>\$ 3,099,216</u> | <u>\$ 1,981,133</u> |

Idle assets were land and equipment not used in operation.

In August 2011, considering the changes in economic environment and land repotting, 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. 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

|  | <u>March 31</u>      |                      |
|--|----------------------|----------------------|
|  | <u>2012</u>          | <u>2011</u>          |
| Unsecured loans - interest at 0.545%-8.57% p.a. and 0.51%-5.6%<br>p.a. as of March 31, 2012 and 2011, respectively         | \$ 34,136,435        | \$ 44,876,084        |
| Letters of credit - interest at 0.5443%-1.853% p.a. and<br>0.527%-1.9091% p.a. as of March 31, 2012 and 2011, respectively | 3,227,104            | 2,447,911            |
| Bank overdraft - interest at 0.5%-7.35% p.a. and 0.31%-2.625% p.a.<br>as of March 31, 2012 and 2011, respectively          | 3,440,550            | 2,595,158            |
| Secured loans - interest at 5.35%-6.72% p.a.   | <u>-</u>             | <u>125,606</u>       |
|  | <u>\$ 40,804,089</u> | <u>\$ 50,044,759</u> |

The above unsecured loans as of March 31, 2012, which included USD58,548 thousand (NT\$1,727,751 thousand), were used to hedge the exchange rate fluctuations on investment in CSVC (Note 29).

## 20. COMMERCIAL PAPER PAYABLE

|  | <u>March 31</u>      |                      |
|--|----------------------|----------------------|
|  | <u>2012</u>          | <u>2011</u>          |
| Commercial paper - interest at 0.61%-1.158% p.a. and 0.5%-1% p.a.<br>as of March 31, 2012 and 2011, respectively | \$ 32,526,800        | \$ 18,988,000        |
| Less: Unamortized discounts  | <u>11,238</u>        | <u>5,695</u>         |
|  | <u>\$ 32,515,562</u> | <u>\$ 18,982,305</u> |

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., Chinatrust Finance Corporation, Union Bills Finance Corporation, Taiwan Cooperative Bank, Taiwan Finance Corporation, Chinatrust Commercial Bank, Bank of Taiwan, Taiwan Business Bank, Huanan Commercial Bank, Union Bank of Taiwan, Taipei Fubon Bank, Mega International Commercial Bank, New Zealand Banking Group Limited, Taiwan Cooperative Bills Finance Corporation, E. Sun Bank and Taishin Bank.

## 21. ACCRUED EXPENSES

|  | <u>March 31</u>      |                      |
|--|----------------------|----------------------|
|  | <u>2012</u>          | <u>2011</u>          |
| Accrued salaries and incentive bonus                                 | \$ 3,787,712         | \$ 3,380,916         |
| Bonus to employees, and remuneration to directors and<br>supervisors | 1,999,758            | 3,863,703            |
| Reserve for construction guarantee                                   | 826,997              | 895,144              |
| Repair and construction  | 506,268              | 624,833              |
| Others   | <u>4,415,524</u>     | <u>3,713,232</u>     |
|  | <u>\$ 11,536,259</u> | <u>\$ 12,477,828</u> |

## 22. BONDS PAYABLE

|   | <u>March 31</u> |              |
|---|-----------------|--------------|
|   | <u>2012</u>     | <u>2011</u>  |
| 5-year unsecured bonds - issued at par by the Corporation in:<br>June 2006; repaid in June 2011; interest at 2.32% p.a. | \$ -            | \$ 8,100,000 |
| November 2006; repaid in November 2011; interest at 2.07% p.a.  | -               | 5,600,000    |
| December 2008; repayable in December 2012 and December<br>2013; interest at 2.08% p.a., payable annually                | 12,950,000      | 12,950,000   |
| December 2008; repayable in December 2012 and December<br>2013; interest at 2.42% p.a., payable annually                | 9,600,000       | 9,600,000    |
| October 2011; repayable in October 2015 and October 2016;<br>interest at 1.36% p.a., payable annually                   | 9,300,000       | -            |
|   |                 | (Continued)  |

|   | <u>March 31</u>      |                                     |
|---|----------------------|-------------------------------------|
|   | <u>2012</u>          | <u>2011</u>                         |
| 7-year unsecured bonds - issued at par by the Corporation in:<br>December 2008; repayable in December 2014 and December<br>2015; interest at 2.30% p.a., payable annually | \$ 7,000,000         | \$ 7,000,000                        |
| October 2011; repayable in October 2017 and October 2018;<br>interest at 1.57% p.a., payable annually   | 10,400,000           | -                                   |
| Liability component of unsecured domestic convertible bonds -<br>issued by CEC  | <u>600,000</u>       | <u>-</u>                            |
|   | 49,850,000           | 43,250,000                          |
| Add: Accrued interest   | 167                  | -                                   |
| Less: Issuance cost of bonds payable  | 32,381               | 19,660                              |
| Unamortized discount on bonds payable   | 34,833               | -                                   |
| Current portion   | <u>11,271,314</u>    | <u>13,698,709</u>                   |
|   | <u>\$ 38,511,639</u> | <u>\$ 29,531,631</u><br>(Concluded) |

In February 2012, the subsidiary CEC issued NT\$600,000 thousand of 3-year unsecured domestic convertible bonds with face value of NT\$100 thousand each and zero interest coupon; the bond issuance had been approved by the government. The issuance cost was NT\$4,900 thousand and the proceeds were used to increase operating capital and indirectly invest in CEVC. Between one month after the issuance date and 10 days before the maturity date, bondholders may request CEC to convert the bonds into its common shares. Between one month after the issuance date and 40 days before the maturity date, if the closing price of CEC's shares in the secondary financial market is higher than 130% of the conversion price for 30 consecutive trading days or when the outstanding convertible bonds are less than 10% of initial issued convertible bonds, CEC may redeem by cash the remaining bonds at their face value. On the repurchase date (February 20, 2014), two years after the issuance date, bondholders may request CEC to repurchase the bonds at their face value plus interest (100.501% of face value). As of March 31, 2012, no convertible bond was redeemed or converted.

According to SFAS No. 34 and No. 36, the subsidiary CEC has separately accounted for the embedded derivatives and the host contract - bonds payable. The embedded derivatives, including put options and call options, were recognized in financial liabilities at fair value through profit or loss (Note 5) and measured at fair value.

## 23. LONG-TERM DEBT

|  | <u>March 31</u> |             |
|--|-----------------|-------------|
|  | <u>2012</u>     | <u>2011</u> |
| Syndicated bank loans  |                 |             |
| Bank of Taiwan and other banks loan to CHSC  |                 |             |
| Repayable in 13 equal semiannual installments from March<br>2013 to March 2019, interest at 1.5856% p.a. | \$ 7,000,000    | \$ -        |
| Repayable in March 2019 with a revolving credit, interest at<br>1.6015% p.a.                             | 2,250,000       | -           |
|  |                 | (Continued) |

|  | <b>March 31</b>      |                      |
|--|----------------------|----------------------|
|  | <b>2012</b>          | <b>2011</b>          |
| Mega International Commercial Bank and other banks loan to CHSC  |                      |                      |
| Repayable in 14 equal semiannual installments from April 2007 to October 2013 and repaid early in March 2012; interest at 1.2548% p.a.   | \$ -                 | \$ 2,571,429         |
| Bank of Taiwan and other banks loan to DSC   |                      |                      |
| Repayable in 14 equal semiannual installments from January 2012 to July 2018; interest at 1.2847%-1.3253% p.a. and 1.0857%-1.12% p.a. as of March 31, 2012 and 2011, respectively      | 48,007,000           | 44,500,000           |
| Repayable in 10 equal semiannual installments from August 2012 to February 2017; interest at 1.4939%-1.5411% p.a. and 1.2908%-1.3316% p.a. as of March 31, 2012 and 2011, respectively | 20,000,000           | 500,000              |
| Taiwan Cooperative Bank and other banks loan to HLSC   |                      |                      |
| Repayable in June 2015 with a revolving credit, interest at 1.5455% p.a. and 1.3499% p.a. as of March 31, 2012 and 2011, respectively  | 1,800,000            | 1,900,000            |
| Mortgage loans   |                      |                      |
| Due on various dates through January 2017, floating rate at 0.5625%-1.71% p.a. and 0.552%-1.47% p.a. as of March 31, 2012 and 2011, respectively                                       | 18,960,828           | 18,967,540           |
| Bank loans   |                      |                      |
| Due on various dates through July 2015, interest at 0.535%-5.30127% p.a. and 0.55761%-5.74841% p.a. as of March 31, 2012 and 2011, respectively  | <u>8,698,630</u>     | <u>9,287,689</u>     |
|  | 106,716,458          | 77,726,658           |
| Less: Syndicated loan fee  | 140,167              | 142,367              |
| Current portion  | <u>20,393,498</u>    | <u>1,488,883</u>     |
|  | <u>\$ 86,182,793</u> | <u>\$ 76,095,408</u> |
|  |                      | (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. 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. Starting 2012, 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 exceeded 350%.

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 March 31, 2012, 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 March 31, 2012. 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 March 31, 2012, 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 March 31, 2012, 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 29); and on the available-for-sale financial assets in Maruichi Steel Tube Ltd. and Yodogawa Steel Works, Ltd. (Notes 6 and 29).

#### 24. LONG-TERM NOTES PAYABLE

|   | <u>March 31</u>      |                      |
|---|----------------------|----------------------|
|   | <u>2012</u>          | <u>2011</u>          |
| Long-term notes - interest at 0.78% -1.216% p.a. and 0.54%-1.032%<br>p.a. as of March 31, 2012 and 2011, respectively | \$ 19,880,000        | \$ 10,710,000        |
| Less: Unamortized discounts   | <u>14,663</u>        | <u>9,529</u>         |
|   | <u>\$ 19,865,337</u> | <u>\$ 10,700,471</u> |

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 Ta Chong Bank, Bank of Kaohsiung, Australia and New Zealand Bank, Mega International Commercial Bank and etc.

## 25. RESTRUCTURED LOANS PAYABLE (Only as of March 31, 2011)

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 three months ended March 31, 2011 was 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 |
|---|---------------|-----------------|--|---|---|
| <u>Three months ended March 31, 2011</u>              |               |                 |  |   |   |
| Balance, beginning of period                          | \$ 3,349,544  | \$ 1,232,989    | \$ 4,582,533                               | \$ (13,135)   | \$ 4,569,398  |
| Repayment during the period                           | (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 period                                | <u>\$ -</u>   | <u>\$ -</u>     | <u>\$ -</u>                                | <u>\$ -</u>   | <u>\$ -</u>   |

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 principal 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. 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                 |
|------------------------------------|-----------------------|---------------------|-----------------------|
| <u>March 31, 2012</u>              |                       |                     |                       |
| Assets                             |                       |                     |                       |
| Notes and accounts receivable, net | \$ 13,136,602         | \$ 14,179           | \$ 13,150,781         |
| Inventories                        | <u>106,850,565</u>    | <u>1,565,922</u>    | <u>108,416,487</u>    |
|                                    | <u>\$ 119,987,167</u> | <u>\$ 1,580,101</u> | <u>\$ 121,567,268</u> |

(Continued)

|   | Due Within One<br>Year | Due After One<br>Year | Total                               |
|---|------------------------|-----------------------|-------------------------------------|
| <u>March 31, 2012</u>   |                        |                       |                                     |
| Liabilities   |                        |                       |                                     |
| Notes and accounts payable  | \$ 11,963,243          | \$ 39,060             | \$ 12,002,303                       |
| Advance construction receipts in excess of<br>construction in progress (included in<br>other current liabilities) | <u>2,375,300</u>       | <u>1,401,849</u>      | <u>3,777,149</u>                    |
|   | <u>\$ 14,338,543</u>   | <u>\$ 1,440,909</u>   | <u>\$ 15,779,452</u>                |
| <u>March 31, 2011</u>   |                        |                       |                                     |
| Assets  |                        |                       |                                     |
| Notes and accounts receivable, net  | \$ 11,165,489          | \$ 6,895              | \$ 11,172,384                       |
| Inventories   | <u>93,065,292</u>      | <u>2,185,732</u>      | <u>95,251,024</u>                   |
|   | <u>\$ 104,230,781</u>  | <u>\$ 2,192,627</u>   | <u>\$ 106,423,408</u>               |
| Liabilities   |                        |                       |                                     |
| Notes and accounts payable  | \$ 11,619,825          | \$ 275,453            | \$ 11,895,278                       |
| Advance construction receipts in excess of<br>construction in progress (included in<br>other current liabilities) | <u>1,485,041</u>       | <u>1,412,650</u>      | <u>2,897,691</u>                    |
|   | <u>\$ 13,104,866</u>   | <u>\$ 1,688,103</u>   | <u>\$ 14,792,969</u><br>(Concluded) |

## 27. STOCKHOLDERS' EQUITY OF PARENT COMPANY

### a. Capital stock

In July 2011, the Corporation issued 678,308 thousand common shares through capitalization of retained earnings of NT\$6,783,084 thousand; the capital increase had 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. In August 2011, all the above options were exercised.

In August 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%   |

In August 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

| Purpose of Treasury Stock                | Thousand Shares     |               |               | March 31          |                     |
|--|---------------------|---------------|---------------|-------------------|---------------------|
|  | Beginning of Period | Addition      | Reduction     | Thousand Shares   | Book Value          |
| <u>Three months ended March 31, 2012</u> |                     |               |               |                   |                     |
| Shares acquired and held by subsidiaries | <u>\$ 295,065</u>   | <u>\$ 650</u> | <u>\$ 552</u> | <u>\$ 295,163</u> | <u>\$ 8,125,498</u> |
| <u>Three months ended March 31, 2011</u> |                     |               |               |                   |                     |
| Shares acquired and held by subsidiaries | <u>\$ 284,762</u>   | <u>\$ -</u>   | <u>4,622</u>  | <u>\$ 280,140</u> | <u>\$ 8,034,850</u> |

The Corporation's shares acquired and held by subsidiaries are accounted for as treasury stock (subsidiaries recorded those share 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% shareholding. The decrease of treasury stock was mainly due to subsidiaries' sale of the Corporation's shares and change in percentage of ownership.

For the three months ended March 31, 2012 and 2011, the subsidiaries sold 1,000 thousand shares and 8,479 thousand shares of the Corporation for proceeds of NT\$28,498 thousand and NT\$287,786 thousand, respectively.

For the three months ended March 31, 2012 and 2011, the proceeds of treasury stock sold, calculated by shareholding percentage, amounted to NT\$15,740 thousand and NT\$156,718 thousand, respectively, and after deducting book values, resulted in the amounts of NT\$2,029 thousand and NT\$40,031 thousand recorded as capital surplus, respectively. As of March 31, 2012 and 2011, the market values of the treasury shares calculated by combined holding percentage were NT\$8,899,152 thousand and NT\$9,846,936 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 March 31, 2012 and 2011, the outstanding depositary receipts were 3,480,285 units and 4,061,107 units, equivalent to 69,605,971 common shares (including 271 fractional shares) and 81,222,381 common shares (including 241 fractional shares), which represented 0.46% and 0.60% 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 followings:

|                             | <u>March 31</u>      |                      |
|-----------------------------|----------------------|----------------------|
|                             | <u>2012</u>          | <u>2011</u>          |
| Additional paid-in capital  | \$ 31,154,766        | \$ 15,717,185        |
| Treasury stock transactions | 4,637,582            | 4,016,083            |
| Long-term stock investments | 463,943              | 371,294              |
| Others                      | <u>8,099</u>         | <u>8,099</u>         |
|                             | <u>\$ 36,264,390</u> | <u>\$ 20,112,661</u> |

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 in proportion to the percentage of ownership in the equity equal to the difference between market price and carrying value. The Corporation may release a portion of this special reserve when such debit balances are partially or fully reversed. As of March 31, 2012, 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.

The Corporation had a net loss for the three months ended March 31, 2012; therefore, no bonus to employees and remuneration to directors and supervisors was accrued. As of March 31, 2011, bonus to employees and remuneration to directors and supervisors were NT\$459,224 thousand and NT\$8,610 thousand, respectively. 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 board of directors and stockholders in their March 2012 and June 2011 meetings approved the following appropriations of the 2011 and 2010 earnings, respectively.

|               | <b>Appropriation of Earnings</b> |              | <b>Dividend Per Share<br/>(NT Dollars)</b> |             |
|---------------|----------------------------------|--------------|--|-------------|
|               | <b>2011</b>                      | <b>2010</b>  | <b>2011</b>                                | <b>2010</b> |
| Legal reserve | \$ 1,949,368                     | \$ 3,758,683 |  |             |

|                  |        |        |             |             |
|------------------|--------|--------|-------------|-------------|
| Preferred stocks |        |        |             |             |
| Cash dividends   | 47,835 | 76,153 | \$ 1.25     | \$ 1.99     |
| Stock dividends  | 5,740  | 19,134 | <u>0.15</u> | <u>0.50</u> |

\$ 1.40    \$ 2.49

(Continued)

|                 | Appropriation of Earnings |                      | Dividend Per Share<br>(NT Dollars) |                |
|-----------------|---------------------------|----------------------|------------------------------------|----------------|
|                 | 2011                      | 2010                 | 2011                               | 2010           |
| Common stocks   |                           |                      |                                    |                |
| Cash dividends  | 15,196,671                | 26,920,523           | \$ 1.01                            | \$ 1.99        |
| Stock dividends | <u>2,256,932</u>          | <u>6,763,950</u>     | <u>0.15</u>                        | <u>0.50</u>    |
|                 | <u>\$ 19,456,546</u>      | <u>\$ 37,538,443</u> | <u>\$ 1.16</u>                     | <u>\$ 2.49</u> |

(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.

On June 15, 2011, the stockholders approved the bonus to employees of NT\$2,701,965 thousand and the remuneration to directors and supervisors of NT\$50,662 thousand for 2010. The bonus to employees and the remuneration to directors and supervisors were settled by cash. The amounts resolved in stockholders' meeting were the same as the amounts recognized in the financial statements for the year ended December 31, 2010.

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 of the following:

|  | March 31             |                      |
|--|----------------------|----------------------|
|  | 2012                 | 2011                 |
| Revaluation increment of property, plant and equipment<br>(Note 15)                              | \$ 26,610,849        | \$ 21,864,307        |
| Recognized in proportion to the ownership percentage in<br>long-term stock investments (Note 15) | <u>146,641</u>       | <u>2,103</u>         |
|  | <u>\$ 26,757,490</u> | <u>\$ 21,866,410</u> |

h. Unrealized gain on financial instruments

For the three months ended March 31, 2012 and 2011, movements of unrealized gain on financial instruments were as follows:

|   | Available-for-sale<br>Financial<br>Assets | Equity-method<br>Investments | Unrealized<br>Gain or Loss<br>on Cash Flow<br>Hedging | Total               |
|---|---|------------------------------|---|---------------------|
| <u>Three months ended March 31, 2012</u>                              |   |                              |   |                     |
| Balance, beginning of period  | \$ 3,079,773                              | \$ (341,916)                 | \$ 283,062  | \$ 3,020,919        |
| Recognized in stockholders' equity                                    | 555,745                                   | (71,735)                     | (172,408)   | 311,602             |
| Transferred to construction in progress and prepayments for equipment | <u>-</u>                                  | <u>-</u>                     | <u>3,901</u>  | <u>3,901</u>        |
| Balance, end of period  | <u>\$ 3,635,518</u>                       | <u>\$ (413,651)</u>          | <u>\$ 114,555</u>                                     | <u>\$ 3,336,422</u> |
| <u>Three months ended March 31, 2011</u>                              |   |                              |   |                     |
| Balance, beginning of period  | \$ 2,938,550                              | \$ (593,445)                 | \$ 29,272   | \$ 2,374,377        |
| Recognized in stockholders' equity                                    | 215,911                                   | (131,805)                    | (28,283)  | 55,823              |
| Transferred to construction in progress and prepayments for equipment | <u>-</u>                                  | <u>-</u>                     | <u>12,001</u>   | <u>12,001</u>       |
| Balance, end of period  | <u>\$ 3,154,461</u>                       | <u>\$ (725,250)</u>          | <u>\$ 12,990</u>                                      | <u>\$ 2,442,201</u> |

i. Cumulative translation adjustments

Changes in composition of cumulative translation adjustments for the three months ended March 31, 2012 and 2011 were as follows:

|                                    | <u>Three Months Ended March 31</u> |                     |
|------------------------------------|------------------------------------|---------------------|
|                                    | <u>2012</u>                        | <u>2011</u>         |
| Balance, beginning of period       | \$ 17,192                          | \$ (101,443)        |
| Recognized in stockholders' equity | <u>(181,730)</u>                   | <u>(128,753)</u>    |
| Balance, end of period             | <u>\$ (164,538)</u>                | <u>\$ (230,196)</u> |

28. EARNINGS (LOSS) PER SHARE

|   | <u>Amount (Numerator)</u> |                     | <u>Shares<br/>(Denominator)<br/>(Thousand)</u> | <u>Earnings (Loss) Per Share<br/>(Dollars)</u> |                  |
|---|---------------------------|---------------------|--|--|------------------|
|   | <u>Before Tax</u>         | <u>After Tax</u>    |  | <u>Before Tax</u>                              | <u>After Tax</u> |
| <u>Three months ended March 31, 2012</u>                                    |                           |                     |  |  |                  |
| Consolidated net loss attributable to the Corporation's stockholders        | \$ (977,629)              | \$ (712,179)        |  |  |                  |
| Less: Dividends on preferred shares   | <u>(18,386)</u>           | <u>(13,394)</u>     |  |  |                  |
| Basic and diluted loss per share  |                           |                     |  |  |                  |
| Consolidated net loss attributable to the Corporation's common stockholders | <u>\$ (996,015)</u>       | <u>\$ (725,573)</u> | <u>14,751,046</u>                              | \$ (0.07)                                      | \$ (0.05)        |
| <u>Three months ended March 31, 2011</u>                                    |                           |                     |  |  |                  |
| Consolidated net income attributable to the Corporation's stockholders      | \$ 7,316,009              | \$ 6,676,102        |  |  |                  |
| Less: Dividends on preferred shares   | <u>(21,073)</u>           | <u>(19,230)</u>     |  |  |                  |

(Continued)

|  | Amount (Numerator)  |                     | Shares<br>(Denominator)<br>(Thousand) | Earnings Per Share<br>(Dollars) |           |
|--|---------------------|---------------------|---------------------------------------|---------------------------------|-----------|
|  | Before Tax          | After Tax           |                                       | Before Tax                      | After Tax |
| Basic EPS  |                     |                     |                                       |                                 |           |
| Consolidated net income attributable to the Corporation's common stockholders  | \$ 7,294,936        | \$ 6,656,872        | 13,912,062                            | \$ 0.52                         | \$ 0.48   |
| Effect of dilutive potential common stock  |                     |                     |                                       |                                 |           |
| Add: Dividends on preferred shares   | 21,073              | 19,230              | 38,268                                |                                 |           |
| Bonus to employees   | <u>-</u>            | <u>-</u>            | <u>100,101</u>                        |                                 |           |
| Diluted EPS  |                     |                     |                                       |                                 |           |
| Consolidated net income attributable to the Corporation's common stockholders plus effect of potential dilutive common stock | <u>\$ 7,316,009</u> | <u>\$ 6,676,102</u> | <u>14,050,431</u>                     | 0.52                            | 0.48      |

(Concluded)

Due to the net loss for the three months ended March 31, 2012, anti-dilutive effect will arise from the potential shares; therefore, the basic loss per share is the same with diluted loss per share.

The 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, 2011. This adjustment caused both the basic and diluted after income tax EPS for the three months ended March 31, 2011 to decrease from NT\$0.50 to NT\$0.48.

## 29. FINANCIAL INSTRUMENTS

a. As of March 31, 2012 and 2011, the information of fair values was as follows:

|  | March 31        |              |                 |              |
|--|-----------------|--------------|-----------------|--------------|
|  | 2012            |              | 2011            |              |
|  | Carrying Amount | Fair Value   | Carrying Amount | Fair Value   |
| <u>Non-derivative financial instruments</u>                                  |                 |              |                 |              |
| Consolidated assets  |                 |              |                 |              |
| Financial assets at fair value through profit or loss (including noncurrent) | \$ 3,566,488    | \$ 3,566,488 | \$ 5,273,972    | \$ 5,273,972 |
| Available-for-sale financial assets (including noncurrent)                   | 9,495,151       | 9,495,151    | 9,638,017       | 9,638,017    |
| Held-to-maturity financial assets (including noncurrent)                     | 180,187         | 180,187      | 182,456         | 182,456      |
| Financial assets carried at cost   | 10,695,578      |              | 6,297,409       |              |
| Bond investments with no active market                                       | 3,736,580       | 3,736,580    | 3,790,428       | 3,790,428    |

|   |           |           |           |             |
|---|-----------|-----------|-----------|-------------|
| Other financial assets (including noncurrent) | 5,571,227 | 5,571,227 | 5,618,666 | 5,618,666   |
| Refundable deposits                           | 286,754   | 286,754   | 259,780   | 259,780     |
|   |           |           |           | (Continued) |

|   | March 31           |               |                    |               |
|---|--------------------|---------------|--------------------|---------------|
|   | 2012               |               | 2011               |               |
|   | Carrying<br>Amount | Fair Value    | Carrying<br>Amount | Fair Value    |
| Consolidated liabilities  |                    |               |                    |               |
| Bonds payable (including current portion)   | \$ 49,782,953      | \$ 50,528,145 | \$ 43,230,340      | \$ 44,111,237 |
| Long-term debt (including current portion)  | 106,576,291        | 106,576,291   | 77,584,291         | 77,584,291    |
| Long-term notes payable   | 19,865,337         | 19,865,337    | 10,700,471         | 10,700,471    |
| <u>Derivative financial instrument</u>  |                    |               |                    |               |
| Consolidated assets   |                    |               |                    |               |
| Financial assets at fair value through profit or loss (including noncurrent)      | 4,988              | 4,988         | 5,026              | 5,026         |
| Hedging derivative assets (including noncurrent)                                  | 110,129            | 110,129       | 34,040             | 34,040        |
| Consolidated liabilities  |                    |               |                    |               |
| Financial liabilities at fair value through profit or loss (including noncurrent) | 4,470              | 4,470         | 7,224              | 7,224         |
| Hedging derivative liabilities (including noncurrent)                             | 240,298            | 240,298       | 754,642            | 754,642       |
|   |                    |               |                    | (Concluded)   |

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 March 31, 2012 and 2011 were from 0.4% to 5.30127% and from 0.54% to 5.74841%, 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<br>Market Price |              | Amount Determined by Using<br>Valuation Technique |            |
|---|---|--------------|---|------------|
|   | March 31                                    |              | March 31  |            |
|   | 2012  | 2011         | 2012  | 2011       |
| Consolidated assets   |   |              |   |            |
| Financial assets at fair value through profit or loss (including noncurrent)      | \$ 3,357,193                                | \$ 4,649,076 | \$ 214,283  | \$ 629,922 |
| Available-for-sale financial assets (including noncurrent)                        | 8,975,023                                   | 9,332,178    | 520,128   | 305,839    |
| Held-to-maturity financial assets (including noncurrent)                          | -   | -            | 180,187   | 182,456    |
| Bond investments with no active market  | -   | -            | 3,736,580   | 3,790,428  |
| Other financial assets (including noncurrent)                                     | -   | -            | 5,571,227   | 5,618,666  |
| Hedging derivative assets (including noncurrent)                                  | -   | -            | 110,129   | 34,040     |
| Refundable deposits   | -   | -            | 286,754   | 259,780    |
| Consolidated liabilities  |   |              |   |            |
| Financial liabilities at fair value through profit or loss (including noncurrent) | -   | -            | 4,470   | 7,224      |
| Hedging derivative liabilities (including noncurrent)                             | -   | -            | 240,298   | 754,642    |
| Bonds payable (including current portion)   | 50,473,575                                  | 44,111,237   | -   | -          |
| Long-term debt (including current portion)  | -   | -            | 106,576,291                                       | 77,584,291 |
| Long-term notes payable   | -   | -            | 19,865,337  | 10,700,471 |

- d. Valuation gains and losses arising from changes in fair value of financial instruments determined using valuation techniques were valuation loss NT\$26,679 thousand and valuation gain NT\$26,211 thousand for the three months ended March 31, 2012 and 2011, respectively.
- e. As of March 31, 2012 and 2011, financial liabilities exposed to cash flow interest rate risk amounted to NT\$167,245,717 thousand and NT\$138,329,521 thousand, respectively, and financial liabilities exposed to fair value interest rate risk amounted to NT\$82,298,515 thousand and NT\$62,212,645 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\$90,565 thousand and NT\$828,743 thousand, respectively, for the three months ended March 31, 2012 and NT\$67,618 thousand and NT\$638,339 thousand, respectively, for the three months ended March 31, 2011.
- g. Financial risks
- 1) Market risk

Market risk includes fair value risk of exchange rate risk, interest rate change 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\$1,476,830 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 will increase or decrease by about NT\$71,452 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 March 31, 2012 were as follows:

| <b>Endorsement/<br/>Guarantee Provider</b> | <b>Counter-Party</b>                           | <b>Ending Balance</b>  |
|--|--|------------------------|
| China Steel Corporation                    | Dragon Steel Corporation                       | USD 445,015 thousand   |
| China Steel Structure Co., Ltd.            | United Steel Constructure Corporation          | NTD 1,345,000 thousand |
|  | Chung-Kang Steel Structure (Kunshan) Co., Ltd. | NTD 324,610 thousand   |
|  | United Steel Construction Vietnam Co., Ltd.    | NTD 324,610 thousand   |
| United Steel Constructure Corporation      | China Steel Structure Co., Ltd.                | NTD 5,714,317 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 55,500 thousand    |
| China Prosperity Development Corporation   | CK Japan Co., Ltd.                             | JPY 402,870 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\$1,672,457 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. The subsidiary DSC purchased interest rate swap contracts to effectively hedge the interest rate fluctuations on bank loans.

| Hedge Type                                       | Hedged Item   | Financial Instrument                              | Designated Hedging Instrument |           |
|--|---|---|-------------------------------|-----------|
|  |   |   | Changes in Fair Value         |           |
|  |   |   | Three Months Ended March 31   |           |
|  |   |   | 2012                          | 2011      |
| Fair value hedge                                 | Investments in EAUS (recorded as bond investments with no active market - noncurrent)                       | Debt in JPY                                       | \$ 310,860                    | \$ 32,175 |
| Fair value hedge                                 | Investments in Maruichi Steel Tube Ltd. (recorded as available-for-sale financial assets - noncurrent)      | Debt in JPY                                       | 81,640                        | 8,450     |
| Fair value hedge                                 | Investments in Yodogawa Steel Works, Ltd. (recorded as available-for-sale financial assets - noncurrent)    | Debt in JPY                                       | 38,119                        | 3,946     |
| Hedge of a net investment in a foreign operation | Investment in CSCAU (one of consolidated entities and the amount was eliminated)                            | Debt in AUD                                       | 662                           | (11,595)  |
| Hedge of a net investment in a foreign operation | Investment in CSVC (one of consolidated entities and the amount was eliminated)                             | Debt in USD                                       | 108,241                       | 56,382    |
| Cash flow hedge                                  | Contracts for purchasing machinery and equipment  | Bank deposit - foreign-currency                   | (189,314)                     | (98,954)  |
| Cash flow hedge                                  | Contracts for purchasing machinery and equipment, contracts for selling and purchasing goods and bank loans | Forward exchange and interest rate swap contracts | (284,091)                     | (259,592) |

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 adjustment to stockholders' equity.

As of March 31, 2012 and 2011, the fair values of the above foreign currency deposits on cash flow hedge were NT\$5,571,227 thousand and NT\$5,618,666 thousand, respectively, recorded as other financial assets (including noncurrent) (Note 14).

### 30. RELATED PARTY TRANSACTIONS

a. Related parties

| Related Parties                              | Relationship with the Corporation              |
|--|--|
| Kaohsiung Rapid Transit Corporation          | 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        |

(Continued)

| <u>Related Parties</u>  | <u>Relationship with the Corporation</u>   |
|---|--|
| Southeast Cement Co., Ltd.<br>RSEA Engineering Corp.  | Director of the Corporation's affiliate<br>Director of the Corporation's affiliate,<br>dismissed in June 2011  |
| Great Grandeul Steel Co., Ltd.<br>Dai-Ichi High Frequency Co., Ltd.<br>Hua Eng Wire & Cable Co., Ltd.<br>CTCI Corporation<br>Chun Yu Corporation<br>Chia Hsin Cement Corporation<br>Berlin Co., Ltd. (BC) | Director of the Corporation's affiliate<br>Director of the Corporation's affiliate<br>Director of the Corporation's affiliate<br>Supervisor of the Corporation's affiliate<br>Supervisor of the Corporation's affiliate<br>Supervisor of the Corporation's affiliate<br>Supervisor of the Corporation's affiliate,<br>elected in June 2011 |
| CSBC Corporation Taiwan (CSBC)<br>Tang Eng Iron Works Co., Ltd. (TEI)<br>Adimmune Corp.<br>Shanghai Summit Metal Products Co., Ltd.<br>Pacific Harbour Stevedoring Corp.<br>CSC Educational Foundation    | CSBC's director<br>TEI's director<br>Adimmune Corporation's supervisor<br>The Corporation's affiliate is its director<br>The Corporation's affiliate is its director<br>Foundation established mainly from the<br>Corporation's donation   |
| Others  | Substantial control and significant influence<br>over investees, but no material transaction<br>(Concluded)  |

b. Significant related-party transactions were as follows:

Sales

Sales to related parties (including CSBC and TCC, etc.) were NT\$1,759,616 thousand (2% of operating revenues) and NT\$1,649,633 thousand (2% of operating revenues), respectively, for the three months ended March 31, 2012 and 2011.

Purchases

Purchases from related parties (including HHCEC and etc.) were NT\$98,621 thousand and NT\$107,107 thousand, respectively, for the three months ended March 31, 2012 and 2011.

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\$180,013 thousand and NT\$221,098 thousand, respectively, for the three months ended March 31, 2012 and 2011. These were recorded in operating revenues and nonoperating income and gains.

Balances at period-end

1) Notes and accounts receivable

Notes and accounts receivable from related parties were NT\$938,732 thousand (7% of account balance, including CSBC and CSRC, etc.) and NT\$900,432 thousand (8% of account balance,

including CSBC and CSRC, etc.), respectively, as of March 31, 2012 and 2011.

2) Notes and accounts payable

Notes and accounts payable to related parties were NT\$168,679 thousand (1% of account balance, including BC and TCC, etc.) and NT\$64,052 thousand (1% of account balance, including HHCEC and TCC, etc.), respectively, as of March 31, 2012 and 2011.

**31. MORTGAGED OR PLEDGED ASSETS**

As of March 31, 2012 and 2011, 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):

|   | <b>March 31</b>       |                       |
|---|-----------------------|-----------------------|
|   | <b>2012</b>           | <b>2011</b>           |
| Property, plant and equipment, net  | \$ 130,018,872        | \$ 128,846,763        |
| Restricted assets - demand and time deposits                                    | 7,095,479             | 6,176,014             |
| Stocks (Note)   | 6,985,755             | 8,636,355             |
| Idle assets, net  | 804,795               | 877,958               |
| Assets leased to others, net  | 135,277               | 124,723               |
| Government bonds (recorded in available-for-sale financial assets - noncurrent) | -                     | 12,000                |
|   | <u>\$ 145,040,178</u> | <u>\$ 144,673,813</u> |

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

**32. SIGNIFICANT COMMITMENTS AND CONTINGENCIES AS OF MARCH 31, 2012**

In addition to those disclosed in Note 23, significant commitments and contingencies of the Corporation and its subsidiaries as of March 31, 2012 were as follows:

- a. The Corporation and its subsidiaries provide letters of credits of NT\$3.8 billion guaranteed by financial institutions for several construction and lease contracts, and guarantee notes of NT\$77.6 billion to banks and owners for loans, purchase agreements and warranty.
- b. Unused letters of credit to import materials and machinery amounted to NT\$19.3 billion.
- c. Property purchase and construction contracts of NT\$41.7 billion were signed but not yet recorded.
- d. Construction contracts of NT\$35.2 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 10,580,000 metric tons of coal, and 20,330,000 metric tons of iron ore, and 2,840,000 metric tons of limestone are at prices negotiable with the counter parties. Purchase commitments as of March 31, 2012 were US\$16.5 billion (including 17,010,000 metric tons of coal, 97,350,000 metric tons of iron ore, and 380,000 metric tons of limestone).

- f. Endorsements/guarantees provided to the consolidated entities as of March 31, 2012 were as follows:

| Endorsement/<br>Guarantee Provider       | Counter-Party  | Ending Balance         |
|--|--|------------------------|
| China Steel Corporation                  | Dragon Steel Corporation                                     | USD 445,015 thousand   |
| China Steel Structure Co., Ltd.          | United Steel Constructure Corporation                        | NTD 1,345,000 thousand |
|  | Chung-Kang Steel Structure (Kunshan) Co., Ltd.               | NTD 324,610 thousand   |
|  | United Steel Construction Vietnam Co., Ltd.                  | NTD 324,610 thousand   |
| United Steel Constructure Corporation    | China Steel Structure Co., Ltd.                              | NTD 5,714,317 thousand |
| China Steel Global Trading Corporation   | Chung Mao Trading (SAMOA) Co. CSGT International Corporation | USD 3,000 thousand     |
| China Steel Express Corporation          | CSE Transport Corporation (Panama)                           | USD 55,500 thousand    |
| China Prosperity Development Corporation | CK Japan Co., Ltd.   | JPY 402,870 thousand   |

### 33. 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:

- China Steel Corporation (CSC) - manufactures and sells steel products and engages in mechanical, communications and electrical engineering.
- Dragon Steel Corporation (DSC) - processes, manufactures and sells H-beam, billet, slab and coil.
- Chung Hung Steel Corporation Ltd. (CHSC) - processes, manufactures and sells coil, pipe, tube and other steel products.

Information about revenue, results from continuing operations and assets of the Corporation and its subsidiaries was as follows:

|   | CSC                   | DSC                  | CHSC                 | Other Segments       | Adjustment and Elimination | Consolidated         |
|---|-----------------------|----------------------|----------------------|----------------------|----------------------------|----------------------|
| <u>Three months ended March 31, 2012</u>            |                       |                      |                      |                      |                            |                      |
| Revenues from other than consolidated entities      | \$ 50,134,152         | \$ 12,859,989        | \$ 11,160,137        | \$ 19,771,739        | \$ -                       | \$ 93,926,017        |
| Revenues among consolidated entities                | <u>3,471,875</u>      | <u>4,492,264</u>     | <u>838,463</u>       | <u>11,563,567</u>    | <u>(20,366,169)</u>        | <u>-</u>             |
| Total revenues                                      | <u>\$ 53,606,027</u>  | <u>\$ 17,352,253</u> | <u>\$ 11,998,600</u> | <u>\$ 31,335,306</u> | <u>\$ (20,366,169)</u>     | <u>\$ 93,926,017</u> |
| Segment profit (loss)                               | <u>\$ (1,466,991)</u> | <u>\$ (754,429)</u>  | <u>\$ (303,840)</u>  | <u>\$ 2,837,170</u>  | <u>\$ (190,810)</u>        | \$ 121,100           |
| Interest income                                     |                       |                      |                      |                      |                            | 90,565               |
| Nonoperating income and gains                       |                       |                      |                      |                      |                            | 382,514              |
| Interest expense                                    |                       |                      |                      |                      |                            | (584,923)            |
| Investment loss recognized under equity method, net |                       |                      |                      |                      |                            | (157,360)            |

(Continued)

|   | CSC                   | DSC                   | CHSC                 | Other Segments        | Adjustment and Elimination | Consolidated          |
|---|-----------------------|-----------------------|----------------------|-----------------------|----------------------------|-----------------------|
| Nonoperating expenses and losses                    |                       |                       |                      |                       |                            | \$ (234,403)          |
| Income before income tax                            |                       |                       |                      |                       |                            | <u>(\$ 382,507)</u>   |
| Identifiable assets                                 | <u>\$ 293,949,494</u> | <u>\$ 196,423,118</u> | <u>\$ 29,366,898</u> | <u>\$ 129,294,820</u> | <u>\$ (32,919,523)</u>     | \$ 616,114,807        |
| Investments accounted for by the equity method      |                       |                       |                      |                       |                            | <u>2,476,500</u>      |
| Total assets  |                       |                       |                      |                       |                            | <u>\$ 618,591,307</u> |
| <u>Three months ended March 31, 2011</u>            |                       |                       |                      |                       |                            |                       |
| Revenues from other than consolidated entities      | \$ 52,623,696         | \$ 12,862,121         | \$ 13,169,129        | \$ 18,920,047         | \$ -                       | \$ 97,574,993         |
| Revenues among consolidated entities                | <u>3,882,390</u>      | <u>4,928,362</u>      | <u>93,566</u>        | <u>11,528,456</u>     | <u>(20,432,774)</u>        | -                     |
| Total revenues                                      | <u>\$ 56,506,086</u>  | <u>\$ 17,790,483</u>  | <u>\$ 13,262,695</u> | <u>\$ 30,448,503</u>  | <u>(\$ 20,432,774)</u>     | <u>\$ 97,574,993</u>  |
| Segment profit                                      | <u>\$ 5,165,550</u>   | <u>\$ 872,678</u>     | <u>\$ 317,912</u>    | <u>\$ 3,172,694</u>   | <u>(\$ 250,410)</u>        | \$ 9,278,424          |
| Interest income                                     |                       |                       |                      |                       |                            | 67,618                |
| Nonoperating income and gains                       |                       |                       |                      |                       |                            | 373,341               |
| Interest expense                                    |                       |                       |                      |                       |                            | (468,013)             |
| Investment loss recognized under equity method, net |                       |                       |                      |                       |                            | (173,876)             |
| Nonoperating expenses and losses                    |                       |                       |                      |                       |                            | <u>(144,529)</u>      |
| Income before income tax                            |                       |                       |                      |                       |                            | <u>\$ 8,932,965</u>   |
| Identifiable assets                                 | <u>\$ 267,349,937</u> | <u>\$ 176,910,168</u> | <u>\$ 30,144,940</u> | <u>\$ 116,961,000</u> | <u>(\$ 34,963,807)</u>     | \$ 556,402,238        |
| Investments accounted for by the equity method      |                       |                       |                      |                       |                            | <u>2,765,442</u>      |
| Total assets  |                       |                       |                      |                       |                            | <u>\$ 559,167,680</u> |

(Concluded)

#### 34. EXCHANGE RATE INFORMATION OF FOREIGN — CURRENCY FINANCIAL ASSETS AND LIABILITIES

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

|                           | March 31                       |               |                                |                                |               |                                |
|---------------------------|--------------------------------|---------------|--------------------------------|--------------------------------|---------------|--------------------------------|
|                           | 2012                           |               |                                | 2011                           |               |                                |
|                           | Foreign Currencies (Thousands) | Exchange Rate | New Taiwan Dollars (Thousands) | Foreign Currencies (Thousands) | Exchange Rate | New Taiwan Dollars (Thousands) |
| Monetary Financial Assets |                                |               |                                |                                |               |                                |
| USD                       | \$ 538,725                     | 29.51         | \$ 15,897,785                  | \$ 409,910                     | 29.4          | \$ 12,051,354                  |
| JPY                       | 14,391,075                     | 0.3592        | 5,169,274                      | 20,943,537                     | 0.355         | 7,434,956                      |
| EUR                       | 4,659                          | 39.41         | 183,613                        | 18,970                         | 41.71         | 791,228                        |
| GBP                       | 84                             | 47.24         | 3,987                          | 84                             | 47.46         | 3,990                          |
| SGD                       | 9,925                          | 23.49         | 233,133                        | 10,201                         | 23.34         | 238,081                        |
| AUD                       | 15,268                         | 30.695        | 468,666                        | 13,653                         | 30.38         | 414,778                        |
| CNY                       | 520,744                        | 4.6845        | 2,439,424                      | 285,959                        | 4.5105        | 1,289,820                      |
| HKD                       | 28,231                         | 3.802         | 107,333                        | 58,406                         | 3.777         | 220,598                        |
| MYR                       | 326,435                        | 9.2455        | 3,018,050                      | 346,463                        | 9.3265        | 3,231,286                      |
| VND                       | 317,283,440                    | 0.0014        | 434,678                        | 305,780,976                    | 0.0014        | 415,862                        |
| INR                       | 104,431                        | 0.5777        | 60,330                         | -                              | -             | -                              |

(Continued)

|  | March 31                       |               |                                |                                |               |                                |
|--|--------------------------------|---------------|--------------------------------|--------------------------------|---------------|--------------------------------|
|  | 2012                           |               |                                | 2011                           |               |                                |
|  | Foreign Currencies (Thousands) | Exchange Rate | New Taiwan Dollars (Thousands) | Foreign Currencies (Thousands) | Exchange Rate | New Taiwan Dollars (Thousands) |
| Non-monetary Financial assets                  |                                |               |                                |                                |               |                                |
| USD  | \$ 18,533                      | 29.51         | \$ 546,910                     | \$ 16,722                      | 29.4          | \$ 491,634                     |
| JPY  | 4,586,000                      | 0.3592        | 1,647,291                      | 4,882,000                      | 0.355         | 1,733,110                      |
| EUR  | 23                             | 39.41         | 920                            | 452                            | 41.71         | 18,873                         |
| SGD  | 1,593                          | 23.49         | 37,410                         | 1,593                          | 23.34         | 37,171                         |
| CNY  | 423                            | 4.6845        | 1,982                          | 568                            | 4.5105        | 2,562                          |
| Investments Accounted for by the Equity Method |                                |               |                                |                                |               |                                |
| EUR  | 1,935                          | 39.41         | 76,242                         | 1,402                          | 41.71         | 58,466                         |
| CNY  | 12,888                         | 4.6845        | 60,375                         | 15,090                         | 4.5105        | 68,063                         |
| Monetary Financial Liabilities                 |                                |               |                                |                                |               |                                |
| USD  | 554,379                        | 29.51         | 16,359,727                     | 346,171                        | 29.4          | 10,177,243                     |
| JPY  | 14,125,995                     | 0.3592        | 5,074,057                      | 13,986,810                     | 0.355         | 4,965,318                      |
| EUR  | 1,570                          | 39.41         | 61,866                         | 1,191                          | 41.71         | 49,685                         |
| SGD  | 2,655                          | 23.49         | 62,362                         | 141                            | 23.34         | 3,281                          |
| AUD  | 3,559                          | 30.695        | 109,247                        | 22,149                         | 30.38         | 672,887                        |
| CNY  | 715,487                        | 4.6845        | 3,351,697                      | 379,646                        | 4.5105        | 1,712,395                      |
| HKD  | 164                            | 3.802         | 624                            | 175                            | 3.777         | 662                            |
| MYR  | 26,932                         | 9.2455        | 248,998                        | 28,583                         | 9.3265        | 266,581                        |
| VND  | 327,224,021                    | 0.0014        | 448,297                        | 339,438,247                    | 0.0014        | 461,636                        |
| SEK  | 16,542                         | 4.46          | 73,779                         | -                              | -             | -                              |

(Concluded)

### Derivative Financial Instruments

|                                   | Currency | Contract Exchange Rate | Contract Amount (In Thousands) |
|-----------------------------------|----------|------------------------|--------------------------------|
| <u>March 31, 2012</u>             |          |                        |                                |
| Forward exchange contracts - buy  | NTD/USD  | 27.208-31.454          | NTD8,369,338/USD285,009        |
| Forward exchange contracts - buy  | NTD/EUR  | 38.865-46.432          | NTD745,775/EUR17,887           |
| Forward exchange contracts - buy  | NTD/JPY  | 0.306779-0.3913        | NTD2,362,803/JPY6,381,353      |
| Forward exchange contracts - buy  | NTD/GBP  | 45.7-47.12             | NTD425,309/GBP9,080            |
| Forward exchange contracts - sell | USD/NTD  | 29.46-30.285           | USD3,659/NTD109,654            |
| Forward exchange contracts - sell | EUR/NTD  | 38.7115                | EUR4,363/NTD168,894            |
| Forward exchange contracts - sell | HKD/NTD  | 3.7974-3.89            | HKD22,009/NTD84,402            |
| Forward exchange contracts - sell | JPY/USD  | 82.35-83.2             | JPY3,200,000/USD38,641         |

### March 31, 2011

|                                   |         |                  |                           |
|-----------------------------------|---------|------------------|---------------------------|
| Forward exchange contracts - buy  | NTD/USD | 28.2847-31.924   | NTD8,071,746/USD260,911   |
| Forward exchange contracts - buy  | NTD/EUR | 39.3-47.742      | NTD2,316,655/EUR50,645    |
| Forward exchange contracts - buy  | NTD/JPY | 0.305779-0.37945 | NTD2,930,519/JPY8,215,032 |
| Forward exchange contracts - sell | USD/NTD | 28.768-29.6732   | USD13,853/NTD408,835      |
| Forward exchange contracts - sell | HKD/NTD | 3.7246-3.7535    | HKD22,400/NTD83,500       |

### 35. PRE-DISCLOSURE FOR ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

According to the Order No. 0990004943 issued by the FSC on February 2, 2010, the Corporation and its subsidiaries' pre-disclosure information (including some information based on investees' unreviewed financial statement disclosed for reference) 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 consolidated 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 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 Finance Division. The main contents of the plan, anticipated schedule and status of execution as of March 31, 2012 were as follows:

| <b>Contents of Plan</b>   | <b>Responsible Department</b>  | <b>Status of Execution</b>  |
|---|--|-----------------------------|
| 1) Planning and identification stage<br>(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<br>(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<br>(Unreviewed)    |
| • 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<br>(2011.01.01-2013.12.31)   |  |                             |
| • Complete the impact evaluation of the modification to the relevant internal controls  | Internal Audit Office  | In progress<br>(Unreviewed) |
| • Complete the preparation of opening balance sheets under IFRSs  | Accounting Department  | Finished                    |
| • 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,<br>Accounting Department<br>and IT Department | In progress<br>(Unreviewed) |

b. As of March 31, 2012, the material differences between the existing accounting policies and the accounting policies to be adopted under IFRSs and their effects were as follows:

- 1) Reconciliation of consolidated balance sheets as of January 1, 2012 : Table 1.
- 2) Reconciliation of consolidated balance sheets as of March 31, 2012 : Table 2.
- 3) Reconciliation of consolidated statements of income for the three months ended March 31, 2012 : Table 3.
- 4) Exemptions from IFRS 1

IFRS 1, “First-time Adoption of International Financial Reporting Standards,” establishes the procedures for first consolidated financial statements prepared in accordance with IFRSs. According to IFRS 1, the Corporation and its subsidiaries are required to determine the accounting policies under IFRSs and retrospectively apply those accounting policies in their opening consolidated balance sheets at the date of transition to IFRSs (January 1, 2012), except for optional exemptions to such retrospective application provided under IFRS 1. The main optional exemptions the Corporation and its subsidiaries adopted are summarized as follows:

a) Business combinations

The Corporation and its subsidiaries elected not to apply IFRS 3, “Business Combination,” retrospectively to business combinations that occurred before the date of transition to IFRSs. Therefore, the carrying amounts of goodwill, assets, liabilities and minority interest generated from past business combinations in the opening consolidated balance sheets remain the same as their carrying amounts under ROC GAAP as of December 31, 2011.

The above exemption also applies to past acquisitions of investments in associates.

b) Share-based payment

The Corporation and its subsidiaries elected the exemption from applying IFRS 2, “Share-based Payment,” retrospectively for the share-based payment transactions granted and vested before the date of transition to IFRSs.

c) Deemed cost

The Corporation and its subsidiaries elected to use ROC GAAP revaluations of the designated property, plant and equipment and investment property at the date of transition to IFRSs as deemed cost at the date of revaluation.

d) Employee benefits

The Corporation and its subsidiaries elected to recognize all cumulative actuarial gains and losses relating to employee benefits in retained earnings at the date of transition to IFRSs.

e) Cumulative translation differences

The Corporation and its subsidiaries elected the cumulative translation differences on all foreign operations to deem as zero and recognized the amount in retained earnings at the date of transition to IFRSs.

f) Designation of previously recognized financial assets and liabilities

The Corporation and its subsidiaries elected to designate previously recognized financial assets carried at cost as financial assets at fair value through profit or loss and available-for-sale financial assets at the date of transition to IFRSs.

The effects arising from the above exemptions are stated in 5) Notes to the significant reconciliation items of transition to IFRS.

5) Notes to the significant reconciliation items of transition to IFRSs:

The material differences between the existing accounting policies and the accounting policies to be adopted under IFRSs were as follows:

Presentation difference

A. `Time deposits with deposit terms of over three months

Under ROC GAAP, time deposits that can be withdrawn at any moment without detriment to the principal are classified as cash.

Under IFRSs, cash equivalents are defined as investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Therefore, only short-term investments, such as those with maturity of three months or less from the date of acquisition, normally qualify for classification as cash equivalents. Under IFRSs, time deposits with deposit terms of over three months are reclassified as other financial assets.

As of March 31, 2012 and January 1, 2012, the amounts reclassified from cash to other financial assets were NT\$6,240,638 thousand and NT\$5,348,764 thousand, respectively.

B. Deferred income tax assets/liabilities

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 income 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.

In addition, under ROC GAAP, deferred tax assets or liabilities are classified as current or noncurrent in accordance with the classification of their related assets or liabilities. However, if deferred income tax assets or liabilities do not relate to assets or liabilities in the financial statements, they are classified as either current or noncurrent based on the expected length of time before they are realized or settled. Under IFRSs, deferred tax assets or liabilities are classified as noncurrent assets or liabilities.

As of March 31, 2012 and January 1, 2012, the amounts reclassified from current deferred income tax assets to noncurrent assets were NT\$4,030,840 thousand and NT\$3,623,367 thousand, respectively; the amounts reclassified from current deferred income tax liabilities to noncurrent liabilities were NT\$5,471 thousand and zero, respectively.

C. 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.

As of March 31, 2012 and January 1, 2012, the amounts reclassified from assets leased to others under property, plant and equipment to investment property were NT\$3,807,530 thousand (cost NT\$4,502,228 thousand, accumulated depreciation NT\$414,829 thousand and accumulated impairment NT\$279,869 thousand) and NT\$3,827,965 thousand (cost NT\$4,503,485 thousand, accumulated depreciation NT\$395,651 thousand and accumulated impairment NT\$279,869 thousand), respectively; the amounts of assets leased to others and idle assets under other assets reclassified to property, plant and equipment and investment property were NT\$6,053,991 thousand and NT\$5,177,807 thousand, respectively.

D. Unrealized revaluation increment / Reserve for land value increment tax

Under current Guidelines Governing the Preparation of Financial Reports by Securities Issuers, reserve for land value increment tax recognized due to revaluation on land is classified as long-term liabilities.

Under IFRSs, ROC GAAP revaluations are selected as deemed cost for the designated land at the date of transition to IFRSs; thus, the related reserve for land value increment tax should be reclassified to deferred income tax liabilities - land value increment tax.

As of January 1, 2012, the Corporation and its subsidiaries adjusted unrealized revaluation increment to retained earnings under the requirement of IFRS 1. The amount adjusted from unrealized revaluation increment to retained earnings was NT\$26,757,590 thousand. As of March 31, 2012 and January 1, 2012, the amounts reclassified from reserve for land value increment tax to deferred income tax liabilities - land value increment tax were NT\$10,240,123 thousand and NT\$10,194,138 thousand, respectively.

Recognition and measurement difference

(a) Financial assets carried at cost

Under current Guidelines Governing the Preparation of Financial Reports by Securities Issuers, shares that are not listed on the Taiwan Stock Exchange Corporation or Taiwan GreTai Securities Market and of which the holder has no significant influence over the investee should be classified as financial assets carried at cost.

Under IFRSs, financial assets should be classified as financial assets at fair value through profit or loss and measured at fair value if they meet the definition of held for trading. Equity instruments that are designated as available-for-sale financial assets or are not designated as at FVTPL should be classified as available-for-sale financial assets and measured at fair value.

As of March 31, 2012 and January 1, 2012, the amounts reclassified from financial assets carried at cost to financial assets at fair value through profit or loss and available-for-sale financial assets were NT\$10,695,578 thousand and NT\$10,603,195 thousand, respectively; financial assets at fair value through profit or loss were adjusted for an increase of NT\$318,502 thousand and NT\$315,040 thousand, respectively; available-for-sale financial assets were adjusted for an increase of NT\$13,921,045 thousand and NT\$12,974,988 thousand, respectively; unrealized gain on available-for-sale financial assets was adjusted for an increase of NT\$3,481,086 thousand and NT\$2,685,896 thousand, respectively.

(b) Defined benefit pension plans

Under ROC GAAP, actuarial gains and losses should be accounted for under the corridor

approach which resulted in the deferral of gains and losses. When using the corridor approach, actuarial gains and losses should be amortized in profit or loss over the average remaining service period of those employees who are still in service and expected to receive pension benefits. Under IFRSs, the Corporation and its subsidiaries should carry out actuarial valuation on defined benefit plans in accordance with IAS No. 19, "Employee Benefits," and will recognize actuarial gains and losses immediately in full in the period in which they occur, as other comprehensive income. The actuarial gains and losses recognized in other comprehensive income are recognized immediately in retained earnings in the statement of changes in equity. The subsequent reclassification to profit or loss is not permitted.

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.

Under ROC GAAP, unrecognized net transition obligation, resulting from first-time adoption of SFAS No. 18, "Accounting for Pensions," should be amortized in pension cost by the straight-line method over the average remaining service period of those employees who are still in service and expected to receive pension benefits. Due to no transition application under IAS No. 19, "Employee Benefits," unrecognized net transition obligation and related amounts should be all recognized in retained earnings at the date of transition to IFRSs.

Under ROC GAAP, minimum pension liability is the minimum amount of pension liability that is required to be recognized on the balance sheets. If the accrued pension liability recorded on the books is less than the minimum amount, the difference shall be recognized. Under IFRSs, there is no requirement for minimum pension liability.

At the date of transition to IFRSs, the Corporation and its subsidiaries performed the actuarial valuation on defined benefit plans under IAS No. 19, "Employee Benefits," and recognized the valuation difference under the requirement of IFRS1. As of March 31, 2012 and January 1, 2012, accrued pension cost was adjusted for an increase of NT6,904,190 thousand and NT\$6,916,895 thousand, respectively; net loss not recognized as pension cost was adjusted for a decrease of NT\$230,766 thousand and NT\$230,590 thousand, respectively; deferred income tax assets were adjusted for an increase of NT\$1,220,934 thousand and NT\$1,219,725 thousand, respectively; retained earnings were adjusted for a decrease of NT\$5,665,972 thousand and NT\$5,662,987 thousand, respectively. Pension cost for the three months ended March 31, 2012 was also adjusted for a decrease of NT\$16,493 thousand (operating costs NT\$3,705 thousand, selling expenses NT\$372 thousand and general and administrative expenses NT\$12,416 thousand).

#### (c) Treasury stock

Under ROC GAAP, stocks of the parent company held by its subsidiaries are accounted for as its own treasury stock. 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.

Under IFRSs, treasury stock should be recorded initially at acquisition cost and shown as a deduction in stockholders' equity. There is no transition application; thus, the treasury stock and related accounts in the statement of changes in equity should be retrospective.

As of January 1, 2012, the Corporation adjusted the treasury stock retrospectively, and the major effects were as follow: capital surplus was increased by NT\$385,962 thousand, retained earnings were decreased by NT\$141,373 thousand, unrealized gain on

available-for-sale financial assets was increased by NT\$112,926 thousand and treasury stock was increased by NT\$167,784 thousand.

(d) Offset of deferred income tax

Under ROC GAAP, the current deferred income tax liabilities and assets of the same taxable entity should be offset against each other and presented as a net amount; the same for the noncurrent deferred income tax liabilities and assets.

Under IFRSs, an entity should offset deferred income tax assets and deferred income tax liabilities only if:

- i. the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and,
- ii. the deferred income tax assets and the deferred income tax liabilities related to income taxes levied by the same taxation authority on either:
  - i) the same taxable entity; or
  - ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred income tax liabilities or assets are expected to be settled or recovered.

c. Appropriate for special reserve at the date of transition to IFRSs

In accordance with the Order No. 1010012865 issued by the FSC on April 6, 2012, at the first-time adoption of IFRSs, an entity shall appropriate to special reserve the amount of increase in retained earnings that resulted from the entity's use of exemptions under IFRS 1 and shall reset unrealized revaluation increment and cumulative translation differences (gain) in stockholders' equity to retained earnings. However, if the amount of the increase in retained earnings that resulted from all IFRSs adjustments is smaller than the amount of unrealized revaluation increment and cumulative translation differences (gain) reset to retained earnings, only the amount of the increase in retained earnings that resulted from all IFRSs adjustments will be appropriated to special reserve. The special reserve will be reversed in proportion to the usage, disposal or reclassification of the related assets. The Corporation and its subsidiaries adjusted unrealized revaluation increment of NT\$26,757,590 thousand and cumulative translation differences of NT\$17,192 thousand to retained earnings. However, the increase in retained earnings from all IFRSs adjustments was smaller than the amounts of unrealized revaluation increment and cumulative translation differences; therefore, the Corporation and its subsidiaries appropriated NT\$21,636,278 thousand, the increase in retained earnings from all IFRSs adjustments at the first-time adoption of IFRSs, to special reserve.

- d. 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.

TABLE 1

CHINA STEEL CORPORATION AND SUBSIDIARIES  
RECONCILIATION OF CONSOLIDATED BALANCE SHEETS AS OF JANUARY 1, 2012  
(In Thousands of New Taiwan Dollars)

| ASSETS   |               |                                |                        |                |  | LIABILITIES AND STOCKHOLDERS' EQUITY |  |                                |                         |                        |               |  |                |  |  |  |  |
|--|---------------|--------------------------------|------------------------|----------------|--|--------------------------------------|--|--------------------------------|-------------------------|------------------------|---------------|--|----------------|--|--|--|--|
| ROC GAAP   |               | EFFECTS OF TRANSITION TO IFRSs |                        | IFRSs          |  | ROC GAAP                             |  | EFFECTS OF TRANSITION TO IFRSs |                         | IFRSs                  |               |  |                |  |  |  |  |
| ITEM   | AMOUNT        | PRESENTATION DIFFERENCE        | MEASUREMENT DIFFERENCE | AMOUNT         | ITEM   | NOTE                                 | ITEM   | AMOUNT                         | PRESENTATION DIFFERENCE | MEASUREMENT DIFFERENCE | AMOUNT        | ITEM   | NOTE           |  |  |  |  |
| <b>CURRENT ASSETS</b>  |               |                                |                        |                |  | <b>CURRENT ASSETS</b>                |  |                                |                         |                        |               | <b>CURRENT LIABILITIES</b>   |                |  |  |  |  |
| Cash and cash equivalents  | \$ 17,480,092 | (\$ 5,348,764)                 | \$ -                   | \$ 12,131,328  | Cash and cash equivalents  | A                                    | Short-term loans and overdraft                                       | \$ 59,918,010                  | \$ -                    | \$ -                   | \$ 59,918,010 | Short-term loans and overdraft                                       |                |  |  |  |  |
| Financial assets at fair value through profit or loss - current    | 3,124,636     | -                              | 315,040                | 3,439,676      | Financial assets at fair value through profit or loss - current    | (a)                                  | Commercial paper payable   | 22,357,900                     | -                       | -                      | 22,357,900    | Commercial paper payable   |                |  |  |  |  |
| Available-for-sale financial assets - current                      | 5,375,249     | -                              | 14,462                 | 5,389,711      | Available-for-sale financial assets - current                      | (a)                                  | Financial liabilities at fair value through profit or loss - current | 90                             | -                       | -                      | 90            | Financial liabilities at fair value through profit or loss - current |                |  |  |  |  |
| Held-to-maturity financial assets - current                        | 60,550        | -                              | -                      | 60,550         | Held-to-maturity financial assets - current                        |                                      | Hedging derivative liabilities - current                             | 53,331                         | -                       | -                      | 53,331        | Hedging derivative liabilities - current                             |                |  |  |  |  |
| Hedging derivative assets - current                                | 115,768       | -                              | -                      | 115,768        | Hedging derivative assets - current                                |                                      | Notes payable  | 1,066,418                      | -                       | -                      | 1,066,418     | Notes payable  |                |  |  |  |  |
| Notes receivable, net  | 1,901,604     | -                              | -                      | 1,901,604      | Notes receivable, net  |                                      | Accounts payable   | 10,131,244                     | -                       | -                      | 10,131,244    | Accounts payable   |                |  |  |  |  |
| Accounts receivable, net   | 10,213,979    | -                              | -                      | 10,213,979     | Accounts receivable, net   |                                      | Income tax payable   | 3,376,691                      | -                       | -                      | 3,376,691     | Current tax liabilities  |                |  |  |  |  |
| Other receivables  | 2,346,521     | ( 452,975 )                    | -                      | 1,893,546      | Other receivables  |                                      | Accrued expenses   | 13,912,683                     | ( 13,912,683 )          | -                      | -             | -  | Other payables |  |  |  |  |
| Other financial assets - current                                   | 3,710,158     | 5,285,688                      | -                      | 8,995,846      | Other financial assets - current                                   | A                                    | Other payables   | 8,456,717                      | 12,403,015              | -                      | 20,859,732    | Provisions   |                |  |  |  |  |
| Inventories  | 115,961,466   | -                              | 32,272                 | 115,993,738    | Inventories  |                                      | Bonds payable - current portion                                      | 11,270,086                     | -                       | -                      | 11,270,086    | Bonds payable - current portion                                      |                |  |  |  |  |
| Deferred income tax assets - current                               | 3,623,367     | ( 3,623,367 )                  | -                      | -              | Deferred income tax assets - current                               |                                      | Long-term debt - current portion                                     | 11,715,737                     | -                       | -                      | 11,715,737    | Long-term debt - current portion                                     |                |  |  |  |  |
| Restricted assets - current  | 6,906,442     | -                              | -                      | 6,906,442      | Restricted assets - current  |                                      | Others   | 6,546,124                      | ( 1,300,962 )           | ( 80,349 )             | 5,164,813     | Others   |                |  |  |  |  |
| Others   | 5,776,246     | ( 329 )                        | 1,232                  | 5,777,149      | Others   | B                                    | Total current liabilities  | 148,805,031                    | -                       | ( 80,349 )             | 148,724,682   | Total current liabilities  |                |  |  |  |  |
| Total current assets   | 176,596,078   | ( 3,686,443 )                  | 363,006                | 173,272,641    | Total current assets   |                                      | <b>LONG-TERM LIABILITIES</b>   |                                |                         |                        |               |  |                |  |  |  |  |
| <b>INVESTMENTS</b>   |               |                                |                        |                |  | <b>INVESTMENTS</b>                   |  |                                |                         |                        |               | <b>LONG-TERM LIABILITIES</b>   |                |  |  |  |  |
| Financial assets at fair value through profit or loss - noncurrent | 23,979        | -                              | -                      | 23,979         | Financial assets at fair value through profit or loss - noncurrent |                                      | Hedging derivative liabilities - noncurrent                          | 42,475                         | -                       | -                      | 42,475        | Hedging derivative liabilities - noncurrent                          |                |  |  |  |  |
| Available-for-sale financial assets - noncurrent                   | 3,369,657     | -                              | 12,960,526             | 16,330,183     | Available-for-sale financial assets - noncurrent                   | (a)                                  | Bonds payable  | 37,944,340                     | -                       | -                      | 37,944,340    | Bonds payable  |                |  |  |  |  |
| Held-to-maturity financial assets - noncurrent                     | 109,171       | -                              | -                      | 109,171        | Held-to-maturity financial assets - noncurrent                     |                                      | Long-term debt   | 75,533,461                     | -                       | -                      | 75,533,461    | Long-term debt   |                |  |  |  |  |
| Hedging derivative assets - noncurrent                             | 124,920       | -                              | -                      | 124,920        | Hedging derivative assets - noncurrent                             |                                      | Long-term notes payable  | 24,813,719                     | -                       | -                      | 24,813,719    | Long-term notes payable  |                |  |  |  |  |
| Financial assets carried at cost - noncurrent                      | 10,603,195    | ( 10,603,195 )                 | -                      | -              | Financial assets carried at cost - noncurrent                      | (a)                                  | Total long-term liabilities  | 138,333,995                    | -                       | -                      | 138,333,995   | Total long-term liabilities  |                |  |  |  |  |
| Bond investments with no active market - noncurrent                | 4,050,222     | -                              | -                      | 4,050,222      | Bond investments with no active market - noncurrent                |                                      | <b>RESERVE FOR LAND VALUE INCREMENT TAX</b>                          |                                |                         |                        |               |  |                |  |  |  |  |
| Investments accounted for by the equity method                     | 2,618,993     | ( 10,479 )                     | -                      | 2,608,514      | Investments accounted for by the equity method                     |                                      | RESERVE FOR LAND VALUE INCREMENT TAX                                 | 10,194,138                     | ( 10,194,138 )          | -                      | -             | -  | D              |  |  |  |  |
| Investments in real estate   | 381,905       | ( 381,905 )                    | -                      | -              | Investments in real estate   |                                      | <b>OTHER LIABILITIES</b>   |                                |                         |                        |               |  |                |  |  |  |  |
| Prepaid long-term stock investments                                | 10,000        | ( 10,000 )                     | -                      | -              | Prepaid long-term stock investments                                |                                      | Accrued pension cost   | 754,105                        | -                       | 6,916,895              | 7,671,000     | Accrued pension cost   | (b)            |  |  |  |  |
| Other financial assets - noncurrent                                | 2,119,688     | 63,076                         | -                      | 2,182,764      | Other financial assets - noncurrent                                |                                      | Deferred income tax liabilities - noncurrent                         | 543,499                        | 10,194,138              | 2,342,512              | 13,080,149    | Deferred income tax liabilities                                      | D、(d)          |  |  |  |  |
| Total investments  | 23,411,730    | ( 328,829 )                    | 2,346,852              | 25,429,753     | Total investments  | A                                    | Others   | 946,910                        | -                       | -                      | 946,910       | Others   |                |  |  |  |  |
| <b>PROPERTY, PLANT AND EQUIPMENT</b>                               |               |                                |                        |                |  | <b>PROPERTY, PLANT AND EQUIPMENT</b> |  |                                |                         |                        |               | <b>OTHER LIABILITIES</b>   |                |  |  |  |  |
| Cost and revaluation increment                                     | 623,552,077   | ( 3,554,278 )                  | 181,113                | 620,178,912    | Cost   | C                                    | Total other liabilities  | 2,244,514                      | 10,194,138              | 9,259,407              | 21,698,059    | Total other liabilities  |                |  |  |  |  |
| Less: Accumulated depreciation                                     | 317,415,604   | ( 276,865 )                    | 11,330                 | 317,150,069    | Less: Accumulated depreciation                                     | C                                    | Total liabilities  | 299,577,678                    | -                       | 9,179,058              | 308,756,736   | Total liabilities  |                |  |  |  |  |
| Accumulated impairment   | 443,719       | ( 274,540 )                    | -                      | 169,179        | Accumulated impairment   | C                                    | <b>STOCKHOLDERS' EQUITY OF PARENT COMPANY</b>                        |                                |                         |                        |               |  |                |  |  |  |  |
| Construction in progress and prepayments for equipment             | 305,692,754   | ( 3,002,873 )                  | 169,783                | 302,859,664    | Construction in progress   |                                      | Capital stock  | 150,844,773                    | -                       | -                      | 150,844,773   | Capital stock  |                |  |  |  |  |
| Net property, plant and equipment                                  | 402,543,946   | ( 3,724,833 )                  | 382,092                | 399,201,205    | Net property, plant and equipment                                  |                                      | Capital surplus  | 36,247,705                     | ( 63,109 )              | -                      | 36,184,596    | Capital surplus  | (c)            |  |  |  |  |
| <b>INTANGIBLE ASSETS</b>   |               |                                |                        |                |  | <b>INTANGIBLE ASSETS</b>             |  |                                |                         |                        |               | <b>EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT</b>             |                |  |  |  |  |
| -  | 2,246,170     | ( 598,605 )                    | ( 21,224 )             | 1,626,341      | -  | C                                    | Retained earnings  | -                              | -                       | -                      | -             | Retained earnings  |                |  |  |  |  |
| -  | -             | 8,690,127                      | -                      | 8,690,127      | INVESTMENT PROPERTY  | C                                    | Legal reserve  | 52,829,209                     | -                       | -                      | 52,829,209    | Legal reserve  |                |  |  |  |  |
| <b>OTHER ASSETS</b>  |               |                                |                        |                |  | <b>OTHER ASSETS</b>                  |  |                                |                         |                        |               | <b>Unappropriated earnings</b>                                       |                |  |  |  |  |
| Assets leased to others, net                                       | 3,065,847     | ( 3,065,847 )                  | -                      | -              | Assets leased to others, net                                       | C                                    | Special reserve  | 7,615,701                      | -                       | 21,636,278             | 29,251,979    | Special reserve  | c              |  |  |  |  |
| Idle assets, net   | 2,111,960     | ( 2,111,960 )                  | -                      | -              | Idle assets, net   | C                                    | Unappropriated earnings  | 19,606,971                     | -                       | -                      | 19,606,971    | Unappropriated earnings  | D、(b)、(c)、c    |  |  |  |  |
| Refundable deposits  | 428,431       | -                              | -                      | 428,431        | Refundable deposits  |                                      | Total retained earnings  | 80,051,881                     | -                       | 21,636,278             | 101,688,159   | Total retained earnings  |                |  |  |  |  |
| Deferred income tax assets - noncurrent                            | -             | 3,623,367                      | 3,483,564              | 7,106,931      | Deferred income tax assets - noncurrent                            | B、(b)、(d)                            | <b>Other equity adjustments</b>                                      |                                |                         |                        |               |  |                |  |  |  |  |
| Restricted assets - noncurrent                                     | 335,660       | -                              | -                      | 335,660        | Restricted assets - noncurrent                                     |                                      | Unrealized revaluation increment                                     | 26,757,590                     | -                       | ( 26,757,590 )         | -             | Unrealized gain from available-for-sales financial assets            | D              |  |  |  |  |
| Deferred charge and others   | 945,793       | 1,203,023                      | ( 18,744 )             | 2,130,072      | Deferred charge and others   |                                      | Unrealized gain on financial instruments                             | 3,020,919                      | ( 255,142 )             | 2,798,822              | 5,564,599     | Unrealized gain from available-for-sales financial assets            | (a)、(c)        |  |  |  |  |
| Total other assets   | 6,887,691     | ( 351,417 )                    | 3,464,820              | 10,001,094     | Total other assets   |                                      | Cumulative translation adjustments                                   | 17,192                         | -                       | ( 17,192 )             | -             | Cash flow hedging reserve  |                |  |  |  |  |
| <b>TOTAL</b>   |               |                                |                        |                |  | <b>TOTAL</b>                         |  |                                |                         |                        |               | <b>Other equity of equity method investees, net</b>                  |                |  |  |  |  |
| \$ 611,685,615   | \$ -          | \$ 6,535,546                   | \$ 618,221,161         | \$ 618,221,161 | \$ 611,685,615   | \$ -                                 | Net loss not recognized as pension cost                              | ( 230,590 )                    | -                       | 230,590                | -             | Foreign currency translation reserve                                 | (b)            |  |  |  |  |
| <b>TOTAL</b>   |               |                                |                        |                |  | <b>TOTAL</b>                         |  |                                |                         |                        |               | <b>Treasury stock</b>  |                |  |  |  |  |
| \$ 611,685,615   | \$ -          | \$ 6,535,546                   | \$ 618,221,161         | \$ 618,221,161 | \$ 611,685,615   | \$ -                                 | Treasury stock   | ( 8,122,461 )                  | -                       | ( 167,784 )            | ( 8,290,245 ) | Treasury stock   | (c)            |  |  |  |  |
| <b>TOTAL</b>   |               |                                |                        |                |  | <b>TOTAL</b>                         |  |                                |                         |                        |               | <b>Total other equity adjustments</b>                                |                |  |  |  |  |
| \$ 611,685,615   | \$ -          | \$ 6,535,546                   | \$ 618,221,161         | \$ 618,221,161 | \$ 611,685,615   | \$ -                                 | Total stockholders' equity of parent company                         | 21,442,650                     | -                       | ( 23,908,139 )         | ( 2,465,489 ) | Total other equity adjustments                                       |                |  |  |  |  |
| <b>TOTAL</b>   |               |                                |                        |                |  | <b>TOTAL</b>                         |  |                                |                         |                        |               | <b>Minority interest</b>   |                |  |  |  |  |
| \$ 611,685,615   | \$ -          | \$ 6,535,546                   | \$ 618,221,161         | \$ 618,221,161 | \$ 611,685,615   | \$ -                                 | MINORITY INTEREST  | 288,587,009                    | -                       | ( 2,334,970 )          | 286,252,039   | Minority interest  |                |  |  |  |  |
| <b>TOTAL</b>   |               |                                |                        |                |  | <b>TOTAL</b>                         |  |                                |                         |                        |               | <b>Total stockholders' equity</b>                                    |                |  |  |  |  |
| \$ 611,685,615   | \$ -          | \$ 6,535,546                   | \$ 618,221,161         | \$ 618,221,161 | \$ 611,685,615   | \$ -                                 | Total stockholders' equity   | 312,107,937                    | -                       | ( 2,643,512 )          | 309,464,425   | Total stockholders' equity   |                |  |  |  |  |



## CHINA STEEL CORPORATION AND SUBSIDIARIES

RECONCILIATION OF CONSOLIDATED STATEMENTS INCOME FOR THE THREE MONTHS ENDED MARCH 31, 2012

(In Thousands of New Taiwan Dollars)

| ROC GAAP  |                | EFFECTS OF TRANSITION TO IFRSs |  | IFRSs          |  |      |
|---|----------------|--------------------------------|--|----------------|--|------|
| ITEM  | AMOUNT         | PRESENTATION DIFFERENCE        | RECOGNITION AND MEASUREMENT DIFFERENCE | AMOUNT         | ITEM   | NOTE |
| OPERATING REVENUES                                  | \$ 93,926,017  | \$ -                           | ( \$ 63,550 )                          | \$ 93,862,467  | OPERATING REVENUES                               |      |
| OPERATING COSTS                                     | 91,050,203     | -                              | ( 65,940 )                             | 90,984,263     | OPERATING COSTS                                  | (b)  |
| GROSS PROFIT  | 2,875,814      | -                              | 2,390                                  | 2,878,204      | GROSS PROFIT                                     |      |
| REALIZED GAIN FROM AFFILIATES                       | 7,809          | -                              | -                                      | 7,809          | REALIZED GAIN FROM AFFILIATES                    |      |
| REALIZED GROSS PROFIT                               | 2,883,623      | -                              | 2,390                                  | 2,886,013      | REALIZED GROSS PROFIT                            |      |
| OPERATING EXPENSES                                  |                |                                |  |                | OPERATING EXPENSES                               |      |
| Research and development                            | 402,801        | -                              | -                                      | 402,801        | Research and development                         |      |
| Selling   | 1,101,107      | -                              | ( 907 )                                | 1,100,200      | Selling  | (b)  |
| General and administrative                          | 1,258,615      | 10,169                         | ( 12,869 )                             | 1,255,915      | General and administrative                       | (b)  |
| Total operating expenses                            | 2,762,523      | 10,169                         | ( 13,776 )                             | 2,758,916      | Total operating expenses                         |      |
| OPERATING INCOME                                    | 121,100        | ( 10,169 )                     | 16,166                                 | 127,097        | OPERATING INCOME                                 |      |
| NONOPERATING INCOME AND GAINS                       |                |                                |  |                | NONOPERATING INCOME AND GAINS                    |      |
| Interest income                                     | 90,565         | -                              | -                                      | 90,565         | Interest income                                  |      |
| Exchange gain, net                                  | 121,449        | -                              | 313                                    | 121,762        | Exchange gain, net                               |      |
| Others  | 261,065        | -                              | 3,442                                  | 264,507        | Others   |      |
| Total nonoperating income and gains                 | 473,079        | -                              | 3,755                                  | 476,834        | Total nonoperating income and gains              |      |
| NONOPERATING EXPENSES AND LOSSES                    |                |                                |  |                | NONOPERATING EXPENSES AND LOSSES                 |      |
| Interest expense                                    | 584,923        | -                              | -                                      | 584,923        | Interest expense                                 |      |
| Investment loss recognized under equity method, net | 157,360        | -                              | ( 334 )                                | 157,026        | Equity in losses of equity method investees, net |      |
| Others  | 234,403        | ( 10,169 )                     | 2,841                                  | 227,075        | Others   |      |
| Total nonoperating expenses and losses              | 976,686        | ( 10,169 )                     | 2,507                                  | 969,024        | Total nonoperating expenses and losses           |      |
| LOSS BEFORE INCOME TAX                              | ( 382,507 )    | -                              | 17,414                                 | ( 365,093 )    | LOSS BEFORE INCOME TAX                           |      |
| INCOME TAX BENEFIT                                  | ( 59,385 )     | -                              | 2,173                                  | ( 57,212 )     | INCOME TAX BENEFIT                               |      |
| NET LOSS  | ( \$ 323,122 ) | \$ -                           | \$ 15,241                              | ( \$ 307,881 ) | NET LOSS   |      |
| ATTRIBUTABLE TO                                     |                |                                |  |                | ATTRIBUTABLE TO                                  |      |
| Stockholders of parent company                      | ( \$ 712,179 ) |                                |  | ( \$ 702,516 ) | Stockholders of the parent                       |      |
| Minority interest                                   | 389,057        |                                |  | 394,635        | Noncontrolling interest                          |      |
|   | ( \$ 323,122 ) |                                |  | ( \$ 307,881 ) |  |      |